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## Managed Investment Pool (Including Endowments) Year Ended June 30, 2013

University of Maine System

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UNIVERSITY OF MAINE SYSTEM

**MANAGED INVESTMENT POOL (INCLUDING ENDOWMENTS)**

**ANNUAL REPORT**

**YEAR ENDED JUNE 30, 2013**

Additional copies are available at

<http://www.maine.edu/about-the-system/system-office/finances/managed-investment-pool-including-endowments-annual/>

or by contacting:

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

# Managed Investment Pool (Including Endowments) – Annual Report

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## University of Maine System Year Ended June 30, 2013

The University of Maine System (UMS) Managed Investment Pool (Including Endowments), hereinafter called the MIP, includes UMS endowment funds and funds held for the following other 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

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.

### **Oversight and Management**

Portfolio and investment management is an ongoing process with the following parties meeting routinely to provide oversight of MIP 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

### **Governing Guidelines**

Formal guidelines, established by the Investment Committee, govern the MIP investment process. These guidelines, last updated on May 30, 2013, may be found at

<http://www.maine.edu/about-the-system/system-office/finances/investment-guidelines-2>. They include:

- Total risk and return objectives
- Third party investor criteria
- Statement of goals and objectives
- Investment guidelines including:
  - Allowable asset classes with target percentages, permissible ranges, and target benchmarks
  - Permitted and excluded investments
- Investment manager performance standards and evaluation
- Responsibilities of applicable parties
- Conflict of interest statement

# Managed Investment Pool (Including Endowments) – Annual Report

The MIP, with a tolerance for moderate risk, currently has a long-term return objective of 7.75%, down from 8.25% in the prior year

## **Fiscal Year 2013 Performance**

The MIP **experienced a return of 12.7%** net of fees in FY13. The MIP's performance placed it in the 28<sup>th</sup> percentile (i.e., exceeding 72%) of the total endowment fund universe tracked by NEPC. As a point of reference, the S&P 500 return was 20.6% and the Barclays Capital Aggregate Bond Index return was -0.7% over the same 1 year period.

The MIP's **5-year annualized return of 4.8%** net of fees ranks the fund in the 35<sup>th</sup> percentile, meaning the fund performed better than 65% of other endowment funds in the universe while the risk taken (at the 53<sup>rd</sup> percentile) as measured by the standard deviation was also greater during the same period. However, the risk adjusted return or Sharpe Ratio placed in the 43<sup>rd</sup> percentile, meaning that the MIP was compensated for the amount of risk taken. The S&P 500 returned 7.0% and the Barclays Capital Aggregate Bond Index returned 5.2% over the same 5 year period.

On June 30, 2013, the MIP assets totaled \$234.3 million, increasing \$42.9 million from the prior year end balance as detailed on the next page.

## **Changes in Investment Managers**

### **Hedge Fund Manager**

At its December 2012 meeting, the Investment Committee approved the replacement of Gottex with Cube Capital as the Hedge Fund of Fund manager in the MIP. The Cube Global Multi-Strategy Fund's target net return is 10% with a target volatility of 6%. It has 34 managers in its strategy and also utilizes direct trades.

### **Global Asset Allocation (GAA)**

At its February 2013 meeting, the Investment Committee approved adding PIMCO All Asset to the GAA manager line-up. Adding another GAA manager and adopting asset allocation changes, allowed the MIP to increase diversification and take advantage of investment opportunities.

## **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 FY13 and FY14 is 4.5%.

# Managed Investment Pool (Including Endowments) – Annual Report

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## MIP Inflows and Outflows

The following information is provided for FY12 and FY13 and includes all MIP 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.

	(\$ in Thousands)	
	<u>FY12</u>	<u>FY13</u>
<b>Beginning Market Value – July 1</b>	<b><u>\$192,673</u></b>	<b><u>\$191,420</u></b>
Gifts (UMS and UMS affiliated organizations)	\$2,988	\$1,976
Other Post Employment Benefits Trust Contributions	3,338	13,018
Maine Maritime Academy Contributions net of Withdrawals	407	5,437
University of Maine School of Law Foundation	0	2,932
Interest and Dividend Income	3,266	3,827
Net Appreciation (Depreciation)	(5,224)	22,737
Fees/Expenses	(1,701)	(1,975)
Distribution for Scholarships & Operations	(4,848)	(5,005)
Charitable Gift Annuities (Net of Annuitant Payments)	(64)	(10)
Return to Principal upon Donor Request	58	62
Miscellaneous Transfers	<u>527</u>	<u>(81)</u>
<b>Net Activity for the Fiscal Year</b>	<b><u>\$(1,253)</u></b>	<b><u>\$42,918</u></b>
<b>Ending Market Value – June 30</b>	<b><u>\$191,420</u></b>	<b><u>\$234,338</u></b>

The following is a summary of the respective market values of the entities invested in the MIP at June 30, 2012 and 2013:

<b>Summary of Market Value by Entity</b>	(\$ in Thousands)	
	<u>June 30, 2012</u>	<u>June 30, 2013</u>
University of Maine System and Affiliates	\$121,077	\$132,690
Other Post Employment Benefits	52,800	73,042
Maine Maritime Academy	17,543	25,313
University of Maine School of Law Foundation	<u>0</u>	<u>3,293</u>
<b>Total</b>	<b><u>\$191,420</u></b>	<b><u>\$234,338</u></b>

## Returns, Historical Growth, and 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, 2012 and 2013.

MIP funds are well diversified by style, asset class, and geography across 17 investment managers. Pooling of funds provides the ability to have greater 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 shared investment manager, consultant and custodial fees.

**MANAGED INVESTMENT POOL (INCLUDING ENDOWMENTS) - ANNUAL REPORT**

**University of Maine System**

**Market Values, Asset Allocations, and Total Returns**

**June 30, 2013**

<b>Market Value and Asset Allocation of the MIP (\$ in Thousands)</b>					
	<b>June 30, 2012</b>		<b>June 30, 2013</b>		
	<u>Market Value</u>	<u>% Allocation</u>	<u>Market Value</u>	<u>% Allocation</u>	
Domestic Equities	\$59,130	31%	\$55,477	23%	
International Equities	37,612	20%	53,509	23%	
Fixed Income	29,651	16%	32,896	14%	
Global Asset Allocation	31,335	16%	58,771	25%	
Hedge Funds	29,594	15%	27,699	12%	
Timber Fund	3,908	2%	4,678	2%	
Cash	190	0%	1,308	1%	
<b>Total</b>	<b>\$191,420</b>	<b>100%</b>	<b>\$234,338</b>	<b>100%</b>	

Total returns (net of fees) and the market value of MIP assets for the five years ended June 30, 2013 are shown in the charts below.

