

UNIVERSITY OF MAINE SYSTEM  
Board of Trustees  
**Investment Committee**

September 21, 2023  
Zoom

**Present: Committee Members:** Kelly Martin; Chair, Trish Riley, John Moore. **Non-Voting, Non-Trustee Committee Members: System Staff:** Tracy Elliott, Ryan Low, Kayla Flewelling. **Others:** Kelly Regan – NEPC, Mike Pratico – CAPTRUST.

**Absent:** David MacMahon, Lisa Eames

**Investment Committee FY2024 Work Plan**

Board Committees annually review their Work Plans, which provide an overview of the agendas for the Committee for the fiscal year (FY). Tracy Elliott, Vice President of Finance and Controller for the System reviewed the Plan for FY2024. This Plan will also be included in the November 5-6, 2023 Board of Trustees meeting materials as an information item.

**Defined Contribution (DC) Plans - Quarterly Review**

Mike Pratico, Principal, with CAPTRUST Financial Advisors, provided an update for the quarter ended June 30, 2023.

**Industry updates:**

CAPTRUST noted that the SECURE 2.0 Act introduced several updates and policy changes specifically for Roth money in qualified retirement plans and provided an overview of three of the most impactful changes. CAPTRUST noted that the Roth updates in SECURE 2.0 focus on expanding and enhancing Roth usage. They do not restrict any existing Roth functionality.

- The most immediate change impacting existing plans is the mandatory treatment of catch-up contributions for people earning over \$145,000 annually, adjusted for inflation in the future. Any catch-up contributions made by participants who meet the wage qualification must be made as Roth contributions. As a result of industry pressure, the implementation of this feature has been changed from an effective date of January 1, 2024 to “within two years”.
- The other mandatory change is that Roth contributions in retirement plans will no longer be subject to required minimum distributions (RMDs). This aligns employer-sponsored plans with Roth IRAs. This provision is effective January 1, 2024.
- The final change noted is optional and allows employers to have the ability to make matching and nonelective contributions to Roth accounts for their participants. Employers may elect this change immediately. This change allows greater flexibility for plan sponsors to align with participants’ preferences.

**Market Commentary:**

CAPTRUST noted that over the past year, labor markets have remained strong despite the Fed's actions to slow the economy to combat inflation. This labor market strength has given consumers the confidence to continue spending, and the economy has continued expanding in response. In the second calendar quarter, this economic resilience received an artificial intelligence fueled tailwind, sending stocks upward. While large- and small-cap U.S. stock indexes posted strong results, extreme dispersion exists among sectors. The technology sector soared ahead, while four sectors sit in negative territory for the year.

**Investment Review:**

CAPTRUST reviewed all funds in manner consistent with the UMS Investment Policy Statement. All funds are in good standing with one exception. All funds were discussed with an emphasis on:

**Vanguard Target Date (default choice):**

The Vanguard Target Retirement series posted mixed results relative to peers and the benchmark in the second quarter. Most vintages were in-line with the peer group median with some outperformance from the near-retirement vintages, and all vintages, excluding the in-retirement (Income and 2020) vintages, outperformed the benchmark.

From a strategic asset allocation perspective, Target Retirement's larger exposure to international equities weighed on relative performance as the U.S. outperformed international markets in the quarter.

With equity markets continuing to rally in the second quarter, Target Retirement's vintages approaching retirement (2025 – 2035) benefitted from a slightly larger equity allocation compared to peers and the benchmark. However, Vanguard's glidepath is slightly more conservative at the beginning and in retirement compared to peers. As a result, the series' further-dated and in-retirement vintages' relative results were more muted.

CAPTRUST continues to recommend the Vanguard Target Retirement series.

**Europacific Growth (marked for review):**

Shorter-term performance has improved for the strategy, as a couple of tough quarters (Q4-2021 and Q1-2022) roll off the near-term numbers. The trailing one-year return is still slightly below the median of the foreign large blend peer group but is well ahead of the benchmark. While results have perked up over the past year, the weakness from late 2021 and early 2022 is still weighing on the strategy's three year return relative to the core peer group leading to a bottom quartile ranking. Five-year and longer trailing returns remain compelling, near or within the upper third of the peer group and ahead of the benchmark.

CAPTRUST continues to have a high degree of conviction in the strategy due to its experienced team, disciplined process and historically consistent results. The portfolio management team has a deep and experienced bench (10 portfolio managers plus an analyst research sleeve) to help smooth out disruptions from the inevitable retirements and departures that occur from time to time. While the strategy's growth tilted style can lead to short-term dispersion against the core

benchmark and peer group, it has been a consistent performer within that space over the longer-term.

CAPTRUST continues to recommend this fund.

