

REVISED
4/25/2022

Board of Trustees
Investment Committee

April 28, 2022
2:45 pm to 3:30 pm
Via Zoom

The public is invited to view the meeting on YouTube. The link to the Board of Trustees YouTube page can be found the Board website: <https://www.maine.edu/board-of-trustees/>

AGENDA

2:45 pm – 2:50 pm
Chair’s Opening Remarks

2:50 pm – 3:15 pm

TAB 1 Fossil Fuel Divestment Actions and Goals

3:15 pm – 3:30 pm

TAB 2 Investment Guidelines and Objectives - Managed Investment Pool (MIP), Operating Fund (OF) and Pension

Action items within the Committee purview are noted in green.
Items for Committee decisions and recommendations are noted in red.

Note: Times are estimated based upon the anticipated length for presentation or discussion of a particular topic. An item may be brought up earlier or the order of items changed for effective deliberation of matters before the Committee.

University of Maine System
Board of Trustees

AGENDA ITEM SUMMARY

NAME OF ITEM: Fossil Fuel Divestment Actions and Goals

INITIATED BY: Kelly A. Martin, Chair

BOARD INFORMATION: **BOARD ACTION: X**

BOARD POLICY:
Section 709 - Investments

UNIFIED ACCREDITATION CONNECTION: N/A

BACKGROUND:

To meet our commitment to address climate change and our portfolios' objectives, the University of Maine System (UMS) has set the following action steps and goals with the understanding that, at all times, the Board of Trustees acting through the Investment Committee will act in accordance with sound investment criteria and consistent with its fiduciary obligations:

Short-Term Actions: As of May 31, 2022, UMS will divest from direct fossil fuel investments.

1. Divest all direct equity and fixed income investments in fossil fuels by May 31, 2022⁽¹⁾.
2. To make no new direct investments in fossil fuels.

Long-Term Goals: Divest from actively managed commingled and mutual fund fossil fuel investments by 2030.

The Investment Committee will:

3. Monitor the actively managed commingled and mutual fund fossil fuel exposure and the growth of fossil fuel free alternative investment funds.
4. Assess investment managers with regard to their commitment to sustainable and fossil fuel free investments and, when prudent and appropriate, select managers with such strategies.
5. Select managers who best meet UMS risk, return, diversification, and fiduciary goals while being mindful of ESG and climate goals.

⁽¹⁾ Fossil fuels are defined as Carbon Underground 200 list, a list of 200 global companies across the 100 largest public coal and the 100 largest public oil and gas reserve owners (including oil sands reserve owners).

⁽²⁾ ESG criteria are a set of standards for a company's operations that socially conscious investors use to screen potential investments. Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights.

TEXT OF PROPOSED RESOLUTION:

That the Board of Trustees acting through the Investment Committee, approves the Short-Term Actions and Long-Term Goals regarding divestment from fossil fuel investments while at all times acting in accordance with sound investment criteria and consistent with its fiduciary obligations.

04/14/2022

University of Maine System
Board of Trustees

AGENDA ITEM SUMMARY

NAME OF ITEM: Investment Guidelines & Objectives – Managed Investment Pool (MIP),
Operating Fund (OF) and Pension

INITIATED BY: Kelly A. Martin, Chair

BOARD INFORMATION:

BOARD ACTION: X

BOARD POLICY:

Section 709 - Investments

UNIFIED ACCREDITATION CONNECTION:

The University of Maine System centrally manages investments.

BACKGROUND:

The Investment Guidelines and Objectives (Guidelines) for the Managed Investment Pool, the Operating Fund, and the Pension Plan have been updated using tracking changes and are enclosed for your review and approval.

The Guidelines for all three portfolios now include consideration of investment managers who incorporate Environmental, Social, and Governance (ESG) factors into their investment process and investment managers who exclude fossil fuel holdings. The Guidelines also now detail investment manager selection criteria. In addition, the MIP guidelines were edited to include the Investment Committee’s approval of the endowment spending rate for FY23 and two MIP participant changes. Further, the Pension Guidelines were updated to acknowledge that the University follows the Employee Retirement Income Security Act (ERISA) as a best practice.

TEXT OF PROPOSED RESOLUTION:

That the Board of Trustees, acting through the Investment Committee, approves the updated Investment Guidelines and Objectives for the Managed Investment Pool, the Operating Fund, and the Defined Benefit Pension Plan.

