EXECUTIVE SUMMARY

Name of Plan:  Managed Investment Pool (Including Endowments)

Minimum Long Term Return Assumption:  8.5%

Risk Tolerance:  Moderate

Spending Policy:  5.0%

Asset Allocation:

<table>
<thead>
<tr>
<th>ASSET CLASS</th>
<th>TARGET %</th>
<th>PERMISSIBLE RANGE %</th>
<th>TARGET BENCHMARK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>55%</td>
<td>45 - 65%</td>
<td>S&amp;P 500</td>
</tr>
<tr>
<td>Domestic Large Cap</td>
<td>32%</td>
<td>27 - 37</td>
<td>Russell 2000</td>
</tr>
<tr>
<td>Domestic Small/Mid Cap</td>
<td>8%</td>
<td>5 - 11</td>
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</tr>
<tr>
<td>International</td>
<td>12%</td>
<td>9 - 15</td>
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</tr>
<tr>
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<td>3%</td>
<td>0 – 5</td>
<td>Citigroup PMI EM</td>
</tr>
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</table>

| Fixed Income              | 10%      | 5 - 15%             | Barclays Aggregate     |
| Domestic Core             | 10%      | 5 - 15              | Citigroup BB/B         |
| High Yield                | 0%       | 0 - 5               |                        |

| Other                     | 35%      | 30 - 40%            |                        |
| Global Asset Allocation   | 15%      | 12 – 18             | CPI + 5%               |
| Market Neutral            | 5%       | 3 – 8               | 90 Day T Bill + 3%     |
| Timber                    | 5%       | 3 – 8               | NCREIF Timber          |
| Hedge Funds               | 10%      | 7 – 13              | 90 Day T Bill = 5%     |

| Cash                      | 0%       | 0 – 10%             |                        |

Evaluation Benchmarks:

Total return for the Pool shall be regularly compared to the Allocation Index* and the Policy Index**. While it is anticipated that there will be fluctuations in the Pool's value, the Pool assets should at a minimum produce a nominal long-term rate of return of 8.5%.

The investment performance of money managers shall be measured against the investment performance of other managers with similar investment styles (e.g., Large cap growth equity manager against other large cap growth managers). Furthermore, investment performance will also be measured against an appropriate index benchmark (e.g., small cap equity managers will be measured against the Russell 2000 Index).

*Allocation Index: Calculated by taking the actual asset class weights, at month end, times the return of the respective passive benchmark. Measures the effectiveness of deviating from target weights.

**Policy Index: Calculated by taking the target asset class weights times the return of the respective passive benchmark (calculated monthly). Measures the effectiveness of Plan Structure.
INTRODUCTION

This statement of Investment Guidelines and Objectives was developed to assist the University of Maine System (UMS) in carrying out its fiduciary responsibilities related to funds held for others and for the conservation and use of the assets of the Endowment Fund.

The System uses a pooled investment approach. The Managed Investment Pool includes:

- UMS endowments (except where the donor requires the funds to be separately invested),
- Endowment monies held on behalf of various affiliated organizations including the:
  - University of Maine at Farmington Alumni Foundation,
  - University of Maine at Fort Kent Foundation,
  - University of Southern Maine Foundation, and
  - John L. Martin Scholarship Fund, Inc.
- The UMS Other Post Employment Benefit (OPEB) Trust, and
- Maine Maritime Academy endowments.

These guidelines are issued for the guidance of fiduciaries and other interested parties, including the Investment Committee of the Board of Trustees (the Committee), investment managers, internal management, third party investors, and consultants in the course of investing the assets of the Pool. The guidelines may be amended by the Committee both upon their own initiative and upon consideration of the advice and recommendations of the investment managers and fund professionals. Proposed modifications should be documented in writing to the Committee.

To this end, the investment guidelines will:

- Establish formal but flexible investment parameters that incorporate prudent asset allocation and achievable total return goals.
- Outline the investment responsibilities of the Committee, the investment managers, the custodian, and the investment consultant.
- Provide a mechanism for regular communication between UMS and all parties with responsibility for fund investments.

The investment goals and objectives for the Managed Investment Pool (The “Pool”) and hence investment decisions, are determined for the benefit of the UMS. The Pool is operated under the guidelines set forth herein and applicable laws.

It is expected that these guidelines will be reviewed at least annually to ensure that it continues to provide effective guidelines for the management of the Pool.

