Present: Committee Members: Eleanor Baker, Chair, Kurt Adams (by phone), Samuel Collins, Paul Mitchell, Charles O’Leary, James Mullen (non-voting), and Chris Robinson (non-voting). Staff: Richard Pattenaude, Rebecca Wyke, Tracy Elliott, and Peter Small. Others: Jay Roney (NEPC), Kelly Cummings (NEPC), Bill Bullock (MMA).


The Investment Committee Meeting came to order at 1:00 pm. There was no quorum; therefore, Trustee Eleanor Baker, Chair, informed the Committee that all action items will be sent to the Board of Trustees to approve and ratify at the November 14-15, 2010 Board meeting.

No exceptions were made to the posted June 1, 2010 meeting minutes.

Pension & Managed Investment Pool (Including Endowments) Guidelines

Action: The members present were in favor of moving forward with the guidelines for the Pension and the Managed Investment Pool (Including Endowments). These guidelines were updated to reflect asset class targets approved by the Investment Committee at its June 1, 2010 meeting.

Approval of Non-Voting, Non-Trustee Committee Member

Trustee Baker, Chair of the Investment Committee, recommended reappointment of Mr. Christopher Robinson as a non-voting, non-Trustee member of the Investment Committee. Mr. Robinson is a First Vice-President and Financial Advisor at Morgan Stanley Smith Barney. The University of Maine System benefits greatly from the investment knowledge and background Mr. Robinson brings to the Committee. Mr. Robinson’s appointment effective June 2, 2010, would be for an additional three year term.

Action: The members present were in favor of reappointing Mr. Robinson for a second three year term as a non-voting, non-Trustee member of the Investment Committee.

Small Cap Manager Search Overview and Recommendation

New England Pension Consultants (NEPC) recommended a client review of Mesirow, a small cap equity manager in the Managed Investment Pool, due to recent personnel changes. The Investment Committee tasked UMS and NEPC staff to conduct a manager search to replace Mesirow. NEPC presented staff with ten managers. These managers were narrowed down to three finalists, Wedge Capital Management, Dimensional Fund Advisors, and Integrity Asset Management. NEPC and UMS staff interviewed and discussed the three managers and narrowed the finalists to Dimensional Fund Advisors and Integrity Asset Management.
**Dimensional Fund Advisors (DFA)**
- The portfolio is broadly diversified, holding roughly 1,500 securities diversified across and within sectors.
- DFA is a small/mid cap manager and its universe is broad, starting with the 501st largest market capitalization stock down to stocks with a $10 million market cap. DFA utilizes a quantitative model to construct its universe and designs its own index to provide reliable small cap value exposure.
- The portfolio’s performance is strong, outperforming the Russell 2000 Value in the last 7 of 9 calendar years. The product has historically exhibited a lower tracking error than other managers, ranging from 3-5%. In addition, the product displays the highest number of months of positive performance (60%) compared to the other candidates.
- The DFA investment vehicle is a mutual fund with daily liquidity that offers the lowest fees of all managers profiled (0.41% vs. ~1.0%).

**Integrity Asset Management (Integrity)**
- Integrity is a small/mid cap manager and its portfolio is broadly diversified, holding roughly 128 securities diversified across and within sectors.
- The diversified portfolio and disciplined trading are keys to Integrity’s success. It does not take big stock bets, starting with small initial positions of 50 basis points to help mitigate impact from mistakes.
- Integrity’s bottom-up fundamental process looks for stocks of the right companies, right price and looks to buy them at the right time. In analyzing the companies, Integrity meets with management in order to conduct its analysis.
- The portfolio’s performance is strong, outperforming the Russell 2500 Value in the last 3 out of 5 years. For comparison purposes, Integrity’s small cap value only product has outperformed the Russell 2000 Value index in 8 out of the 10 calendar years. The product has historically exhibited a lower tracking error than other managers, ranging from 4-5%. In addition, the product displays the second highest number of months of positive performance (55%) compared to the other candidates.

**Action:** The members present were in favor of hiring DFA to replace Mesirow for the small cap allocation in the Managed Investment Pool.

**Performance Review**

**Managed Investment Pool (Including Endowments) (MIP)**
- The MIP returned 12.0% (gross of fees) over the trailing year ended June 30, 2010; well above the 8.5% long-term target.
- Managers and strategies added value over all trailing time periods. Active managers added 60 basis points of value (gross of fees) during the trailing year.
- The MIP placed in the top 36th percentile during the 5 year time period and in the top 19th percentile over the 7 year period. The Plan also generated top 3rd and top quartile Sharpe ratios during this time period.
• As of August 31, 2010 the monthly return net of fees was -2.1% and the trailing 12-month return was 6.4%.
• At the Committee’s request, NEPC will deliver information on an additional hedge fund strategy for the MIP.
• NEPC has concerns with two managers:
  o Globeflex – a high quality international equity manager that has underperformed.
  o The Fidelity Market Neutral Fund – a high quality market neutral investment manager that has underperformed.

Pension Plan
• The Plan returned 10.8% (gross of fees) over the trailing year ended June 30, 2010; far above the expected return of 7.0% – 8.0%.
• Active managers in aggregate were exactly in-line with benchmarks during the trailing year time period.
• The Plan placed in the 81st and 75th percentile during the quarter and trailing one year time periods ending June 30, 2010. The conservative implementation of managers and strategies have negatively impacted peer group comparisons.
• The Plan has outperformed the median within the Total Fund Peer Universe in 7 of the last 10 fiscal years.
• As of August 31, 2010 the monthly return net of fees was -1.8% and the trailing 12-month return was 5.5%.
• Chase, a large cap growth manager, was terminated in April and the allocation was replaced by Rainer.
• The SSgA Russell 2000 Securities Lending Fund was transferred in whole to the SSgA Non-Lending Fund at the end of August 2010, due to SSgA lifting gates on withdrawals.
• At the Committee’s request, NEPC will deliver information on an additional hedge fund strategy for the Pension Plan.
• NEPC has concerns with one manager:
  o The Fidelity Market Neutral Fund – a high quality market neutral investment manager that has underperformed.

Operating Funds
• As of June 30, 2010 the Operating Fund’s assets totaled $196.2 million, with an annual return of 5.6%, net of fees.
• As of August 31, 2010 the monthly return net of fees was 0.2% and the trailing 12-month return was 4.2%.
• An additional hedge fund manager was added to the Operating Fund. The transaction was completed in May 2010 with $5 million transferred from money market funds to Permal Fixed Income Holdings.
• Due to the low interest rate environment, NEPC recommended transferring $10 million from money market funds to PIMCO Low Duration to provide additional yield compared to cash. The transaction occurred in June 2010.
• NEPC estimated net cash flow through January 2011 and recommended that 60% (or $17.5 million) of the net cash flow be used to increase the allocation to the Income and Total Return Pools. Specifically, NEPC recommended that UMS add $6 million to PIMCO Low Duration, $4 million to Gottex, $5 million to Permal, and $2.5 million to Vanguard S&P 500 Index Fund. The amounts should be funded from money market funds.

Other Business
Chancellor Pattenaude noted his appreciation for Committee member’s participation and input considering the importance of these assets to the function of the University of Maine System.

Adjournment,

Submitted by
Peter Small for
J. Kelley Wiltbank, Clerk