04/14/2022

University of Maine System
Executive Summary - Investment Guidelines and Objectives
Managed Investment Pool (Including Endowments)
 Approved by Investment Committee ~~April 28, 2021~~ ~~March 4, 2021~~ May 2022

Minimum Long Term Return Assumption: 7.25%

Risk Tolerance: Moderate

FY21 and FY22 Spending Policy 4.50%¹

Asset Allocation:

<u>ASSET CLASS</u>	<u>TARGET %</u>	<u>PERMISSIBLE RANGE %</u>	<u>TARGET BENCHMARK</u>
Equity	59%	49 - 69%	
Domestic Large Cap	22	17 - 27	S&P 500
Domestic Small/Mid Cap	6	0 - 10	Russell 2500
International	10	5 - 15	MSCI EAFE
International Small Cap	4	0 - 8	MSCI EAFE SC
Emerging	3.5	0 - 7	MSCI EM
Emerging Small Cap	3.5	0 - 7	MSCI EM SC
Global Equity	10	5 - 15	MSCI World
Fixed Income	26.5%	16 - 36%	
Domestic Core	9.5	5 - 15	BBgBarc US Aggregate
Bank Loans	5	0 - 10	Credit Suisse Leveraged Loan
TIPS	3.5	0 - 7	BBgBarc US TIPS
Short Term TIPS	3.5	0 - 7	BBgBarc US 1-5 Year TIPS
Absolute Return Fixed Income	5	0 - 10	3 Month Libor
Other	14.5%	5 - 25%	
Global Asset Allocation	7.5	0 - 10	65% MSCI ACWI (Net) / 35% BBgBarc Global Agg
Hedge Funds	7	0 - 10	Credit Suisse Long Short Equity
Private Equity	0	0 - 5	Cambridge Private Equity 1 Quarter Lag
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 7.25%.

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 the previous month end, multiplied by the return of the respective passive benchmark over the current month. 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 Pool Structure.

¹ 4.5% spending rate for fiscal year 2022~~3~~ was approved by the Board of Trustees [acting through the Investment Committee](#) at their ~~March 4, 2021~~ [November 9, 2021](#) meeting. Of this rate, 125 basis points is charged (unless expressly prohibited by the donor) for management and administration by the University of Maine and the University of Southern Maine while UMS Governance and University Services charges 25 basis points. Such fees are charged on each entity's respective endowments only.

University of Maine System
Investment Guidelines and Objectives
Managed Investment Pool (Including Endowments)
Approved by Investment Committee ~~March 4, 2021~~ April 28, May 2022

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 (The “Pool”) includes the following four components:

- Endowments of the University of Maine System (except where the donor requires the funds to be separately invested) and endowments for:
 - University of Maine at Fort Kent Foundation,
 - University of Southern Maine Foundation,
 - John L. Martin Scholarship Fund, Inc.,
- The University of Maine School of Law Foundation,
- The UMS Other Post Employment Benefit (OPEB) Trust, and
- ~~Maine Maritime Academy endowments.~~
- The Osher Map Library Foundation

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 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.

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 Pool’s primary investment goals are outlined below:

1. Maximum total return, consistent with prudent investment management, is the primary goal of the Pool. Return, as used herein, includes income plus realized and unrealized gains and losses on Pool assets. In addition, assets of the Pool 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 7.25%, 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.

5. 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.

5.—Climate change is a long-term material risk. As a result, the Committee shall review the extent to which the assets of the Pool are invested in fossil fuels as determined by the Carbon Underground 200, a list of 200 global companies across the 100 largest public coal and the 100 largest public oil and gas reserve owners (including oil sands reserve owners). The Committee shall, in accordance with sound investment criteria and consistent with fiduciary obligations, divest any such holdings and may not invest any assets in any such stocks, securities or other obligations. Nothing in this paragraph precludes de minimis exposure in the Pool to the stocks, securities or other obligations of fossil fuels as determined by the Carbon Underground 200 list as noted above.

6.

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.

<u>ASSET CLASS</u>	<u>TARGET %</u>	<u>PERMISSIBLE RANGE %</u>	<u>TARGET BENCHMARK</u>
Equity	59%	49 - 69%	
Domestic Large Cap	22	17 - 27	S&P 500
Domestic Small/Mid Cap	6	0 - 10	Russell 2500
International	10	5 - 15	MSCI EAFE
International Small Cap	4	0 - 8	MSCI EAFE SC
Emerging	3.5	0 - 7	MSCI EM
Emerging Small Cap	3.5	0 - 7	MSCI EM SC
Global Equity	10	5 - 15	MSCI World
Fixed Income	26.5%	16 - 36%	
Domestic Core	9.5	5 - 15	BBgBarc US Aggregate
Bank Loans	5	0 - 10	Credit Suisse Leveraged Loan

