

UNIVERSITY OF MAINE SYSTEM

Board of Trustees

Investment Committee

October 17, 2012

UMS, Rudman Board Room

Present in Bangor: Committee Members: James Mullen (non-voting). **Chancellor:** James Page. **Others:** James Geary (USM Foundation), Jean Deighan (UM School of Law Foundation), Bill Brennan (MMA), James Soucie (MMA). **Staff:** Tracy Elliott and Rebecca Wyke.

Present in Portland via Polycom: Committee Members: Eleanor Baker, Chair; Marjorie Medd, Karl Turner, Chris Robinson (non-voting), and Jack Moore (non-voting). **Others:** Kelly Regan and Jay Roney (NEPC) and Karen Pelletier (USM).

Absent: Kurt Adams, Samuel Collins, Gregory Johnson, and Michelle Hood.

Trustee Baker, Chair, called the meeting to order.

Short Term Fixed Income Manager Interview & Selection - Operating Fund. Currently, the Operating Fund has 44% of its assets invested in PIMCO through three different products (Low Duration, All Asset and Floating Income). Given the concentration in PIMCO, NEPC has recommended diversifying by replacing PIMCO Low Duration with a new Short Duration Core Fixed Income manager.

NEPC prepared a search book of fixed income managers and reviewed with Ms. Tracy Elliott, Director of Finance and Controller. As a result the following 2 firms were selected to interview with the Investment Committee.

Chicago Equity Partners

Chicago Equity Partners has a high quality, conservative strategy. Their strategy is averse to security specific risk, but may be aggressive in sector positions. Performance expectations include outperformance during periods of volatility and high systematic risk. Both quantitative and fundamental analysis drives sector, quality and industry decisions.

This firm was founded in 1989 and with 111 institutional clients it has \$8.7 billion in assets under management. The short term fixed income product holds \$366 million with an average quality of AAA and a minimum quality of BBB. Chicago Equity representatives stated that this product has never had a holding that was downgraded while held in the portfolio and they never lost a client for performance. Their short term fixed income product has outperformed the benchmark in 12 of the last 13 calendar years.

Income Research & Management

Income Research & Management is employee owned and specializes only in investment grade fixed income. Portfolios will focus on income maximization and positive convexity characteristics with a focus on niche areas of the markets such as puttable bonds and asset backed securities. Performance expectations include good performance in most market environments, with potential to lag slightly during credit bear markets.

This firm was founded in 1987 and has 941 accounts with \$34.2 billion in assets under management. The IR&M 1-3 Year product holds \$1.3 billion with an average quality of AA and a minimum quality of BBB. The product is benchmark aware but not beholden. Their fixed income universe includes corporate, securitized, government, municipal and convertibles. Since inception of the product in 1989, during periods of rising and falling rates as well as spread movement in both directions, there have been no negative quarterly trailing 1-year returns.

Committee Action - Selection of Manager

The Investment Committee agreed to select Income Research & Management to replace PIMCO Low Duration in the Operating Fund.

Review and Approval of Investment Guidelines. The Investment Guidelines and Objectives for both the Managed Investment Pool and the Pension Plan were updated to reflect Committee allocation decisions and reflect appropriate benchmarks. In addition, the MIP guidelines were modified to include recognition of the University of Maine School of Law Foundation participation in the MIP effective July 2012 and the elimination of the University of Maine at Farmington Alumni Foundation as a participant. That Foundation was dissolved on January 31, 2012 and its \$1 million in assets gifted to the University of Maine at Farmington for continued endowed scholarships.

The Investment Committee supported the changes to the guidelines, but lacking a quorum will forward the recommendation to the Consent Agenda for approval at the November 5, 2012 Board of Trustees meeting.

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

Gottex Market Neutral Plus Fund

Due to overall turnover in senior investment professionals at Gottex over the past three years, the firm's loss of assets under management (from \$16 billion in 2007 to \$7.4 billion as of 6/30/2012) and reduced revenues, NEPC recommends that investors formally review their investments with Gottex.

As Gottex's notification period for receipt of proceeds by 12/31/2012 ended on September 25th, NEPC phoned Ms. Elliott on that day with a recommendation to submit a redemption request for all three of UMS funds (totaling approximately \$28 million). While the UMS has the option to rescind the request, NEPC recommends termination. The Committee concurred. Discussion followed regarding the prudence of investing in hedge funds and the recognition of a conservative strategy as appropriate for UMS. NEPC will conduct a search and work with Ms. Elliott to bring two managers to the next Investment Committee meeting for selection of a replacement.

Managed Investment Pool (MIP)

The MIP gained 2.0% gross of fees during the MIP month of August. The plan gained 6.3%, 3.1% and 8.3% for the trailing one year, five year, and ten year periods respectively.

Pension Plan

The Plan gained 1.8% gross of fees during the month of August. The plan has gained 7.5%, 2.3% and 6.9% for the trailing one year, five year, and ten year periods respectively.

Operating Funds

The Plan gained 0.7% gross of fees during the month of August and 1.8% for the fiscal year to date ending August 31st. The plan has gained 5.0%, 3.9% and 2.9% for the trailing one year, three year, and five year periods respectively.

Other Business

Subgroup Work

The Committee discussed a suggestion made Mr. Jack Moore to improve effectiveness given the many time constraints. A subgroup, working with UMS staff and NEPC, could be formed to assist with:

- (1) Manager selection by performing preliminary assessments, and
- (2) Asset allocation including discussing prospective adjustments under a variety of scenarios so that the Committee is prepared to make well reasoned decisions in the midst of market swings.

Committee members were supportive of this suggestion. Both Mr. Jack Moore and Ms. Jean Deighan volunteered to participate in such efforts. Ms. Deighan also suggested that Mr. Jim Geary might be interested.

Defined Contribution Plan

Trustee Karl Turner asked for an update on the work in the Define Contribution Plan. Ms. Elliott stated that an RFP for Defined Contribution Investment Consulting Services was issued in late August. Twelve proposals have been received and a committee will be meeting to review the proposals in November. Ms. Elliott will provide an update regarding the progress at the next Committee meeting.

Adjournment.

Submitted by
Tracy Elliott for
J. Kelley Wiltbank, Clerk