

INVESTMENT POLICY AND SPENDING GUIDELINES

UNITED MIDCOAST CHARITIES INVESTED FUNDS

Board Approved: *Date 02/18/2019*

Introduction:

United Midcoast Charities will invest its Invested Funds (“the Funds”) in a thoughtful and prudent manner consistent with donor intent in order to help provide income for the annual operating expenses while preserving the principal of the Funds against the long-term effects of inflation. The oversight of the Funds is the responsibility of the Investment Committee, which shall make recommendations that assist in the stewardship and administration of the Funds within the guidelines of the Maine Uniform Prudent Investors Act.

This Investment Policy Statement (“IPS”) is not a contract. This IPS is intended to be a summary of an investment philosophy that provides guidance for the Investor and Advisors.

Purpose:

United Midcoast Charities maintains the Funds to enhance its ability to meet its mission to support not for profit organizations that provide social services and care in Mid-Coast Maine (Knox and Waldo counties) to those most deserving.

The purpose of the Investment Policy and Spending Guidelines is to set forth and detail the authority, discretion and responsibilities for the effective investment management, distribution and preservation of the Funds’ assets. These guidelines shall become operative upon the adoption date and shall be applicable to the Funds as a whole as well as to any individual, corporate or institutional trustee, or other investment managers, advisors, consultant and/or their agent. These guidelines are designed to:

- Establish a clear determination of the Funds’ objectives
- Provide guidance and direction to any of the Funds’ Advisors.
- Determine the measurements and methods by which to monitor and evaluate the Funds’ investment performance
- Describe the distribution and spending parameters for the Funds’ assets

Spending Guidelines:

The Board of Directors of the United Midcoast Charities in its sole discretion will approve spending of the Funds for operating expenses consistent with donor intent and principal restrictions.

Responsibility and Standard of Conduct:

The Investment Committee shall exercise ordinary business care and prudence under the facts and circumstances prevailing at the time of the action or decision in carrying out its responsibilities. The Investment Committee may contract, with Board approval, corporate investment managers, banks or trust companies to invest and reinvest the assets in a manner consistent with the overall investment policy and within the standards and limitations of the Maine Uniform Prudent Investor Act. The Investment Committee shall consider long-term responsibilities and short-term operational needs of the organization: its current and anticipated financial requirements, expected total return on investments, and the general economic climate and conditions.

Any Investment Manager shall manage the assets of the Funds with care, skill, prudence and diligence at a standard of professional knowledge that someone familiar with such matters would customarily use considering this policy directive. Responsibilities include but are not limited to: providing the Investment Committee with strategic investment counsel; custody of securities; and portfolio management including all buy/sell decisions, trade executions, cash flow analyses and income distribution.

Investment Guidelines:

To meet the stated objectives the Funds will be managed in accordance with the asset allocation methodology set forth in the Nobel Prize-winning Modern Portfolio Theory with the goal of generating appropriate risk-adjusted long-term returns in line with underlying index performance. Academic research has found that asset allocation drives portfolio performance to a significantly greater degree than manager or security selection. After analyzing the long-term performance and risk characteristics of various asset classes, the following asset classes were selected to provide the framework for a globally diversified portfolio that strives to meet the Funds’ investment objectives.

The target allocation of the Funds shall be invested in accordance with the following guidelines as researched and reported by Morningstar with the addition of the allocation to gold as directed by the Investment Committee. The investments in each category will be made through the use of passive investments in index mutual funds and/or exchange trades funds. While the Advisors do not intend to use mutual funds that charge 12B-1 fees, should a mutual fund that does charge and pay those fees, they will be credited back to the organization:

Asset Category	Target	Allocation	Acceptable Range
Cash & Cash Equivalents	5.0%	5.0%	0 – 20%
Fixed Income	37.0%		20 – 50%
Short-Term Bonds		9.0%	5 – 15%
Intermediate-Term Bonds		16.0%	10 – 25%
High-Yield Bonds		5.0%	0 – 10%

International Bonds		7.0%	4 – 15%
Equities	50.0%		35 – 62%
Large U.S. Stocks		20.0%	17 – 30%
Mid-Cap U.S. Stocks		9.0%	6 – 15%
Small-Cap U.S. Stocks		6.0%	3 – 10%
Foreign Stocks		11.0%	5 – 18%
Emerging Markets		4.0%	0 – 6%
Alternatives	8.0%	8.0%	0 – 12%
Real Estate		3.0%	0 – 12%
Gold		5.0%	0 – 10%
TOTAL		100%	

Given the transition from an active investment manager to a passive investment approach, it is recognized that some individual bonds will be held in the portfolio to maturity where it is in the best interest of the Funds to do so. All other investments will be liquidated prior to transfer by the outgoing investment manager. Going forward, individual stocks and bonds will not be held in the Funds. Any in-kind security gifts will be accepted and liquidated as soon as feasible in the operating account with the proceeds to be directed by the Investment Committee to be invested in the Funds or to be used as directed by the Board of Directors.

