The University of Maine Foundation
Investment Policy Statement*

Section I: Purpose and Scope

This Investment Policy Statement governs the investment management of the assets of The University of Maine Foundation ("UMF" or "Foundation"). These assets are referred to as the "General Endowment Fund" ("Fund" or "Endowment"). The purpose of this policy is to direct and coordinate the actions of The Foundation's Investment Committee, The Foundation's professional staff ("Staff"), and its Investment Advisor(s) so that The Foundation's investment objective for the Fund is achieved. This document recognizes The Foundation's responsibilities as fiduciaries under UPMIFA (the Uniform Prudent Management of Institutional Funds Act, adopted in Maine effective 7/1/09). The Foundation will be managed in accordance with UPMIFA guidelines and standards of conduct.

Section II: Roles and Responsibilities

Investment Committee

Acting on behalf of The University of Maine Foundation and answerable and accountable to the Board of Directors of the same, the Investment Committee, a standing Committee of the Board is charged with the oversight and management review of all of The Foundation's investments, most especially its General Endowment Fund.

1) The Committee will formulate and annually review an Investment Policy Statement which shall detail the investment objectives for The Foundation's General Endowment Fund major investment portfolio(s). This Investment Policy Statement shall be ratified by the Board of Directors following the initial formulation and any future revisions.

2) The Committee may, in its discretion, engage one or more professional investment management firms and/or investment advisors of good reputation to invest portions of the portfolio under its general supervision.

3) The Committee may, in its discretion, engage the services of one or more custodial firms for safekeeping and such record-keeping services, as desired.

4) The Committee duties include oversight of implementation, selection and monitoring of the investment advisor(s) and managers, and quarterly meetings. Further, the Committee shall monitor the spending policy with responsibility to recommend changes to the Board.

5) The Committee is authorized to delegate certain responsibilities to the President/Chief Executive Officer, Chief Financial Officer and/or Finance Office Staff at UMF.

UMF Finance Office Staff

1) The Staff shall manage the day to day interaction of The Foundation's relationships with external service providers including, but not limited to, the Investment Advisor(s), Investment Managers, and custodian.

2) The Staff shall work with the Investment Advisor(s) and Investment Manager(s) as needed for the day-to-day management of the portfolio.

3) The Staff shall be responsible for the execution of all portfolio transactions approved/authorized by the Investment Committee including, but not limited to, purchases, sales and wire transfers.

Investment Advisor

1) The Investment Advisor (Cambridge Associates or CA) shall review the General Endowment Fund (asset allocation, manager structure, manager selection, and various risks - i.e. shortfall risk) on an ongoing basis. The Investment Advisor's review will be the basis of recommendations made to the Investment Committee, when deemed appropriate by CA, on investment objectives and policies, investment management structures, investment manager hiring and termination, investment opportunities, and custody and cash management arrangements for the Endowment. The Investment Advisor will annually review this policy statement to ensure its appropriateness in the context of macroeconomic and market environments and The Foundation's and the Fund's financial situation. The Investment Advisor will inform the Investment Committee of all reviews and recommend changes, including changes to asset allocation policy and benchmarks.

2) The Investment Advisor shall monitor and inform the Investment Committee of the prevailing capital market environment, including asset class valuations and performance, trends in investment management strategies and techniques, and other circumstances which may impact the performance of the Fund. The Investment Advisor shall also monitor and report to the Investment Committee and Staff the performance of each manager, each asset class, and the total portfolio on a quarterly basis.

3) The Investment Advisor shall provide performance reporting on the Fund, assist in the preparation of all manager documentation for execution and compile audit support materials.

Section III: Objectives

The overall **financial objectives** are specific to UMF's unique circumstances and are the first step in understanding the role of the Endowment and ultimate purpose of the Fund. Ranked in order of importance, they are:

1) Maximize sustainable spending support to the University in perpetuity by seeking to achieve intergenerational equity for current and future University students and programs.
2) Minimize the variability of spending support to the University.
3) Maintain the real value of the Fund in perpetuity by ensuring that the expected return is sufficient to compensate for spending and inflation.

