



MANAGED INVESTMENT POOL

ANNUAL REPORT

YEAR ENDED JUNE 30, 2015

Report is available at:

<http://www.maine.edu/about-the-system/system-office/finances/managed-investment-pool-including-endowments-annual/>

Office of Finance and Administration, University of Maine System

Managed Investment Pool – Annual Report

University of Maine System Year Ended June 30, 2015

The University of Maine System (UMS) Managed Investment Pool (MIP) includes UMS endowment funds that are invested in the MIP and funds held for the following entities:

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

Oversight and Management

Portfolio and investment management is an ongoing process with the following parties meeting routinely to provide oversight of the MIP portfolio:

- UMS Board of Trustees Investment Committee
- Investment Consultant – New England Pension Consultants (NEPC)
- Vice Chancellor for Finance and Administration and Treasurer, UMS
- Associate Vice Chancellor, Chief Financial Officer and Treasurer, UMS
- Director of Finance and Controller, UMS

Governing Investment Guidelines and Objectives

Investment guidelines, last updated May 27, 2015, govern the investment process and may be found at <http://www.maine.edu/about-the-system/system-office/finances/investment-guidelines-2/>.

Guidance includes:

- Minimum long-term return assumption
- Risk tolerance
- UMS endowment spending policy
- Statement of goals and objectives
- Investment guidelines including:
 - Asset allocation with target percentages, permissible ranges, and evaluation benchmarks, and
 - Permitted and excluded investments
- Investment manager performance standards and evaluation
- Responsibilities of parties
- Conflict of interest
- Statements about implementation and amendments

The MIP, with a tolerance for moderate risk, currently has a long-term return objective of 7.75% which is consistent with the prior year.

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Fiscal Year 2015 Performance

The MIP **experienced a return of -0.9%** net of fees for fiscal year 2015 (FY15), placing the MIP in the 88th percentile of the total endowment fund universe tracked by NEPC. Performance is impacted by financial market conditions, asset allocation and the investment managers utilized. As a point of reference, the S&P 500 return was 7.4% and the Barclays Capital Aggregate Bond Index return was 1.9% over the same 1 year period. On June 30, 2015, the MIP totaled \$268 million, decreasing \$10 million from the prior year end balance as detailed on the next page. Changes in market value besides market fluctuation include participant capital contributions and distributions.

5-Year Annualized Return

The MIP's **5-year annualized return as of June 30, 2015 was 9.1%** ranking the fund in the 56th percentile of the total fund universe tracked by NEPC while the risk taken, in terms of volatility of returns, was at the 70th percentile. The risk adjusted return or Sharpe Ratio placed in the 75th percentile, meaning that the MIP was not compensated for the amount of risk taken. The S&P 500 returned 17.3% and the Barclays Capital Aggregate Bond Index returned 3.3% over the same 5 year period.

The MIP is well diversified by style, asset class, and geography across 17 investment managers or index funds at fiscal year-end. Pooling of funds allows for greater diversification and access to attractive asset classes and managers. Additionally, pooling of funds allows participants to benefit from shared investment manager, consultant and custodial fees.

Changes in Portfolio Allocation and Investment Managers

Hedge Fund Managers

At its May 1, 2015 meeting, the Investment Committee approved the redemption of the Cube Global Multi-Strategy Fund and the commencement of a search for a replacement manager. At its May 27th meeting, the Investment Committee selected Lighthouse Partners for this mandate. Initial funding began on August 1, 2015 following receipt of partial proceeds from Cube.

Portfolio Allocation Review

At its February 2015 meeting, the Investment Committee reviewed the asset allocation for the MIP and made no changes.

Endowment Distribution

The UMS endowment distribution formula is designed to smooth market volatility. The method uses a 3-year market value average with a percentage spending rate applied. The rate for FY14 and FY15 was 4.5%.

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MIP Inflows and Outflows

The following table provides activity for MIP assets including items to reconcile to the NEPC June 30, 2015 and 2014 Flash Reports.

