

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

December 12, 2024  
Zoom

**Present: Committee Members:** Kelly Martin; Chair, Trish Riley, John Moore, Elise Baldacci.  
**Non-Voting, Non-Trustee Committee Members:** James Bradley. **System Staff:** Tracy Elliott, Ryan Low, Beth Stickler, Paul Chan. **Others:** Kelly Regan – NEPC, Mike Pratico – CAPTRUST, Barry Schmitt, CAPTRUST.

**Absent:** Lisa Eames, David MacMahon.

**FY26 Endowment Spending Rate**

Vice President of Finance and Controller, Tracy Elliott, reviewed the current fiscal year 2025 (FY25) endowment spending rate and recommended that the University continue with the same rate in FY26.

The FY25 spending rate of 4.5% (which includes an internal management fee, where charged) is estimated to generate a distribution of \$6.7 million for the year, including \$5.4 million for endowed spending and \$1.3 million for internal management fees. The recommended FY26 spending rate of 4.5% is estimated to generate \$6.7 million, including \$5.3 million for endowed spending and \$1.4 million for internal management fees.

This 4.5% annual spending rate is supported by the Managed Investment Pool (MIP) return assumption of 7.25% recognizing there will be significant volatility around this expected return each year.

On a motion by Trustee Baldacci, which was seconded by Trustee Moore, and approved by a roll call vote of all Trustees present, the Board of Trustees acting through the Investment Committee, approved an endowment spending rate of 4.5% for FY26.

**NEPC Capital Markets & Performance Review – Managed Investment Pool, Pension Fund, and Operating Fund**

Kelly Regan of NEPC provided a firm level update noting that Hightower Advisors made a strategic investment in NEPC at 80% with NEPC Partners retaining 20% ownership. NEPC expects no changes in their investment advice, staffing, leadership team or client focus.

**Market Update:**

Ms. Regan provided an update on NEPC's market outlook. Most asset classes except for real estate were positive during the 3<sup>rd</sup> quarter of 2024. Equities saw some reversal compared to past quarters as large cap value outperformed large cap growth, U.S. small cap outperformed U.S. large cap and international/emerging markets outperformed the U.S. large cap equity market.

Fixed income was positive as interest rates declined and the Federal Reserve lowered short term interest rates.

Since the 3rd quarter, markets have been more volatile. In October, equity and fixed income markets declined as the market adjusted its view that the Federal Reserve would be slower to cut interest rates. November and December to date have been more positive for markets following the U.S. election. For the fourth quarter to date, U.S. equities are positive and small cap is leading the way. International equity and emerging equity returns have declined partially due to an appreciated U.S. dollar. U.S. Treasuries and credit are negative as interest rates have increased while high yield and bank loans have been positive.

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

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

***Operating Fund.*** The Operating Fund improved 2.8% during the 3<sup>rd</sup> quarter, net of fees. The Fund's total market value was \$312.2 million as of 9/30/2024 representing an increase of \$47.2 million quarter over quarter. During both the 3<sup>rd</sup> quarter and trailing one year, managers were in-line with their respective benchmarks in aggregate (Composite vs. Allocation Index). The Fund's manager performance has been strong over the long-term, outperforming the Allocation Index during the 5 and 10-year time periods. At the end of the 3<sup>rd</sup> quarter, the asset allocation of the Fund was within policy ranges however the cash position was higher than the 30% target. NEPC reviewed rebalancing and is recommending no changes as the higher cash position will support operating expenses through the end of 2024.

***Defined Benefit Pension Fund.*** The Pension Fund improved 4.0% during the 3<sup>rd</sup> quarter, net of fees. The Pension's total market value was \$18.3 million as of 9/30/2024 representing an increase of \$0.7 million quarter over quarter. The increase was due to a System contribution as well as investment gains. During both the 3<sup>rd</sup> quarter and trailing year, managers underperformed their respective benchmarks in aggregate (Composite vs. Allocation Index). During the quarter, Global Equity, Global Asset Allocation and Hedged Equity managers were the largest detractors to relative performance. Relative underperformance over the trailing fiscal year was primarily due to more conservative positions which underperformed during a strong market. Ms. Regan noted that at the end of the 4<sup>th</sup> quarter, the Fund would receive the final redemption proceeds from Principal which will bring the Real Assets and Fixed Income positions closer to target, although these allocations are still currently within policy ranges.

