



MANAGED INVESTMENT POOL

ANNUAL REPORT

YEAR ENDED JUNE 30, 2018

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

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
- Vice President of Finance and Controller, UMS

Governing Investment Guidelines and Objectives

Investment guidelines, last updated June 14, 2018, 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 consistent with the prior year.

The Investment Policy Statement goals and objectives recognize the value of environmental, social and governance (ESG) factors:

Managed Investment Pool – Annual Report

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 2018 Performance

The MIP **experienced a return of 6.9%** net of fees for fiscal year 2018 (FY18), placing the MIP in the 76th 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, 2018, the MIP totaled \$317.8 million, increasing nearly \$22 million from the prior year end balance as detailed on the next page. Changes in market value include the impact of market fluctuations, and participant capital contributions and distributions.

5-Year Annualized Return

The MIP's **5-year annualized return as of June 30, 2018 was 6.1%** ranking the fund in the 88th percentile of the total fund universe tracked by NEPC while the risk taken, in terms of volatility of returns, was at the 63rd percentile. The risk adjusted return or Sharpe Ratio placed in the 94th 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 18 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 reviewed the portfolio's allocation at its April 4, 2018 meeting and took 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 FY17 and FY18 was 4.5%.

MIP Inflows and Outflows

Managed Investment Pool – Annual Report

The following table provides activity for MIP assets including items to reconcile to the NEPC June 30, 2018 and 2017 Flash Reports.

	UMS Endowment Pool	UMS OPEB	Other Participants	6/30/2018	6/30/2017
Market Value at 6/30/2017	\$ 143,960	\$ 114,883	\$ 36,996	\$ 295,839	\$ 265,694
Interest and Dividends	2,017	1,647	560	4,224	4,358
Realized Gains	5,771	4,708	1,610	12,089	6,821
Investment Fees	(515)	(420)	(144)	(1,079)	(913)
Hidden Manager Fees	(457)	(382)	(129)	(968)	(925)
Unrealized Gains	3,092	2,426	818	6,336	20,976
Net Investment Activity	<u>9,908</u>	<u>7,979</u>	<u>2,715</u>	<u>20,602</u>	<u>30,317</u>
Other Income	1	-	-	1	-
Capital Contributions	78	2,488	3,309	5,875	6,594
Capital Withdrawals	(4,026)	-	(692)	(4,718)	(6,766)
Net Capital Activity	<u>(3,947)</u>	<u>2,488</u>	<u>2,617</u>	<u>1,158</u>	<u>(172)</u>
Market Value 6/30/2018	<u>\$ 149,921</u>	<u>\$ 125,350</u>	<u>\$ 42,328</u>	<u>\$ 317,599</u>	<u>\$ 295,839</u>
Accrued Fees				187	140
Investment Manager Adjustment				-	75
Market Value - 6/30/2018 - NEPC				<u>\$ 317,786</u>	<u>\$ 296,054</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, 2018 and 2017.

Managed Investment Pool – Annual Report

Market Values, Asset Allocations, and Total Returns June 30, 2018

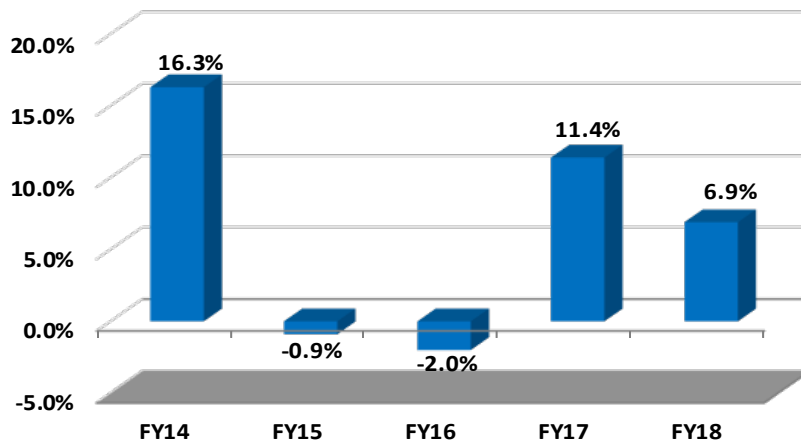
Attachment I

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

	June 30, 2017		June 30, 2018	
	Market Value	% Allocation	Market Value	% Allocation
Domestic Equities	\$ 71,881	24%	\$ 80,232	25%
International Equities	70,232	24%	73,939	23%
Fixed Income	52,008	18%	66,476	21%
Global Asset Allocation	68,993	23%	72,953	23%
Hedge Funds	25,897	9%	19,167	6%
Timber Fund	5,125	2%	2,717	1%
Private Equity	1,799	0%	2,283	1%
Cash	119	0%	18	0%
Total	\$ 296,054	100%	\$ 317,785	100%

The market values shown above are scheduled from the NEPC June 30, 2018 and 2017 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, 2018, 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)