TIPS	3.5	0 – 7	BBgBarc US TIPS
Short Term TIPS	3.5	0 - 7	BBgBarc US 1-5 Year TIPS
Absolute Return Fixed Income	5	0 - 10	3 Month Libor
Other	14.5%	5 - 25%	
Global Asset Allocation	7.5	0 - 10	65% MSCI ACWI (Net) / 35% BBgBarc Global Agg
Hedge Funds	7	0 - 10	Credit Suisse Long Short Equity
Private Equity	0	0 - 5	Cambridge Private Equity 1 Quarter Lag
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 a Standard and Poor's rating of at least A-1 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 fixed income portfolio may not differ by more than one year from the duration of the applicable benchmark. For example, a core bond fund will be evaluated against the Barclays Capital Aggregate index.

Quality: The overall quality rating of fixed income portfolio will be at least one full quality rating within the applicable benchmarks quality rating as rated by Standard and Poor's (or equivalent). For example, if the Barclays Capital Aggregate has a credit rating of AA, a core bond fund should fall in the range of A to AAA.

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 a Standard and Poor's rating of at least A-1 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, Private Equity 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 Pool 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 Pool.

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 Pool.
- *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.
- *Coal Companies* – separate account managers shall not invest in coal companies.
- [Fossil Fuel Companies – separate account managers shall not invest in the Carbon Underground 200 list of the 100 largest public coal and the 100 largest public oil and gas reserve owners \(including oil sands reserve owners\).](#)

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. [The Committee will monitor the actively managed commingled funds fossil fuel exposure periodically and engage with commingled funds on sustainable investments.](#)

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.

INVESTMENT MANAGER SELECTION, PERFORMANCE STANDARDS AND EVALUATION

When selecting investment managers, the Investment Committee will follow a due diligence process with the assistance of the Investment Consultant to make prudent selections of investment managers. Appropriate selection criteria shall be used in the process of selecting investment managers. The criteria include, but are not limited to:

1. Sufficient assets under management, such that the Pool would not represent a significant percentage of total assets.
2. Fees that are reasonable and competitive.
3. Organizational and investment personnel stability.
4. Experienced, stable portfolio management team.
5. Portfolios that are adequately diversified by sector, industry, and security in order to protect against loss associated with a single security or issuer, or single event.
6. Consistent adherence to the manager's stated investment style and guidelines.
7. Favorable long-term performance on a net of fee/risk adjusted basis compared to relevant peer groups, published market indices and/or custom benchmarks.

Consideration will be given to investment managers that incorporate ESG into their investment process and managers that exclude fossil fuel holdings.

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 Global Investment Performance Standard (GIPS) 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.

ESG Consideration: Investment managers that incorporate ESG into their investment process should provide annual updates to the Committee regarding their process and impact. Investment managers that have a responsible investment policy and Principles for Responsible Investment (PRI) transparency report should provide the documents to the Committee. Additional ESG specific reports may also be required and requested by the Committee.

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 least quarterly for a formal performance review or at other such times as the Committee may reasonably request.

ESG Consideration: The consultant must be a signatory to the Principles for Responsible Investment, and take ESG factors into consideration when advising on asset allocation and manager selection.

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.

University of Maine System
Executive Summary - Investment Guidelines and Objectives
Operating Fund
 Approved by Investment Committee ~~April 28, May 28, 2019~~ 2022

Type of Plan: Operating Plan

Minimum Long Term Return Assumption: 4.00%

Risk Tolerance: Low to Moderate

Asset Allocation:	TARGET	PERMISSIBLE	TARGET
ASSET CLASS	%	RANGE %	BENCHMARK
Liquidity Pool	30%	5 - 100%	FTSE T-Bill 3 Months
Income Pool	47.5%	0 - 60%	
Short-Term Bonds	26	15 - 35	BBgBarc US Govt/Credit 1-3Yr
Bank Loans	7	0 - 10	Custom Index*
Absolute Return Fixed Income	7	0 - 10	3-Month LIBOR
Core Bonds	7.5	0 - 10	BBgBarc US Aggregate
Total Return Pool	22.5%	0 - 30%	
Hedge Funds	5	0 - 10	Credit Suisse Long Short Equity
Global Asset Allocation	8	3 - 13	GAA Custom Index**
Global Equity	9.5	5 - 15	FTSE Global All Cap Index

* Custom Index blends performance of "S&P/LSTA Leveraged Loan Index" before 9/1/2014 and "S&P/LSTA Leveraged BB Loan Index" after 9/1/2014.