ENDOWMENT FUNDS

The UMS Endowment Fund has been established in order to support the operations of the institution.
Spending Policy (effective FY2010)

For budget purposes, the annual spending amount is calculated using a 3-year market value average with a % spending rate applied. The Committee will annually approve the endowment spending rate and resulting distribution amount per share.

THIRD PARTY INVESTORS

The University may allow affiliated or non-affiliated organizations to invest in the Pool if in its judgment the acceptance of assets of a particular entity by the Pool can be said to further public higher education in Maine and to serve the educational needs of citizens of Maine. Such criteria is consistent with the purpose of UMS as broadly stated in its charter “to maintain and support a cohesive structure of public higher education in the State of Maine…” and with the Board’s duty to “[p]lan strategies for programs and allocation of resources that most effectively serve the educational needs of the citizens of this State.”

Any entity permitted to invest in the Pool must agree to the terms and conditions specified in the University of Maine System Managed Investment Pool Custodial and Investment Agreement. Assets accepted for investment by the Pool from outside the UMS typically will be assets of the general endowment fund or other funds of a charitable organization but may also be other funds as described in the sub-paragraphs of section 3(c)(10)(B) of the Investment Company Act of 1940.

Notwithstanding investment by third parties in the Pool, the investment goals and objectives of the Pool are determined for the benefit of the UMS and, as a result, the investment interests and decisions of the Pool on behalf of UMS may not always coincide with those of third party investors.

STATEMENT OF GOALS AND OBJECTIVES

The statement of Investment Guidelines and Objectives is set forth to provide an appropriate set of goals and objectives for the Pool’s assets and to define guidelines within which the investment managers may formulate and execute their investment decisions.

Within the specific guidelines presented below, the investment managers shall exercise full investment discretion. However, assets must be managed with the care, skill, prudence and diligence that a prudent investment professional in similar circumstances would exercise. Investment practices must comply with the applicable laws and regulations.

By agreeing to manage assets on behalf of the Pool, an investment manager accepts the provisions of this Statement applicable to such investment manager and assets being managed by such investment manager.

The Plan’s primary investment goals are outlined below:

1. Maximum total return, consistent with prudent investment management, is the primary goal of the Plan. Return, as used herein, includes income plus realized and unrealized gains and losses on Plan assets. In addition, assets of the Plan shall be invested to ensure that principal is preserved and enhanced over time, both in real and nominal terms.

2. Total return for the Pool shall be regularly compared to the Allocation Index and the Policy Index. While it is anticipated that there will be fluctuations in the Pool’s value, the Pool assets should at a minimum produce a nominal long-term rate of return of 8.5%, net of all expenses.
3. Total portfolio risk exposure and risk-adjusted returns will be regularly evaluated and compared with other Endowments, the Allocation Index, and the Policy Index. Risk-adjusted returns for the Pool and for individual managers are expected to consistently rank in the top third of comparable funds or managers, respectively.

4. Performance of this Pool will be evaluated on a regular basis. Consideration will be given to the degree to which performance results meet the goals and objectives as herewith set forth. Normally, results are evaluated over a full market cycle, but shorter-term results will be regularly reviewed and earlier action taken if in the best interest of the Pool.

INVESTMENT GUIDELINES

Asset Allocation

The Pool will be diversified both by asset class (e.g. equities, bonds, cash equivalents, foreign securities) and within asset classes (e.g., by country, economic sector, industry, quality, and size). The purpose of diversification is to minimize unsystematic risk, and to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the total Pool.

In order to have a reasonable probability of consistently achieving the Pool’s return objectives, the Committee has adopted the asset allocation policy outlined below.

If any asset class weighting is outside its respective permissible range at the end of any calendar quarter, the Investment Consultant will advise the Committee at the next Committee meeting. In addition, University of Maine System Staff will bring the portfolio into compliance with these guidelines as promptly and prudently as possible.

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Fixed Income 10% 5 -15%

Domestic Core 10 5 -15 Barclays Aggregate
High Yield 0 0 – 5 Citigroup BB/B

Other 35% 30 - 40%

Global Asset Allocation 15 12 – 18 CPI + 5%
Market Neutral 5 3 – 8 90 Day T Bill + 3%
Timber 5 3 – 8 NCREIF Timber
Hedge Funds 10 7 – 13 90 Day T Bill + 5%

Cash 0% 0 – 10%

Equities

Risk: Return objectives should be achieved without assuming undue risk. The risk - as measured by the standard deviation of returns - and the risk-adjusted return of this portfolio will be compared to the same measures for an appropriate universe of Equity managers and that of the appropriate index.
Diversification: No more than 6% at cost and 8% of the equity portfolio’s market value may be invested in one company. Deviations from this policy are allowed upon specific approval from the Committee. Care and consideration should be taken to ensure that the entire equity portfolio is adequately diversified by individual holdings and sector weights.

