The Defined Benefit Pension Plan (Pension Plan) is a closed plan which is maintained for eligible employees who chose not to join the Defined Contribution Plan established for hourly employees on July 1, 1998. This plan covers a shrinking closed group of active employees; the rest are vested terminations and pensioners. The Defined Benefit Plan is a separate trust with assets that exceed the Pension Plan actuarial accrued liability.

Management

The following people 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 (NEPC) – Cambridge, MA
- Joanne Yestramski – CFO & Treasurer, UMS
- Tracy Elliott – Director of Finance & Controller, UMS
- Peter Small – Institutional Research Analyst, UMS

Governing Guidelines

Formal guidelines govern the Pension Plan Investment Process. The guidelines detail:

- Total return and risk objectives
- Statement of goals and objectives
- Investment guidelines
  - Asset allocation target percentages, permissible ranges, and evaluation benchmarks
  - Use of hedge funds
  - Permitted and excluded investments
  - Use of derivatives
  - Benefit payments
- Performance standards and evaluation
- Responsibilities of all parties concerned
- Conflict of interest

The guidelines established by the Investment Committee target a minimum long term return objective of 8.0%.

FY 2008 Performance

The Pension Fund returned -3.8% net of fees in FY08, placing it in the top 36th percentile (i.e., exceeding 64%) of the total fund universe tracked by the System’s investment consultant. The assets in the plan totaled $58.9 million, a decrease of $8.4 million over the prior year-end balance.
The plan’s *5-year annualized net return of 8.4%* ranks it in the top 40% of all funds, while the risk taken during the same period was in the bottom 28%. As a result, the risk adjusted performance places the fund *in the top 20%*. This return compares to an S&P 500 return of 7.6% and a Lehman Brothers Aggregate return of 3.9% over the 5 year period.

The Defined Benefit Pension Plan funds are well diversified among a number of asset classes and were managed by nine investment managers at fiscal year-end.

**Changes in Asset Managers**

To further diversify the portfolio, in October 2007, the Investment Committee approved the addition of two fund managers: Gottex Fund Management and Permal Group, both of which are Hedge Fund of Fund strategies. The mandates were funded at the end of January 2008 by rebalancing the portfolio and eliminating the allocation to the T. Rowe Price High Yield Fund.

Specifically, the Pension Fund invested in the Gottex Market Neutral Plus Fund strategy which strives to generate consistent absolute returns over the medium term with low correlation to major stock and fixed-income market indices. The underlying hedge fund managers within the portfolio primarily pursue market neutral implementations of strategies that fall within the relative value, event driven and hedged equities styles.

In addition, the Permal Fixed Income Holdings Institutional fund is a diversified Hedge Fund of Funds portfolio with 2 sub-allocations: credit spread and non-credit spread related strategies. The fund’s manager employs a dynamic asset allocation process that shifts capital between these 2 strategies depending on their views on the markets. The Fund targets a performance of LIBOR + 3% over a full cycle.

In June 2008, a new global asset manager, Wellington Management Company, was approved by the Investment Committee. The Wellington Opportunistic Investment Fund was funded on July 31, 2008 by rebalancing the portfolio. The fund seeks to outperform 65% S&P/ 35% LB 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.

**Plan Participants**

The following table presents participants in this plan as of July 1, 2007 and July 1, 2005:

<table>
<thead>
<tr>
<th></th>
<th>July 1, 2005</th>
<th>July 1, 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active Participants</td>
<td>165</td>
<td>126</td>
</tr>
<tr>
<td>LTD Participants</td>
<td>50</td>
<td>32</td>
</tr>
<tr>
<td>Retired Participants</td>
<td>847</td>
<td>870</td>
</tr>
<tr>
<td>Terminated Vested Participants</td>
<td>444</td>
<td>419</td>
</tr>
<tr>
<td>Total Participants</td>
<td>1506</td>
<td>1447</td>
</tr>
</tbody>
</table>

August 29, 2008

2
No new hourly employees may enter this plan. New hourly employees participate in the Defined Contribution Plan.

NOTES:
1 An actuarial valuation is performed periodically; therefore, this is the most recent prior period data available for comparison purposes.
2 Those who were over age 50 on July 1, 1998 and elected to stay in the plan.
3 About 200 were active as of July 1, 1998 but froze their benefit and elected out of the plan.

Funded Status of the Pension Plan

An actuarial valuation is performed periodically and was last completed as of July 1, 2007. At that point, the Defined Benefit Plan was considered overfunded by $16.2 million.

The University of Maine System Basic Plan and this Defined Benefit Plan are administratively separate but are both part of the Retirement Plan for Classified Employees and covered by the same plan document. In accordance with Section 414(k) of the Internal Revenue Code, the System may elect to fund employer contributions to the Basic Plan and the Optional Retirement Savings Plan from excess assets in this Defined Benefit Plan. During fiscal year 2008, with the approval of the Investment Committee, the System used $2 million of the overfunded Defined Benefit Plan assets in this manner.

Pension Plan Inflows and Outflows – FY08

| ($000’s) | 
|----------------|----------------|
| Total Pension Fund at Market Value - June 30, 2008 | $58,865 |
| Total Pension Fund at Market Value - June 30, 2007 | $67,307 |

The FY08 decrease of $8,442 is comprised of:
- Net external outflows (benefit payments, expenses, etc.) $(4,567)
- Outflow to fund Basic Plan costs 2 (2,000)
- Net return on investment:
  - Income received 5,361
  - Gain/Loss (7,236) (1,875)
  - Net activity $(8,442)

Returns, Historical Growth, and Allocation

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, 2007 and 2008.

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4 Used excess assets to fund employer contributions to the Basic Plan and/or Optional Retirement Savings Plan.
This attachment presents the Defined Benefit Pension Plan’s asset allocation for fiscal years ended June 30, 2007 and 2008, total return figures net of fees, and the growth of Plan assets since FY04.

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

<table>
<thead>
<tr>
<th></th>
<th>June 30, 2007</th>
<th>June 30, 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Equities</td>
<td>$26,007</td>
<td>$23,083</td>
</tr>
<tr>
<td>Int'l Equities</td>
<td>$12,539</td>
<td>$7,628</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>$12,987</td>
<td>$9,045</td>
</tr>
<tr>
<td>Market Neutral</td>
<td>$3,148</td>
<td>$3,086</td>
</tr>
<tr>
<td>All Asset Strategy</td>
<td>$8,888</td>
<td>$6,552</td>
</tr>
<tr>
<td>Hedge Fund</td>
<td>$0</td>
<td>$6,185</td>
</tr>
<tr>
<td>Core Real Estate</td>
<td>$3,401</td>
<td>$3,286</td>
</tr>
<tr>
<td>Cash</td>
<td>$337</td>
<td>$0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$67,307</strong></td>
<td><strong>$58,865</strong></td>
</tr>
</tbody>
</table>

**Pension Fund Total Returns (Net of Fees)**

- **FY04**: 14.6%
- **FY05**: 9.9%
- **FY06**: 8.9%
- **FY07**: 13.6%
- **FY08**: -3.8%

**Pension Fund Market Values ($ in millions)**

- **FY04**: $59.3
- **FY05**: $61.7
- **FY06**: $62.7
- **FY07**: $67.3
- **FY08**: $58.9