**GAA Custom Index: 50% (40% BC Aggregate, 30% BC U.S. TIPS 1-10YR, 10% S&P 500, 10% BC High Yield, 10% JPM EMBI+) and 50% (60% MSCI ACWI/40% BC Global Aggregate)

Evaluation Benchmarks:

Total return for the Fund shall be regularly compared to the Allocation Index* and the Policy Index**. While it is anticipated that there will be fluctuations in the Fund's value, the Fund assets should at a minimum produce a nominal long-term rate of return of 4.00%.

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 the previous month end, multiplied by the return of the respective passive benchmark over the current month. 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 Fund Structure.

**University of Maine System
Operating Funds
Statement of Investment Guidelines**
Approved by Investment Committee ~~April 28, May 28, 2019~~ 2022

INTRODUCTION

The Statement of Investment Guidelines (the "Guidelines") of the University of Maine System (the "UMS") sets forth procedures and guidelines to assist in the day-to-day investment of the Operating Fund (the "Fund"). The purpose of these investment guidelines is to establish the objectives, responsibilities, permissible investments, risk tolerance, diversification requirements, and reporting requirements for the investment of the UMS Fund. This pool of funds excludes the assets of the managed investment pool (including endowments), planned giving funds and the defined benefit pension funds. The Board has delegated to the Treasurer responsibility for overseeing the Fund's investment program in accordance with the provisions of these Guidelines.

STATEMENT OF GOALS AND OBJECTIVES

These Guidelines are set forth to provide an appropriate set of goals and objectives for the Fund's assets and to define guidelines from 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 applicable laws and regulations.

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

The Fund's primary investment goals are outlined below:

1. To enable the UMS to meet its financial obligations
2. Provide liquidity
3. Preserve capital
4. Produce an acceptable yield to meet budget goals
5. Provide a total return opportunity set
6. Build a Budget Stabilization Fund that enables UMS to smooth the financial impact of adverse markets, economic conditions, and address other financial challenges.
7. 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.

8. Climate change is a long-term material risk. As a result, the Committee shall review the extent to which the assets of the Fund are invested in fossil fuels as determined by the Carbon Underground 200, a list of global companies across the 100 largest public coal and the 100 largest public oil and gas reserve owners (including oil sands reserve owners). The Committee shall, in accordance with sound investment criteria and consistent with fiduciary obligations, divest any such holdings and may not invest any assets in any such stocks, securities or other obligations. Nothing in this paragraph precludes de minimis exposure in the Fund to the stocks, securities or other obligations of fossil fuels as determined by the Carbon Underground 200 list as noted above.

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INVESTMENT GUIDELINES

Asset Allocation

The Fund will be diversified both by asset class (e.g. cash equivalents, diversified bonds, equities, global asset allocation and hedge funds of funds) and within asset classes (e.g., by 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 Fund.

The Fund's assets will be invested primarily with external investment management firms, either via commingled funds, mutual funds or separately managed portfolios. These managers will be selected on the basis of many factors, including expertise with domestic and global fixed income and equity strategies, experience with the use of derivatives, scope of product offerings, asset allocation and consulting experience, performance, quality and experience of personnel, service, compliance procedures, references and fees.

In order to have a reasonable probability of consistently achieving the Fund'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, UMS Staff will bring the portfolio into compliance with these guidelines as promptly and prudently as possible.

The Fund will be stratified into a minimum of three separate pools. The pools reflect portfolios with different goals and objectives. The amounts invested in each pool will fluctuate based on liquidity needs and the seasonal fluctuations in the UMS cash balances.

1. **Liquidity Pool:** – The purpose of this pool is to meet the day-to-day obligations of the UMS, including payroll and accounts payable. It can consist of funds that are invested in a portfolio of highest quality short-term fixed-income securities (treasury obligations, agency securities, repurchase agreements, money market funds, commercial paper, short-term bond mutual funds) with adequate liquidity. The average quality of the pool will be rated at least "A-1" by Standard and Poor's (or equivalent).
2. **Income Pool:** – The purpose of this pool is to provide sufficient income (e.g., interest income) to meet budgetary goals and provide additional diversification to minimize downside risk. This pool can invest in a diversified portfolio, and may include items such as, but not limited to fixed income securities, FDIC insured or adequately collateralized CDs, or in unconstrained, short or intermediate term bond funds with a normal average duration of -2 to 7 years. The pool may invest in funds rated from BB to AAA quality. The overall average quality rating of this pool will be at least "A-" by Standard and Poor's (or equivalent).
3. **Total Return Pool:** – Expected to add diversification and growth to the Fund. Exists to provide a flow of financial support to the UMS' programs. The pool can invest in diversified assets made up of but not limited to equities, hedge funds, and global asset allocation mandates.

