

# **The University of Maine Foundation**

## **Investment Policy Statement**

### **August 25, 2022**

#### **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 () 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 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.
- 4) The Investment Advisor shall monitor and assess the ESG (environmental, social, and governance) policies and efforts of existing and prospective managers within the portfolio. Managers will be engaged and given a numerical score based on the extent to which they have ESG policies in place, and whether or not those policies are being followed. The Fund will be scored in aggregate, and progress tracked over time.

### 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%<sup>1</sup>, 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.<sup>2</sup>

The portfolio's financial and investment objectives outlined above are long-term in nature and seek to maximize the Fund's positive impact by achieving targeted investment returns. Additionally, the portfolio's investments will seek best efforts to align these objectives with mission-related considerations where the dual objectives can be met. In this regard, portfolio investments are to be assessed from an environmental, social, and governance (ESG) perspective, given that: 1) such practices can have a material impact on the investments, and 2) the Foundation's preference is to invest in and alongside good corporate citizens.

### 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

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<sup>1</sup> 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.

<sup>2</sup> A weighted average return based on the target asset allocation and index returns. Please see page 6 for details.

or reviewed in the context of whether they will likely enhance or erode the chances of achieving policy objective

## 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 an effort to achieve its investment objective, the Fund will allocate across asset classes consistent with its investment objective. Other asset classes may be added to the Fund in an effort to enhance returns, reduce volatility through diversification, and/or offer a broader investment opportunity set. The goal of each asset class is detailed below:

- Global public equity is intended to provide long-term growth and offer high expected real returns and liquidity. Non-U.S. equities are included in an effort to enhance return and control risk by reducing the Fund’s reliance on domestic financial markets.
- Private equity may provide higher return potential than public equities by focusing on opportunities in less efficient and more illiquid markets.
- Flexible capital strategies are employed due to their potential to offer market-comparable returns with lower expected volatility through the use of hedging, cash management, shorting of securities, or other portfolio management techniques.
- Real Assets (public & private) may provide diversification, return enhancement, and inflation hedging benefits.
- Fixed income may help provide liquidity, stability and protection in deflationary environments.

- Cash provides short-term liquidity and serves as a funding source for distributions and rebalancing.

Please see **Appendix A** for specific asset allocation targets and ranges

## Section VII: Rebalancing

Rebalancing the actual allocation of the Fund is useful for maintaining the risk profile adopted by the Investment Committee. 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: Benchmarks are useful to gauge the performance of the Fund, but they are best viewed over longer periods, generally three to five years. The Fund will be compared to its Policy Index, which represents the optimal “Policy Portfolio” selected by the Investment Committee. The Policy Index is defined as the sum total of all the policy target weights for each of the asset classes multiplied by the returns of their respective benchmarks. Significant performance deviations from the Policy Index will be explained and appropriate actions taken if necessary. Benchmarks for each of the broad asset classes are established and reviewed by the Investment Committee with the assistance of the Investment Consultant. In addition to the Fund and asset class benchmarking, all managers within each asset class will be compared to their own relevant style index benchmarks.

Additionally, the Investment Advisor will engage the managers across the Fund on an annual basis for any updates to their ESG policies, where applicable.

ASSET CLASS	BENCHMARK
Global Public Equity	MSCI AC World Index
Private Equity	All PE Benchmark
Flexible Capital	HFRI Fund of Funds Composite Index
Real Assets	Real Assets Composite Index
Fixed Income	Fixed Income Composite Index
Cash	FTSE 3 Month T-Bill

## 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 has adopted 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 Committee's 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.

## Section X: ESG Considerations

Consideration of environmental, social and governance practices of the companies and funds that the Foundation invests in is consistent with its fiduciary duties given that such practices can have a material impact on the investments. Business practices that include safe and supportive work environments, products that build economic strength, and activities that benefit the disadvantaged, including charitable giving, may enhance the financial security and long term sustainability of companies and funds in which the Foundation invests. Poor business practices related to human rights, the workplace and the environment pose reputational, financial, operational and legal risks to the Foundation's investments and therefore the future financial security of the University.

### Fossil Fuels

The Foundation will not make direct investments in any fossil fuel companies; however, it is understood there may be some indirect fossil fuel exposure through commingled funds.

In addition, the Investment Committee and Investment Consultant will proactively seek out investment opportunities in 1) managers with demonstrated record in fostering sustainability and 2) strategies that facilitate the energy transition to cleaner sources of energy.

## APPENDIX A

### Asset Allocation Policy Targets and Ranges

Asset Class		Lower bound (%)	Target (%)	Upper bound (%)
Global Public Equity		35	55	75
Flexible Capital		5	10	15
Private Equity		10	20	30
Real Assets		0	6	10
Fixed Income/Cash		4	9	14
Total				

## APPENDIX

Mission-Relating Investing – 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 *or* 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.