

**UNIVERSITY OF
MAINE SYSTEM**

**ENDOWMENT FUND
ANNUAL REPORT**

JUNE 30, 2002



OFFICE OF FINANCE AND TREASURER

ANNUAL ENDOWMENT REPORT

The endowment funds of the University of Maine System are subject to the restrictions of gift instruments requiring that the principal be invested and current expenditures be funded from related income and appreciation.

The University's Pooled Endowment is diversified amongst many different asset classes and is managed by 9 investment managers. The Investment Committee established a policy during the fiscal year that targets a long run minimum return objective of 9.0%. The spending policy objective is 5.5% of the average of the previous 12 quarter-end market values. The income produced by the fund and realized gains can be used to meet the spending objective.

The equities markets suffered significant declines in FY02, with most equity classes dropping significantly. The S&P 500 Index declined 18%, the Russell 1000 Growth Index fell 26.5%, the Russell 1000 Value Index dropped 9%, and the SSB PMI EPAC slipped 9.7%. Small-Cap Value stocks performed comparatively better, with the Russell 2000 Value Index rising 8.5%.

The Fixed Income markets performed well in FY02, with the LB Aggregate Index returning 8.6% and the SB World Gov't. Bond Index rising 14%.

The total return on the Pooled Endowment investments on a net of fees basis for FY02 was -9.1%. The following information is provided as of June 30, 2002 for the total endowment fund for FY02.

Total Endowment at Market Value - 6/30/02	\$76,959,363
Total Endowment at Market Value - 6/30/01	\$87,422,436

The FY02 decrease of **\$10,463,073** is comprised of:

Inflows:

Gifts	1,873,539
Transfers	300,881
Investment Returns:	
Income	1,914,499
Net Depreciation	(8,792,647)
Fees/Expenses	(488,318)
	(7,366,466)

Outflows:

5.5% Spending for Scholarships & Operations	(5,271,027)
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Net of Inflows and Outflows: (\$10,463,073)

Attachment I reports the total returns for the fund on a net of fees basis and the fund's growth for the past 5 years, as well as the asset allocation for the fiscal years ended June 30, 2001-2002.

FISCAL YEAR HIGHLIGHTS

- A search process was performed for a new investment consulting firm for the Endowment and Defined Benefit Pension Funds, with New England Pension Consultants selected as the new consultant. Factors considered in the search included perceived independence, higher education experience, research abilities and knowledge of various asset classes and investment managers, policy development expertise, reporting, fees and references.

- A search process was conducted for a new Custodian for the Endowment and Pension Plan Assets. Mellon Bank was selected as the new custodian, based on the quality of its systems, number of higher education clients, commitment to research and development, fees, on-line access, reporting, stability of staff and client base, and references.
- A High-Yield Fixed Manager search was conducted and a manager was selected based on risk-adjusted performance, diversification, and asset-mix.
- A Charitable Gift Annuity program was launched, with the proceeds of the gifts to be invested as part of the Endowment assets. Because of the comparatively high interest rates and generous tax deductions offered by these instruments, gift annuities are a popular planned giving vehicle and should encourage more gifts to the universities and the System.
- A new investment policy for the Endowment fund was adopted at the May meeting of the Investment Committee. Highlights:
 - Minimum long-term return assumption of 9%.
 - Allocation Targets and permissible ranges defined by asset class.
 - New benchmarks established to better track the overall fund's and each investment manager's risk-adjusted performance.
 - Diversification requirements defined by asset class.
 - Excluded investments specifically defined.
 - Responsibilities defined for the Investment Committee, Investment Managers, Custodian, and Investment Consultant.
 - The policy specifies a new asset allocation, which was approved after a review of the risk/return profiles of various asset allocation mixes and their positioning on the efficiency frontier.

Attachment I

UNIVERSITY OF CALIFORNIA SYSTEM POOLED ENDOWMENT FUND

AS OF JUNE 30, 2002

The following tables present the System's Pooled Endowment Fund asset allocation for the fiscal years ended June 30, 2001 and June 30, 2002, the growth of the endowment and the total return figures net of fees for the past five years.

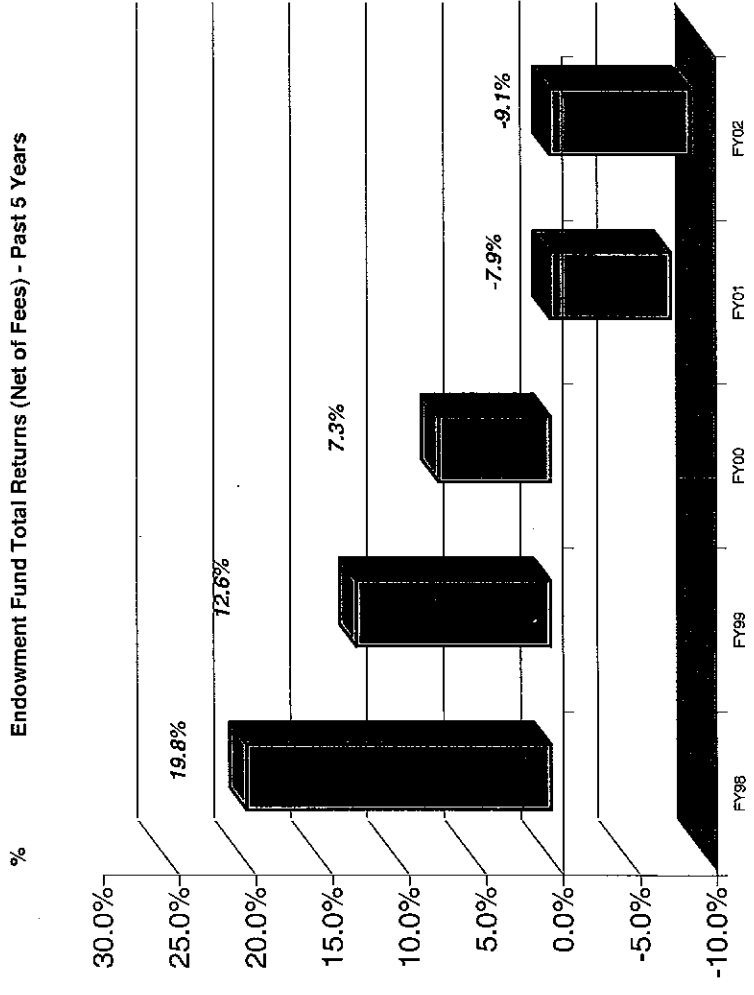
June 30, 2001

Total Pooled Endowment: \$87,422 (000's)	
	% of Total
Domestic Equities	\$ 55,073 63%
Int'l Equities	10,282 12%
Fixed Income	21,980 25%
Cash	87 0%
Total	\$ 87,422 100%

June 30, 2002

Total Pooled Endowment: \$79,959 (000's)	
	% of Total
Domestic Equities	\$ 44,954 59%
Int'l Equities	9,343 12%
Fixed Income	18,475 24%
High Yield Bond	4,187 5%
Total	\$ 76,959 100%

Endowment Fund Total Returns (Net of Fees) - Past 5 Years



Fiscal Year-End Endowment Fund Market Values (\$ in millions)