## **Capital Markets and Performance Reviews – Managed Investment Pool, Pension Fund, and Operating Fund**

### **Market Update**

Kelly Regan, Partner with NEPC, provided an update on the NEPC's market outlook noting that the second quarter was positive for equities and negative for fixed income investments as interest rates rose over the quarter. She explained how the recent rally in the S&P 500 was primarily led by 5 major companies (Apple, Amazon, Alphabet, Microsoft, Nvidia). She further noted that NEPC believes the overall fundamentals in the S&P 500 look relatively weak and going forward it may be time to start reducing U.S. mega-cap equity exposure. NEPC also believes U.S. high yield bonds offer a greater return relative to U.S. large-cap equity and recommends increasing exposure. Additionally, NEPC is recommending that clients hold greater levels of cash within safe-haven fixed income given the higher interest rate environment/cash yields and the potential to target opportunistic investments that may arise in the coming years. Ms. Regan noted that NEPC's positioning views will be implemented in the MIP when future rebalancing occurs.

### **Performance Review**

Ms. Regan reviewed performance for all three UMS portfolios with the following highlights.

#### **Operating Fund.**

The Operating Fund improved 1.3% during the second quarter, net of fees. The Fund's total market value was \$265.3 million as of 6/30/2023 representing a decrease of \$35.1 million quarter over quarter. During the 2<sup>nd</sup> quarter, managers performed in line with their respective benchmarks in aggregate (Composite vs. Allocation Index) and underperformed fiscal year-to-date. Relative underperformance over the fiscal year-to-date period was primarily due to select cash positions and defensive managers such as Lighthouse and Newton, which did not participate in the equity rally. The Fund's manager performance has been strong over the long-term time periods outperforming the Allocation Index during the 3- and 5-year time periods. At the end of the 2<sup>nd</sup> quarter, the asset allocation of the Fund was within policy ranges. Ms. Regan noted that a recent action included the third funding of SSgA S&P 500 Fossil Fuel Free Index with proceeds from the SSgA S&P 500 Index strategy. The next and final funding of the SSgA S&P 500 Fossil Fuel Free Index is expected in September or October 2023. She also noted that cash was raised during the quarter to cover operating expenses.

#### **Defined Benefit Pension Fund**

The Pension Fund appreciated 1.8% during the second quarter, net of fees. The Pension's total market value was \$19.0 million as of 06/30/2023 representing a decrease of \$0.5 million quarter over quarter. During the 2<sup>nd</sup> quarter, managers underperformed their respective benchmarks in aggregate (Composite versus Allocation Index). During the quarter, Walter Scott and Newton were the largest detractors to relative performance. Over the fiscal year-to-date period, the Fund

has outperformed the allocation index by 30 basis points, primarily driven by equity manager outperformance. Ms. Regan noted that at the end of the 2<sup>nd</sup> quarter, the asset allocation of the Pension was close to policy targets, as Treasury Inflation Protected Securities (TIPS) are slightly below policy ranges as the Fund is awaiting a redemption from Principal. She also noted that the Vanguard Short-Term Inflation-Protected Securities was terminated in May and the Fidelity Intermediate Treasury Bond Index was funded in June. Further, Ms. Regan mentioned that there was rebalancing done over the quarter to cover Plan benefit payments and expenses.

***Managed Investment Pool (MIP).***

The Managed Investment Pool (MIP) improved 3.5% during the second quarter, net of fees. The MIP's total market value was \$362.1 million as of 06/30/2023 representing an increase of \$7.0 million quarter over quarter. During the 2<sup>nd</sup> quarter, managers underperformed stated benchmarks in aggregate (Composite versus Allocation Index). The MIP ranked at the 44<sup>th</sup> percentile of the Endowments and Foundation universe during the 2<sup>nd</sup> quarter as not having an allocation to private equity benefitted the Fund. The MIP has a 0% target to private equity while the median peer has a 9.3% allocation. NEPC expects that the MIP will rank well when public equity does well and private equity falls short, however over the long-term it is expected that private equity will outperform public equity resulting in below median rankings. At the end of the 2<sup>nd</sup> quarter, the asset allocation of the MIP was within policy ranges. Ms. Regan noted that a recent action included the third funding of SSgA S&P 500 Fossil Fuel Free Index with proceeds from the SSgA S&P 500 Index strategy. The next and final funding of the SSgA S&P 500 Fossil Fuel Free Index is expected in September or October 2023. She also mentioned that a rebalancing was provided over the quarter to bring the Plan's current asset allocations closer to targets. Ms. Regan advised that the Fidelity Intermediate Treasury Bond Index was funded in June.

Trustee John Moore asked for a definition of a fossil fuel free investment and an explanation of how in depth the S&P 500 Fossil Fuel Free Fund avoids fossil fuels (primary, secondary, tertiary). Ms. Regan explained that they use the Carbon 200 Underground list. Trustee Riley offered to provide more detail around the process to Trustee Moore offline.

Additional information about the meeting can be found on the Board of Trustees website:  
<https://www.maine.edu/board-of-trustees/meeting-agendas-materials/investment-committee/>

Adjournment

Tracy Elliott for

Kayla Flewelling, Interim Clerk