	UMS	UMS	Other	6/30/2015	6/30/2014
	Endowment	OPEB	Participants	Total	Total
	Pool				
Market Value at 6/30/2014	\$ 149,718	\$ 95,007	\$ 33,169	\$ 277,894	\$ 233,594
Interest and Dividends	4,023	2,652	933	7,608	4,757
Realized Gains	3,709	2,391	842	6,942	8,153
Investment Fees	(563)	(371)	(132)	(1,066)	(1,263)
Hidden Manager Fees	(629)	(423)	(150)	(1,202)	(1,252)
Unrealized Gains	(7,945)	(5,089)	(1,768)	(14,802)	28,076
Net Investment Activity	<u>(1,405)</u>	<u>(840)</u>	<u>(275)</u>	<u>(2,520)</u>	<u>38,471</u>
Capital Contributions	66	-	1,279	1,345	10,046
Capital Withdrawals	(8,302)	-	(665)	(8,967)	(4,217)
Net Capital Activity	<u>(8,236)</u>	<u>-</u>	<u>614</u>	<u>(7,622)</u>	<u>5,829</u>
Market Value 6/30/2015	<u>\$ 140,077</u>	<u>\$ 94,167</u>	<u>\$ 33,508</u>	267,752	277,894
Accrued Fees				124	124
Investment Manager Adjustment				23	-
Market Value - 6/30/2015 - NEPC				<u>\$ 267,899</u>	<u>\$ 278,018</u>

Returns, Market Values and Portfolio Allocation

Attachment I reports the total returns, net of fees, and the year end market values for the MIP for the past 5 years, as well as the asset allocation for the fiscal years ended June 30, 2014 and 2015.

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University of Maine System

Market Values, Asset Allocations, and Total Returns

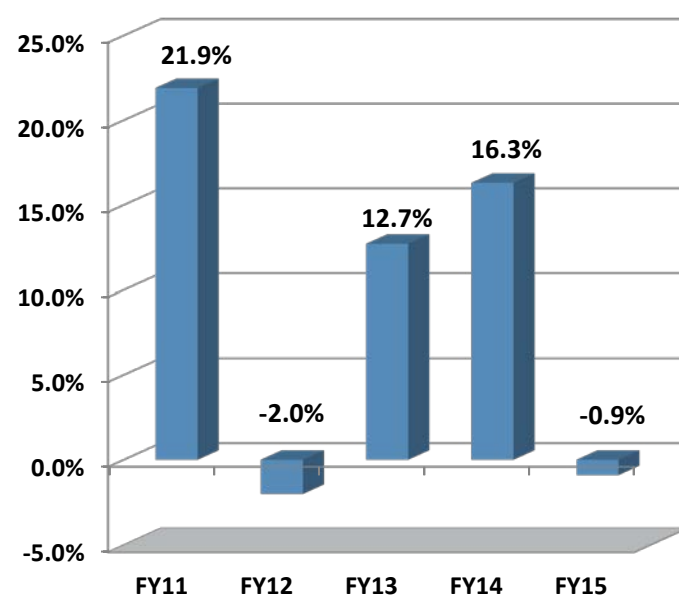
June 30, 2015

Market Value and Asset Allocation of the MIP Portfolio (\$ in Thousands)

	June 30, 2015		June 30, 2014	
	Market Value	% Allocation	Market Value	% Allocation
Domestic Equities	\$ 57,878	22%	\$ 59,950	22%
International Equities	61,367	23%	64,301	23%
Fixed Income	40,505	15%	42,040	15%
Global Asset Allocation	68,175	25%	71,064	26%
Hedge Funds	33,390	13%	34,324	12%
Timber Fund	5,270	2%	5,156	2%
Private Equity	1,167	0%	791	0%
Cash	147	0%	392	0%
Total	\$ 267,899	100%	\$ 278,018	100%

The market values shown above are scheduled from the NEPC June 30, 2015 and 2014 Flash Reports. These market values, after making adjustments required by Generally Accepted Accounting Principles (GAAP), reconcile to the UMS general ledger. Total returns (net of fees) of the MIP portfolio and market values as adjusted for GAAP, for the five years ended June 30, 2015, are shown in the charts below. To enhance usability, the presentation in this report was changed from the prior year to show market value balances for only MIP assets and do not include separately held UMS endowment assets.

Total Return (Net of Fees)



Market Value (\$ in Millions)