Use of Cash: The manager is expected to be fully invested in equities. This notwithstanding, the Committee understands that some liquidity in the portfolio is necessary to facilitate trading, and does not place an explicit restriction on the holding of cash equivalents. The custodian bank’s short term investment fund (STIF) is an allowed investment, as are other cash equivalents, provided they carry an S&P rating of at least A1 or an equivalent rating.

Fixed Income

Risk: Return objectives should be achieved without assuming undue risk. The risk - as measured by the standard deviation of returns - and the risk-adjusted return of this portfolio will be compared to the same measures for an appropriate universe of Fixed Income managers and that of the appropriate index.

Diversification: The securities of any issuer, excepting the U.S. government and U.S. government agencies, shall not constitute more than 5% of the portfolio at any time. Up to 10% of the Pool may be invested in international bonds and currency exposure may be hedged or unhedged at the manager’s discretion.

Duration: The average effective duration of the investment grade fixed income portfolio may not differ by more than one year from the duration of the Barclays Aggregate Bond Index. The average effective duration of the high yield bond portfolio may not differ by more than one year from the duration of the Citigroup BB/B Bond Index.

Quality: The overall quality rating of investment grade fixed income assets will be at least “A-” as rated by Standard & Poors, Fitch, or Duff & Phelps. No more than 10% of the portfolio may be invested in issues rated below investment grade (below “BBB”). The overall average quality for the high yield bond portfolio shall be B or better.

Use of Cash: The manager is expected to be fully invested in fixed income securities. The custodian bank STIF is an allowed investment, as are other cash equivalents, provided they carry an S&P rating of at least A1 or an equivalent rating.

Other Asset Classes, Strategies, and Investment Managers

From time to time the Committee may make additional diversifying investments in other asset classes or securities such as, Real Estate, Timber, Commodities, Emerging Markets Equity/Fixed Income, Market Neutral and Hedge Funds. The Committee shall approve any such investment prior to implementation and shall restrict these investments to specific investment managers.

Hedge Funds

Investments in hedge funds are permitted. Hedge funds represent a broad set of mandates and strategies that focus primarily on the liquid equity, fixed income and derivatives markets, but they may also include allocations, to a smaller extent, to investments that are less liquid. These mandates may employ long strategies, short selling and derivatives to protect against market downturns and/or profits from anticipated market movements.
The primary objective of these strategies is to provide positive absolute return throughout a market cycle (cash return + incremental spread), as well as provide increased diversification to the portfolio.

Each investment should fall within the expected risk and return characteristics historically displayed by domestic fixed income and public domestic equity investments. Leverage may be employed provided the risk of the portfolio remains within the target guidelines.

**Hedge Fund Guidelines**

- **Diversification** – investments should be made through diversified hedge fund programs.
- **Liquidity** – initial lock-up periods should not exceed one year; subsequent allowable redemption periods should not be less frequent than annual.
- **Transparency** – investments should be made only in funds that provide adequate transparency to the underlying securities/funds held by the fund.
- **Leverage** – funds may employ reasonable amounts of leverage (except for at the fund level as described in the excluded investments section) to the extent they adhere to targeted risk/return objectives.
- **Correlation** – funds added to the Plan in this asset class should exhibit low correlation with traditional stock and bond indices
- **Reporting** – investments may only be made in funds that adhere to strict reporting guidelines that fall within that required by the Plan.

**Excluded Investments**

Certain investments are ineligible for inclusion within this Pool:

- **UBTI** - investments in transactions that would generate unrelated business taxable income (“UBTI”) to the Plan.
- **Prohibited transactions** - investments or transactions that would be non-exempt prohibited transactions under Section 406 of ERISA or Section 4975 of the Internal Revenue Code.
- **Self-dealing** - securities of the investment manager, their parent or subsidiary companies (excluding money market funds) or any other security that could be considered a self-dealing transaction.
- **Leverage** – when investing in fund of hedge funds (FOHF), the manager may not employ leverage at the master fund level
- **Unrelated Speculation** – Derivatives shall not be used to create exposures to securities, currencies, indices, or any other financial vehicle unless such exposures would be allowed by a portfolio’s investment guidelines if created with non-derivative securities.

