



*Maine's
Public
Universities*

UNIVERSITY OF MAINE SYSTEM

MANAGED INVESTMENT POOL (INCLUDING ENDOWMENTS)

YEAR ENDED JUNE 30, 2009

Additional copies are available at <http://www.maine.edu/system/oft/EndowmentFund.php> or by contacting:

The Office of Finance and Treasurer
16 Central Street
Bangor, ME 04401-5106

Managed Investment Pool (Including Endowments) – Annual Report

University of Maine System Year Ended June 30, 2009

The University of Maine System (UMS) Managed Investment Pool (Including Endowments), hereinafter called the “Pool”, includes UMS endowment funds and funds from the following entities which are separate from the UMS:

- UMS Other Post Employment Benefits (OPEB) Trust
- University of Maine at Farmington Alumni Foundation
- University of Maine at Fort Kent Foundation
- University of Southern Maine Foundation
- John L. Martin Scholarship Fund, Inc.
- Maine Maritime Academy

UMS endowment funds are subject to the restrictions of gift instruments. The principal is invested and current expenditures are funded from related income and appreciation. During fiscal year 2009 (FY09), some endowments fell underwater (i.e., the market value was less than corpus). As a result, the UMS suspended distributions for FY10 based on the status of endowed funds as of December 31, 2008.

Oversight and Management

Portfolio and investment management is an ongoing process with the following parties meeting quarterly to provide oversight of Pool assets:

- Board of Trustees Investment Committee
- Investment Consultant – New England Pension Consultants (NEPC) – Cambridge, MA
- Rebecca Wyke, Vice Chancellor for Finance and Administration and Treasurer, UMS
- Tracy Elliott – Director of Finance and Controller, UMS
- Peter Small – Institutional Research Analyst, UMS

Governing Guidelines

Formal guidelines, established by the Investment Committee, govern the Pool investment process and are updated as needed. These guidelines may be found at <http://www.maine.edu/system/oft/InvestmentGuidelines.php>. They include:

- Total return and risk objectives
- Third party investor criteria
- Statement of goals and objectives
- Investment guidelines
 - Asset allocation with target percentages, permissible ranges, and evaluation benchmarks, and
 - Permitted and excluded investments

Managed Investment Pool (Including Endowments) – Annual Report

- Investment manager performance standards and evaluation
- Responsibilities of all parties concerned
- Conflict of interest

These guidelines currently target a long-term return objective for the Pool of 8.5%.

FY 2009 Performance

Fiscal Year 2009 saw a global recession as the economy weakened and job losses mounted, with the market experiencing extreme volatility. Deleveraging in the market, a lack of liquidity, and risk aversion fueled market corrections. This period was also marked by massive fiscal and monetary intervention by governments.

Losses in the Pool reflect global economic conditions. The Pool **experienced a loss of -15.3%** [-15.7% net of fees] in FY09. The fund performance placed it in the 38th percentile (i.e., exceeding 62%) of the total fund universe tracked by the System's investment consultant. This return compares to an S&P 500 return of -26.2%, and a Barclays Capital Aggregate Bond Index return of 6.1%.

The plan's **5-year annualized return of 3.5%** [3.1% net of fees] ranks the fund in the 17th percentile, meaning the fund performed better than 83% of other funds in the universe while the risk taken (at the 64th percentile) as measured by the standard deviation was also greater during the same period. This return compares to an S&P 500 return of -2.2% and a Barclays Capital Aggregate Bond Index return of 5.0% over the 5-year period.

Changes in Investment Managers

Wellington

In June 2008, the Investment Committee approved a new global asset manager, Wellington Management Company. The Wellington Opportunistic Investment Fund was funded during the July to September 2008 timeframe by rebalancing the portfolio. The fund seeks to outperform 65% S&P/35% Barclays Aggregate by providing opportunistic exposure to a variety of non-core investment areas and new product ideas. Wellington actively rotates to asset classes as opportunities change.

Emerging Markets Equity Manager - Aberdeen Asset Management Inc. Replaces Newgate

Disappointed in Newgate Capital Management's performance, the Investment Committee approved replacing this manager with Aberdeen Asset Management Inc. The Aberdeen Emerging Markets Fund seeks long-term capital appreciation by investing primarily in stocks of emerging market country issuers. Their investment philosophy is value oriented and they follow a buy and hold strategy. They make investments that are diversified across countries and sectors, always meeting and interviewing a company before investing. The Newgate holdings were liquidated and funds were invested with Aberdeen in the December 2008/ January 2009 timeframe.

