Université de Maine System

Board of Trustees

Investment Committee

May 30, 2012
1:00 am – 4:00 pm
UMS, Rudman Board Room, 3rd Floor
USM, 327 Wishcamper Center

Present in Bangor: Chancellor: James Page. Staff: Rebecca Wyke. Others: James Geary (USM Foundation) and Richard Ericson (MMA).

Present in Portland: Committee Members: Eleanor Baker, Chair; Gregory Johnson, Marjorie Medd, Karl Turner, Chris Robinson (non-voting), and Jack Moore (non-voting). Staff: Tracy Elliott. Others: Kelly Regan (NEPC), Jay Roney (NEPC), Karen Pelletier (USM), John Shipway (MMA).

Present by Phone: Committee Member: Sam Collins. Others: Janet Waldron (UM).

Absent: Kurt Adams, Michelle Hood, and Lyndel Wishcamper.

Trustee Baker, Chair, called the meeting to order.

Reappointment of John Moore
Expressing appreciation for Mr. John Moore’s contributions to the Committee, on a motion by Trustee Johnson, which was seconded by Trustee Medd, the Committee agreed to reappoint Mr. John Moore to a second, three-year term as a non-voting, non-Trustee member of the Investment Committee.

High Yield Manager Presentation & Selection
The Board of Trustees’ at its March 19, 2012 meeting approved an allocation to a high yield fixed income strategy in the Managed Investment Pool (MIP) and the Pension Plan. NEPC and staff subsequently reviewed search materials for several managers, recommending that two firms be interviewed at the May 30th Investment Committee meeting.

Penn Capital Management Company, Inc.
Mr. Peter Duffy, Partner and Senior Portfolio Manager, and Mr. Christian Noyes, Senior Managing Partner and Director of Marketing and Client Services, with Penn Capital, joined the Committee by Polycom. This firm, founded in 1987, is 100% employee owned, with 57 employees and 16 partners, and $6.5 billion in assets under management, including $3.6 billion in their high yield fixed income product which has a cap of $4 billion. Their guidelines for this fund include 100% US dollar cash pay securities; 10% downside sell discipline; no emerging market sovereign debt, zero coupon, payment-in-kind or distressed securities, credit default swaps, triple-C or below rated debt; maximum number of companies is set at 150; maximum issuer weighting at cost of 3%; maximum industry weighting of 15% or 3 times the benchmark; maximum cash position of 10%; and minimum bond credit quality of a split-B rating. The benchmark for this product is the Bank of America Merrill Lynch BB/B Rated Non-Distressed Index.

Current portfolio characteristics include average coupon of 8.6%, current yield of 7.9%, average maturity of 6.0 years, average duration of 3.1 years, and a weighted average S&P/Moody’s rating of B/B2. Penn Capital has a liquidity advantage in that approximately 65% of all high yield issues are
$500 million or less in size allowing this firm to easily move into and out of positions. Penn Capital has had high team continuity, only losing one portfolio manager in 25 years.

**Loomis Sayles, L.P.**
Mr. Brian Kennedy, Vice President and Product Manager, and Mr. Todd Needham, Vice President and Client Portfolio Manager, with Loomis Sayles, joined the Committee by Polycom. This firm has been in business since 1926 and has $172 billion in assets under management, with 558 employees including 212 investment professionals.

Loomis Sayles’ High Yield Full Discretion Trust product has a dedicated portfolio manager. The firm takes a very opportunistic approach to this product, not managing to the benchmark but rather is benchmark aware. The benchmark for this product is Barclays US Corporate High Yield. The current High Yield Full Discretion Trust’s objective is maximum total return through research driven security selection while managing downside risk through careful portfolio construction.