POOL ALLOCATION

	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>	<u>Risk Tolerance</u>
Liquidity Pool	5%	30%	100%	Low
Income Pool Moderate	0%	47.5%	60%	Low-
Total Return Pool Moderate	0%	22.5%	30%	

BUDGET STABILIZATION FUND

When net investment income exceeds budget, management may allocate the excess earnings to the budget stabilization fund. This fund will enable management to address fiscal challenges and priorities of the UMS, including supplementing the budget when the net performance of the operating cash fund does not meet budget.

The investment income budget is net of expenses related to UMS financing and investing activities. Such expenses include, but are not limited to, banking, manager, custodial, and consulting fees and expenses.

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 a Standard and Poor's rating of at least A-1 (or equivalent).

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 fund 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 fixed income portfolio may not differ by more than one year from the duration of the applicable benchmark. For example, a core bond fund will be evaluated against the Barclays Capital Aggregate index.

Quality: The overall quality rating of the fixed income portfolio will be at least one full quality rating within the applicable benchmarks quality rating as rated by Standard and Poor's (or equivalent). For example, if the Barclays Capital Aggregate has a credit rating of AA, a core bond fund should fall in the range of A to AAA.

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 a Standard and Poor's rating of at least A-1 (or equivalent).

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 protect 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.

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 Fund 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 Fund.

Excluded Investments

Certain investments are ineligible for inclusion within this Fund:

- *UBTI* – investments in transactions that would generate unrelated business taxable income (“UBTI”) to the Fund.
- *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.
- *Coal Companies* – separate account managers shall not invest in coal companies.
- *Fossil Fuel Companies* – [separate account managers shall not invest in the Carbon Underground 200 list of the 100 largest public coal and the 100 largest public oil and gas reserve owners \(including oil sands reserve owners\).](#)

OTHER ASSET CLASSES, STRATEGIES, AND INVESTMENT MANAGERS

From time to time the Treasurer may make additional diversifying investments in other asset classes or securities. The Treasurer shall approve any such investment prior to implementation and shall restrict these investments to specific investment managers.

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 otherwise approved:

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.

Distributions

Investment managers should assume that withdrawals may be made from the Fund from time to time by the University of Maine System. Appropriate liquidity should be maintained to fund these withdrawals without impairing the investment process. UMS staff shall alert investment managers to anticipate liquidity needs of the Fund.

Commingled Funds

Assets of the Fund may be invested 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 and management recognize that they may not be permitted to give specific policy directives to a fund whose policies are already established; therefore, the Committee and management are relying on the Investment Consultant to assess and monitor the investment policies of such funds to ascertain whether they are appropriate. [The Committee will monitor the actively managed commingled funds fossil fuel exposure periodically and engage with commingled funds on sustainable investments.](#)

BENCHMARKS

Managers should produce returns that are commensurate with the degree of risk taken. Each manager's return and risk will be measured against the respective measures of an appropriate benchmark. For example, a core bond investment is benchmarked against the Barclays Capital Aggregate Index.

The total Fund's returns will be benchmarked against both the Consumer Price Index, and against the State of Maine Investment Pool returns.

INVESTMENT MANAGER SELECTION, PERFORMANCE STANDARDS AND EVALUATION

[When selecting investment managers, the Investment Committee will follow a due diligence process with the assistance of the Investment Consultant to make prudent selections of investment managers. Appropriate selection criteria shall be used in the process of selecting investment managers. The criteria include, but are not limited to:](#)

1. [Sufficient assets under management, such that the Fund would not represent a significant percentage of total assets.](#)

2. Fees that are reasonable and competitive.

3. Organizational and investment personnel stability.

4. Experienced, stable portfolio management team.

5. Portfolios that are adequately diversified by sector, industry, and security in order to protect against loss associated with a single security or issuer, or single event.

6. Consistent adherence to the manager's stated investment style and guidelines.

7. Favorable long-term performance on a net of fee/risk adjusted basis compared to relevant peer groups, published market indices and/or custom benchmarks.

Consideration will be given to investment managers that incorporate ESG into their investment process and managers that exclude fossil fuel holdings.

Investment managers are expected to achieve the performance objectives that have been agreed to prior to engagement, in accordance with their investment guidelines. Performance comparisons will be made on a net of fees and risk-adjusted basis. Manager performance will be periodically reviewed quarterly to ensure compliance with these standards.