**Derivatives**

Where appropriate, investment managers may use derivative securities for the following reasons:

1. **Hedging.** To the extent that the portfolio is exposed to clearly defined risks and there are derivative contracts that can be used to reduce those risks, the investment managers are permitted to use such derivatives for hedging purposes, including cross-hedging of currency exposures.

2. **Creation of Market Exposures.** Investment managers are permitted to use derivatives to replicate the risk/return profile of an asset or asset class provided that the guidelines for
the investment manager allow for such exposures to be created with the underlying assets themselves.

3. Management of Country and Asset Allocation Exposure. Managers charged with tactically changing the exposure of their portfolio to different countries and/or asset classes are permitted to use derivative contracts for this purpose.

By way of amplification, it is noted that the following two uses of derivatives are prohibited unless approved by the Committee:

1. Leverage. Derivatives shall not be used to magnify overall portfolio exposure to an asset, asset class, interest rate, or any other financial vehicle beyond that which would be allowed by a portfolio’s investment guidelines if derivatives were not used.

2. Unrelated Speculation. Derivatives shall not be used to create exposures to securities, currencies, indices, or any other financial vehicle unless such exposures would be allowed by a portfolio’s investment guidelines if created with non-derivative securities.

Commingled Funds

The Committee may elect to invest assets of the Pool in commingled funds, in recognition of the benefits of commingled funds as investment vehicles (i.e., the ability to diversify more extensively than in a small, direct investment account and the lower costs which can be associated with these funds). The Committee recognizes that they may not be permitted to give specific policy directives to a fund whose policies are already established; therefore, the Committee is relying on the Investment Consultant to assess and monitor the investment policies of such funds to ascertain whether they are appropriate.

Distributions

Investment managers should assume that withdrawals may be made from the Pool from time to time by the University of Maine System. Appropriate liquidity should be maintained to fund these withdrawals without impairing the investment process. The Committee or the designated representatives shall alert investment managers to anticipate liquidity needs of the Pool.

PERFORMANCE STANDARDS AND EVALUATION

Investment managers are expected to achieve the performance objectives that have been agreed to prior to engagement, by investing in those assets they were engaged to invest in. Performance comparisons will be made on a net of fees and risk-adjusted basis. Manager performance will be periodically reviewed to ensure compliance with these standards.

The investment performance of money managers shall be measured (e.g., total return and risk adjusted return) against the investment performance of other managers with similar investment styles (e.g., Large cap growth equity manager against other large cap growth managers). Furthermore, investment performance will also be measured (e.g., total return and risk adjusted return) against an appropriate index benchmark (e.g., small cap equity managers will be measured against the Russell 2000 Index).

Performance reports shall be compiled quarterly and communicated to the Committee for review. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, risk and guidelines as set forth in this statement. The Committee intends to evaluate individual manager performance over a complete market cycle, but reserves the right to terminate a manager for any reason including the following:
1. Investment performance that is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.

2. Investing in asset classes other than the asset classes for which the manager was engaged.

3. Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.

4. Significant qualitative changes to the investment management organization.

Investment managers will be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

**RESPONSIBILITIES**

**Investment Committee**

The Committee acknowledges its fiduciary responsibility for the conservation and prudent management of the funds. More specifically, its responsibilities include:

**Compliance:** To comply with the provisions of all pertinent federal and state regulations and rulings.

**Standards:** To develop investment objectives, asset allocation targets, investment guidelines, and performance measurement standards which are consistent with the needs of the funds.

**Appointments:** To evaluate and appoint investment managers to invest and manage fund assets. In addition, to appoint custodians and investment consultants.

**Communication:** To communicate investment goals, objectives, and standards to investment managers, including any material changes that may subsequently occur.

**Manager Funding:** To deploy existing assets and new monies to investment managers.

**Evaluation:** To review and evaluate investment results in the context of established standards of performance and adherence to the investment guidelines.

**Corrective Action:** To take whatever action is deemed prudent and appropriate when the investment manager fails to meet mutually accepted performance standards or significantly violates the investment guidelines.

The University of Maine System staff will assist the Committee in carrying out their duties.

