Office of the Maine State Treasurer
Investment Policy Statement for State Held Trusts

January 1, 2013

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 Maine State Treasurer, 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 124th Maine Legislature. Management of the Trusts' investment portfolio shall be handled by professional investment managers(s) selected from time-to-time by the State Treasurer.

Investment Management: The Maine State Treasurer may direct that the investment management duties are traditional full discretion, active management measured against appropriate category benchmarks and a total portfolio benchmark for the long-term asset allocation, as determined by the Treasurer. Or, the State Treasurer may direct that the investment management duties are passive, using index securities that correlate to and are measured against the prescribed index benchmarks, so that the investment manager(s) are primarily rebalancers of the index securities to conform to the total portfolio benchmark.

III. Investment Objectives, Implementation, Restrictions, Asset Allocation, Credit Quality, and Diversification:

a. Objectives: The three (3) investment objectives for the State Held Trusts are:

1. To provide reasonable capital preservation of the portfolio assets.
2. To provide reasonable long-term growth of the portfolio assets.
3. To provide for semi-annual disbursements when possible.

b. Implementation: 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. How the role that each investment or course of action plays within the overall investment portfolio; and
5. The expected total return from income and appreciation of investments.

c. 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 Maine Public Employees' Retirement System, or to the fund arising from the lands reserved for public uses (5 M.R.S.A §138).

d. Asset Allocation: Because of the long-term nature of their liabilities, and the need for growing market values to offset inflation, the asset allocation target is 75% stocks and 25% bonds for the State Held Trusts.

e. Credit Quality: For fully managed funds where the professional investment managers have full investment discretion, fixed income credit quality at time of purchase shall be a minimum bond rating of A by either Standard & Poors or Moody's rating service. Fixed income holdings in the portfolio thereafter shall maintain a minimum bond rating of BBB. No single credit (meaning its combined exposure as fixed income and equity securities) may represent more than 10% of any manager's total portfolio. The only exception to this shall be U.S. Treasury securities and other securities that are the full faith and credit of the United States Government, which in total shall not exceed 25% of any manager's total portfolio. Furthermore, no single common stock exposure shall exceed 7% of any manager's equity portfolio.

   For passively managed portfolios where index securities and/or mutual funds are the primary securities in use in the portfolio(s), the general criteria of the restrictions under paragraph III (c) shall apply and all such indices shall represent categories of equities and fixed income securities as chosen by the State Treasurer. All index securities shall be of investment grade categories as commonly used in actively managed portfolios.

f. Diversification: Each equity and fixed income security or vehicle used to construct the State Held Trusts portfolio(s) shall be appropriately diversified so as to reduce investment risk.

IV. Distributions and Capital Preservation:

a. Distributions: Income and authorized disbursements shall be remitted by the investment manager(s) upon request by the State Treasurer. The State Treasurer shall distribute to each beneficiary, on a regular basis, net income earned on the trust principal. Less than 100% of net earnings may be distributed if a beneficiary requests the State 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. Capital Preservation: The State Treasurer shall track the historic dollar value of the State Held Trusts. 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 contribution made pursuant to a direction in the applicable gift instrument at the time the contribution is added to the fund.

V. Responsibilities of Investment Manager(s):

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 (ERISA), 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 State Treasurer whenever the implementation of any policy or procedure set forth in this Policy Statement is, in the manager's professional judgment, antithetical to the best long-term interests of the State Held Trusts.

c. Notice: The investment manager(s) shall promptly notify the State Treasurer whenever it (they) experience(s) an organizational change that might materially 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 investment approach used to manage the State Held Trusts. The State Treasurer shall also receive prompt notice of any recommended deviations from the asset allocation guideline(s) outlined above.

d. Reporting: The investment manager(s) shall provide quarterly statements showing the separate performance of the stock and bond portions of the State Held trusts, 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, in actively managed, full discretion portfolios, at least semiannually the report should include a summary of activity during the period, the reason for such activity, and a statement concerning the investment strategies currently in use for carrying out the mandate of the State Treasurer. The latter two items (reason and 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 portfolio so that the State Treasurer may easily compare each investment manager's results to an appropriate baseline portfolio (Total Portfolio Benchmark).

e. The manager(s) shall submit monthly account statements which report the value of the accounts, list of holdings, and transactions for the month. Additional 'sub accounting' reports may be required to assist with income distribution and component values of each constituent within the trust funds.

VI. Performance Measurement:

a. The manager(s) shall report trust fund investment performance whenever requested by the State Treasurer, and at least semiannually in any reasonable format requested by the State Treasurer.

b. Ultimately, the investment performance of the total portfolio will be measured by comparison with its stated investment objectives. The long-term performance will be the result partly of the constraints and guidelines established in this Investment Policy Statement, and partly of

the results of the investment manager(s) actions (primarily regarding actively managed portfolios).

c. The inflation benchmark will be the Consumer Price Index for Urban Consumers or its successor.

d. To monitor the time-weighted, total return performance of the State Held Trusts, the State Treasurer intends to compare an investment manager's results to a baseline called the Total Portfolio Benchmark:

45%	S&P 500 Index
8%	S&P 400 MidCap Index
8%	S&P 600 SmallCap Index
14%	MSCI ACWI ex-U.S. International Index
22%	Barclays Capital Aggregate Bond Index
3%	Citigroup 3-Month T-Bill Index
100%	

VII. Policy Review

This Investment Policy Statement shall be reviewed by the investment manager(s) and the State Treasurer at least once per year to ensure that it remains appropriate and complete.

a. Investment Policy Statement to be updated on January 1, 2014.

Bruce L. Poliquin, Maine State Treasurer