Managed Investment Pool (Including Endowments) – Annual Report

Pool Inflows and Outflows

The following information is provided for fiscal year ending June 30, 2008 and 2009 and includes all Pool assets (i.e., assets of the UMS and amounts held for others) as well as related UMS cash on hand temporarily invested in the operating fund, accrued fees, and a small amount of separately invested funds.

	(\$ in Thousands)	
	<u>2008</u>	<u>2009</u>
Beginning Market Value - June 30	<u>\$123,014</u>	<u>\$115,181</u>
Gifts (UMS and UMS affiliated organizations)	\$783	\$4,968
Other Post Employment Benefits Trust Contributions	0	18,120
Maine Maritime Academy Contributions net of Withdrawals	0	12,328
Interest and Dividend Income	5,090	4,149
Net Appreciation (Depreciation)	(7,403)	(20,913)
Fees/Expenses	(974)	(948)
Distribution for Scholarships & Operations	(5,434)	(6,026)
Endowment Forwarded to Foundations at Donors' Request	(13)	0
Charitable Gift Annuities (Net of Annuitant Payments)	103	(48)
Return to Principal upon Donor Request	53	60
Miscellaneous Transfers	(38)	168
Net Activity for the Fiscal Year	<u>(\$7,833)</u>	<u>\$11,858</u>
Ending Market Value – June 30	<u>\$115,181</u>	<u>\$127,039</u>

As seen above, there were two significant inflows to the Pool during FY09. During December 2008, the UMS invested \$9.12 million on behalf of the Other Post Employment Benefit (OPEB) Trust for the fiscal year 2008 liability and invested another \$9 million in June 2009 towards the 2009 liability. In addition, the Maine Maritime Academy invested endowed funds of \$12.8 million in the Pool at the beginning of calendar year 2009. The following is a summary of the market value of these entities at June 30, 2008 and 2009:

	(\$ in Thousands)	
	<u>June 30, 2008</u>	<u>June 30, 2009</u>
University of Maine System and Affiliates	\$115,181	\$94,894
Other Post Employment Benefits	0	18,870
Maine Maritime Academy	0	13,275
Total	<u>\$115,181</u>	<u>\$127,039</u>

Returns, Historical Growth, and Allocation

Attachment I reports the total returns for the Pool on a net of fees basis and the Pool's year end market value for the past 5 years, as well as the asset allocation for the fiscal years ended June 30, 2008 and 2009. The amounts reported include cash on hand, accrued fees, and amounts separately invested.

Managed Investment Pool (Including Endowments) – Annual Report

Pool funds are well diversified by style, asset class, and geography across 15 different investment managers. The large size of the fund permits fuller diversification (which enhances risk adjusted returns) as well as access to attractive asset classes/managers. Additionally, pooling of funds allows participants to benefit from reduced investment manager, consultant and custodial fees.

Endowment Distribution

In February 2009, the Investment Committee voted to change its endowment distribution formula to better smooth market volatility. The method adopted uses a 3-year market value average with a 5% spending rate applied, with a commitment to consistently apply the method over a long-term period.

The prior distribution amount was calculated using a 2 part formula:

- Part 1 considered the current FY endowment distribution amount increased by the consumer price index
- Part 2 considered the current endowment fund market value multiplied by a 5% spending rate.

MANAGED INVESTMENT POOL (INCLUDING ENDOWMENTS) - ANNUAL REPORT

University of Maine System

Asset Allocations, Total Returns, and Market Values

June 30, 2009

Market Value and Asset Allocation of the Pool (\$ in thousands)					
June 30, 2008			June 30, 2009		
	Market Value	% Allocation	Market Value	% Allocation	
Domestic Equities	\$ 46,133	40%	\$ 43,966	35%	
International Equities	17,391	15%	19,184	15%	
Multi Strategy Bond	15,039	13%	17,615	14%	
Market Neutral	8,689	8%	4,523	4%	
Global Asset Allocation	10,016	9%	19,506	15%	
Hedge Funds	11,994	10%	10,748	8%	
Timber	5,666	5%	5,190	4%	
Cash	254	0%	6,307	5%	
Total	\$ 115,182	100%	\$ 127,039	100%	

Total returns (net of fees) for the five years ended June 30, 2009, and the market value of Pool assets at year end for the same five year period, are shown in the charts below.

