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Managed Investment Pool Annual Report Year Ended June 30, 2016

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MANAGED INVESTMENT POOL

ANNUAL REPORT

YEAR ENDED JUNE 30, 2016

Report is available at:

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

Controller's Office, University of Maine System

Managed Investment Pool – Annual Report

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

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, UMS
- Associate Vice Chancellor, Chief Financial Officer and Treasurer, UMS
- Director of Finance and Controller, UMS

Governing Investment Guidelines and Objectives

Investment guidelines, last updated September 7, 2016, govern the investment process and may be found at <http://www.maine.edu/about-the-system/system-office/finances/investment-guidelines-2/>.

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 7.50%, declining 0.25 percentage points from the prior year.

At its meeting on September 7, 2016, the Investment Committee amended the MIP Investment Policy Statement to add consideration of environmental, social and governance (ESG) factors to the investment goals and to the responsibilities of Investment Managers and Investment Consultants for the UMS Managed Investment Pool (MIP), including Endowments.

Managed Investment Pool – Annual Report

The new goals and objectives language is as follows:

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 2016 Performance

The MIP **experienced a return of -2.0%** net of fees for fiscal year 2016 (FY16), placing the MIP in the 51st percentile of the total endowment fund universe tracked by NEPC. Performance is impacted by financial market conditions, asset allocation and the investment managers utilized. On June 30, 2016, the MIP totaled \$266 million, decreasing \$2 million from the prior year end balance as detailed on the next page. Changes in market value include market fluctuation, participant capital contributions and distributions.

5-Year Annualized Return

The MIP's **5-year annualized return as of June 30, 2016 was 4.5%** ranking the fund in the 73rd percentile of the total fund universe tracked by NEPC while the risk taken, in terms of volatility of returns, was at the 78th percentile. The risk adjusted return or Sharpe Ratio placed in the 87th 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 18 investment managers, including index funds, at fiscal year-end. Pooling of funds allows for greater diversification and access to attractive asset classes and managers. Additionally, pooling of funds allows participants to benefit from shared investment manager, consultant and custodial fees.

Changes in Portfolio Allocation and Investment Managers

The Investment Committee reviews the portfolio's allocation at its February meeting and takes action on managers throughout the year. All meeting minutes, including action items, are available on the web at: <http://www.maine.edu/about-the-system/board-of-trustees/meeting-agendas/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 FY15 and FY16 was 4.5%.

Managed Investment Pool – Annual Report

MIP Inflows and Outflows

The following table provides activity for MIP assets including items to reconcile to the NEPC June 30, 2016 and 2015 Flash Reports.

	UMS Endowment Pool	UMS OPEB	Other Participants	FY16 Total	FY15 Total
Market Value at July 1	\$ 140,077	\$ 94,167	\$ 33,508	\$ 267,752	\$ 277,894
Interest and Dividends	2,687	1,848	660	5,195	7,608
Realized Gains (Losses)	(2,769)	(1,995)	(699)	(5,463)	6,942
Investment Fees	(554)	(384)	(136)	(1,074)	(1,066)
Hidden Manager Fees	(568)	(412)	(142)	(1,122)	(1,202)
Unrealized Gains (Losses)	(1,662)	(825)	(324)	(2,811)	(14,802)
Net Investment Activity	<u>(2,866)</u>	<u>(1,768)</u>	<u>(641)</u>	<u>(5,275)</u>	<u>(2,520)</u>
Capital Contributions	67	5,137	1,486	6,690	1,345
Capital Withdrawals	(2,600)	-	(873)	(3,473)	(8,967)
Net Capital Activity	<u>(2,533)</u>	<u>5,137</u>	<u>613</u>	<u>3,217</u>	<u>(7,622)</u>
Market Value - June 30	<u>\$ 134,678</u>	<u>\$ 97,536</u>	<u>\$ 33,480</u>	265,694	267,752
Accrued Fees				178	124
Investment Manager Adjustment				-	23
Market Value - June 30 - NEPC				<u>\$ 265,872</u>	<u>\$ 267,899</u>

Returns, Market Values and Portfolio 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, 2016 and 2015.

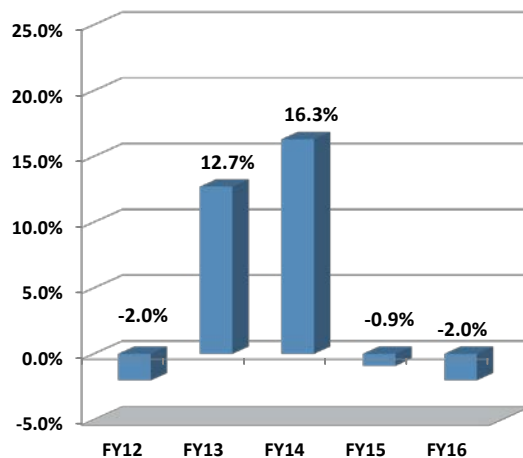
MANAGED INVESTMENT POOL - ANNUAL REPORT
University of Maine System
Market Values, Asset Allocations, and Total Returns
June 30, 2016

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

	June 30, 2016		June 30, 2015	
	<u>Market Value</u>	<u>% Allocation</u>	<u>Market Value</u>	<u>% Allocation</u>
Domestic Equities	\$ 62,841	24%	\$ 57,878	22%
International Equities	62,812	24%	61,367	23%
Fixed Income	47,968	18%	40,505	15%
Global Asset Allocation	49,501	18%	68,175	25%
Hedge Funds	31,385	12%	33,390	13%
Timber Fund	5,634	2%	5,270	2%
Private Equity	1,316	0%	1,167	0%
Cash	4,415	2%	147	0%
Total	<u>\$ 265,872</u>	<u>100%</u>	<u>\$ 267,899</u>	<u>100%</u>

The market values shown above are scheduled from the NEPC June 30, 2016 and 2015 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, 2016, 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.

Total Return (Net of Fees)



Market Value (\$ in Millions)