The primary **investment objectives** below will be achieved through a diversified and disciplined approach to asset allocation, manager selection and monitoring. They are:

1) Attain a nominal return of 7.25%[1], on average, over the long term (rolling five- and ten-year periods). It is recognized that the return objective may be difficult to attain in every five-year period, but should be attainable, given an appropriate and consistent investment strategy is employed, over the long term.
2) Outperform the Fund's custom benchmark as defined below.[2]

Section IV: Risk Tolerance

Risk Tolerance– Many types of risk exist which may impact The Foundation's investments, including but not limited to: volatility, inflation, liquidity, and underperforming benchmarks. The Foundation seeks to minimize the risk taken in order to achieve its long-term return objectives and the Foundation will review returns in the context of the riskiness of the assets and of the total fund.

The most relevant and comprehensive definition of risk is failing to achieve the Foundation's policy objectives over the long term. Anything that increases the likelihood of failing to achieve these objectives can be accurately defined as risky. Therefore, all actions, strategies, and asset classes should be considered or reviewed in the context of whether they will likely enhance or erode the chances of achieving policy objectives. Those that increase the probability of attaining goals should not be considered risky.

[1] The calculation of total return includes all realized and unrealized capital changes plus all interest, rent, dividends and other income earned by the portfolio during a year.
[2] A weighted average return based on the target asset allocation and index returns. Please see page 6 for details.

Section V: Spending Policy

The Fund is managed according to the "total return" concept, which envisions the sources of spending as being from interest, dividends, and capital gains.

The target endowment spending policy of the University of Maine Foundation is **4.5% of a 12 quarter (3 year) average of the market value of the General Endowment Investment Pool as of September**.

The target spending rate of 4.5% represents total spending which is comprised of 3.25% for endowment distribution and 1.25% endowment administrative fee.

Section VI: Investment Philosophy and Asset Allocation

Core Investment Philosophy

The Investment Committee believes that asset allocation is the main driver of investment returns and that the Fund should hold a diversified portfolio of assets at all times in order to achieve long term investment success. The Investment Committee also believes that over long periods of time, growth assets (equities or other equity-like assets) outperform other assets such as fixed income or cash. It is, therefore, a core principle that the Fund should maximize the allocation to growth assets to the greatest degree possible within an acceptable level of risk, and therefore tolerate short term volatility. This shorter term volatility associated with a high allocation to growth assets should be mitigated by a strategic allocation to diversifying strategies. Lastly, the Investment Committee recognizes the need to be partially protected from infrequent and/or unexpected periods of extreme market events, usually caused by economic distress, such as inflation or deflation.

Asset Allocation

In keeping with the investment philosophy described above, and in order to achieve its long-term objective, the Fund shall be invested primarily in various forms of equity, categorized as Growth Assets. The Fund will also invest in asset classes to hedge against deflation or economic contraction and provide liquidity, categorized as Deflation Protection, as well as in asset classes to protect against unanticipated inflation, categorized as Inflation Sensitive Assets. The final categorization is Diversifying Strategies, and is comprised of strategies that have low correlation to and absolute risk than Growth Assets, and are not well characterized as protectors from Inflation or Deflation. A summary of each of the four categories follows.

1. Growth Assets: The purpose of this allocation (including domestic stocks, foreign stocks, private investments, market sensitive hedge funds, and other equity-like assets) is to provide capital appreciation and a stream of current income that more than offsets inflation over the long-term. It is recognized that pursuit of this objective could entail the assumption of significant short-term variability in market value and returns.

2. Deflation Protection: The purpose of this allocation are: (a) to provide some asset appreciation in periods of declining interest rates (especially in prolonged periods of significant equity price decline) and (b) to provide ready liquidity to support spending needs to the University and funding for Foundation operations.

3. Inflation Sensitive Assets: The purpose of this allocation (i.e. investments in real estate, oil and gas, natural resources, and commodities) is to provide potential portfolio protection against the risk of unanticipated severe inflation.

4. Diversifying Strategies: The purpose of this allocation is to provide equity like returns with low equity correlation and lower levels of risk than Growth Asset strategies. Examples of these strategies include, but are not limited to, event-driven and relative value hedge funds.