***Managed Investment Pool (MIP).*** The Managed Investment Pool (MIP) improved 5.3% during the 3<sup>rd</sup> quarter, net of fees. The MIP's total market value was \$383.2 million as of 9/30/2024 representing a decrease of \$15.7 million quarter over quarter, with the departure of the University of Southern Maine Foundation from the MIP being the primary reason for the decline. During the 3<sup>rd</sup> quarter, managers outperformed their respective benchmarks in aggregate (Composite vs. Allocation Index) and underperformed over the trailing one year as Equity managers and defensive positions contributed to the trailing year underperformance. The MIP ranked in the 44<sup>th</sup> percentile of the Endowments and Foundation universe during the 3<sup>rd</sup> quarter as having a larger allocation to public equities during a strong market was beneficial to the Fund. The MIP has a 0% target to private equity while the median peer has a roughly 10% allocation.

NEPC expects that the MIP will rank well when public equity does well and private equity falls short; however, over the long-term NEPC expects that private equity will outperform public equity resulting in the MIP having below median rankings. At the end of the 3<sup>rd</sup> quarter, the asset allocation of the MIP was within policy ranges.

During the quarter, Ms. Elliott implemented the new asset allocation resulting in three manager terminations and two manager fundings. Ms. Regan also provided an update to the Investment Committee on Newton, advising that the University pause the transition to the Newton separate account from the mutual fund due to document complexity, cost to open international markets limiting the manager's investment universe and timing, and complexity and cost to complete annual tax reclaims. Ms. Regan stated that she will continue to assess other opportunities to reduce the fossil fuel exposure.

***Manager Performance.*** Ms. Regan also reviewed manager performance and noted no concerns with the investment managers across all three portfolios with the exception being Mondrian Emerging Markets Small Cap. She will review other manager alternatives and provide an update and recommendation at the next Investment Committee meeting.

### **Fossil Fuel Exposure Update – Managed Investment Pool, Pension Fund, and Operating Fund**

NEPC provided the Investment Committee with an update on fossil fuel divestment progress. Ms. Regan noted that there was significant progress in reducing the overall exposure to fossil fuels over the past 12 months. Last year (9/30/2023) there was a 1.3% or \$8.7 million exposure to fossil fuels across the three portfolios. This has significantly dropped to a 0.6% or \$4.6 million allocation as of 9/30/2024. The reasons for the sizable decline in exposure is mostly due to the new asset allocation of the MIP and termination of several managers with sizable fossil fuel exposure. The MIP's fossil fuel exposure declined to 0.6%, or \$2.4 million, which is an improvement from 1.9%, or \$6.5 million, over the past 12 months.

### **Defined Contribution Plan – Quarterly Review**

Michael Pratico and Barry Schmitt, Senior Vice Presidents with CAPTRUST Financial Advisors, provided an update regarding the Defined Contribution Plan for the 3<sup>rd</sup> quarter ending 9/30/2024. They also provided industry updates including those about Secure Act provisions. They noted that:

- The Secure Act allows employers the option of implementing higher catch-up contributions beginning in 2025 for participants who are ages 60-63. If implemented, the increased limit would be the greater of \$10,000 or 150% of the regular catch-up contribution for the calendar year.
- Starting in 2026, catch-up contributions for those earning more than \$145,000 per year will have to be done after taxes to a designated Roth account.

CAPTRUST went on to provide brief market commentary noting that the equity market's performance through the first three quarters of the year has been strong, particularly in the Large Cap Growth space where it continues to outperform all other styles.

**Investment Review:** CAPTRUST reviewed all funds consistent with the requirements of the Investment Policy Statement, noting that all funds were in good standing with two exceptions. The American Funds Europacific Growth Fund and the Victory Small Company Opps fund are both marked for review with CAPTRUST bringing a change recommendation for Victory Small Company Opps fund.

