

## **Scholarship Trust Funds Investment and Spending**

### **Introduction**

The Scholarship Trust Funds (hereinafter the “Funds”) of RSU 40/MSAD 40 (hereinafter the “RSU”) are to be invested under the supervision of the Board of Directors of the RSU by means of a safekeeping agreement and an investment management agreement pursuant to 30-A MRSA § 5706(4). Investment returns on the Funds will be expended for scholarships in accordance with the terms of each scholarship trust bequest.

### **Purpose**

The purpose of this Scholarship Trust Funds Investment and Spending Policy (hereinafter the “Policy”) is to establish guidelines for the safe-keeping and investment of the Funds and the distribution of the investment earnings on the Funds for scholarship purposes. These guidelines are designed to:

- Establish a clear determination of the Funds’ objectives;
- Provide guidance and direction to the Funds’ Investment Manager(s);
- Determine the foundation for monitoring and evaluating the Funds; investment performance; and
- Describe the distribution and spending parameters from the Funds for scholarships.

### **Safekeeping and Investment Management Procedures**

The Board of Directors shall enter into a safekeeping agreement for the Funds with a financial institution with trust powers authorized to do business in the State of Maine (the “Financial Institution”). The Board of Directors shall also enter into an investment management agreement either with the Financial Institution or with a registered investment advisor as permitted by 30-A MRSA § 5706(4) (the “Investment Manager”). If both the safekeeping and investment management functions are to be performed by a single entity, the two agreements may be combined into a single instrument. The investment performance of the Investment Manager will be monitored at least annually by the Treasurer and the Business Manager and they shall report to the Board of Directors on the performance of the Investment Manager at least annually. The Financial Institution and Investment Manager shall serve at the pleasure of the Board of Directors and may be replaced at any time at the discretion of the Board of Directors.

**Objectives**

In support of the scholarship mission of the Funds, the Funds' assets will be invested to provide sufficient proceeds in the form of interest, dividends and appreciation to preserve the Funds' principal over time in real dollar purchasing power after annual income distributions for scholarships and after costs for safekeeping and investment management of the Funds.

**Spending Guidelines and Preservation of Principal**

With the adoption of this Policy, the Board of Directors approves and adopts an income and total return investment plan for the Funds. Under this plan, the annual withdrawals from the Funds will be determined by the terms of the various trust bequests.

**Standard of Conduct**

The Investment Manager(s) shall manage the assets of the Funds with the care, skill, prudence and diligence, and at a standard of professional knowledge, that someone with special skills and expertise in such matters would customarily use and in a manner consistent with the rule of prudence as established in the Maine Revised Statutes, Title 18-B, Sections 802 to 807 and Chapter 9, the Maine Uniform Prudent Investor Act. The Investment Manager's responsibilities include but are not limited to providing the RSU with periodic (at least quarterly) reporting of investment results, strategic investment counsel, and portfolio management including all buy/sell decisions, trade executions, cash flow analysis, and income distribution. In reviewing the performance of the Funds and the Investment Manager, the Board shall consider the RSU's anticipated short-term and long-term expenditures from the Funds for scholarships, the expected total return on investments, and general economic conditions.

**Investment Guidelines**

To meet the stated objectives of this policy, a portion of the Funds' portfolio will be dedicated to an equity position in order to produce long-term appreciation of principal. Another portion will be committed to fixed income investments in order to provide a steady and consistent level of income. The allocation of holdings will be designated to reasonably attempt to reduce the overall portfolio volatility of the Funds.

Operating within the parameters set forth herein, the Investment Manager(s) shall have the discretion to prudently allocate funds to equities, fixed income investments, or cash equivalent reserves based on the Investment Manager's evaluation and forecast of investment markets.

**The following table outlines the Funds' allowable range of equities, fixed income and cash:**

<b><u>Equity Assets</u></b>	<b><u>Tactical Range</u></b>
U.S. Large/Mid Cap Stock	45-65%
U.S. Small Cap Stock	0-15%
Foreign Stock	5-20%
Emerging Markets Stock	0-10%
REITs	0-10%
<b><u>Fixed Income &amp; Cash Assets</u></b>	<b><u>Tactical Range</u></b>
U.S. Fixed Income	15-35%
Foreign Bond	0-10%
Currency	0-5%
Cash & Equivalents	0-15%

*Overall, an initial target goal for the equity/fixed income/cash mix is 65/30/5.*

**A. Equities**

The Funds may be invested in common and preferred publicly traded stocks, including individually managed portfolios, exchange traded funds and mutual funds. The Investment Manager may not engage in any of the following activities:

1. Short sales of any type;
2. Holding letter or restricted stock;
3. Buying or selling on margin;
4. Purchasing shares of non-public companies; or
5. Purchasing any form of derivatives.

**B. Fixed Income Investments**

The fixed income portion of the Funds' portfolio will be invested in U.S. Government securities, U.S. Government Agency securities, and/or investment grade (BBB or better). U.S. corporate bonds including convertible bonds. Any BBB bonds being considered for purchase must be discussed and approved by the Board of Directors prior to purchase by the Investment Manager. The Funds' portfolio credit rating will be "A" or better. The average duration of the Funds' portfolio will be less than ten years.

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

Fixed income mutual funds or exchange traded funds may also be utilized to enhance income for the fund.

***Overall, a target range for fixed income investments will be 20-40%.***

**C. Cash and Cash Equivalents**

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

***Overall, a target range for cash investments will be 0-10%.***

**Performance Benchmarks**

The Treasurer and Business Manager shall be responsible for the ongoing monitoring of the performance of the Funds against agreed benchmarks and against this Policy and shall report to the Board of Directors on the performance of the Funds and the Investment Manager at least annually.

Investment performance will be measured compared to the S&P 500 Index for equity portfolio, and the Barclays Intermediate term Government/Credit index for the Fixed Income portfolio. Cash will be benchmarked against the Citigroup 90 Day Treasury Bill Index.

Investment performance will also be compared to a blended benchmark index portfolio matching the allocations specified in this Policy.

**Communications**

The Board of Directors shall meet at least annually, or, in its discretion, more often as the investment environment may warrant, to review the portfolio under management and the investment results in the context of this Policy. Presentations for such meetings may 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 review 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 Funds' actual holdings; and/or
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; and investment income.

The Investment Manager shall provide timely communication to the Treasurer and Business Manager with respect to any major adjustment or change recommended for the administration of the Funds' assets and prompt notice regarding any change in the Investment Manager's fundamental investment strategy and/or the Investment Manager's ownership, management or personnel.

**Ongoing Review**

The Board of Directors, with the assistance of the Treasurer and Business Manager, shall review this Investment Policy not less than annually to determine if modifications are appropriate. Proposed modifications to this Investment Policy will be documented in writing and approved by the Board of Directors at a regular or special meeting prior to implementation.

Adopted: April 5, 2007

Revised: January 23, 2014  
July 21, 2016