
Present at USM via Polycom: Committee Members: Eleanor Baker, Chair, Marjorie Medd, Jack Moore, Chris Robinson, and Karl Turner. Staff: Tracy Elliott. Others: Michael Pratico and Barron Schmitt (CAPTRUST Financial Advisors), Jay Roney (NEPC), and John Shipway (MMA).

Present by Phone: Committee Member: Sam Collins. Staff: Rebecca Wyke.

Committee Members Absent: Kurt Adams and Gregory Johnson.

Trustee Baker, Chair, called the meeting to order.

Approval of February 27, 2013 Investment Committee Minutes. The Investment Committee members approved the February 27, 2013 Investment Committee minutes.

CAPTRUST Financial Advisors - Defined Contribution Plan Update and Recommendations. Mr. Michael Pratico and Mr. Barron Schmitt, Senior Vice Presidents with CAPTRUST Financial Advisors, provided a progress report and recommendations regarding the UMS Defined Contribution (DC) Plan. CAPTRUST and an internal UMS DC Plan Investment Subcommittee comprised of System Office and campus staff including human resources, finance, labor relations, union representatives, and faculty have been working together since January evaluating improvement opportunities to the DC Plan and support the recommendations being made today.

CAPTRUST provided background information pertaining to their firm, which was hired in January 2013 to provide investment consulting services to the DC Plan, and discussed their role in the project. CAPTRUST also provided an overview of the current 403(b) landscape and the sweeping 403(b) regulatory changes which have increased fiduciary responsibilities for plan sponsors. As a result, more comprehensive oversight of DC Plans is necessary including:

- Following a prudent process for the selection and monitoring of investments
- Establishing and following a process for ensuring reasonableness of plan investment expenses
- Disclosing fees to participants on a regular basis

While UMS’ DC Plan is a non-Employee Retirement Income Security Act (non-ERISA) Plan and, therefore, not subject to ERISA guidelines, certain fiduciary responsibilities still apply. As such, many public higher education institutions follow ERISA guidelines as a prudent process and best practice.

The current UMS structure includes four DC plan record keepers (vendors) and 300+ individual mutual funds or variable/fixed annuities. The current multiple vendor, unconstrained fund line-up environment makes fulfilling fiduciary responsibilities very difficult.

The current record keepers are TIAA-CREF with $1 billion in UMS participant assets, Fidelity with $16 million, ING with $156 million, and VALIC with $11 million. Three of the four vendors utilize individual contracts while Fidelity utilizes a group contract. Fidelity assets are mappable to another vendor along with certain TIAA-CREF assets; however, CAPTRUST recommends not mapping any assets if the program consolidates as it will cause much confusion as many of the UMS participant assets cannot be mapped.
The total number of funds offered across the four vendors is 300+ making it impractical for the Committee to meet its fiduciary obligations of monitoring performance, fees and expenses; thus, vendor and fund consolidation are both logical and necessary. Further, consolidating would allow UMS to leverage its collective purchasing power more effectively to offer higher quality, lower cost funds to participants.

CAPTRUST reviewed the summary of each vendor’s expenses and noted the wide variation.

CAPTRUST recommended consolidating to a “single vendor” from the current “multi-vendor” environment based on the following benefits to the UMS and its plan participants:

- Creates a manageable DC Plan (including 403(b), 457(b), and 401(a)) allowing administration and Trustees to properly fulfill fiduciary obligations
- Enables effective monitoring of fund performance, fees and expenses
- Establishes a prudent process for ongoing program oversight
- Provides the ability to more effectively “brand” the Plan
- Leverages Plan assets to create more pricing efficiency (reduced investment costs) including reducing or eliminating Mortality & Expense (asset wrap) charges
- Enables an improved learning environment for participants
- Enables concentration on investment menu design providing a strong core menu, enabling construction of diversified and efficient portfolios while balancing the participant “confusion vs. choice” dynamic
- Creates an investment line-up of “best in class” actively managed funds, low cost index funds, Target Date (allocation) funds and Self-Directed Brokerage Funds which will be proactively evaluated and replaced as appropriate given quantitative, qualitative and/or style purity concerns

CAPTRUST performed a Request for Information (RFI) process whereby each incumbent vendor was asked to provide pricing as a single consolidated vendor or as one of two choices. TIAA-CREF offered the most competitive pricing.

CAPTRUST recommended consolidating the program to TIAA-CREF as the sole record keeper of new deposits. Participants have the option to leave existing assets with their current vendor or transfer to TIAA-CREF (subject to potential surrender charges, depending on the vendor and the contract). The recommendation is based on TIAA-CREF’s open architecture investment philosophy, availability to create a “best in class” fund line-up, their service delivery model/commitment to on-site service, brand recognition within higher education and pricing.

CAPTRUST went on to recommend menu construction, asset class coverage, and fund line-up as further outlined in materials mailed to the Committee.