Investment review highlights included:

**American Funds Europacific Growth (marked for review):** The environment for this growth tilted strategy has generally improved. Year to date performance through mid-December is in the top 40th percentile peer relative. The three-year trailing return continues to be weighed down by the challenging environment for the growth style from late 2021 through 2022; however, returns over the past two years are nicely ahead of the core MSCI ACWI ex-U.S. Index and are slightly ahead of the foreign large blend peer group median. CAPTRUST continues to recommend holding the fund.

**Vanguard Target Date (default choice):** The Vanguard Target Retirement series posted solid results in the 3<sup>rd</sup> quarter. Offsetting some of this positive performance was Vanguard's more conservative glidepath design. A lower equity allocation in many vintages compared to peers and the benchmark weighed on their results as equity markets outperformed fixed income during the quarter.

**JP Morgan Equity Income:** The fund provided strong downside protection in 2022 but lagged significantly in 2023. Year to date 2024 has the fund in the 60th percentile but CAPTRUST continues to recommend the strategy noting the stylistic headwinds largely causing the lagging performance.

**Victory Small Company Opps (marked for review):** After having significantly outperformed the Russell 2000 Value index in 2022, the strategy underperformed both its peers and benchmark in 2023. Year to date, as well as in the 3<sup>rd</sup> quarter, the portfolio trailed the index and its peer group. Returns have now underperformed the benchmark and peer group for several quarters. Although the fund's long-term performance remains sound, CAPTRUST believes it's prudent to consider other options in the Small Cap Value asset class and is bringing forwarded a change recommendation.

### **Defined Contribution Plan – Small Company Value Fund Change Recommendation**

Given the underperformance of the Victory Small Company Opp I relative to its benchmark and peer group, CAPTRUST conducted a thorough search for a replacement manager. Three options were presented to the Committee for consideration: Principal Small Cap Value R6, American Beacon Small Cap Value R6 and the Vanguard Small Cap Value Index. Ultimately, CAPTRUST recommended the Vanguard Small Cap Value Index as the replacement option because of its low

cost, well diversified portfolio and professional management.

On a motion by Trustee Baldacci, which was seconded by Trustee Moore, and approved by a roll call vote of all Trustees present, the Board of Trustees, acting through the Investment Committee, approved the recommendation of CAPTRUST to terminate the Victory Small Cap Opps I, replacing the fund and mapping the assets and contributions to the Vanguard Small Cap Value Index.

### **Defined Contribution Plan – Environmental Social & Governance Fund Recommendation**

CAPTRUST noted that Plan participants have asked for an all equity Environmental Social & Governance (ESG) fund as part of the available investment menu.

The current UMS investment menu includes the **CREF Social Choice R4** balanced fund with exposure to both global equities and fixed income. This option currently holds approximately 6% of fund assets in fossil fuels which has been an area of concern for some Plan participants.

CAPTRUST recommended that the Committee consider adding the **Vanguard FTSE Social Index** fund to the Plan investment menu. This fund invests in a low cost, diversified portfolio with currently less than 1% of fund holdings in fossil fuels. It is also an all-equity fund so there are return differences between Vanguard FTSE Social Index and CREF Social Choice.

On a motion by Trustee Baldacci, which was seconded by Trustee Moore, and approved by a roll call vote of all Trustees present, the Board of Trustees, acting through the Investment Committee, approved the recommendation of CAPTRUST to add the Vanguard FTSE Social Index as an alternative investment for those participants who desire an all equity social choice fund that has muted exposure to fossil fuels.

### **Defined Contribution Plan – Fiduciary Training**

CAPTRUST mentioned the importance of fiduciary training and recommended that Trustees and others charged with investment responsibility complete CAPTRUST's approximately 20 minute fiduciary training which is available via Brainshark technology. The link for the training is at: <https://www.brainshark.com/captrust/2024FiduciaryRoles>

The training will assist with the fulfillment of fiduciary responsibilities to demonstrate and document a sound and prudent fiduciary process.

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