The characteristics of the Trust product as of March 31, 2012 includes average coupon of 5.94%, average yield to maturity of 6.92%, average maturity of 10.45 years, average duration of 5.88 years, and average quality of Ba2. As of March 31, 2012, the product’s distribution includes 44% high yield credit, 15% convertibles, 14% Non-US dollar (excluding the Canadian Dollar), 11% investment grade credit, 9% cash and equivalents, 3% mortgage backed securities, 3% preferred/equity, and 1% commercial mortgage backed securities.

Loomis Sayles’ annual fees applied to assets under management are .67% on the first $5 million and .50% on value over $5 million with a minimum account size of $5 million.

**Committee Action - Selection of Manager**
On a motion by Trustee Johnson, which was seconded by Trustee Turner, the Committee agreed to select Loomis Sayles for the following allocations:
- A 5% allocation in the MIP with funds from Commonfund Multi-Strategy Bond Fund
- A 5% allocation in the Pension Plan with funds from PIMCO Total Return

**Performance Review.** 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.

**Managed Investment Pool (MIP)**
NEPC has re-evaluated their valuation models and conclude that:
- Equities and credit (including emerging markets) still appear relatively attractive on a valuation basis.
- Treasury yields have risen modestly but remain near secular lows.
- The underlying economic environment has not changed meaningfully (and has perhaps gotten better).

As a result, NEPC is comfortable that their 2012 recommendations remain sound:
- Emerging market stocks and bonds remain attractive.
- Credit strategies have highest risk-adjusted expected returns.
- Lock-up strategies are positioned to harvest attractive illiquidity premiums.
- As of 4/30/2012, preliminary results show the MIP with a fiscal year to date net of fees return of 0.8%, with a trailing one year net of fees return of -1.6%, and a trailing seven year return of 6.1%.
- As of 3/31/2012, managers and strategies have added value over all trailing time periods. Over the three, five, seven, and ten year trailing time periods, the Plan has placed around the top third of the Endowment Universe; however, the Plan’s one year performance ranks at the 76th percentile due to a challenging 2011 as the Plan’s diversified asset allocation was not rewarded in a period of a flight to quality.

**Pension Plan**
- As of 4/30/2012, preliminary results show the Pension Plan with a fiscal year to date net of fees return of 0.9%, with a trailing one year net of fees return of -1.5%, and a trailing seven year return of 4.5%.
- As of 3/31/2012, managers and strategies have added value over most trailing time periods. Over the three and ten year trailing time periods, the Plan has placed around the median Total Fund; however, the Plan’s one year performance ranks at the 87th percentile due to a challenging 2011 as the Plan’s diversified asset allocation was not rewarded in a period of a flight to quality and the Plan’s active managers struggled in 2011 and failed to add value as market fundamentals were not rewarded.

**Operating Funds**
- As of 4/30/2012, preliminary results show the Operating Fund with a fiscal year to date net of fees return of 1.6%, with a trailing one year net of fees return of 1.2%, and a trailing five year return of 2.5%.
- As of 3/31/2012, the Plan’s performance had been positive over all trailing time periods. The Plan returned 2.8%, 5.3% and 2.5% over the last two, three and five years, respectively.

**Committee Action – Rebalancing Portfolio**
On a motion by Trustee Johnson, which was seconded by Trustee Medd, the Committee adopted New England Pension Consultant’s recommendation to rebalance the portfolio in the following manner:
1. Move $10 million from PIMCO Floating Income to Vanguard Core Bonds
2. Reduce Vanguard S&P 500 index by $3 million and rebalance to Windhaven

**Other Business**
Trustee Johnson stressed the importance of the Committee meeting regularly through the end of this calendar year given volatile market conditions.

Ms. Tracy Elliott, Director of Finance and Controller, informed the Committee that the UM School of Law Foundation will be voting at their June 8, 2012 Board meeting about investing their endowment funds in the UMS Managed Investment Pool. Their endowment has a market value of approximately $3 million. Ms. Elliott has been working with the Foundation to provide necessary information and finalize terms of the agreement.

Adjournment.

Submitted by
Tracy Elliott for
J. Kelley Wiltbank, Clerk