## University of Maine System Logo

## managed investment pool

## ANNUAL REPORT

## Year Ended June 30, 2023

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.
* University of Maine School of Law Foundation
* University of Southern Maine Osher Map Library Foundation-redeemed spring 2023

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 – 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 18, 2023, govern the investment process and may be found [online](https://umainesystem.sharepoint.com/:w:/s/USERVICES-OnlineDocs/EeGYTtuJq7ZHr3QNWQmIrG8BDr4zWhk_XIIrSOCCjDpAuw?rtime=Qx7VYf-u20g).

Guidance includes:

* Minimum long-term return assumption
* Risk tolerance
* UMS endowment spending policy
* Fossil fuel divestment statement
* 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 selection, 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 consistent with the prior year.

To meet both its commitment to address climate change and its portfolio objectives, in April 2022, the UMS set fossil fuel divestment short-term action steps and long-term goals, while also being mindful of its environmental, social, and governance (ESG) goals, with the understanding that, at all times, the Board of Trustees acting through the Investment Committee will act in accordance with sound investment criteria and consistent with its fiduciary obligations.

## Fiscal Year 2023 Performance

The MIP **experienced a gain of 10.6%** net of fees for fiscal year 2023 (FY23), placing the MIP in the 27th 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, 2023, the MIP totaled $362 million, increasing $27 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, 2023 was 5.0%** ranking the fund in the 84th percentile of the total fund universe tracked by NEPC while the risk taken, in terms of volatility of returns, was at the 52nd percentile. The risk adjusted return or Sharpe Ratio placed in the 84th 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 including active managers and index funds, at fiscal year-end.

## Changes in Portfolio Allocation and Investment Managers

The Investment Committee reviewed the portfolio’s asset allocation at its March 2, 2023 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 twelve-quarter market value average with a percentage spending rate applied. The rate for FY22 and FY23 was 4.5% and the same rate has also been approved for FY24.

## 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, 2023 and 2022 Flash Reports. Note: dollars are in thousands.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | UMS Endowment Pool | UMS OPEB | Other Participants | 6/30/2023 | 6/30/2022 |
| Market Value - Prior Year | $ 168,011 | $ 156,012 | $ 10,682 | $ 334,705 | $ 443,742 |
|  |  |  |  |  |  |
| Interest And Dividends | 3,683 | 3,497 | 210 | 7,390 | 4,784 |
| Realized Gains | 17,603 | 16,851 | 659 | 35,113 | 15,865 |
| Investment Fees | (599) | (569) | (32) | (1,200) | (1,155) |
| Hidden Manager Fees | (511) | (489) | (14) | (1,014) | (1,261) |
| Unrealized Gains (Losses) | (2,685) | (2,533) | 77 | (5,141) | (68,195) |
| Net Investment Activity | 17,491 | 16,757 | 900 | 35,148 | (49,962) |
|  |  |  |  |  |  |
| Capital Contributions | - | 1,658 | 15 | 1,673 | 8,190 |
| Capital Withdrawals | (3,351) | - | (6,526) | (9,877) | (67,265) |
| Net Capital Activity | (3,351) | 1,658 | (6,511) | (8,204) | (59,075) |
|  |  |  |  |  |  |
| Market Value - End of Year | $ 182,151 | $ 174,427 | $ 5,071 | $ 361,649 | $ 334,705 |
|  |  |  |  |  |  |
| Accrued Fees |  |  |  | 433 | 247 |
| Investment Manager Adjustment |  |  |  | - | - |
| Market Value - End of Year- NEPC |  |  |  | $ 362,082 | $ 334,952 |

## 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, 2023 and 2022.

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

**June 30, 2022 June 30, 2023**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | Market Value | % Allocation |  | Market Value | % Allocation |
| Domestic Equities |  | $95,989 | 29% |  | $109,912 | 31% |
| International Equities |  | 54,815 | 16% |  | 66,387 | 18% |
| Global Equities |  | 30,231 | 9% |  | 37,053 | 10% |
| Fixed Income |  | 92,711 | 28% |  | 95,295 | 26% |
| Global Asset Allocation |  | 27,833 | 8% |  | 25,883 | 7% |
| Hedge Funds |  | 29,757 | 9% |  | 26,155 | 7% |
| Private Equity |  | 1,924 | 1% |  | 1,041 | 1% |
| Cash |  | 1,692 | 0% |  | 356 | 0% |
| Total |  | $334,952 | 100% |  | $362,082 | 100% |
|  |  |  |  |  |  |  |

The market values shown above are scheduled from the NEPC June 30, 2022 and 2023 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, 2023, 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.