## UMS Logo

## managed investment pool

## ANNUAL REPORT

## Year Ended June 30, 2021

Reports are available [online](https://www.maine.edu/finance/policies-procedures-and-reports/managed-investment-pool-including-endowments-annual-reports/)

Controller’s Office, University of Maine System

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. Sharing investment managers, consultants, and custodians, also allows participants to realize additional fee savings.

## 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 March 4, 2021, govern the investment process and may be found [online](https://www.maine.edu/finance/wp-content/uploads/sites/39/2021/03/UMS_Managed-Investment-Pool_Investment-Guidelines_MIP-IPS-03.4.21.pdf).

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 flat with the prior year.

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 2021 Performance

The MIP **experienced a return of 27.1%** net of fees for fiscal year 2021 (FY21), placing the MIP in the 65th 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](https://www.maine.edu/board-of-trustees/meeting-agendas-materials/investment-committee/). On June 30, 2021, the MIP totaled $444 million, increasing nearly $92 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, 2021 was 9.5%** ranking the fund in the 82nd 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 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 17 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 May 17, 2021 meeting and took action on managers throughout the year. All meeting minutes, including action items, are available [online](https://www.maine.edu/board-of-trustees/meeting-agendas-materials/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 FY20 and FY21 was 4.5% and the same rate has also been approved for FY22.

## MIP Inflows and Outflows

The following table provides the annual activity for MIP assets including items to reconcile to the investment consultant’s June 30, 2021 and 2020 Flash Reports.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | UMS Endowment Pool | UMS OPEB | Other Participants | 6/30/2021 | 6/30/2020 |
| Market Value - Prior Year | $160,409 | $137,400 | $55,084 | $352,893 | $344,954 |
|  |  |  |  |  |  |
| Interest And Dividends | 2,157 | 1,908 | 741 | 4,806 | 5,280 |
| Realized Gains | 10,831 | 9,715 | 3,711 | 24,257 | 11,043 |
| Investment Fees | (586) | (520) | (201) | (1,306) | (1,035) |
| Hidden Manager Fees | (576) | (528) | (197) | (1,301) | (961) |
| Unrealized Gains (Losses) | 30,464 | 26,814 | 10,436 | 67,714 | (10,513) |
| Net Investment Activity | 42,290 | 37,389 | 14,490 | 94,170 | 3,814 |
|  |  |  |  |  |  |
| Capital Contributions | 117 | 5,481 | 1,399 | 6,996 | 5,852 |
| Capital Withdrawals | (6,302) | - | (4,015) | (10,317) | (1,727) |
| Net Capital Activity | (6,185) | 5,481 | (2,616) | (3,321) | 4,125 |
|  |  |  |  |  |  |
| Market Value - End of Year | $196,514 | $180,270 | $66,958 | $443,742 | $352,893 |
|  |  |  |  |  |  |
| Accrued Fees |  |  |  | - | 115 |
| Investment Manager Adjustment |  |  |  | - | (1,000) |
| Market Value - End of Year- NEPC |  |  |  | $443,742 | $352,008 |

## Returns, Market Values and Portfolio Allocation

Attachment 1 on the next page 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, 2021 and 2020.

**Market Value and Asset Allocation ($ in Thousands)**

**June 30, 2020 June 30,2021**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | Market Value | % Allocation |  | Market Value | % Allocation |
| Domestic Equities |  | $84,909 | 24% |  | $127,208 | 29% |
| International Equities |  | 77,276 | 22% |  | 93,227 | 21% |
| Global Equities |  | 32,095 | 9% |  | 46,903 | 10% |
| Fixed Income |  | 78,223 | 22% |  | 112,443 | 25% |
| Global Asset Allocation |  | 49,936 | 14% |  | 29,498 | 7% |
| Hedge Funds |  | 21,720 | 6% |  | 30,043 | 7% |
| Private Equity |  | 2,079 | 1% |  | 2,359 | 1% |
| Cash |  | 5,769 | 2% |  | 2,139 | 0% |
| Total |  | $352,007 | 100% |  | $443,820 | 100% |
|  |  |  |  |  |  |  |

The market values shown above are scheduled from the NEPC June 30, 2021 and 2020 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, 2021, 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.