UNIVERSITY OF SOUTHERN MAINE FOUNDATION
STATEMENT OF INVESTMENT OBJECTIVES AND POLICIES

For a history of updates, see attached Listing of Updates, located at the end of the Policy

Introduction

This statement of investment objectives and policies has been adopted by the Foundation Board of the University of Southern Maine Foundation (“USMF”) to provide guidelines for the management of Foundation assets. For the purpose of providing liquidity and to optimize investment return within acceptable risk parameters, the funds held will be divided into two separate investment pools. The process for determining the dollar amount in each pool is set forth in the “Procedures” attached to this document. The two investment pools shall be called the “Liquidity Fund” and the “Investment Fund”.

Delegation of Authority

There is no Investment Committee apart from the Finance and Audit Committee. The Finance and Audit Committee has been appointed by the USMF Board to implement the Statement of Investment Objectives and Policies.

USM Foundation Responsibility

The USMF Board recognizes their role as a responsible investor to donors and to the University of Southern Maine. To that end, the Finance and Audit Committee will regularly review investments in the Liquidity and Investment funds. To ensure investment objectives and policies are consistent with the purpose of the USMF and appropriately consider current financial conditions, the Finance and Audit Committee will commit to the following:

1. Review the investment objectives and policies, annually for necessary revisions;
2. Recommend revisions or modification to the USMF Board for approval.

Latest: February 2015
UNIVERSITY OF SOUTHERN MAINE FOUNDATION
LIQUIDITY FUND

Purpose

The purpose of the Liquidity Fund is to provide sufficient cash to meet the financial obligations of the USMF in a timely manner, while taking advantage of yield depending on cash flow needs.

Investment Objectives

The investment objectives of the Liquidity Fund are:
1.) Preserve Capital
2.) Retain liquidity
3.) Optimize investment return.

Investment Guidelines

ALLOWABLE INVESTMENTS

The Finance and Investment Committee shall be authorized to invest the Liquidity Fund as follows:
1). Federally insured certificates of deposit including interest at commercial banks or savings and loans institutions:
2). Money market funds;
3). Interest bearing checking accounts in federally insured banks and savings and loans not to exceed federally insured amounts; and
4). Direct obligations of U.S. Government, its Agencies and instrumentalities or AAA Rated Municipal Auction Rate Securities.

MATURITY

The Finance and Investment Committee and the Foundation Staff shall be responsible for scheduling maturities.

REPORTING

The Foundation staff shall prepare the following reports for presentation on a quarterly basis to the Finance and Investment Committee.

1.) Schedule of investments,
2.) Interest income year to date,
3.) Current yield
4.) Liquidity Needs

Latest: February 2015
UNIVERSITY OF SOUTHERN MAINE FOUNDATION
INVESTMENT FUND

Purpose

The purpose of the Investment Fund is to sustain the long term benefits of the Foundation’s Permanently Restricted Funds (endowments), in order to fulfill the Foundation’s purpose to support the University of Southern Maine’s mission of education, research and public service.

Investment Objectives

1.) Maximum total return, consistent with prudent investment management. Return includes income plus realized and unrealized gains and losses on Investment Fund assets. Assets at a minimum should achieve a minimum real (adjusted for inflation) total return, net of investment management and administrative fees, of 4.75% over a rolling three to seven year period. It is recognized that this goal may be easily achieved in some periods but much harder to achieve in other periods.
2.) Diversification to avoid incurring unreasonable market risks. Total portfolio risk exposure and risk-adjusted returns will be regularly evaluated and compared to other Endowments.
3.) Investment management fees should be reasonable as reviewed by the Finance and Audit Committee, yearly.

Spending Policy

The annual spending amount is calculated using a 3-year market value average with a 5% spending rate applied. Of the 5%, 4/5th (or 4 percentage points) will be spent on the endowment restriction and 1/5th (or 1 percentage point) will be spent on other appropriate and reasonable costs. The spending rate will be reviewed each year, and determined no later than December 31, for the following fiscal year beginning July. Should the endowments be invested in another entity’s managed investment pool, the Foundation will provide notice of any changes in the approved spending rate, for the following fiscal year, to the outside entity no later than December 31 each year. For endowed funds that are below their historic gift value (underwater) spending amounts may or may not be realized each year. A determination will be made each year that the endowment is underwater, by taking in account such factors as market value, donor expectation and needs of the endowment.
Investment Guidelines

The Finance and Audit Committee is responsible for the investment and reinvestment of the funds of the Foundation. The committee may employ investment managers through separately-managed accounts or commingled vehicles and may delegate authority to purchase and sell securities. The Foundation may use a pooled investment approach and enter into an endowment pool investment agreement with another entity.

ASSET ALLOCATION

If any asset class weighting is outside its respective permissible range at the end of any calendar quarter, the Finance Committee will direct the investment manager to bring the portfolio into compliance as promptly and prudently as possible. Each asset class will be measured against the applicable benchmark as appropriate for the particular asset class.

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Permissible Range</th>
</tr>
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<tbody>
<tr>
<td>Equity</td>
<td>45-65%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>5-40%</td>
</tr>
<tr>
<td>Other</td>
<td>5-40%</td>
</tr>
</tbody>
</table>

MEASUREMENT OF PERFORMANCE AND REPORTING REQUIREMENTS

1.) Performance will be measured on a total return basis, quarterly by the Finance & Audit Committee.
2.) The Finance & Audit Committee will report performance results and asset allocation to the Board of Directors, at least yearly.
<table>
<thead>
<tr>
<th>Date of update</th>
<th>Reasons for Update</th>
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<tbody>
<tr>
<td>September 2001</td>
<td>initial policy</td>
</tr>
<tr>
<td>March 2004</td>
<td>entered into agreement with UMSystem to include Foundation endowments with their pool.</td>
</tr>
<tr>
<td>October 2010</td>
<td>complete review and rewrite of policy</td>
</tr>
<tr>
<td>August 2011</td>
<td>changed spending rate from 5% to 4.75%</td>
</tr>
<tr>
<td>March 2012</td>
<td>changed spending rate from 4.75% to 4.5%</td>
</tr>
<tr>
<td>February 2015</td>
<td>changed spending rate from 4.5% to 5%, and 1/5 identified as the administrative portion of the spending rate</td>
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