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Endowment Fund Annual Report

University Of Maine System

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**UNIVERSITY OF
MAINE SYSTEM**

**ENDOWMENT FUND
ANNUAL REPORT**

JUNE 30, 2003



OFFICE OF FINANCE AND TREASURER

ANNUAL ENDOWMENT REPORT

The endowment funds of the University of Maine System are subject to the restrictions of gift instruments requiring that the principal be invested and current expenditures be funded from related income and appreciation.

The University's Pooled Endowment is diversified amongst 11 different asset classes and is managed by 10 different investment managers. The Investment Policy established by the Investment Committee targets a long run minimum return objective of 9.0%. As of June 30, 2003, the spending policy objective is 5.5% of the average of the previous 12 quarter-end market values, although this policy is scheduled to be reviewed at the September, 2003 meeting. The income produced by the fund and realized gains can be used to meet the spending objective.

The equities markets produced modest returns in FY03, with most equity classes beginning to show positive returns. The S&P 500 Index rose .3%, the Russell 1000 Growth Index increased 2.9%, the Russell 1000 Value Index fell 1.0%, and the SSB PMI EPAC (international index) slipped 5.6%. Small-Cap Growth stocks performed the best, with the Russell 2500 Growth Index rising 4.1%.

The Fixed Income markets again performed well in FY03, with the LB Aggregate Index returning 10.4% and the Citigroup BB&B All (High-Yield Index) rising an impressive 22%.

The total return on the Pooled Endowment investments on a net of fees basis for FY03 was 4.8%, placing it into the top quartile of all endowment funds over the past fiscal year. The following information is provided as of June 30, 2003 for the total endowment fund for FY03.

Total Endowment at Market Value - June 30, 2003	\$77,855,165
Total Endowment at Market Value - June 30, 2002	\$76,959,363

The FY03 increase of **\$895,802** is comprised of:

Inflows:

Gifts	3,206,628
Charitable Gift Annuities	281,574
Investment Returns:	
Income	1,965,922
Net Appreciation	1,583,175
Fees/Expenses	<u>(663,374)</u>
	2,885,723

Outflows:

5.5% Spending for Scholarships & Operations	(5,109,303)
Transfers	<u>(368,820)</u>

Net of Inflows and Outflows:	\$895,802
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Attachment I reports the total returns for the fund on a net of fees basis and the fund's growth for the past 5 years, as well as the asset allocation for the fiscal years ended June 30, 2002-2003.

The Charitable Gift Annuity program was launched on November 19, 2002. Thru June 30, 2003, 11 gifts have been received for a total of \$281,574. All of the gifts have been received by either UMF or USM. A vendor that produces planned giving marketing materials was hired during the year, and the first of 6 gift annuity/planned giving newsletters was recently designed, printed and sent to each university for mailing to their donors, in an effort to better market the program. Gift annuities are a popular planned giving vehicle due to their comparatively higher interest rates and generous tax deductions, and should encourage more gifts to the universities and the System.

Attachment I

UNIVERSITY OF MICHIGAN SYSTEM POOLED ENDOWMENT FUND AS OF JUNE 30, 2003

The following tables present the System's Pooled Endowment Fund asset allocation for the fiscal years ended June 30, 2002 and June 30, 2003, the growth of the endowment, and the total return figures net of fees for the past five years.

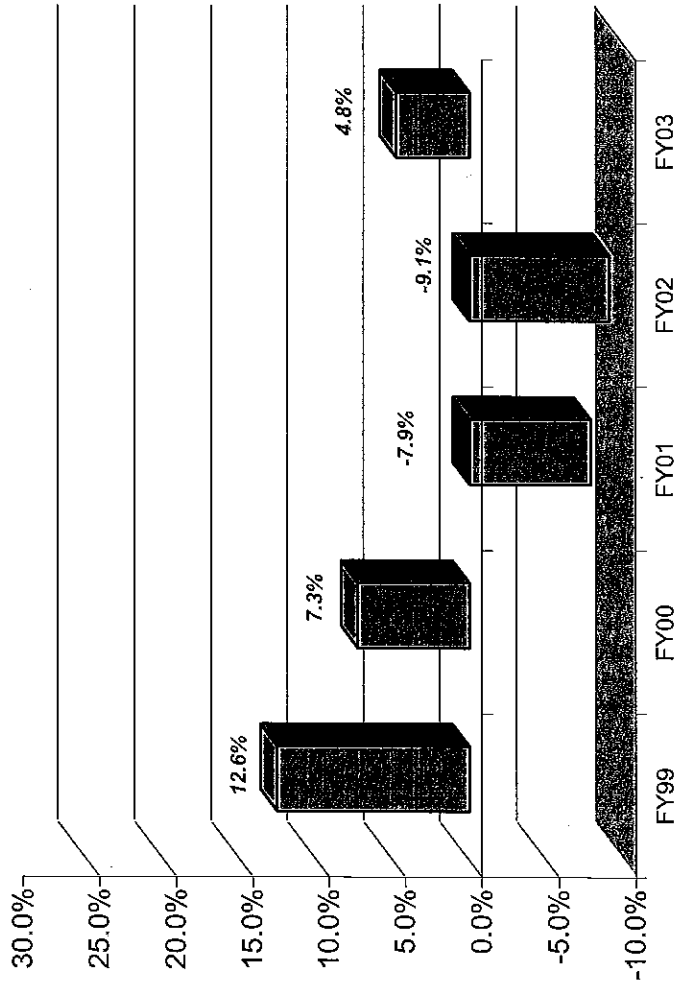
June 30, 2002

Total Pooled Endowment: \$76,959 (000's)	
	% of Total
Domestic Equities	\$ 44,954
Int'l Equities	9,343
Fixed Income	18,475
High Yield Bond	4,187
Total	\$ 76,959
	100%

June 30, 2003

Total Pooled Endowment: \$77,855 (000's)	
	% of Total
Domestic Equities	\$ 40,385
Int'l Equities	8,765
Fixed Income	18,413
High Yield Bond	5,577
Market Neutral	4,623
Cash	92
Total	\$ 77,855
	100%

Endowment Fund Total Returns (Net of Fees) - Past 5 Years



Fiscal Year-End Endowment Fund Market Values
(\$ in millions)