**Investment Manager**

In recognition of their role as fiduciaries of the funds, investment managers must assume the following responsibilities:

**Investment Responsibility:** To make all investment decisions with respect to the assets under its management. The investment managers pledge to invest only in those asset classes they were engaged to invest in. Investment managers are to make
reasonable efforts to control risk, and will be evaluated regularly to ensure that the risk assumed is commensurate with the given investment style and objective.

**Compliance:** To comply with this statement and any other written instructions provided by the Committee. Furthermore, to comply with all federal and state regulations pertaining to the investment of such assets.

**Trading:** To comply with CFA Institute soft dollar standards. The investment manager recognizes that brokerage is the property of the client and that it has an ongoing duty to ensure the quality of transactions effected on behalf of its client. This includes, seeking to obtain best execution, minimizing transaction costs, and using client brokerage to benefit the client.

**Voting of Proxies:** Responsibility for the exercise of ownership rights through proxy voting shall rest solely with the investment managers, who shall exercise this responsibility strictly for the long-term economic benefit of the fund and beneficiaries. Additionally, investment managers shall maintain a written annual report of the proxy votes for all shares of stock in companies held in the fund’s investment program. These reports shall specifically note and explain any instances where proxies were not voted in accordance with standing policy.

**Notification of Changes:** To inform the Committee of any material changes in the manager’s outlook, policy, investment strategy and portfolio structure, or tactics or in the firm’s structure including ownership, financial condition and changes in portfolio management personnel.

**Reporting:** To provide the Committee and to its investment consultant quarterly reports that provide the total return net of commissions and fees, additions and withdrawals from the account, current holdings at cost and market value, and purchases and sales for the quarter. All reports are to comply with AIMR performance presentation standards.

**Availability for Meetings:** To meet at least annually or at other such times as the Committee may reasonably request to discuss investment outlook, performance, strategy and tactics, organizational and personnel changes, and other pertinent matters.

**Bonding:** The managers shall provide evidence of liability and fiduciary insurance and have its employees bonded unless otherwise exempted by law or governmental regulation.

**Custodian:**

In fulfillment of its fiduciary responsibilities, the Committee has appointed a custodian to administer some of the Pools’ assets. The custodian has the responsibility to:

**Custody Securities:** Receive, hold, and manage the Pool assets.

**Distributions:** Make payments to the University of Maine System and to collect all interest and dividends.

**Accounting:** Keep accurate and detailed accounts of all investments, receipts, disbursements and other transactions.

**Reporting:** Provide a written account of all holdings and transactions on a monthly basis.
Bonding: The custodian shall provide evidence of liability and fiduciary insurance and have its employees bonded unless otherwise exempted by law or governmental regulation.

**Investment Consultant:**

The consultant will provide the Committee with objective advice. The responsibilities include:

**Reporting:** Providing performance evaluation reports to the Committee on a quarterly basis. Reports will include absolute and relative performance of each of the investment managers and the total Pool. The consultant will utilize meaningful market indices for comparisons. Also, the consultant will provide specialty reporting and analysis of the overall program for portfolio risk.

**Consulting:** Providing proactive advice to the Committee on investment guidelines, asset allocation and manager structure. The consultant will also assist in the selection of new investment managers and in the termination of managers, alert the Committee of any adverse developments concerning the Pool and the performance of the managers, report on market trends and external change (market intelligence), and provide research materials and educational seminars on different asset types, or topics, as requested.

**Availability for Meetings:** Meeting at last quarterly for a formal performance review or at other such times as the Committee may reasonably request.

**CONFLICT OF INTEREST**

It is the policy of the Committee to avoid conflicts of interest in its operations and in the selection of investment managers or funds. Therefore, members of the Committee shall not have a pecuniary relationship in any manager or fund being considered. No independent investment consultant retained by the Committee, or any entity, in which such consultant may have an interest, shall be a party to any transaction with, or have a financial or other interest in, any investment manager providing services to the Committee.

**IMPLEMENTATION**

All new monies received by investment manager(s) after the adoption of this statement of Investment Guidelines and Objectives shall conform to the Statement. To the extent that Pool assets are not currently managed in accordance with this Statement, the investment manager shall conform in all respects to this Statement within 60 days of its receipt hereof.

**AMENDMENTS**

The Committee may amend this Statement, subject to the approval of the Committee. The Committee, through the University of Maine System, also reserves the right to direct the investment managers to take any appropriate actions, whether or not consistent with this Statement, if market conditions, liquidity needs or other circumstances so indicate.