

# Office of the Maine State Treasurer

## Investments and Distributions Policy Statement for State Held Trusts

January 26, 2010

- I. State Held Trusts: The permanent funds of the State of Maine are the Baxter State Park Trust, Lands Reserved Trust, MacWorth Island Trust, Permanent School Trust and a collection of many individual trusts, referred to as the Several Trusts, in which the settlers named the State of Maine as trustee.
  
- II. Trust Administrator: The Treasurer of State, with the approval of the Commissioner of Administrative and Financial Services, the Superintendent of Financial Institutions and the Attorney General, shall invest all permanent funds held in trust by the State. (5 M.R.S.A §138) All trust administration shall be in compliance with the guidelines set forth in P.L. 450 of the 124<sup>th</sup> Maine Legislature. Management of the Trusts' investment portfolio shall be handled by investment advisors selected from time to time by the Treasurer.
  
- III. Investment Objectives, Implementation-Factors, Restrictions and Allocations:
  - a. Objectives: The three coequal investment objectives are:
    1. To provide as much income as practicable now and in the future.
    2. To provide steady trust distributions in the near term and to increase them in the long term.
    3. To keep the market value of the trust assets whole, after inflation.
  
  - b. Implementation Factors: The following shall be considered when implementing these objectives:
    1. General economic conditions;
    2. The possible effect of inflation or deflation;
    3. The expected tax consequences, if any, of investment decisions or strategies;
    4. The role that each investment or course of action plays within the overall investment portfolio of the fund;
    5. The expected total return from income and appreciation of investments;
    6. Other resources of the institution;
    7. The needs of the institution and fund to make distributions and to preserve capital;
    8. An assets special relationship or special value, if any, to the charitable purposes of the institution.
  
  - c. Statutory Restrictions: All permanent funds held in trust by the State shall be invested in such securities as are legal investments for savings banks under Title 9-B, except as provided in chapter 161. For purposes of this section, those investments include, without limitation, shares of an investment company registered under the federal Investment Company Act of 1940, whose shares are registered under the United States Securities Act of 1933, only if the investments of the investment company are limited to obligations of the United States or any agency or instrumentality, corporate or otherwise, of the United States or repurchase agreements secured by obligations of the United States or any agency or instrumentality, corporate or otherwise, of the United States. This section does not

apply to the fund of the Employees' Retirement System or the fund arising from the lands reserved for public uses. 5 M.R.S.A §138

- d. Target Allocations: Because of the very long term nature of their liabilities, and the need for growing income and market values to offset inflation, the asset allocation target is 75% stocks and 25% bonds with an allowance for a 10% fluctuation on either side (for example, stocks may range from 65% to 85% of total value).
- e. Credit Quality: At least 85% of the portfolio's debt securities must be rated A or better by major national rating service. If this restriction is exceeded because of a downgrading of securities already in the portfolio or because of price appreciation, those securities may remain in the portfolio; however, the manager may not purchase any more such issues until those in the portfolio fall back below these limits. No single credit may represent more than 10% of any manager's fixed income portfolio.
- f. Equity Diversification: The equity portfolio shall be fairly diversified across industries as well as individual issues. No single stock may represent more than 5% of any manager's equity portfolio.

#### IV. Distributions and Asset Preservation:

- a. Distributions: Income and authorized disbursements shall be remitted from the manager(s) upon request of the Treasurer. The Treasurer shall distribute to the beneficiary, on a regular basis, net income earned on the trust principal. Less than 100% of net earnings may be distributed if the beneficiary requests the Treasurer to reinvest all or a portion of those earnings. More than 100% of earnings may be distributed if the governing trust document specifically authorizes such a distribution and the beneficiary so requests.
- b. Asset Preservation: The Treasurer shall track the historic dollar value of trust funds. Historic dollar value shall be the aggregate value of dollars of 1) each trust fund at the time it became a trust fund; 2) each subsequent donation to the fund at the time the donation is made, and 3) each accumulation made pursuant to a direction in the applicable gift instrument at the time the accumulation is added to the fund.

#### V. Responsibilities of the Investment Managers:

- a. Prudence: The standard of prudence applicable to every investment manager is the "prudent expert" rule as stated in the Employee Retirement Income Security Act of 1974, Section 404(a)(1)(B), which says: Investments shall be made with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.
- b. Best Interests: Each investment manager shall contact the Treasurer whenever the implementation of any policy or procedure set forth in this Statement is, in the manager's professional judgment, antithetical to the best interests of the Trusts.

- c. Notice: The manager(s) shall promptly notify the Treasurer whenever it (they) experience an organizational change that might affect the management of these funds. Such changes would include, without limitation, changes in key personnel, company policy regarding number of accounts managed per individual, firm ownership, or in the approach used to manage the Trust Funds. The Treasurer shall also receive prompt notice of any deviations from the allocation guidelines outlined above.
- d. Reporting: The managers shall provide quarterly statements showing the separate performance of the stock and bond portions of the accounts, as well as results for the whole portfolio and policy compliance. Such figures must follow the standards of the Committee for Performance Presentation Standards of the Financial Analysts Federation. In addition, each quarterly report should include a summary of activity during the period, the reason for such activity, and a statement concerning the tactics currently in use for carrying out the mandate of the Treasurer. The latter two items (reason & statement) may be presented orally rather than in writing. Each quarterly report also should set forth clearly the intermediate and long-term performance of the Investment Fund so that the Treasurer may easily compare each investment manager's results to a baseline portfolio invested 25% in the Barclay's Aggregate Bond Index and 75% in the Standard & Poor's 500.
- e. The managers each shall submit monthly account statements which report the value of the accounts, holdings and transactions. Additional 'sub accounting' reports may be required to assist with income distribution and component values of the trust funds.

VI. Performance Measurement:

- a. The managers shall report Trust Fund investment performance whenever requested by the Treasurer and at least semiannually in any reasonable format requested by the Treasurer.
- b. Ultimately, the success of these Funds will be measured by comparison with their stated objectives. The long term performance will be the result partly of the constraints and guidelines established in this Statement, and partly the results of the investment manager's actions.
- c. The inflation measure will be the Consumer Price Index for Urban Consumers or its successor.
- d. To monitor the intermediate term performance of the Investment Fund, the Treasurer intends to compare the investment manager's results to a baseline portfolio invested 25% in the Barclay's Aggregate Bond Index and 75% in the Standard & Poor's 500.

VII. Policy Review

This policy statement shall be reviewed by the investment manager(s) and Treasurer at least once a year to ensure that it remains appropriate and complete.

- 1. Policy Updated: January 25, 2010

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David G. Lemoine, Treasurer