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. Managers should match or exceed the return of their respective benchmarks over a complete market cycle, while assuming benchmark-like risk.

Individual manager performance will normally be evaluated over a full market but the UMS 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. ~~Investment manager agreement/guideline violations. Investing in asset classes other than the asset classes for which the manager was engaged.~~
3. Failure to adhere to any aspect of ~~these Guidelines, 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

Internal Staff: Staff duties include:

Budget: Produce periodic short-term and long-term cash flow forecasts.

Standards: Advise investment managers on income requirements over a long planning horizon and provide updates on unexpected cash flow changes. Work with investment managers on portfolio optimization/asset allocation. Establish and update written investment objectives and guidelines as appropriate.

Manager Funding: Negotiate investment manager and custodial agreements. Deploy existing assets and new monies to investment managers.

Rebalancing: Rebalance as deemed prudent.

Appointments: Evaluate, establish and terminate banking relationships, money market managers, and other relationships in the Liquidity Pool. Work with consultant to evaluate investment managers in the Income and Total Return Pools and bring recommendations to the Investment Committee.

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. When time permits, this action will be taken following consultation with the Investment Committee and approval of recommended action.

Investment Committee: The Trustees provide for the prudent investment of assets held in the UMS Operating Fund Portfolio. The Investment Committee routinely updates the Board of Trustees on investment policies and performance. The University of Maine System staff will assist the Committee in carrying out their duties.

The Investment Committee is responsible for:

Standards: Approve written investment objectives and guidelines.

Evaluation: Monitor performance of the Fund.

Appointments: Approve investment managers for the Income and Total Return Pools.

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

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

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

Investment Responsibility: To make investment decisions with respect to the assets under its management in accordance with investment manager agreements and guidelines or prospectuses. 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 UMS, and with all federal and state regulations pertaining to the investment of such assets.

Notification of Changes: To inform UMS 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.

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, its participants 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.

Reporting: To provide to 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 Global Investment Performance Standard (GIPS) performance presentation standards.

Availability for Meetings: To meet at least annually or at other such times as UMS 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.

ESG Consideration: [Investment managers that incorporate ESG into their investment process should provide annual updates to the Committee regarding their process and impact. Investment managers that have a responsible investment policy and Principles for Responsible Investment \(PRI\) transparency report should provide the documents to the Committee. Additional ESG specific reports may also be required and requested by the Committee.](#)

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

Reporting: To provide 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 fund. The consultant will utilize meaningful market indices for comparisons. Also, provide specialty reporting, and analysis of the overall program for portfolio risk.

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

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

ESG Consideration: [The consultant must be a signatory to the Principles for Responsible Investment, and take ESG factors into consideration when advising on asset allocation and manager selection.](#)

CONFLICT OF INTEREST

It is the policy of the Trustees to avoid conflicts of interest in its operations and in the selection of investment managers or funds. Therefore, UMS administrative officers shall not have a significant financial relationship in any manager or fund being considered. No independent investment consultant that may be retained by UMS, or any entity in which such consultant may have an interest, shall have a significant financial or other interest in, any investment manager providing services to UMS or any fund in which UMS has an investment.

IMPLEMENTATION

All new monies received by investment manager(s) after the adoption of this statement of Guidelines and Objectives shall conform to the Statement. To the extent that Fund 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

UMS reserves the right to amend this statement and/or 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.

University of Maine System
Executive Summary - Investment Guidelines and Objectives
Non-Contributory Retirement Fund
 Approved by Investment Committee ~~April 28, May 28, 2019~~ 2022

Type of Plan: Defined Benefit Pension Plan

Minimum Long Term Return Assumption: 6.25%

Risk Tolerance: Low to Moderate

Asset Allocation:

<u>ASSET CLASS</u>	<u>TARGET %</u>	<u>PERMISSIBLE RANGE %</u>	<u>TARGET BENCHMARK</u>
Equity	33%	25 - 45%	
Global Equity	30	25 - 35	MSCI World
Emerging Small Cap	3	0 - 7	MSCI EM SC
Fixed Income	43%	35 - 55%	
Domestic Core	26	20 - 30	BBgBarc US Aggregate
Bank Loans	5	0 - 10	Credit Suisse Leveraged Loan
TIPS	3.5	0 - 7	BBgBarc US TIPS
Short Term TIPS	3.5	0 - 7	BBgBarc US 1-5 Year TIPS
Absolute Return Fixed Income	5	0 - 10	3 Month Libor
Other	24%	15 - 35%	
Global Asset Allocation	8	5 - 13	65% MSCI ACWI (Net) / 35% BBgBarc Global Agg
Real Estate	8	0 - 10	NCREIF ODCE
Hedge Funds	5	0 - 10	Credit Suisse Long Short Equity
Cash	3%	0 - 10%	

Evaluation Benchmarks:

Total return for the Fund shall be regularly compared to the Allocation Index* and the Policy Index**. While it is anticipated that there will be fluctuations in the Fund's value, the Fund assets should at a minimum produce a nominal long-term rate of return of 6.25%.

