

**** SAMPLE ****

INVESTMENT & SPENDING POLICY

ADOPTED

<<Date>>

LAST AMENDED

<<Date>>

NOTE: This document is provided as a sample for consideration by the governing body of your organization. It is intended to provide a foundation upon which your organization may build.

The numbered items (i.e., ❶) indicate areas where the governing body should discuss various options. A brief discussion of each numbered item is provided on page 9.

**** SAMPLE ****

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1. SCOPE

These policies and guidelines (hereafter “Policy”) shall apply to certain funds held by the organization including all donor-restricted funds and all funds designated by the Board of Directors as *Board Restricted*, *Board Designated*, *Unrestricted*, etc. (hereafter “Funds”). In general, all Funds covered by this Policy are held for long-term investment. ❶

This Policy shall not apply to program-related funds; funds held for the benefit of the organization by a trustee that is not an institution; funds held for the organization by a community foundation; or funds excluded by Title 13 M.R.S.A. §5102. Nor shall this Policy apply to funds that will be expended in the short-term. In general, short-term funds shall be held in bank deposit accounts, short-term fixed income instruments, money market mutual funds, etc.

2. PURPOSE

This Policy is intended to help the Board of Directors (hereafter “Board”) ❷ meet its fiduciary duty to balance the competing goals of preservation of principal, generation of current income, and long-term growth.

The Board hereby adopts the provisions of the Maine Uniform Prudent Management of Institutional Funds Act (Title 13 MRSA §5101 - §5111) and the Maine Uniform Prudent Investor Act (Title 18-B M.R.S.A. §901 - §908).

The Board hereby delegates to the Finance Committee (hereafter “Committee”) authority to oversee the day-to-day management of the Funds on behalf of the organization and subject to Board approval. ❸

It is necessary that the Committee, and any third-party investment manager(s) engaged by the Board, have a clear understanding of the purpose and objective inherent in managing the Funds. To this end, this Policy will:

- Identify the investment-related responsibilities of the Board, Committee, and any third-party investment manager(s) retained to manage the Funds.
- Address the funding and liquidity needs of the Funds, recognizing the desire to protect the assets from inflationary erosion.
- Establish formal investment guidelines incorporating prudent asset allocation and total return goals.
- Provide a framework for regular constructive communication among all parties with responsibility for overseeing or investing the Funds.
- Create reasonable standards of investment performance, or benchmarks, against which performance of the Funds, and any third-party manager(s) will be measured.

This Policy should be reviewed at least annually to ensure that it continues to reflect the provisions of Maine statute and the objectives of the organization.

3. ETHICAL CONSIDERATIONS

Persons involved in the investment process on behalf of the organization shall refrain from personal business activity that may conflict, or may appear to conflict, with the proper execution of the investment program, or which may impair their ability, or appear to impair their ability, to make impartial investment decisions.

4. OBJECTIVE

The primary objective of the Funds is to provide a predictable source of supplemental annual income (interest, dividends and capital appreciation) to support the charitable work of the organization.

The secondary objective of the Funds is to realize a long-term total return that is equal to, or greater than, the real rate of inflation. This is intended to maintain the purchasing power of the Funds.

These objectives should be realized in a manner that is consistent with the Maine Prudent Investor Act (18-B MRSA §901- §908).

5. ASSET ALLOCATION

The Board believes that a diversified portfolio including equity, fixed income, alternative and cash assets is most likely to achieve the Funds' objectives. ④

| Major Asset Class | Allocation Range | |
|--------------------------|-------------------------|------|
| Equity | TBD% | TBD% |
| Fixed Income | TBD% | TBD% |
| Alternative Assets * | TBD% | TBD% |
| Cash | TBD% | TBD% |

* Alternative Assets may include real estate, precious metals, currencies, commodities, etc.

The choice of major asset classes and the range for each will be reviewed annually to ensure the objectives of the Funds are being met.

6. INVESTMENT GUIDELINES

The organization and any third-party investment manager(s) engaged by the organization shall manage the Funds in accordance with this Policy and applicable Maine statute. The following investment guidelines have been established to define the level of risk that is acceptable within the Funds. It is expected that investment managers will adhere to these guidelines, unless modifications have been authorized in writing.

Investment managers may manage the Funds' asset allocation within the ranges indicated above. Investment managers are authorized to diversify within each asset class and employ sub-asset classes at their discretion. Both active and/or passive investment strategies may be employed.