No guarantees can be given about future performance and this IPS shall not be construed as offering such a guarantee. Past performance returns are no guarantee of future returns.

Updated Allocations

From time to time it may be desirable to amend the basic allocation policy or calculations. When such changes are made, updates will be attached to this Investment Policy Statement as Appendix A and will be considered part of this Investment Policy Statement.

Rebalancing Procedures

From time to time, market conditions may cause the Portfolio’s investment in various asset classes to vary from the target allocation. To remain consistent with the asset allocation guidelines established by this IPS, each asset class in which the Portfolio invests shall be reviewed on a quarterly basis by the Advisor and may be rebalanced back to the recommended weighting if the actual weighting varies significantly from the recommended weighting. Similarly, should cash be deposited into the Funds, it will be invested in line with the targets. Rebalancing maintains the portfolio at the previously agreed upon risk/reward levels.

A. Equities

The Investment Policy permits holding common and preferred publicly traded stocks, including individually managed portfolios, exchange traded funds (“ETFs”), and mutual funds. The policy does **not** permit purchases of any of the following securities:

1. short sales of any type
2. holding letter or restricted stock
3. buying or selling on margin
4. shares of non-public companies
5. the use of futures or derivatives
6. mortgage-backed securities not duration specific
7. the use of uncovered options

B. Fixed Income Investments

The fixed income portion of the portfolio shall be invested in U.S. Government securities, U.S. Government Agency securities, investment grade or non-investment grade U.S. corporate bonds, including convertible bonds, and international bonds. The average maturity of the fixed income portion of the portfolio should be less than seven years.

At the time of purchase, no more than 10% of the fixed income portion of any individual fund's assets may be invested in any one company and no more than 25% of the assets of any individual fund may be invested in any one industry sector. These constraints do not apply to U.S. Government or U.S. Government Agency securities or to ETFs.

C. Cash and Cash Equivalents

To the extent that the Funds are invested in cash or cash equivalents, these should be invested in money market funds, U.S. Treasury securities, commercial paper rated A-1 or P-1, money market securities issued by institutions rated AA or higher, or pooled funds with demonstrably high quality credit standards and a proven track record of superior performance over time.

Performance Benchmarks

Generally, the Funds will be managed passively by investing in ETFs and index funds that are managed to replicate their underlying index. The Investment Committee shall be responsible for the ongoing monitoring of the performance of the ETFs and index funds as compared to the index that the ETFs and index funds aim to replicate to ensure that tracking error is reasonable given the investment expenses and other market factors. The total portfolio performance will be measured against a blended benchmark representing the underlying asset classes.

Communications with Advisors:

Statements inclusive of performance will be provided to the President and Treasurer quarterly. Advisors shall meet with the Board and/or the Investment Committee at least annually, or at such other mutually convenient times as the parties shall agree, to review the portfolio under management and investment results in the context of this Investment Policy and Spending Guidelines. Presentations for the meeting shall include:

1. The portfolio performance with respect to investment objectives

2. The expected level of income projected over the next four quarters
3. A market forecast of the economic climate and risk levels associated with the actual portfolio
4. The portfolio performance relative to the appropriate index/peer group reflective of the Fund's actual holdings; and
5. Statements to include detailed descriptions where appropriate of aggregate holdings of each class valued at cost and at market; individual asset holdings valued at cost and at market; asset purchases and sales; investment income; deposits and withdrawals; expenses.
6. It is also expected that timely communication will be made to the Investment Committee on any major adjustment or change recommended for the proper administration of assets.

Additionally, the Advisors are responsible for reviewing the portfolio on an ongoing basis and for rebalancing the portfolio, when necessary, to remain within the agreed upon asset allocation guidelines.

Withdrawals

The Investment Committee shall recommend to the Board of Directors an amount to be withdrawn from any individual fund comprising a part of the Funds. The amount to be withdrawn shall be consistent with the policies outlined herein. Where possible, such withdrawals shall reflect the performance of the Funds' investments and the operating demands of the United Mid-Coast Charities.

The Investment Committee can directly request a withdrawal of up to \$25,000 from the Funds to ensure operating cash remains positive with affirmation from two authorized signors.

Ongoing Review:

The Board of Directors shall periodically review the Investment Policy and Spending Guidelines to determine if modifications are appropriate. The Policy and Guidelines may be amended by the Investment Committee, subject to approval of the Board, both on their own initiative and upon consideration of the advice and recommendations of the Investment Manager(s). Proposed modifications to the Investment Policy and Spending Guidelines shall be documented in writing and presented to the Board of Directors for approval at a regular or special meeting prior to implementation.