



MANAGED INVESTMENT POOL

ANNUAL REPORT

YEAR ENDED JUNE 30, 2020

Reports are available [online](#)
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

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.

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 May 14, 2020, govern the investment process and may be found [online](#).

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 7.25% which is a decrease of 25 basis points from the prior year.

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

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 2020 Performance

The MIP **experienced a return of 1.1%** net of fees for fiscal year 2020 (FY20), placing the MIP in the 63rd percentile of the total endowment fund universe tracked by NEPC. Performance is impacted by financial market conditions, asset allocation and the investment managers utilized. For additional detail, see the University of Maine System Board of Trustees Investment Committee materials [online](#). On June 30, 2020, the MIP totaled \$352 million, increasing nearly \$7 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, 2020 was 3.9%** ranking the fund in the 89th percentile of the total fund universe tracked by NEPC while the risk taken, in terms of volatility of returns, was at the 61st percentile. The risk adjusted return or Sharpe Ratio placed in the 91st 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 19 investment managers, including index funds, at fiscal year-end.

Changes in Portfolio Allocation and Investment Managers

The Investment Committee reviewed and approved the portfolio's allocation at its February 27, 2020 meeting and took action on managers throughout the year. All meeting minutes, including action items, are available [online](#).

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 FY19 and FY20 was 4.5%. The rate approved for FY21 is also 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, 2020 and 2019 Flash Reports.

	UMS Endowment Pool	UMS OPEB	Other Participants	6/30/2020	6/30/2019
Market Value	\$ 160,058	\$ 131,339	\$ 53,557	\$ 344,954	\$ 317,599
Interest and Dividends	2,414	2,043	823	5,280	6,542
Realized Gains	5,018	4,305	1,720	11,043	9,693
Investment Fees	(473)	(401)	(161)	(1,035)	(1,090)
Hidden Manager Fees	(437)	(374)	(150)	(961)	(907)
Unrealized Gains (Losses)	(4,831)	(4,012)	(1,670)	(10,513)	(4,568)
Net Investment Activity	1,691	1,561	562	3,814	9,670
Capital Contributions	110	4,500	1,242	5,852	18,606
Capital Withdrawals	(1,450)	-	(277)	(1,727)	(921)
Net Capital Activity	(1,340)	4,500	965	4,125	17,685
Market Value	<u>\$ 160,409</u>	<u>\$ 137,400</u>	<u>\$ 55,084</u>	<u>\$ 352,893</u>	<u>\$ 344,954</u>
Accrued Fees				115	121
Investment Manager Adjustment				(1,000)	-
Market Value - 6/30/2020 - NEPC				<u>\$ 352,008</u>	<u>\$ 345,075</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, 2020 and 2019.

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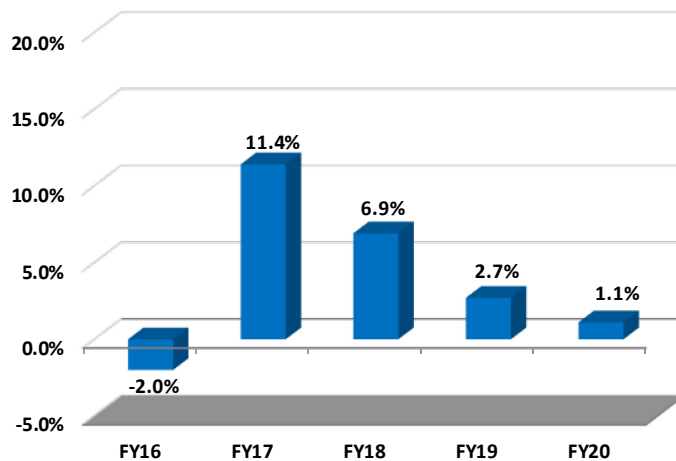
Attachment I

Market Value and Asset Allocation (\$ in Thousands)

	June 30, 2019		June 30, 2020	
	Market Value	% Allocation	Market Value	% Allocation
Domestic Equities	\$ 102,196	30%	\$ 84,909	24%
International Equities	85,747	25%	77,276	22%
Global Equities	-	0%	32,095	9%
Fixed Income	80,863	23%	78,223	22%
Global Asset Allocation	52,789	15%	49,936	14%
Hedge Funds	18,916	6%	21,720	6%
Timber Fund	1,523	0%	-	0%
Private Equity	1,842	1%	2,079	1%
Cash	1,199	0%	5,769	2%
Total	\$ 345,075	100%	\$ 352,007	100%

The market values shown above are scheduled from the NEPC June 30, 2020 and 2019 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, 2020, 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)

