



**MANAGED INVESTMENT POOL**

**ANNUAL REPORT**

**YEAR ENDED JUNE 30, 2017**

Report is available at:

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

Controller's Office, University of Maine System

# Managed Investment Pool – Annual Report

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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
- Director of Finance and Controller, UMS

## **Governing Investment Guidelines and Objectives**

Investment guidelines, last updated May 15, 2017, 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 7.50% which is flat with the prior year.

At its meeting on September 7, 2016, the Investment Committee amended the MIP Investment Policy Statement to add consideration of environmental, social and governance (ESG) factors to

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the investment goals and to the responsibilities of Investment Managers and Investment Consultants for the UMS Managed Investment Pool (MIP), including Endowments.

The new goals and objectives language is as follows:

Companies that include environmental, social and governance (ESG) factors into their decision making process may benefit from improved long term value creation. As a result, the Committee will consider ESG principles and incorporate ESG analysis into investment decisions such as asset allocation and manager selection.

## **Fiscal Year 2017 Performance**

The MIP **experienced a return of 11.4%** net of fees for fiscal year 2017 (FY17), placing the MIP in the 76<sup>th</sup> percentile of the total endowment fund universe tracked by NEPC. Performance is impacted by financial market conditions, asset allocation and the investment managers utilized. On June 30, 2017, the MIP totaled \$296 million, increasing just over \$30 million from the prior year end balance as detailed on the next page. Changes in market value include market fluctuation, participant capital contributions and distributions.

## **5-Year Annualized Return**

The MIP's **5-year annualized return as of June 30, 2017 was 7.2%** ranking the fund in the 67<sup>th</sup> percentile of the total fund universe tracked by NEPC while the risk taken, in terms of volatility of returns, was at the 80<sup>th</sup> percentile. The risk adjusted return or Sharpe Ratio placed in the 90<sup>th</sup> percentile, meaning that the MIP was not compensated for the amount of risk taken.

The MIP is well diversified by style, asset class, and geography across 17 investment managers, including 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**

The Investment Committee reviews the portfolio's allocation at its February/March meeting and takes action on managers throughout the year. All meeting minutes, including action items, are available on the web at: <http://www.maine.edu/about-the-system/board-of-trustees/meeting-agendas/investment-committee/>.

## **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 FY16 and FY17 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, 2017 and 2016 Flash Reports.

|                                        | UMS<br>Endowment<br>Pool | UMS<br>OPEB       | Other<br>Participants | 6/30/2017         | 6/30/2016         |
|----------------------------------------|--------------------------|-------------------|-----------------------|-------------------|-------------------|
| <b>Market Value at 6/30/2016</b>       | \$ 134,678               | \$ 97,536         | \$ 33,480             | \$ 265,694        | \$ 267,752        |
| Interest and Dividends                 | 2,163                    | 1,641             | 554                   | 4,358             | 5,195             |
| Realized Gains                         | 3,362                    | 2,598             | 861                   | 6,821             | (5,463)           |
| Investment Fees                        | (405)                    | (380)             | (128)                 | (913)             | (1,074)           |
| Hidden Manager Fees                    | (498)                    | (323)             | (104)                 | (925)             | (1,122)           |
| Unrealized Gains                       | 10,291                   | 8,029             | 2,656                 | 20,976            | (2,811)           |
| <b>Net Investment Activity</b>         | <u>14,913</u>            | <u>11,565</u>     | <u>3,839</u>          | <u>30,317</u>     | <u>(5,275)</u>    |
| Capital Contributions                  | 69                       | 5,782             | 743                   | 6,594             | 6,690             |
| Capital Withdrawals                    | (5,700)                  | -                 | (1,066)               | (6,766)           | (3,473)           |
| <b>Net Capital Activity</b>            | <u>(5,631)</u>           | <u>5,782</u>      | <u>(323)</u>          | <u>(172)</u>      | <u>3,217</u>      |
| <b>Market Value 6/30/2017</b>          | <u>\$ 143,960</u>        | <u>\$ 114,883</u> | <u>\$ 36,996</u>      | 295,839           | 265,694           |
| Accrued Fees & Other Liabilities       |                          |                   |                       | 215               | 178               |
| <b>Market Value - 6/30/2017 - NEPC</b> |                          |                   |                       | <u>\$ 296,054</u> | <u>\$ 265,872</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, 2017 and 2016.

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University of Maine System

Market Values, Asset Allocations, and Total Returns

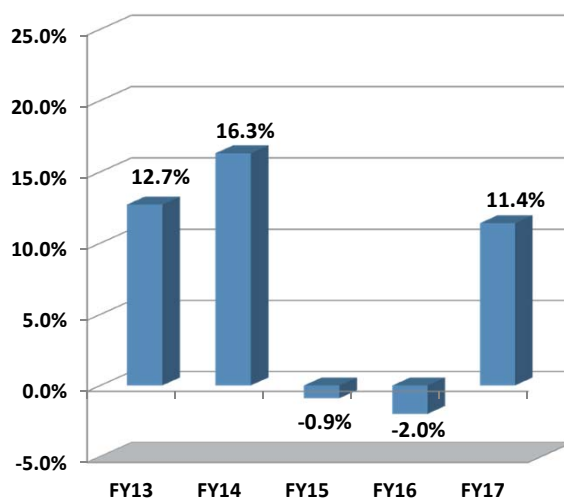
June 30, 2017

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

|                         | June 30, 2016     |              | June 30, 2017     |              |
|-------------------------|-------------------|--------------|-------------------|--------------|
|                         | Market Value      | % Allocation | Market Value      | % Allocation |
| Domestic Equities       | \$ 62,841         | 24%          | \$ 71,881         | 24%          |
| International Equities  | 62,812            | 24%          | 70,232            | 24%          |
| Fixed Income            | 47,968            | 18%          | 52,008            | 18%          |
| Global Asset Allocation | 49,501            | 18%          | 68,993            | 23%          |
| Hedge Funds             | 31,385            | 12%          | 25,897            | 9%           |
| Timber Fund             | 5,634             | 2%           | 5,125             | 2%           |
| Private Equity          | 1,316             | 0%           | 1,799             | 0%           |
| Cash                    | 4,415             | 2%           | 119               | 0%           |
| <b>Total</b>            | <b>\$ 265,872</b> | <b>100%</b>  | <b>\$ 296,054</b> | <b>100%</b>  |

The market values shown above are scheduled from the NEPC June 30, 2017 and 2016 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, 2017, are shown in the charts below. This report shows market value balances for only MIP assets and does not include separately held UMS endowment assets.

### Total Return (Net of Fees)



### Market Value (\$ in Millions)