In general, investment managers are expected to be fully invested. However, the Board recognizes that holding a higher allocation in cash assets is occasionally appropriate. If the cash allocation of the Funds is expected to exceed the typical allocation range for an extended period (i.e., +90 days) the investment manager shall review this position with the Committee at the next investment review.

Equity Securities

Diversification

In general, the equity portfolio shall be diversified by country, market capitalization, style, and industry/economic sector as defined by the Global Investment Classification System (GICS). Not more than 5% of the equity allocation shall be invested in any one company at the time of purchase. Not more than 25% of the equity allocation shall be invested in any one industry or economic sector at the time of purchase.

Permissible Equity Investments

Common stocks listed or traded over the counter or on a U.S. exchange
Foreign securities listed on a U.S. exchange
American Depository Receipts (ADRs)
Preferred stock or securities convertible to common stock
Mutual funds, commingled funds or exchange traded funds investing in the above securities
Warrants on any of the above securities

Excluded Equity Investments

Short sales
Margin purchases, lending or borrowing of funds
Letter stock, private or direct placements
Commodities contracts
Securities of the investment manager or affiliates excluding money market funds
Uncovered options

Fixed Income Securities

Diversification

In general, the fixed income portfolio shall be diversified by issuer (i.e., sovereign, agency, corporate, etc.) country, maturity, etc. Except for debt securities issued or guaranteed by the United States, its agencies or instrumentalities, not more than 5% of the fixed income allocation shall be invested in the securities of any one issuer at the time of purchase. Not more than 25% of the fixed income allocation shall be invested in non-dollar denominated bonds. The

average investment quality of the fixed income portfolio shall be “Investment Grade” or higher as defined by Standard & Poor’s, Moody’s, Egan Jones, etc.

If a bond is downgraded, or if a previously unrated bond is subsequently rated below investment grade by a major rating agency and the investment manager elects to hold the bond, then the investment manager shall review this decision with the Committee at the next investment review.

Permissible Investments

Debt securities issued or guaranteed by the United States, its agencies or instrumentalities
Corporate bonds, debentures and other forms of corporate debt obligation
Indexed notes, floaters, variable rate obligations, mortgage and asset-backed securities
Foreign bonds (sovereign or corporate) denominated either in U.S. or foreign currency
Mutual funds, commingled funds or exchange traded funds investing in the above securities
Preferred stocks

Excluded Investments

Securities of the investment manager (excluding money market funds).

7. PERFORMANCE STANDARDS

Investment managers are expected to produce investment performance results that are comparable to the investment performance benchmark approved by the Board. Performance shall be measured over short-term (1 to 3 years) and long-term (5+ year) periods. In addition, managers should rank in the top half of an appropriate universe composed of investment managers with similar risk characteristics and investment style. Manager performance shall be reviewed not less than annually.

Investment Performance Benchmark

| Asset Class | Index | Weight |
|-----------------------|--------------------------------|---------------|
| Large Cap U.S. Equity | S&P 500 Stock Index | TBD |
| Mid Cap U.S. Equity | S&P 400 Stock Index | TBD |
| Small Cap U.S. Equity | Russell 2000 Stock Index | TBD |
| International Equity | MSCI - EAFE Index | TBD |
| U.S. Fixed Income | Barclay’s Aggregate Bond Index | TBD |
| Alternatives | As Appropriate | TBD |
| Cash | 90-Day U.S. Treasury Bill | TBD |

8. RESPONSIBILITIES

It is the responsibility of the Board to ensure the Fund is managed prudently and in the best interest of the organization. The Board has delegated day to day authority to oversee the management of the Fund to the Finance Committee.

Board/Committee Responsibilities:

- Develop investment goals, objectives and performance measurement standards, which are consistent with the goals of the Fund.
- Comply with statutory requirements for the management of institutional funds.
- Approve a spending policy for the Fund. In extenuating circumstances, the Board may limit endowment spending so as to preserve the purchasing power of the Fund.
- Evaluate and appoint investment managers to invest and manage Fund assets.
- Communicate investment goals, objectives, and standards to investment managers, including any material changes that may subsequently occur.
- Review and evaluate investment results in the context of established standards of performance and adherence to the investment guidelines.
- Take whatever action is deemed prudent and appropriate, e.g. when the investment manager fails to meet mutually accepted performance standards or materially violates the Policy.

