The Investment Committee meeting came to order at 9:00 am. The Committee approved the May 25, 2011 minutes.

**Market Update**

- Standard & Poor’s downgrade of the US sovereign credit rating from AAA to AA+, along with evidence of slowing global growth and the deepening European debt crisis has led to significantly increased market volatility.
- Equity markets have sold off sharply turning results negative on the year; while Treasuries have rallied.
- New England Pension Consultants (NEPC) is advising its clients to maintain a disciplined approach to investing. It does not advocate major tactical changes in the short-term; however, they do encourage:
  - Review of investment guidelines.
  - Re-consideration of risks in the portfolio.
  - Consideration of re-balancing toward targets.
- The Federal Reserve announced new monetary policy dubbed “Operation Twist” on September 21, 2011. This policy calls for the Federal government to sell $400 billion of bonds maturing in the short-term, and then use that money to buy longer-dated bonds in an effort to drive down long-term interest rates, make home and business loans cheaper in order to invigorate the economy. Under its plan, the Federal Reserve will extend the average maturity of its holdings from six to eight years. The Federal Reserve intends to sell Treasuries with maturities of three years or less and buy an equal amount of securities with remaining maturities of six to 30 years.

**Performance Review**

**Managed Investment Pool (MIP)**

- As of 8/31/2011, the MIP had a fiscal year to date net of fees return of -4.2%, with a trailing one year net of fees return of 13.6%.
- Managers and strategies added value with active managers in aggregate adding 320 basis points of value net of fees during the fiscal year.
• The MIP outperformed the median endowment over the one, three, five, seven, and ten year trailing time periods, ending June 30, 2011.
• The plan placed in the top 22nd percentile during the trailing one and five year time periods.
• NEPC will complete an asset allocation review during the 1st quarter of 2012.

**Operating Funds**
- As of 8/31/2011, the Operating Fund had a fiscal year to date net of fees return of -1.6%, with a trailing one year net of fees return of 1.9%.
- The Plan is in-line with long-term targets due to cash flows and rebalancing. However, as cash flows fluctuate throughout the year, the individual Pool weights will fluctuate as well.
- Recent actions include transferring the balance in the Federated money market fund to the Bank of America operating account. Reasons for this action include:
  - The Bank of America account offsets the current annual fees the System pays to Bank of America (approximately $120,000).
  - The credit of 27 basis points is higher than what the System earns with the money market funds as Federal Reserve rates are so low (approximately 10 basis points).
  - The Bank of America account has daily liquidity.
- In line with targets, NEPC made the following recommendations which the Investment Committee reviewed and supported. Transfer $15.0 million from the Bank of America operating account as follows:
  - $5.0 million to PIMCO Low Duration Fund.
  - $7.0 million to Windhaven Diversified Conservative.
  - $3.0 million to Vanguard S&P 500 Index Fund.

**Pension Plan**
- As of 8/31/2011, the Plan had a fiscal year to date net of fees return of -4.9%, with a trailing year net of fees return of 12.2%.
- As of 8/31/2011, managers outperformed benchmarks during the trailing year by 150 basis points (net of fees).
- The Plan placed in the top 33rd percentile during the trailing one year time period, and 65th percentile over the trailing 5 year period, ending June 30, 2011.

**PIMCO Manager Presentation**
Ms. Sarah Blank, Vice President and Account Manager, with PIMCO joined the meeting via Polycom to give an overview of PIMCO, UMS’ holdings, and an economic overview. UMS is invested in four different PIMCO products within the Pension Plan and Operating Fund totaling $122 million on July 31, 2011.

**Defined Contribution Plan (403(b)) – Oversight**
The Investment Committee’s duties and responsibilities have been expanded to include review and approval of the 403(b) investment policy and implementation to ensure the UMS meets fiduciary and compliance expectations in this area.

The UMS has worked to meet all of its obligations under Internal Revenue Service regulations updated in 2009 regarding the UMS 403(b) retirement plans. While not subject to Employee Retirement Income Security Act’s (ERISA) fiduciary requirements, UMS believes it is prudent to follow such requirements. It is widely recognized that satisfying ERISA requirements – even for
a non-ERISA plan, is a best practice. To meet these fiduciary responsibilities, UMS must prudently select and monitor investment options for plan assets. Specific tasks include:

1. Developing an Investment Policy Statement;
2. Designing and reviewing the Plan’s investment offerings;
3. Proactively monitoring and documenting the Plan’s investments’ performance;
4. Properly documenting fiduciary activities including providing appropriate regulatory notices, education and, advice to Plan participants; and
5. Communicating on an on-going basis with participants to help them make effective investment decisions.

The UMS is currently in the process of determining next steps. Staff are working with existing pension plan vendors to gain further understanding of various investment offerings and opportunities for improvement, are considering next steps related to evaluating options, and will bring the results to the Investment Committee in the future for consideration.

**Gift Fees**

UM and USM have collaborated on a proposal for charging two gift reinvestment fees so that the funds can be invested in fundraising operations enabling growth in giving. Presenters at the Investment Committee included:

- Paul Ferguson, President, UM
- Selma Botman, President USM
- Eric Rolfson, Vice President for Development and Alumni Relations, UM

They discussed the philanthropic potential and opportunity at UM and USM; the yield on gift fee investment in fundraising operations; and invited input from the Investment Committee. The following details the proposal that UM and USM are asking the Investment Committee to consider prior to any presentation to the full Board:

1. To permit UM and USM to charge a one-time gift reinvestment fee of up to five percent on all private outright gifts (not endowed gifts) to fund expansion of Advancement staff and programs.
2. To permit UM and USM to assess an annual management fee equal to 1.25% of the market value of its endowments held by the University of Maine System in addition to the annually determined pay over which is 4.75% for FY12.

The Investment Committee asked for information on the following items:

1. Would the new gift fees be applied at all UMS institutions?
2. What are the gift fees at the Universities of New Hampshire, Massachusetts and Vermont?
3. Would the gift fees replace E&G funds for development at some future date? Could that possibility be modeled?
4. Because the Investment Committee annually sets a spending rate - how do the gift fees impact this rate?
5. What will the policy be if endowments are “underwater”? Are the endowment fees suspended? If so, how does UM and USM ensure new staff wages, benefits, and related costs are funded?
6. Where will this many (up to five) experienced fund raisers come from?
7. Where does the UM Foundation and other affiliated groups (e.g., Alumni, Athletics) stand on this issue?
8. If UM and USM institute a 5% gift fee how does it impact the cost to raise a dollar?
9. Does it actually cost $.25 nationally to raise a dollar when all types of fundraising are averaged?
10. How have other institutions disclosed and communicated the adoption of fees to donors and potential donors?
11. How does the productivity of the UM Development Office compare with the UM Foundation? Which entity approaches a potential donor and to whom is the donation credited?
12. Is 5% the right number for a fee on outright gifts?
13. How will donors view these proposed fees? How have existing donors reacted at other institutions when similar practices have been adopted?

Adjournment.

Submitted by
Tracy Elliott for
J. Kelley Wiltbank, Clerk