An Opportunistic allocation is intended for diversifying, high-returning and, often, shorter-term investment opportunities that are not captured elsewhere in the policy portfolio. The 0% target allocation reflects the unique nature of such investments.

The goal is that investment returns for any investment strategy exceed the rate of return of the specified index. The target asset mix, acceptable ranges, and relevant indexes are noted in the Asset Allocation matrix below. It is expected that individual allocations may frequently be above or below target but that any desire to exceed or be below the broader allowable ranges in the four Portfolio Role categories be discussed by the Investment Committee and approved by the Board.

Portfolio Role	Long-Term Policy Target	Policy Range
Growth Engine [1]	**62%**	**52% - 72%**
U.S. Equity	24%	19% - 29%
Developed ex-U.S. Equity	19%	14% - 24%
Emerging Markets Equity	9%	4% - 14%
Private Investments	10%	0% - 15%
Diversifiers	**20%**	**10% - 30%**
Absolute Return	11%	5% - 15%
Equity Hedge Funds	9%	5% - 15%
Inflation Sensitive	**6%**	**0% - 10%**
Commodities	2%	0% - 4%
Natural Resource Equity	2%	0% - 4%
TIPS	2%	0% - 4%
Deflation Hedge	**12%**	**7% - 17%**
Opportunistic	**0%**	**0% - 10%**
Cash	**0%**	**0% - 10%**
Total Assets	**100%**	

[1] Note: As the actual allocation to private investments cannot be controlled in the near-term, any over- or under-weight to the Private Investment category will be offset by a corresponding and opposite under- or over-weight to the public equity categories and related Policy Ranges (U.S. Equity, Developed ex-U.S. Equity, and Emerging Markets Equity). This under- or over-weight will be shared pro rata across the Public Equity components and related Policy Ranges.

Tactical Asset Allocation

Tactical tilts may be expressed and implemented from time to time, by the Investment Committee in conjunction with the recommendations of the Investment Advisor.

From time to time, the Investment Committee may choose to make an investment that seeks to further the broad mission of the University of Maine Foundation. Such investments will be made in the context of the Mission Related Investments guidelines as outlined in the Appendix of this document.

Section VII: Rebalancing

Rebalancing the actual allocation of the Fund is useful for maintaining the risk profile adopted by the Investment Committee, and for implementing tactical asset allocation views. The Investment Committee and Investment Advisor will review the Fund for rebalancing opportunities periodically. The Fund's actual asset allocation will be monitored regularly relative to established policy target and ranges. As normal net cash flows in and out of the General Endowment Fund occur rebalancing to target will be considered.

Section VIII: Benchmarking

Two benchmarks shall be used for analyzing total portfolio performance:

1) Long-Term Investment Objective: This static benchmark reflects The Foundation's long-term performance objective of total portfolio returns exceeding the sum of its spending policy and inflation, as defined in the body of this Investment Policy Statement. Given that this benchmark is not directly related to market performance, success or failure in achieving this goal should be evaluated over five to ten year periods.

2) Policy Benchmark: The policy benchmark will be blended indices weighted according to the policy target allocation percentages of the respective asset classes. The benchmarks shall consist of the indexes in the chart below. As the actual allocation to private investments cannot be controlled in the near-term, this portion of the Policy Benchmark will be represented by the actual portfolio allocation to private investments with any over- or under-weight to the 10% target offset by a corresponding and opposite under- or over-weight to the public equity category benchmarks (Russell 3000 Index, MSCI EAFE Index, and MSCI Emerging Markets Index, Net) on a pro rata basis, based on the Long-Term Policy Targets.

