Trustee Baker, Chair, called the meeting to order.

**Approval of December 10, 2012 Investment Committee Minutes.** The Investment Committee members approved the December 10, 2012 Investment Committee minutes.

**Fossil Fuels and Social Responsibility Discussion.** UMS has received several inquiries regarding its investments in fossil fuels with particular emphasis on oil industry holdings. Student groups nationally are bringing awareness regarding fossil fuels and related environmental concerns and encouraging divestment of related investments.

New England Pension Consultants (NEPC) lead a discussion regarding this issue, divestment options, and limitations.

- Investment options are limited given the scale of the individual Plans and the ability to access separately managed accounts.
- Changes to reduce exposure can only be made on the margin unless extensive changes are made to the Plans.
  - Wholesale changes would alter the return, risk and diversification profile of the Plans and would require significant staff, Committee, and consulting resources.
- Potential changes through negative screens would limit the investment managers opportunity set and impact performance.

Certain (but limited) investment funds are available that have already divested from fossil fuels or have negligible exposure.

- This investment space is not very developed and the funds tend to be concentrated in domestic equity.
- Funds currently reviewed by NEPC do not have consistent performance and are not approved managers meaning they are not recommended or considered best in class.

Some Environmental, Social, and Governance (ESG) focused managers are beginning to think about fossil fuel exposure.

- ESG focused managers will have less exposure to fossil fuels but there will still be some exposure.
- ESG could be a potential area to further explore in the future as more manager options become available.
Options are still limited to equity and fixed income and are still being researched by NEPC.

Would require significant Committee, staff, and consultant time to analyze, interview and allocate to these investments.

Ms. Tracy Elliott, Director of Finance and Controller, stated that there are many ways that an organization demonstrates its environmental stewardship and the System will continue to focus on energy reduction yielding both cost savings and carbon avoidance as demonstrated over the past several years. Ms. Elliott commented on the Sightlines’ slides which had been forwarded to the Committee. The slides showed that, from 2006 to 2011, the seven Universities cumulatively reduced their carbon footprint by 23% and energy consumption has declined by 9% from 2009 to 2012.

The Committee acknowledged the importance of this issue and discussed in detail the above noted investment constraints. The Committee agreed to consider investment opportunities in the future as this space becomes more developed and acknowledged this is an area where the full Board will ultimately need to weigh in.

**Capital Market Observations.** NEPC provide the following market observations:

Strong 2012 market returns lead to subdued expectations.
- Without a fundamental shift in underlying economic drivers, favorable recent performance “robs from the future” and lowers the 5-7 year outlook across markets.
- Markets have rallied based on policy announcements more than economic results.
- Policy accommodation could provide further tailwind to markets in the near-term.

The potential for macro shock is elevated in the near term:
- Simulative monetary policy in developed world creates a deceptively calm backdrop.
- Ongoing US fiscal cliff negotiations, European misstep, China slow down, or Middle East conflict could send shocks across the markets.

Global growth outlook remains constrained as the developed world lacks political will to truly address debt burden.
- Pressure for fiscal tightening could neutralize benefits of monetary stimulus.
- Structural debt issues plus ancillary effects of money printing will extend deleveraging.

Seeds of inflation planted but not yet watered.
- Money printing has led to asset price inflation instead of inflation in the real economy.
- Monetary easing creates long-term inflation threat but muted credit growth limits near-term inflation pressure.

**Asset Allocation Study and Recommendations.** NEPC led a discussion regarding asset allocation options and recommendations in all three plans (Managed Investment Pool, Pension Plan, and Operating Fund).

The options explored modifications to current asset allocation as follow:
- Re-adjust equity allocation to better reflect the global equity investment opportunity set.
- Increase Global Asset Allocation through a reduction in Hedge Funds to increase diversification and liquidity with Global Asset Allocation.
- Reduce duration exposure specifically in the Operating Fund given the large allocation to fixed income.
Committee Recommendation
The Investment Committee members approved the following asset allocation changes:

Managed Investment Pool
Increase Global Asset Allocation (GAA) by 10% by shifting 5% from Hedge Fund of Funds and 5% from Equities. Add PIMCO All Asset to the GAA manager line-up bringing in additional real asset exposure.

Pension
Increase Global Asset Allocation (GAA) by 10% by shifting 5% from Hedge Fund of Funds and 5% from Equities.

