The Investment Committee meeting came to order at 1:00 pm. The Committee approved the September 22, 2011 minutes.

Mr. Jay Roney and Ms. Kelly Regan from New England Pension Consultants (NEPC) provided a market update and briefed the Committee on investor actions and opportunities.

**Market Update**
- Global challenges will likely lead to continued short-term market volatility
- Expected return premium for risky assets appears to be improving

**Investor Actions and Opportunities**
- Maintain a disciplined approach to investing
- Pursue opportunities in the current environment
- Prepare to adjust asset allocation to reflect evolving relationships of risk and return
- At the next Committee meeting, NEPC will review the Plans’ asset allocations and perform scenario analysis, including various inflation scenarios.

NEPC provided a performance review update on the Managed Investment Pool, the Pension Fund and the Operating Funds.

**Managed Investment Pool (MIP)**
- As of 10/31/2011, the MIP had a fiscal year to date net of fees return of -5.3%, with a trailing one year net of fees return of 2.8%.
- Managers and strategies - value has been added over all trailing time periods except the most recent quarter and calendar year-to-date.
- Active managers in aggregate added 70 basis points of value during the last year, as of September 30, 2011 (net of fees).
- The MIP underperformed the median endowment over the last year but outperformed in the three, five, seven, and ten year trailing time periods, ending September 30, 2011.
- The plan placed in the 62nd percentile during the trailing one year time period and the 37th percentile during the trailing five year time period.
NEPC will complete an asset allocation review during the 1st quarter of 2012. The review will analyze the current asset allocation targets as well as consider new asset classes such as Emerging Market Debt Local Currency.

Jim Geary observed that in his opinion the Commonfund Multi-Strategy Bond Fund sector allocation is significantly overweight in corporate bonds. NEPC will evaluate the strategy to ensure that it is appropriate for the core fixed income allocation.

Pension Plan
- As of 10/31/2011, the Plan had a fiscal year to date net of fees return of -5.2%, with a trailing year net of fees return of 2.4%.
- As of 9/30/2011, managers underperformed their benchmarks during the trailing year by 160 basis points (net of fees).
- The Plan placed in the 79th percentile during the trailing one year time period and 80th percentile over the trailing 5 year period, ending September 30, 2011.
- NEPC noted the impact low interest rates can have on pension funding. Declining interest rates increase liabilities which are actuarially determined by taking the present value of future obligations using a certain interest rate. If interest rates fall, liabilities increase because there will be less assumed discounting on future benefit payments. As a result, depending on the plan funding level, financial statement liabilities could be impacted.
- NEPC and management will work together to understand the potential impact of interest rates on UMS’ liabilities and the funded status of its defined benefit plan and other obligations as appropriate. As of the last actuarial valuation on 7/1/2011, UMS’ defined benefit plan was 97% funded.

Operating Funds
- As of 10/31/2011, the Operating Fund had a fiscal year to date net of fees return of -1.3%, with a trailing one year net of fees return of 0.7%.
- Fiscal year-to-date performance as of 9/30/2011, was disappointing (-3.5% net of fees) with the majority of managers delivering negative absolute returns.
- The Operating Fund’s expected return over the next 5-7 years is 3.8%; however, there is volatility (risk) around these assumptions:
  - A one standard deviation event or 68% of the time, the Plan may have a return of -0.8% to 8.4% (loss would equate to approximately $2 million.)
  - A two standard deviation event or 95% of the time, the Plan may have a return of -5.4% to 13.0% (loss would equate to roughly $15 million.)
- The Committee discussed market risk related to the Operating Fund portfolio and whether UMS should put a larger percentage allocation into cash, thereby protecting a greater portion of the Operating Fund from losses but also reducing potential returns. The Fund’s goals and objects will be reviewed as part of the asset allocation update at the next Committee meeting. Vice Chancellor Wyke encouraged NEPC to consider how UMS might better position its assets in these volatile times and also to ensure that NEPC is prepared to provide advice so that UMS may move quickly if performance deteriorates. She asked NEPC to come up with a plan to address these concerns. The Committee agreed with this direction. NEPC commented that with the influx of cash that UMS receives in January, UMS may reallocate without liquidating current holdings.

Gift Fees
The Investment Committee continued its discussion regarding UM’s and USM’s proposal for charging two gift reinvestment fees – one on outright gifts and the other on endowments. This agenda item was discussed in detail at the Committee’s September meeting. Answers to follow-up questions were shared.
and discussed. In addition, Eaton Peabody was engaged to respond to several legal questions. Copies of the legal response were handed out at the meeting and Kelley Wiltbank summarized the results for the Committee.

Trustee Turner encouraged suggested the possibility of reducing the proposed outright gift fee from 5% to 3%.

Vice Chancellor Wyke commented that full disclosure should be made up front before any gift is made; fees should be suspended for any underwater endowments and budgets should be developed to allow for any such occurrences; any endowment fee should be part of, rather than in addition to, the annually approved endowment spending rate; the annual spending rate (including any fee) should be set at a level that protects the corpus for the future; and the return on investment related to these development fees should be reviewed by the Committee annually. Vice Chancellor Wyke further requested that UM and USM develop a budget which will be discussed at the next Committee meeting.

Trustee Collins asked that the campuses model several budgets using the requested fee percentages as well as lesser percentages.

Chair Baker asked UM and USM to come back to the Committee with a plan, staying away from underwater endowments.

**Defined Contribution Plan (403(b)) – Oversight**

As discussed at the September Committee meeting, the UMS has been working with existing defined contribution plan vendors to gain further understanding regarding the various investment offerings and opportunities for improvement.

UMS’ relationship with TIAA-CREF (Teachers Insurance and Annuity Association – College Retirement Equities Fund) began in 1961 and has evolved over the years. TIAA-CREF is a leading financial services organization with over 15,000 clients and over $440 billion in combined assets under management. UMS employees have over $1 billion in defined contribution funds invested with four vendors – TIAA-CREF, ING, Fidelity, and VALIC. Over 90% of those assets are invested with TIAA-CREF.

TIAA-CREF representatives reviewed the menu offerings currently available to UMS defined contribution participants, analyzed participant use of those offerings, and discussed how the menu might be improved. Current fund fees were also discussed. Management noted that next steps include determining a process for streamlining the investment lineup and deciding the investment provider structure. UMS management is currently exploring options with TIAA-CREF and NEPC to determine how best to proceed. Considerations also include whether or not to move to a sole provider relationship, structuring governance of the plan and Committee oversight, and supporting conversion to a new structure.

Adjournment.

Submitted by
Tracy Elliott for
J. Kelley Wiltbank, Clerk