Investment Manager Responsibilities:

- Make day-to-day investment decisions with respect to the assets under its management.
- Comply with this Policy, all written instructions provided by the Board, and all federal and state regulations pertaining to the investment of such funds.
- Inform the Board promptly of any material change in the manager's outlook, policy, tactics, or in the firm's structure including ownership, financial condition, and staff turnover.
- Provide a monthly report listing all holdings and transactions. Additionally, provide a report comparing portfolio performance to the relevant indices on a quarterly and year-to-date basis, no less frequently than annually.
- Meet at least annually or at other such times as the Board may reasonably request to discuss investment outlook, performance, strategy and tactics, organizational and personnel changes, and other pertinent matters.
- Make payments from the Fund to such persons or organizations as designated in writing by authorized personnel.
- Keep accurate and detailed accounts of all investments, receipts, disbursements and other transactions.
- Provide proactive advice on investment guidelines and asset allocation.

9. SPENDING POLICY

In general, distributions from the Fund support the charitable work of the organization including operational and capital needs. The Fund may include numerous donor gifts and pools of assets. Some of the assets may be restricted for a particular purpose, based on explicit restrictions made by donors, while others assets may not be donor restricted and may be used for any Board-designated purpose. The Fund may include assets as follows:

Donor Restricted: Such assets have donor-imposed restrictions that may be temporary or permanent. Restrictions may relate to using the funds at or within a defined period of time (time restricted); may relate to using the funds for a defined purpose (purpose restricted); or may limit annual distributions to interest and dividends (income restricted). The expenditure of donor-restricted funds shall be governed by the gift instrument or UPMIFA, as applicable.

Board Restricted: Such assets are not donor-restricted and may be appropriated for current or future expenditure or accumulated as the Board, in its sole discretion, may elect. Expenditure of such funds shall be governed only by this Policy and are not subject to UPMIFA.

In establishing a spending policy for the Fund, the primary goal is to balance long-term and short-term needs in carrying out its charitable purposes consistent with expected total return on its investments, price-level trends and general economic conditions. In addition, the organization desires to provide for a predictable spending pattern over an indefinite period.

To achieve these goals, the following spending guidelines are established:

Spending Percentage

Unless otherwise authorized by the Board, the organization will maintain an annual spending level between three percent (3%) and five percent (5%) of the rolling twelve-quarter average market value. The typical spending percentage will be four percent (4%). Ⓢ In no event, however, may any distribution either (i) decrease the value of any donor-restricted gift below its historic dollar value; or (ii) be made for a purpose other than that specified by the donor.

Percentage Calculation

The rolling twelve-quarter average market value is defined as the sum of the quarter-end market value of each of the preceding twelve (12) fiscal quarters, divided by twelve (12). This amount shall be available for expenditure in the current fiscal year.

Assets Subject to the Spending Policy

- Board Restricted funds including all principal, accumulated appreciation, and accumulated interest and dividend income associated with these assets.
- Accumulated appreciation and accumulated interest and dividend income generated from assets classified as permanently restricted whose income is unrestricted or temporarily restricted.
- For those funds that lack an explicit donor prohibition against appropriation of appreciation, the appreciation may be appropriated by the Board and used for its charitable purposes provided that the balance of any fund is not reduced below its historic dollar value.

Assets Not Subject to the Spending Policy

- Assets not included in the Fund.
- Donor-restricted assets that prohibit expenditure.

Decision Making

The Board of Directors must approve the expenditure of any endowment asset.

8. AMENDMENTS

The Board may amend this Policy from time to time as appropriate. The Board also reserves the right to direct the investment manager(s) to take any appropriate actions, whether or not

consistent with this Policy, if market conditions, liquidity needs or other circumstances so indicate.

Discussion Items:

- ① Many organizations use various terms to describe their long-term investment funds (i.e., institutional fund, endowment fund, investment fund, restricted fund, etc.). You should consider your use of these terms to ensure it is consistent with UPMIFA as well as your actual or intended use of the funds. It may be particularly important to avoid using the term “endowment” to describe funds that are not donor restricted.
- ② Substitute another name for the governing body of your organization as appropriate (i.e., Trustees, etc.)
- ③ The Board may delegate oversight of Fund management an Investment Committee, Finance Committee, etc. at its discretion.
- ④ The Board should select a mix of investments (asset allocation) that it believes is appropriate. A 60/40 mix of stocks/bonds is typical. The mix of investments is influenced by the objectives of the Fund. If the objective is “income,” then the Fund may have a higher allocation of bonds or income-producing assets. If the objective is “long-term growth,” then the Fund may have a higher allocation of stocks or growth-oriented assets.
- ⑤ The Board should discuss and establish a detailed spending policy.