

PENSION FUND ANNUAL REPORT

JUNE 30, 2006



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Universities*

UNIVERSITY OF MAINE SYSTEM

University of Maine System

DEFINED BENEFIT PENSION FUND ANNUAL REPORT

Management

The following persons meet quarterly to provide oversight of the Pension Plan and to make portfolio management and investment management decisions for the fund:

- Board of Trustees Investment Committee
- Investment Consultant – New England Pension Consultants – Cambridge, MA
- Joanne Yestramski - CFO & Treasurer, UMS
- Tracy Elliott – Director of Finance & Controller, UMS
- Peter Small – Institutional Research Analyst, UMS

Governing Policy

A formal investment policy governs the Pension Plan Investment Process. The Investment Policy details:

- Total return and risk objectives
- Spending Policy
- Permitted and Excluded Investments
- Asset Allocation guidelines with defined targets and permissible ranges
- Evaluation benchmarks by asset class and for the portfolio as a whole
- Risk and Diversification requirements by asset class
- Use of Derivatives
- Performance Standards and Evaluation
- Responsibilities of all parties concerned

The Investment Policy established by the Investment Committee targets a long run minimum return objective of 7.5%.

FY 2006 PERFORMANCE

The Non-Contributory Pension Fund (Pension Plan) did very well in FY06, returning 8.9% net of fees, **ranking in the top 46% of the total fund universe** tracked by the System's investment consultant. The assets in the plan totaled \$62.7 million, an increase of \$1.0 million over the prior year-end figure.

The plan's 5-year annualized return of 6.7% ranks it in the top 19% of all funds, while the risk taken by the fund in the 5 year period was in the bottom 21%. This return compares to an S&P 500 return of 2.5% and a Lehman Brothers Aggregate return of 5% over the 5 year period.

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, 2005 and 2006.

The Defined Benefit Pension Plan is well diversified amongst a number of asset classes and was managed by nine investment managers at fiscal year-end.

PENSION PLAN PARTICIPANTS

Below is a table of participants in this plan as of July 1, 2005¹:

Active Participants ²	165
LTD Participants	50
Retired Participants	847
Terminated Vested Participants ³	<u>444</u>
Total Participants	1,506

No new classified employees are entering this plan. New classified employees participate in the Defined Contribution Plan.

NOTES

¹Most recent data available.

²Those who were over age 50 on July 1, 1998 and elected to stay in the plan.

³About 200 were active as of July 1, 1998 but froze their benefit and elected out of the plan.

TOTAL FUND ASSET GROWTH

	(<u>\$000's</u>)
Total Pension Fund at Market Value - June 30, 2006	<u>\$62,653</u>
Total Pension Fund at Market Value - June 30, 2005	<u>\$61,724</u>
The FY06 increase of \$929 is comprised of:	
Net external outflows	(\$4,461)
Net return on investment:	
Income received	543
Gain/Loss	<u>4,847</u>
Net activity	<u>\$ 929</u>

UNIVERSITY OF MAINE SYSTEM
DEFINED BENEFIT PENSION PLAN

AS OF JUNE 30, 2006

The following tables present the Defined Benefit Pension Plan's asset allocation for the fiscal years ended June 30, 2005 and June 30, 2006, the total return figures net of fees for the past five years, and the trend in the pension plan's market value.

June 30, 2005

Total Pension Plan Assets: \$61,724 (000's)		
		% of Total
Domestic Equities	\$ 25,615	41%
Int'l Equities	10,097	16%
Fixed Income	13,784	22%
Market Neutral	4,773	8%
All Asset Strategy	4,623	8%
Core Real Estate	2,550	4%
Cash	282	1%
Total	\$ 61,724	100%

June 30, 2006

Total Pension Plan Assets: \$62,653 (000's)		
		% of Total
Domestic Equities	\$ 24,819	40%
Int'l Equities	10,233	16%
Fixed Income	12,226	19%
Market Neutral	5,378	9%
All Asset Strategy	6,201	10%
Core Real Estate	2,977	5%
Cash	819	1%
Total	\$ 62,653	100%

