

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

February 28, 2024  
Zoom

**Present: Committee Members:** Kelly Martin; Chair, Trish Riley, John Moore, David MacMahon. **Non-Voting, Non-Trustee Committee Members:** Matthew Skaves, Jim Bradley. **System Staff:** Chancellor Malloy, Tracy Elliott, Ryan Low, Jeff St. John, Beth Stickler, Paul Chan. **Presidents:** Joan Ferrini-Mundy. **Others:** Kelly Regan – NEPC, Matt Landen NEPC, Mike Pratico – CAPTRUST, Barry Schmitt, CAPTRUST

**Absent:** Lisa Eames

**Defined Contribution Plans – Updates**

Mike Pratico and Barry Schmitt, Principals with CAPTRUST Financial Advisors, provided a quarterly update regarding the Defined Contribution Plans at the February 28, 2024, Investment Committee meeting. The quarterly update included industry updates and the regular review of Plan funds.

**Administrative Update:**

Financial wellness and plan design will be key topics for plan sponsors as they begin to adopt some of the optional provisions under Secure Act 2.0 including:

- Provisions and guidance around student loans, emergency savings, and auto portability.
- Continued evaluation of retirement income products and solutions including managed account offerings.
- Cybersecurity protocols and plan documents aligning with policies and procedures.
- Fiduciary rule finalization, particularly around rollovers.
- Collective investment Trusts on 403b plans.

Service providers will be rolling out new processes and services to comply with the Secure Act.

**CyberSecurity best practices include:**

- Ensuring the service provider is following DOL guidelines.
- Reviewing service providers' contracts for provisions for information sharing and confidentiality.

Plan sponsors should also confirm that they have implemented internal processes and controls to restrict access to plan data and other sensitive information.

**Market Update:**

The higher-for-longer interest rate message reiterated by the Federal Reserve through the first three quarters of calendar 2023 was essentially dismissed by investors late last year as inflation data showed continued easing. Consequently, expectations for future interest rate changes were

reset significantly lower. Nearly all asset classes soared. In particular, the “magnificent 7” stocks dominated the market with names such as NVIDIA, Apple, Amazon, Microsoft, etc. far outpacing the market.

### **Increase in Small Balance Payout Amount for Terminated Employees**

The University of Maine System participates in small balance force outs - a plan design option whereby plan sponsors automatically distribute separated participant accounts with balances of \$5,000 or less without participant consent. CAPTRUST explained that with the passing of SECURE Act 2.0, the allowed threshold increases to \$7,000 after December 31, 2023. The Committee discussed the proposal to increase the threshold to \$7,000 but agreed to postpone action on the resolution to allow further discussions and additional information gathering. Specifically, data will be gathered on the number of terminated participants with balances between \$5,000 and \$7,000 and discussions will be held with key stakeholders on the small sum distribution process and the proposed increase in threshold.

### **Defined Contribution Plans - Quarterly Review of Funds**

CAPTRUST and the Investment Committee reviewed all Plan funds in a manner consistent with the Investment Policy Statement. Plan assets as of the end of December 2023 totaled \$1.9 billion. CAPTRUST discussed all funds noting that they are in good standing with two exceptions as highlighted here:

#### **American Funds Europacific Growth (marked for review):**

After a weak third quarter for growth stocks in the international markets, the style saw a reprieve in the fourth quarter, but still ended the full year trailing their core and value counterparts creating a headwind for this growth tilted strategy. During the fourth quarter, the growth strategy returned 10.37% versus 9.75% for the core benchmark.

While the American Funds Europacific strategy’s growth tilted style has been a headwind relative to the core benchmark and peer group for much of the past three-years, the strategy has been a consistent performer within that space over the longer-term.

#### **JPMorgan Equity Income (marked for review):**

This fund is more of a traditional value manager. In periods where growth is in favor (as was the case in 2023), this fund will have a tendency to underperform. However, in periods like 2022 that favored value leaning strategies this fund outperformed. While the portfolio manager has announced her retirement in the fall, this was a planned succession and CAPTRUST is comfortable with the successors that have been with JPMorgan as co-portfolio managers since 2019.

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

The Vanguard Target Retirement collective investment trust (CIT) series posted mixed results in the fourth quarter, mostly underperforming peers while mostly outperforming the benchmark. Vanguard Target Retirement CIT’s performance for the year was also mixed as the near-retirement vintages (2020 – 2035) outperformed, while the in-retirement and further-dated vintages were more in-line with peers. The main drivers of this performance for the quarter and

the year were the series' glidepath design and strategic asset allocation. Vanguard emphasizes global diversification in its portfolio construction. As a result, Target Retirement CIT has a larger allocation to international equities and international fixed income relative to peers and the benchmark. The series' above average exposure to international equity was a detractor as U.S. stocks fared better throughout the fourth quarter and year.

