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Managed Investment Pool (Including Endowments) Year Ended June 30, 2010

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MANAGED INVESTMENT POOL (INCLUDING ENDOWMENTS)

YEAR ENDED JUNE 30, 2010

Additional copies are available at <http://www.maine.edu/system/oft/EndowmentFund.php> or by contacting:

The Office of Finance and Treasurer
16 Central Street
Bangor, ME 04401-5106

Managed Investment Pool (Including Endowments) – Annual Report

University of Maine System Year Ended June 30, 2010

The University of Maine System (UMS) Managed Investment Pool (Including Endowments), hereinafter called the Pool, includes UMS endowment funds and funds from the following entities which are separate from the UMS:

- UMS Other Post Employment Benefits (OPEB) Trust
- University of Maine at Farmington Alumni Foundation
- University of Maine at Fort Kent Foundation
- University of Southern Maine Foundation
- John L. Martin Scholarship Fund, Inc.
- Maine Maritime Academy

UMS endowment funds are subject to the restrictions of gift instruments. The principal is invested and current expenditures are funded from related income and appreciation. During fiscal year 2010 (FY10), some endowments were underwater (i.e., the market value was less than corpus). As was done in the prior year, the UMS suspended distributions for FY11 for endowed funds that were underwater on December 31, 2009.

Oversight and Management

Portfolio and investment management is an ongoing process with the following parties meeting quarterly to provide oversight of Pool assets:

- Board of Trustees Investment Committee
- Investment Consultant – New England Pension Consultants (NEPC) – Cambridge, MA
- Rebecca Wyke, Vice Chancellor for Finance and Administration and Treasurer, UMS
- Tracy Elliott – Director of Finance and Controller, UMS
- Peter Small – Institutional Research Analyst, UMS

Governing Guidelines

Formal guidelines, established by the Investment Committee, govern the Pool investment process. These guidelines, last updated in November 2009, may be found at <http://www.maine.edu/system/oft/InvestmentGuidelines.php>. They include:

- Total risk and return objectives
- Third party investor criteria
- 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

Managed Investment Pool (Including Endowments) – Annual Report

- Responsibilities of all parties
- Conflict of interest statement

These guidelines currently target a long-term return objective for the Pool of 8.5% with moderate risk.

Fiscal Year 2010 Performance

The market rallied for most of FY10 allowing the fund to regain some of the losses experienced in the prior fiscal year. Nonetheless, the economic recovery is weak with continued high unemployment, high governmental debt levels, general market uncertainty, and a recovery largely based on governmental actions.

The Pool **experienced a return of 12.0%** [11.5% net of fees] in FY10. The fund performance placed it in the 69th percentile (i.e., 69% performed better) of the total fund universe tracked by the System's investment consultant (NEPC). The UMS return of 12% compares to an S&P 500 return of 14.4% and the Barclays Capital Aggregate Bond Index return of 9.5% over the same 1 year period.

One reason the Pool ranked lower in the fiscal year compared to the universe median was that several of the managers have a high quality bias which dragged down performance during the low quality rally. Another reason the Pool ranked lower than the median is due to the Pool's larger equity allocation when compared to the universe. During the first three quarters of the fiscal year, the Pool's higher equity allocation helped as markets rallied and the Plan ranked above median in those time periods. However, in the final quarter of the fiscal year, the equity markets declined and the Plan's larger allocation to equities hurt performance. In June 2010, the Investment Committee discussed asset allocation and agreed that the UMS will work towards lowering the Pool's allocation to equity.

The Pool's 5-year annualized return of 3.8% [3.2% net of fees] ranks the fund in the 36th percentile, meaning the fund performed better than 64% of other funds in the universe. During the same time period the risk taken by the Pool, as measured by the standard deviation, was at the 59th percentile and was therefore greater than the median of the universe. The 3.8% return compares to an S&P 500 return of -0.8% and the Barclays Capital Aggregate Bond Index return of 5.5% over the same 5 year period.

On June 30, 2010, the Pool assets totaled \$148.9 million, increasing \$21.9 million over the prior year end balance as detailed below under the section called Pool Inflows and Outflows.

Changes in Investment Managers

There were no changes in the Pool's investment managers during FY10.

Pool Inflows and Outflows

The following information is provided for FY09 and FY10 and includes all Pool assets (i.e., assets of the UMS and amounts held for others) as well as related UMS cash on hand temporarily invested in the operating fund, accrued fees, and a small amount of separately invested funds.