Operating Fund
Shift 5% from Large Cap Equity to Global Equity.
Reallocate 5% from Core Bonds to Short-Term Treasuries.
Reallocate 5% from Hedge Funds to Global Asset Allocation.

Performance Review. Mr. Jay Roney and Ms. Kelly Regan with NEPC provided a market update and briefed the Committee on investment performance for the quarter ended December 31, 2012 along with market performance as of January 2013.

Managed Investment Pool (MIP)
The MIP was up 12.2% net of fees for the fiscal year to date ending January 31, 2013 and had gained 13.4%, 4.5% and 9.0% for the trailing one, five, and ten year periods respectively.

As previously approved by the Committee, the System has hired Cube Capital Hedge Fund of Funds to replace the Gottex investment for all three plans. Gottex funds were received in full in mid-February and staff will be sending funds to Cube for the next investment opportunity which is March 1.

NEPC discussed various managers in this Plan. Two managers (Loomis Sayles and Westfield) are considered to be placed on watch status and two (Wellington and Permal) required no action. One manager (Gottex) was a client review and is a manager the Committee previously voted to terminate.

Loomis was placed on watch given the resignation of the Portfolio Manager for the High Yield Full Discretion portfolios although subsequent meetings with the manager indicate minimal impact on the team and strategies going forward. Westfield was placed on watch following the termination of a Partner and Investment Committee member in 2011 and his subsequent filing of a lawsuit against the President, CEO and CIO of Westfield Capital. NEPC will continue to monitor these two managers and report back to the Committee.

Wellington has announced the addition of a Portfolio Manager and Permal has agreed to acquire a London Based Fund of Hedge Funds company. In both cases NEPC recommends no action at this time.
**Pension Plan**
The Pension Plan was up 10.5% net of fees for the fiscal year to date ending January 31, 2013 and gained 12.3%, 3.4%, and 6.6% for the trailing one, five, and ten year periods respectively.

NEPC provided four manager updates. As described above, one (Loomis Sayles) requires watch status, two (Wellington and Permal) require no action, and one (Gottex) required client review and, as noted above, was a manager that the Committee previously voted to terminate.

**Operating Funds**
The Plan gained 4.1% net of fees for the fiscal year to date ending January 31, 2013 and gained 5.5%, 3.6%, and 2.8% for the trailing one, three, and five year periods respectively.

NEPC reviewed changes occurring at two of the managers (Windhaven and Permal) in this Plan. Windhaven has announced the addition of a Portfolio Manager and Head of Research and the transitioning of their current Director of Research to a part-time short-term relationship. The changes within Permal were as discussed above. In both cases NEPC recommends no action at this time. In addition, consistent with the other Plans, Gottex has been terminated and is in the process of being liquidated in this Plan.

**FY2014 Endowment Distribution Rate per Share.**
At its February 2013 meeting, the Shared Services Advisory Council (SSAC) affirmed their support for using a 4.5% spending rate to calculate the FY2014 endowment distribution rate per share. This 4.5% is consistent with the prior year and other higher education institutions.

A 4.5% endowment spending rate equates to a rate per share of $12.64606. Using this rate, an estimated $4.89 million will be available for endowed spending, $233 thousand allocated for management costs, and $58 thousand returned to principal for underwater endowments. This rate will provide for an estimated $500 thousand more in endowed spending for FY2014 compared with FY2013.

**Committee Recommendation – FY2014 Endowment Distribution Rate per Share**
The Investment Committee members voted to approve the endowment distribution rate for FY2014 of $12.64606 per share.

**CAPTRUST Financial Advisors Defined Contribution Discussion.** CAPTRUST’s presentation to the Committee was postponed given weather conditions. Ms. Elliott briefly updated the Committee on progress in the defined contribution area. CAPTRUST Financial Advisors has issued a Request for Information (RFI) to the four current vendors (TIAA-CREF, VALIC, ING and Fidelity) to obtain the best pricing and service level. The System has an internal committee that will be reviewing the results of the RFI and considerations regarding a sole recordkeeper relationship. Ms. Elliott and CAPTRUST will report progress to the Investment Committee along with recommendations at a future meeting.

Adjournment.

Submitted by
Tracy Elliott for
J. Kelley Wiltbank, Clerk