

The University of Maine Foundation Investment Objectives
And Guidelines for Investment Managers

INTRODUCTION

The Investment Committee, appointed by the Board of Directors of the University of Maine Foundation, sets forth, herewith, its Statement of Investment Policy, Objectives and Guidelines for the assets of the Foundation entrusted to it for supervision, guidance and investment management.

This statement is set forth in order that:

1. There is a clear understanding on the part of the Investment Committee and the Board of Directors of the policies and objectives employed in the management of the various categories of the Foundation's assets.
2. The investment managers are given guidance as to the parameters established for each of the Foundation's funds.
3. The Investment Committee and the Board of Directors have a basis for understanding the investment process related to each fund and the evaluation of investment performance.

It is the intent of this statement to establish an attitude and/or philosophy to guide each investment manager toward the performance desired. It is intended that objectives be sufficiently specific to be meaningful, yet sufficiently flexible to be practical.

OBJECTIVES

General Endowment Fund: Over the investment horizon established in this statement it is the goal of the aggregate Fund assets to exceed:

- An absolute rate of return of 10%;
- Meet or exceed the blended market index selected and agreed upon by the Investment Committee; and
- A total rate of return equivalent to the upper quintiles of the returns reported by all sized institutions in the NACUBO report over various time frames.

The Board has outlined under separate cover a valuation undertaken to determine distributions to the University. These distributions will be paid in equal installments September 30 and January 31. The Endowment has a "pay over" quota of 5 ½% of a 6 year average account value of the General Endowment Fund. The Board will notify all managers of any alteration in this policy on a timely basis.

In addition to quarterly and annual reviews, a major evaluation of the investment manager will be made after a 3 – 5 year period or a completed market cycle. The Board of Directors expects these objectives to be fulfilled within the levels of risk that a prudent man would take under various economic conditions.

Specific Investment Guidelines

In order to give the investment manager a clearer picture of the feeling of The Board of Directors we had determined our attitudes as to the market as follows:

1. Liquidity – Since requirements for cash withdrawals change, no attempt is made herein to outline these conditions. However, the funds should be managed in such a manner as to provide at least 5% available liquidity for unforeseen contingencies as shall be periodically defined. Obviously, consideration should be given to the Foundation’s “pay over” requirement, although distribution of capital appreciation as well as income may be made.
2. Risk Management – Understanding that risk is present in all types of securities and investment styles, the Investment Committee recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Fund’s objectives. However, the 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.
3. Investment Philosophy - It is the investment philosophy of the Board of Directors that the type of investment assets held by the funds should vary from time to time in response to changes in the economy and prospects for maximizing the return on these assets. As a result, the investment manager may elect to invest heavily in cyclical securities, defensive securities or fixed income assets. The manager is free to invest in assets of varying risk as long as risks are compatible with the section of the statement dealing with that subject.
4. Delegation of Authority – the investment manager will be held responsible for all investment decisions regarding the assets in these funds and will be accountable for the objectives indicated herein while observing specific limitations set forth in this memorandum and conforming to the guidelines and philosophies stated herein. It is the opinion of the Board of Directors that these limitations and guidelines will not prevent the investment manager from achieving the objectives set forth.

5. Types of Assets – In order to provide the investment manager with freedom to invest in various types of assets, the following list of types of assets which are expressly approved for investment is provided:

- Common Stocks
- Preferred Stocks
- Covered Call Writing
- Mutual Funds
- U.S. Government Securities
- Convertible Securities
- Bonds Rated B- or Better
- Real Estate Investment Trusts
- “Hedge” Fund of Funds (on a case-by-case approval by investment committee)

All assets selected for the portfolio must have a readily ascertainable market value and must be readily marketable.

6. Investor Responsibility – The Board of Directors recognizes the Foundation’s role as a responsible investor. Within the primary purpose of managing endowment funds to maximize return with an appropriate level of risk, the Investment Committee will regularly review investments that might cause concern to the donors or potential donors. In exercising its responsibility, the Committee may vote or instruct the manager to vote properly drafted proxies that relate to social responsibility issues, communicate directly with management on such issues, and/or recommend other actions to the Board of Directors.
7. Diversification of Equity Securities – The Board of Directors does not believe it is necessary or desirable that equity securities held in the funds represent a cross section of the economy. The investment manager will be allowed to choose the degree of concentration (or lack thereof) in any industry up to a maximum limit of 20% in any one industry (at cost) and not more than 10% in any one company.
8. Diversification by Investment Manager – It is the belief of the Board of Directors that no individually managed portfolio should exceed 12.5% of the total fund. If an individual portfolio balance exceeds 12.5% of the general fund balance for two consecutive calendar quarters, the portfolio in question should be reduced to no more than 12% of the total fund balance.
9. Asset Distribution – It is the belief that a maximum limitation should be set on the amounts of certain types of assets within the portfolio. Thus, the investment manager must invest according to the limitations set forth in this statement. It is the investment manager’s responsibility to invest in those assets which he feels will best enable the portfolio to achieve the performance goals.

10. Investment Markets – Equities – The maximum limitation for investment in equity securities is 85% while the minimum limitation is zero. This limitation applies to the Endowment as a whole, and therefore individual managers hired to solely provide equity or balanced management services may fall under a different set of constraints. At the time of hire, each manager will be presented with specific guidelines as to levels of equity exposure as well as individual benchmarks appropriate to the manager and the respective asset class.
11. Investment Markets – Fixed Income – It is the philosophy of the Board of Directors that fixed income investments should be included in the Endowment portfolio as a whole. The maximum limitation of such assets is 40% during a strong bond market while the minimum limitation of such assets is zero. It is the philosophy of the Board of Directors that such assets, when held, should be managed.
12. The Economy – Over a period of time the Board of Directors anticipates significant changes in the economy, such as varying short and long-term interest rates and changing rates of inflation. Our outlook for the U.S. economy over the next five years is positive. It will be the responsibility of the investment manager to select and manage the types of investments so as to optimize results over a period of time.
13. 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 these commercial institutions who, through gifting, volunteering, instructing and/or other forms of support, help foster our mission. We will recognize those institutions who demonstrate clear and substantial support for our mission and, therefore, for The University of Maine. Investments made under the mission-related program should be identified as such and the total of said investments should not exceed 10% of the general endowment fund.

Measurement of Performance and Reporting Requirements

Performance will be measured on a total rate of return basis and will be evaluated quarterly on a trailing twelve-month basis. However, the Investment Committee and the Board of Directors will review overall performance at least annually. This review will relate performance vs. overall objectives and in comparison to capital market return as evidenced by various market indices. Our major concern is performance measured on a relative basis versus our goal of CPI plus 4 ½%. Relative performance considerations provide additional verification of a manager's ability to meet stated goals and objectives on a comparative basis versus the indices as outlined.

Review Meeting and Communications

It is the desire of the Board of Directors to meet quarterly with the investment consultant and investment managers to provide the following:

1. Review the past, present, and prospective economic climate in relation to investment strategy.
2. Allow the Investment Committee to understand the investment strategy being used to fulfill the standard objectives.
3. Permit the Investment Committee to understand the risk levels of the securities represented in the portfolios.
4. Review trends in performance levels in relation to stated objectives.
5. Review the University of Maine Foundation's Investment Guidelines and Objectives.

Other communication between the investment consultant, the investment managers, the Executive Director of the Foundation, the Investment Committee, and the Board of Directors will be as warranted.

Adopted by the Board of Directors on August 24, 2007