Managed Investment Pool (Including Endowments) – Annual Report

	(\$ in Thousands)	
	<u>FY09</u>	<u>FY10</u>
Beginning Market Value	<u>\$115,181</u>	<u>\$127,039</u>
Gifts (UMS and UMS affiliated organizations)	\$4,968	\$3,347
Other Post Employment Benefits Trust Contributions	18,120	9,034
Maine Maritime Academy Contributions net of Withdrawals	12,328	(264)
Interest and Dividend Income	4,149	2,985
Net Appreciation (Depreciation)	(20,913)	12,481
Fees/Expenses (Net of Rebate)	(948)	(1,192)
Distribution for Scholarships & Operations	(6,026)	(4,600)
Charitable Gift Annuities (Net of Annuitant Payments)	(48)	(31)
Return to Principal upon Donor Request	60	83
Miscellaneous Transfers	<u>168</u>	<u>17</u>
Net Activity for the Fiscal Year	<u>\$11,858</u>	<u>\$21,860</u>
Ending Market Value – June 30, 2009 and 2010	<u>\$127,039</u>	<u>\$148,899</u>

The following is a summary of the market value of the entities invested in the Pool at June 30, 2009 and 2010:

Summary of Market Value by Entity	(\$ in Thousands)	
	<u>June 30, 2009</u>	<u>June 30, 2010</u>
University of Maine System and Affiliates	\$94,894	\$104,393
Other Post Employment Benefits	18,870	29,940
Maine Maritime Academy	<u>13,275</u>	<u>14,566</u>
Total	<u>\$127,039</u>	<u>\$148,899</u>

Returns, Historical Growth, and Allocation

Attachment I reports the total returns for the Pool on a net of fees basis and the Pool's year end market value for the past 5 years, as well as the asset allocation for the fiscal years ended June 30, 2009 and 2010.

Pool funds are well diversified by style, asset class, and geography across 15 different investment managers. The large size of the fund permits fuller diversification (which enhances risk adjusted returns) as well as access to attractive asset classes and managers. Additionally, pooling of funds allows participants to benefit from reduced investment manager, consultant and custodial fees.

Endowment Distribution

The UMS endowment distribution formula is designed to smooth market volatility. The method uses a 3-year market value average with a 5% spending rate applied.

MANAGED INVESTMENT POOL (INCLUDING ENDOWMENTS) - ANNUAL REPORT

University of Maine System

Asset Allocations, Total Returns, and Market Values

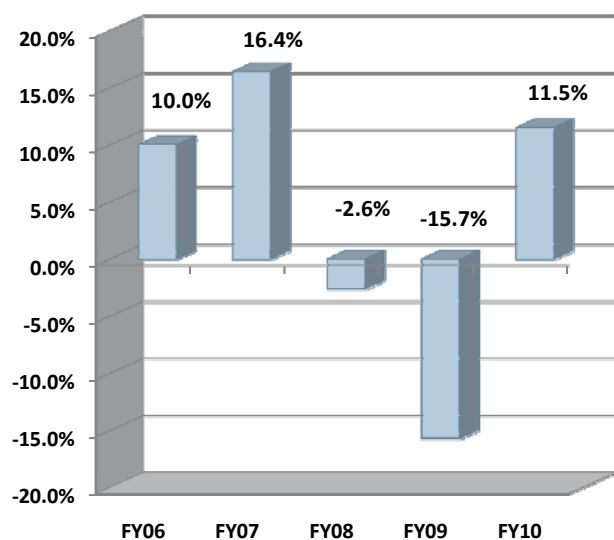
June 30, 2010

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

	June 30, 2009		June 30, 2010	
	Market Value	% Allocation	Market Value	% Allocation
Domestic Equities	\$43,966	35%	\$53,763	36%
International Equities	19,184	15%	22,290	15%
Multi Strategy Bond	17,615	14%	20,339	14%
Market Neutral	4,523	4%	4,159	3%
Global Asset Allocation	19,506	15%	21,769	14%
Hedge Funds	10,748	8%	14,691	10%
Timber Fund	5,190	4%	4,159	3%
Cash	6,307	5%	7,729	5%
Total	\$127,039	100%	\$148,899	100%

Total returns (net of fees) for the five years ended June 30, 2010, and the market value of Pool assets at year end for the same five year period, are shown in the charts below. The large cash balances (above) include OPEB contributions held by the Pool's custodian (The Bank of New York Mellon) for July investment totalling \$5 million and \$6 million for the years ended June 30, 2009 and 2010, respectively.

Total Returns (Net of Fees)



Market Values (\$ in Millions)