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 the previous month end, multiplied by the return of the respective passive benchmark over the current month. 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 Fund Structure

University of Maine System
Investment Guidelines and Objectives
Non-Contributory Retirement Fund
 Approved by Investment Committee ~~April 28, May 28, 2019~~ 2022

INTRODUCTION

This statement of Investment Guidelines and Objectives was developed to assist the University of Maine System in carrying out its fiduciary responsibilities for the conservation and use of the assets of the Non-Contributory Retirement Fund.

The University of Maine System Non-Contributory Retirement Fund, (the "Fund") is a defined benefit pension fund that is intended to provide retirement benefits to participants in accordance with the benefit structure established by the University of Maine System Board of Trustees. The Fund is governed by the terms of its governing plan document and other applicable laws. The investments of the Fund will be made for the exclusive benefit of Plan participants and beneficiaries.

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, and consultants in the course of investing the assets of the Fund. 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.

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 Fund.

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 Fund'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 Fund, an investment manager accepts the provisions of this Statement applicable to such investment manager and assets being managed by such investment manager.

The Fund's primary investment goals are outlined below:

1. Maximum total return with a prudent level of risk, consistent with prudent investment management, is the primary goal of the Fund. Return, as used herein, includes income

plus realized and unrealized gains and losses on Fund assets. In addition, assets of the Fund shall be invested to ensure that principal is preserved and enhanced over time, both in real and nominal terms.

2. Total return for the Fund shall be regularly compared to the Allocation Index and the Policy Index. While it is anticipated that there will be fluctuations in the Fund's value, the Fund assets should at a minimum produce a nominal long-term rate of return of 6.25%, net of all expenses, in line with the Fund's actuarial return assumption.
3. Total portfolio risk exposure and risk-adjusted returns will be regularly evaluated and compared with other Pension Plans, the Allocation Index, and the Policy Index. Risk-adjusted returns for the Fund and for individual managers are expected to consistently rank in the top third of comparable funds or managers, respectively.
4. Performance of this Fund 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 Fund.
5. 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 with investment managers that meet the short- and long-term financial goals of the Fund for the exclusive benefit of Plan participants and their beneficiaries.
- 4-6. Climate change is a long-term material risk. As a result, the Committee shall review the extent to which the assets of the Fund are invested in fossil fuels as determined by the Carbon Underground 200, a list of 200 global companies across the 100 largest public coal and the 100 largest public oil and gas reserve owners (including oil sands reserve owners). When consistent with the requirement to invest for the exclusive benefit of Plan participants and their beneficiaries, the Committee shall, in accordance with the short- and long-term financial goals of the Fund, divest any such holdings and may not invest any assets in any such stocks, securities or other obligations. Nothing in this paragraph precludes de minimis exposure in the Fund to the stocks, securities or other obligations of fossil fuels as determined by the Carbon Underground 200 list as noted above.

INVESTMENT GUIDELINES

Asset Allocation

The fund 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 fund.

In order to have a reasonable probability of consistently achieving the Fund'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.

Asset Allocation:

<u>ASSET CLASS</u>	<u>TARGET %</u>	<u>PERMISSIBLE RANGE %</u>	<u>TARGET BENCHMARK</u>
Equity	33%	25 - 45%	
Global Equity	30	25 - 35	MSCI World
Emerging Small Cap	3	0 - 7	MSCI EM SC
Fixed Income	43%	35 - 55%	
Domestic Core	26	20 - 30	BBgBarc US Aggregate
Bank Loans	5	0 - 10	Credit Suisse Leveraged Loan
TIPS	3.5	0 - 7	BBgBarc US TIPS
Short Term TIPS	3.5	0 - 7	BBgBarc US 1-5 Year TIPS
Absolute Return Fixed Income	5	0 - 10	3 Month Libor
Other	24%	15 - 35%	
Global Asset Allocation	8	5 - 13	65% MSCI ACWI (Net) / 35% BBgBarc Global Agg
Real Estate	8	0 - 10	NCREIF ODCE
Hedge Funds	5	0 - 10	Credit Suisse Long Short Equity
Cash	3%	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 5% at cost and 10% of the equity portfolio's market value may be invested in one company. The equity portfolio should be invested in at least 30 different companies in different industries. No more than 30% of the equity portfolio's market value may be invested in one industry sector.