Other funds mentioned:

- Harbor Capital Appreciation
- MFS International Intrinsic Value
- TIAA Traditional
- TIAA Real Estate
- CREF Stock

Other items discussed:

- The investment structure of the plans and the rationale for the current structure.
- How much of the assets remain with legacy vendors
- Effective May 1, 2024, the TIAA-CREF mutual fund family will be "rebranded" as Nuveen; however, the CREF and TIAA annuities in the University of Maine System Defined Contribution Plans are not being rebranded as separate boards are still maintained for CREF and TIAA.

### **Capital Markets Review - NEPC**

Kelly Regan provided an update on NEPC's market outlook. The fourth quarter and full calendar year of 2023 were positive for both global equities and fixed income as the U.S. economy experienced a "no landing" as inflation pressures declined while consumption and growth beat expectations. Ms. Regan reviewed NEPC's forward looking market outlook which consists of five key themes: Cost of Capital, Magnificent Seven, U.S. Fiscal Debt, Artificial Intelligence and Geopolitics.

### **Performance Review – UMS Portfolios**

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

**Operating Fund.** The Operating Fund improved 4.0% during the fourth quarter, net of fees. The Fund's total market value was \$270.7 million as of 12/31/2023 representing a decrease of \$8.1 million quarter over quarter. During the 4<sup>th</sup> quarter, managers outperformed their respective benchmarks in aggregate (Composite vs. Allocation Index) and underperformed calendar year-to-date. Relative underperformance over the calendar year was primarily due to more conservative portfolio positions which underperformed during a strong market. The Fund's manager performance has been strong over the long-term time periods outperforming the Allocation Index during the 3-, 5- and 10-year time periods. At the end of the 4<sup>th</sup> quarter, the asset allocation of the Fund was within policy ranges. Ms. Regan noted that January 2024 monthly performance improved an estimated 0.4% and there were sizable net cash inflows of roughly \$70M during the month.

**Defined Benefit Pension Fund.** The Pension Fund improved 6.9% during the fourth quarter, net of fees. The Pension's total market value was \$18.7 million as of 12/31/2023 representing an

increase of \$0.3 million quarter over quarter. During the 4<sup>th</sup> quarter, managers outperformed their respective benchmarks in aggregate (Composite vs. Allocation Index) and underperformed calendar year-to-date. During the quarter, Walter Scott and Blackrock were the largest contributors to relative performance. Relative underperformance over the calendar year was primarily due to more conservative portfolio positions which underperformed during a strong market. Ms. Regan noted that at the end of the 4<sup>th</sup> quarter, the asset allocation of the Pension was outside of policy ranges as Treasury Inflation Protected Securities (TIPS) were slightly below policy ranges as the Fund is awaiting a redemption from Principal (the Fund's real estate manager). However, it was noted that rebalancing occurred in January to bring TIPS within policy ranges albeit at the bottom end of the range. Ms. Regan also noted that January 2024 monthly performance improved an estimated 0.8%.

**Managed Investment Pool (MIP).** The Managed Investment Pool (MIP) improved 8.2% during the fourth quarter, net of fees. The MIP's total market value was \$377.0 million as of 12/31/2023 representing an increase of \$27.4 million quarter over quarter. During the 4<sup>th</sup> quarter, managers underperformed their respective benchmarks in aggregate (Composite vs. Allocation Index) and underperformed calendar year-to-date as well. Equity managers with holdings tied to China detracted during the 4<sup>th</sup> quarter and defensive positions contributed to the calendar year underperformance. The MIP ranked at the 38<sup>th</sup> percentile of the Endowments and Foundation universe during the 4<sup>th</sup> quarter as having an overweight to public equity compared to peers contributed to positive ranking results. The MIP has a 0% target to private equity while the median peer has a roughly 10% allocation. It is expected 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 4<sup>th</sup> quarter, the asset allocation of the MIP was within policy ranges. Ms. Regan also noted that January 2024 monthly performance improved an estimated 0.4%.

**Asset Allocation Review** Ms. Regan provided an update on NEPC's capital market assumptions and the portfolios' asset allocation. She noted that valuation expansion reduced long-term expectations for global equities and that recent interest rate declines impacted fixed income return expectations. NEPC does not have any recommendations to alter the strategic asset allocations of the three UMS portfolios. All three portfolios are incorporating NEPC's views on equity and fixed income and the portfolios' current target asset allocation can support each portfolio's stated return objectives. Ms. Regan noted that next quarter she would provide a review of the MIP's global equity portfolio to 1) assess ways to reduce fossil fuel exposure 2) address some underperforming managers and 3) diversify S&P 500 exposure to global equity.

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  
Elizabeth Stickler, Clerk