

PENSION FUND ANNUAL REPORT

JUNE 30, 2007



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 2007 PERFORMANCE

The Non-Contributory Pension Fund (Pension Plan) returned 13.6% net of fees in FY07, **ranking in the 78th percentile of the total fund universe** tracked by the System's investment consultant. The assets in the plan totaled \$67.3 million, an increase of nearly \$4.7 million over the prior year-end figure.

The plan's 5-year annualized net return of 10.3% ranks it in the top 42% of all funds, while the risk taken by the fund in the 5 year period was in the bottom 26%. This return compares to an S&P 500 return of 10.7% and a Lehman Brothers Aggregate return of 4.5% over the 5 year period.

The Defined Benefit Pension Plan funds are well diversified amongst a number of asset classes and were 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, 2007 and July 1, 2005¹:

	<u>July 1, 2005</u>	<u>July 1, 2007</u>
Active Participants ²	165	126
LTD Participants	50	32
Retired Participants	847	870
Terminated Vested Participants ³	<u>444</u>	<u>419</u>
Total Participants	<u>1506</u>	<u>1447</u>

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

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, 2006 and 2007.

TOTAL FUND ASSET GROWTH

	<u>(\$000's)</u>
Total Pension Fund at Market Value - June 30, 2007	<u>\$67,307</u>
Total Pension Fund at Market Value - June 30, 2006	<u>\$62,653</u>
The FY07 increase of \$4,654 is comprised of:	
Net external outflows	(\$3,970)
Net return on investment:	
Income received	773
Gain/Loss	<u>7,851</u>
Net activity	<u>\$ 4,654</u>

NOTES:

¹An actuarial valuation is performed periodically; therefore, this is the most recent prior period data available for comparison purposes.

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.

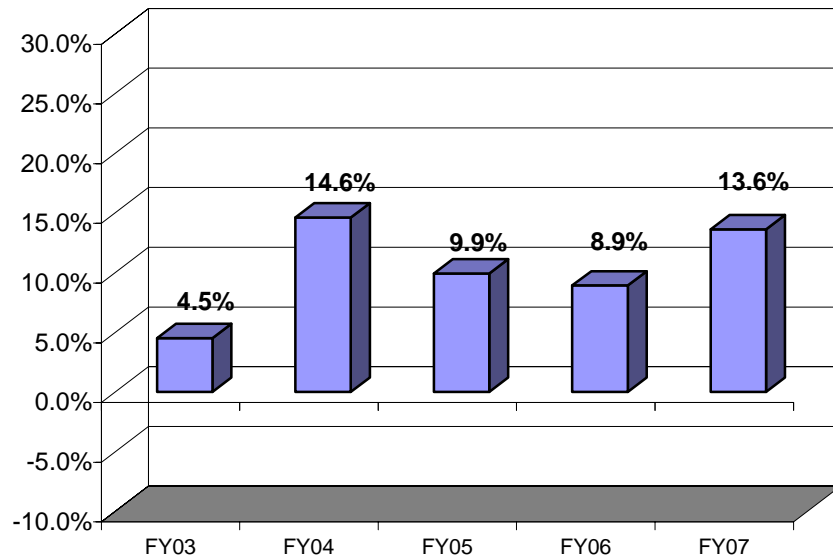
**UNIVERSITY OF MAINE SYSTEM
POOLED PENSION FUND
AS OF JUNE 30, 2007**

This attachment presents the Defined Benefit Pension Plan's asset allocation for fiscal years ended June 30, 2006 and 2007, total return figures net of fees, and the growth of Plan assets since FY03.

Market Value and Allocation of Pension Plan Assets (000's)

	June 30, 2006		June 30, 2007	
Domestic Equities	\$ 24,819	40%	26,007	39%
Int'l Equities	10,233	16%	12,539	19%
Fixed Income	12,226	19%	12,987	19%
Market Neutral	5,378	9%	3,148	5%
All Asset Strategy	6,201	10%	8,888	13%
Core Real Estate	2,977	5%	3,401	5%
Cash	819	1%	337	1%
Total	\$ 62,653	100%	67,307	100%

Pension Fund Total Returns (Net of Fees)



Pension Fund Market Values (\$ in millions)