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 a Standard and Poor's rating of at least A-1 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 fund 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 fixed income portfolio may not differ by more than one year from the duration of the applicable benchmark. For example, a core bond fund will be evaluated against the Barclays Capital Aggregate index.

Quality: The overall quality rating of fixed income portfolio will be at least one full quality rating within the applicable benchmarks quality rating as rated by Standard and Poor's (or equivalent). For example, if the Barclays Capital Aggregate has a credit rating of AA, a core bond fund should fall in the range of A to AAA.

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 a Standard and Poor's rating of at least A-1 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, Commodities, 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 Fund 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 Fund.

Excluded Investments

Certain investments are ineligible for inclusion within this Fund:

- *UBTI* – investments in transactions that would generate unrelated business taxable income (“UBTI”) to the Fund.
- *Prohibited transactions* – investments or transactions that would be non-exempt prohibited transactions under Section 406 of [the Employee Retirement Income Security Act \(ERISA\)](#) 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.
- *Coal Companies* – separate account managers shall not invest in coal companies.
- *Fossil Fuel Companies* – [separate account managers shall not invest in the Carbon Underground 200 list of the 100 largest public coal and the 100 largest public oil and gas reserve owners \(including oil sands reserve owners\).](#)

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.

Benefit Payments

Investment managers should assume that withdrawals may be made from the Fund from time to time to pay Plan benefits. 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 Fund.

Commingled Funds

The Committee may elect to invest assets of the Fund 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. The Committee will monitor the actively managed commingled funds fossil fuel exposure periodically and engage with commingled funds on sustainable investments.

INVESTMENT MANAGER SELECTION, PERFORMANCE STANDARDS AND EVALUATION

When selecting investment managers, the Investment Committee will follow a due diligence process with the assistance of the Investment Consultant to make prudent selections of investment managers. Appropriate selection criteria shall be used in the process of selecting investment managers. The criteria include, but are not limited to:

1. Sufficient assets under management, such that the Fund would not represent a significant percentage of total assets.
2. Fees that are reasonable and competitive.
3. Organizational and investment personnel stability.
4. Experienced, stable portfolio management team.
5. Portfolios that are adequately diversified by sector, industry, and security in order to protect against loss associated with a single security or issuer, or single event.
6. Consistent adherence to the manager's stated investment style and guidelines.
7. Favorable long-term performance on a net of fee/risk adjusted basis compared to relevant peer groups, published market indices and/or custom benchmarks.

Consideration will be given to investment managers that incorporate ESG into their investment process and managers that exclude fossil fuel holdings.

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

The University of Maine System follows ERISA as a best practice. ERISA protects plan assets by requiring that those persons or entities who exercise discretionary control or authority over plan management or plan assets, anyone with discretionary authority or responsibility for the administration of a plan, or anyone who provides investment advice to a plan for compensation or has any authority or responsibility to do so are subject to fiduciary responsibilities.

The primary responsibility of fiduciaries is to run the plan solely in the interest of participants and beneficiaries and for the exclusive purpose of providing benefits and paying plan expenses. Fiduciaries must act prudently and must diversify the plan's investments in order to minimize the risk of large losses. In addition, they must follow the terms of plan documents to the extent that the plan terms are consistent with ERISA. They also must avoid conflicts of interest. In other words, they may not engage in transactions on behalf of the plan that benefit parties related to the plan, such as other fiduciaries, services providers or the plan sponsor.

Investment Committee

The Committee acknowledges its fiduciary responsibility for the conservation and prudent management of the Fund. 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 Fund, 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, its participants 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 Global Investment Performance Standard (GIPS) 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.

ESG Consideration: Investment managers that incorporate ESG into their investment process should provide annual updates to the Committee regarding their process and impact. Investment managers that have a responsible investment policy and Principles for Responsible Investment (PRI) transparency report should provide the documents to the Committee. Additional ESG specific reports may also be required and requested by the Committee.

Custodian

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

Custody Securities: Receive, hold, and manage the fund assets.

Distributions: Make payments to the plan's beneficiaries 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 Fund 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: To meet at least quarterly for a formal performance review or at other such times as the Committee may reasonably request.

ESG Consideration: [The consultant must be a signatory to the Principles for Responsible Investment, and take ESG factors into consideration when advising on asset allocation and manager selection.](#)

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 Guidelines and Objectives shall conform to the Statement. To the extent that Fund 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.