In summary, CAPTRUST recommended the following asset class coverage within the consolidated program:

- Money Market
- Traditional Fixed
- Fixed Income – Core Bond
- Fixed Income – Inflation Linked Bond
- Fixed Income – Bond Index
- Asset Allocation – Socially Responsible
- Asset Allocation – Target Date Series
- Large Cap Value
- Large Cap Blend – Active
- Large Cap Blend – Index
- Large Cap Growth
Further, CAPTRUST recommended the following fund line-up for all new deposits. CAPTRUST’s fund evaluation process employs a combination of quantitative and qualitative assessments. Among other statistics, the quantitative analysis primarily focuses on risk-adjusted and peer-relative returns, standard deviation of returns, market risk as measured by Beta, style purity and portfolio statistics such as size, median market capitalization and turnover. All analyses are prepared using net returns and all statistics and performance metrics are computed net of fees.

- Money Market – CREF Money Market
- Traditional Fixed – TIAA Traditional
- Fixed Income – Core Bond – PIMCO Total Return I
- Fixed Income – Inflation Linked Bond – CREF Inflation Linked Bond Account
- Fixed Income – Bond Index – Vanguard Total Bond Index Signal
- Asset Allocation – Socially Responsible – CREF Social Choice
- Asset Allocation – Target Date Series – Vanguard Retirement TDF Series Signal
- Large Cap Value – J Hancock3 Disciplined Value R5
- Large Cap Blend – Active – CREF Stock
- Large Cap Blend – Index – Vanguard 500 Index Signal
- Large Cap Growth – Harbor Capital Appreciation Institutional
- Mid Cap Value – Ridgeworth Mid Cap Value I
- Mid Cap Blend – Index – Vanguard Extended Market Index Signal
- Mid Cap Growth – Goldman Sachs Growth Opportunities I
- Foreign Blend – Growth – Oppenheimer International Growth I
- Foreign Blend – Value – Massachusetts Financial Services (MFS) International Value R5
- Foreign Blend – Index – Vanguard Total International Index Signal
- Small Cap Value – Victory Small Cap I
- Small Cap Growth – Eagle Small Cap Growth R6
- Emerging Markets – Dimensional Fund Advisors (DFA) Emerging Markets Core Equity I
- Specialty - Real Estate – TIAA Real Estate

The Committee supported the recommendations except that, following discussion, the Committee recommended excluding the bond index fund in the initial line-up given the current interest rate and bond market environment. The Committee approved adding the Bond Index fund to the line-up in the future, without further vote, at the discretion of the UMS DC Plan Investment Subcommittee.

Committee Recommendation

The Investment Committee approved the following recommendations with implementation to occur upon resolution of collective bargaining matters related to the Defined Contribution Plan.
- Consolidation of the UMS Defined Contribution Plan from the current multi-vendor environment to a single vendor with that vendor being TIAA-CREF.

- A three tiered approach to menu construction including target-date mutual funds, a core line-up of active and passive funds and a mutual fund brokerage window.

- The investment lineup as supported by the internal UMS DC Plan Investment Subcommittee with the exception that a bond index fund will not be offered until improvements in the interest rate and bond market environments.

Investment Policy Statements – Update. NEPC and UMS staff reviewed and updated Investment Policy Statements for the Managed Investment Pool and the Pension Plan. No changes were needed for the Operating Fund.

Committee Recommendation

That the Investment Committee approve the updated Investment Guidelines for the Managed Investment Pool and the Pension Plan as presented.

Operating Fund Scenario Analysis. Mr. Jay Roney, with NEPC, presented an operating fund scenario analysis which tests the viability of an asset mix or mixes under multiple economic scenarios. Six scenarios were tested with only one (delev-flation) posing drawdowns over a longer time period. Delev-flation is defined as low to negative inflation in the beginning years followed by rapid inflation due to government stimulus and policy incentives. In the NEPC delev-flation scenario, UMS would have a net loss of about $9.5 million over a 5 year period.

Performance Review. Mr. Roney provided a market update and briefed the Committee on investment performance for the quarter ended March 31, 2013 along with market performance as of April 30, 2013.

Managed Investment Pool (MIP).
The MIP was up 16.2% net of fees for the fiscal year to date ending April 30, 2013 and had gained 13.1%, 4.8% and 8.7% for the trailing one, five, and ten year periods respectively.

NEPC reported that one manager, Westfield, continues on watch status.

Pension Plan
The Pension Plan was up 14.2% net of fees for the fiscal year to date ending April 30, 2013 and gained 11.9%, 3.8%, and 7.0% for the trailing one, five, and ten year periods respectively.

NEPC reported that one manager, Rainier, has been placed on hold due to changes in the team and performance considerations.

Operating Funds
The Plan gained 5.4% net of fees for the fiscal year to date ending April 30, 2013 and gained 5.1%, 3.5%, and 3.0% for the trailing one, three, and five year periods respectively.

Other
NEPC recently updated their return assumptions for the three plans noting that there will be significant volatility around the expected returns each year. The following summarizes the results:

- Managed Investment Pool – NEPC supports a return assumption of 7.75%, which is down from the previously supported 8.25%.
- Operating Fund – NEPC suggests that a return expectation of 4.25% is reasonable, down from the previously supported 5%.
- Pension – NEPC reaffirmed 7.25% as an expected return.

Adjournment.

Submitted by
Tracy Elliott for
J. Kelley Wiltbank, Clerk