Portfolio Role	Benchmark
Growth Engine	**Weighted Blend of Sub-Asset Class Allocations**
U.S. Equity	Russell 3000 Index
Developed ex-U.S. Equity	MSCI EAFE Index
Emerging Markets Equity	MSCI Emerging Markets Index (Net)
Private Investments	MSCI ACWI (Net), lagged for reporting
Diversifiers	**HFRI Hedge Fund of Funds Composite Index**
Absolute Return	
Equity Hedge Funds	
Inflation Sensitive	**Weighted Blend of Sub-Asset Class Allocations**
Commodities	DJ UBS Commodity Index
Natural Resource Equity	MSCI World Natural Resources Index
TIPS	Barclays U.S. TIPS Index
Deflation Hedge	**75% Barclays U.S. Treasury Bond Index / 25% Citigroup WGB**
Opportunistic	**Russell 3000 Index***
Cash	**91-Day Treasury Bill Index**
Total Assets	**Long Term Investment Objective and Policy Benchmark**

*In practice, use of the Opportunistic allocation will be expected to provide returns similar to those expected from Growth Assets. The allocation will therefore be broadly benchmarked against the Russell 3000 Index while the individual investment manager benchmarks will be selected based on the investment strategy employed and the funding source.

Asset Class Benchmarking: Individual asset class performance shall be measured against the asset class benchmarks identified above.

Manager Benchmarking: Individual manager benchmarks will be identified at the time of hire (using the manager's primary benchmark).

Section IX: Conflict of Interest Policy

As Fiduciaries, members of the Investment Committee are charged with the responsibility for making recommendations and decisions which in their judgment best serve the long-range interests and objectives of the organization.

From time to time, the Committee may consider matters in which members of the Committee, or persons affiliated with them, have a direct or indirect financial interest. In order to resolve any question of conflict of interest, whether real or apparent, the Committee should consider adopting the following procedures:

- Members of the Committee shall disclose to the Committee any relevant facts which might give rise to a conflict of interest with respect to any matter to be considered by the Committee.
- Members so affected shall abstain from the Committee discussion of any such matters, unless the Committee specifically requests information from such members. Such abstention shall be recorded in the minutes of the meeting.
- The affected members, if requested to do so by any member of the Committee, shall withdraw from the meeting during the Committees consideration of the relevant matter. Under normal circumstances members of The Investment Committee may not be employed as an investment professional by firms managing investments of the organization.

When the Committee selects and funds a new manager, Committee members may not personally hire said manager without first obtaining permission from the Investment Committee Chair and notification of the Board.

*Adopted August 21, 2013 and subsequently amended August 18, 2016 and August 22, 2017.

APPENDIX

<u>Mission-Relating Investing</u> – It is the intention of the University of Maine Foundation to reduce any dissonance between our asset management – the way we make our money – and our institutional mission. We embrace notions of prudence and fiduciary responsibility that include a concern for commercial institutions that, through gifting, volunteering, instructing and/or other forms of support, help foster our mission. Investments made under the mission-related program should be identified as such and implemented without sacrificing expected return or level of diversification. The total of said investments should not exceed 5% of the general endowment fund and no single asset management firm shall represent more than 2% of total general endowment assets at any time.

Suggestions for MRI investments shall typically come from the President and CEO, but can be sourced from other UMF constituents (subject to the constraints of any Conflict of Interest policies). Final approval of MRI asset manager decisions will be made by the Investment Committee within the confines of the following criteria:

1. The team responsible for UMF's portfolio live and work in the state of Maine
2. Prior to UMF's investment, firm assets under management (AUM) are at least $75 million <u>*or*</u> UMF's commitment represents no more than 4% of firm AUM
3. The MRI manager provides a written investment policy document outlining the strategy and asset classes to be employed as well as the appropriate benchmark for review and approval by the Investment Committee

MRI asset managers will be held to the same performance standards as non-MRI managers in the portfolio: to perform (net of fees) in line with or better than their designated style and benchmark over the long-term (i.e. 3 years, 5 years and 10 years).

Further, from time to time, the President and CEO may recommend other investment opportunities which explicitly support the University of Maine Foundation mission and/or its beneficiaries. Such opportunities will be infrequent and shall be explicitly incorporated into the 5% upper limit and shall not exceed more than 2% of the total general endowment assets at any time.

Note: The student run investment portfolio is not considered part of this MRI allocation as its purpose is purely educational. Therefore, the SPIFFY account is reported separately from both this allocation and the Total Managed Assets.