FINANCE AUTHORITY OF MAINE

Investment Policy

Policy No. #.
Type of Policy: FAME General
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Last Revised: July 2024
External Requirement for Review: Annual

Policy Owner: Finance
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1. Reason for Policy

The purpose of this Investment Policy (the Policy) is to establish the investment scope, objectives, delegation of authority, internal controls, standards of prudence, authorized investments and transactions, diversification requirements, risk tolerance, safekeeping and custodial procedures, and reporting requirements for the investment of funds of the Finance Authority of Maine (FAME).

2. Policy Statement

The provisions of this Investment Policy shall apply to all investable funds managed by FAME including funds provided to FAME by other organizations such as the State of Maine and the United States Department of Education.

Excess cash from all programs managed by FAME, including daily cash balances, shall be pooled for investment purposes. The investment income derived from the pooled investment account shall be allocated based upon the proportion of the respective average balances relative to the total pooled balance. Interest earnings shall be distributed to the individual funds on a monthly basis. Exceptions can be made if organizations, which subcontract work to FAME, request an alternative investment approach and if the Board of Directors/Risk Management & Audit Committee approves the request.

3. Scope

Objectives

FAME's primary investment objectives for the portfolio are:

- Grow the real value of capital to further expand and achieve FAME's mission.
- Maintenance of sufficient liquidity to meet anticipated cash flow needs and other financial obligations.
- Seek growth of assets using a diversified portfolio of investments.
- Attainment of a competitive rate of return relative to an appropriate risk tolerance.
- Conformance with all applicable State and Federal regulations.

4. Definitions

Terms specific to this Policy.

4.1Defined Terms

a. See Investment Policy Statement Glossary

5. Procedures

Procedures outline how the policy's requirements will be met. Links to any forms needed to meet the policy's requirements. Use of links recommended, however, forms can also be uploaded directly to the policy page, if necessary.

5.1Investment Policy Statement

6. Responsibilities

Delegation of Authority and Internal Controls

FAME's Board of Directors has delegated FAME to conduct investment transactions and manage the operation of the investment portfolio to the Chief Executive Officer (CEO), who may further delegate to individuals serving in the positions under his or her supervision and control listed in the Investment Policy Statement - Appendix I (collectively, the "Investment Personnel") authority to conduct specific investment transactions, including managing wire transfers, provided they comply with this Investment Policy.

The CEO shall develop and implement administrative procedures and internal controls, consistent with this Investment Policy, for the operation of FAME's investment program. Such procedures shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of FAME.

7. Enforcement

Prudence and Indemnification

The standard of prudence to be used for managing FAME's assets 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

FAME's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. FAME recognizes that no investment is totally without risk and that its investment activities are a matter of public record. Accordingly, FAME recognizes that occasional measured losses may occur in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented.

Ethics and Conflicts of Interest

FAME's employees or members of the Board of Directors involved in the investment process shall refrain from any activity that could conflict with proper execution of the investment program or which could impair or create the appearance of an impairment of their ability to make impartial investment decisions. Those individuals involved with FAME's investments shall disclose annually in writing any material financial interests they have in financial institutions that conduct business with FAME.

8. Policy History

	Author	Description
03-17-2016	Carlos Mello, CRO	Annual Review
04-20-2017	Carlos Mello, CRO	Annual Review
11-21-2019	Carlos Mello, CRO	Implementation of Diversified Growth Investment Strategy
07-15-2021	S. Desiderio	Annual Review
07-21-2022	S. Desiderio	Annual Review
07-28-2023	S. Desiderio	Annual Review
07-18-2024	S. Desiderio	Annual Review
07-29-2025	S. Desiderio	Annual Review

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I. PURPOSE AND SCOPE

The purpose of this Investment Policy (the Policy) is to establish the investment scope, objectives, delegation of authority, internal controls, standards of prudence, authorized investments and transactions, diversification requirements, risk tolerance, safekeeping and custodial procedures, and reporting requirements for the investment of funds of the Finance Authority of Maine (FAME or FAME).

The provisions of this Investment Policy shall apply to all investable funds managed by FAME including funds provided to FAME by other organizations such as the State of Maine and the United States Department of Education.

Excess cash from all programs managed by FAME, including daily cash balances, shall be pooled for investment purposes. The investment income derived from the pooled investment account shall be allocated based upon the proportion of the respective average balances relative to the total pooled balance. Interest earnings shall be distributed to the individual funds on a monthly basis. Exceptions can be made if organizations, which subcontract work to FAME, request an alternative investment approach and if the Risk Management & Audit Committee approves the request.

II. ROLES AND RESPONSIBILITIES

a. Board, Risk Management & Audit Committee and Staff

While FAME's Board of Directors is the primary body charged with overseeing investment activities, it has delegated FAME to conduct investment transactions and manage the operation of the investment portfolio to the Chief Executive Officer (CEO), who may further delegate to individuals serving in the positions under his or her supervision and control listed on **Appendix I** (collectively, the "Investment Personnel") authority to conduct specific investment transactions, including managing wire transfers, provided they comply with this Investment Policy.

The CEO shall develop and implement administrative procedures and internal controls, consistent with this Investment Policy, for the operation of FAME's investment program. Such procedures shall be designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of FAME.

The Risk Management & Audit Committee of FAME's Board of Directors shall provide oversight and advice for the investment function.

The CEO may engage the support services of outside professionals in regard to its investment program, in an effort to produce a net financial advantage or necessary financial protection of FAME's financial resources.

b. Managers

Each Manager shall be a bank, insurance company, investment management company, or investment advisor as defined by the Investment Advisors Act of1940. Under the circumstances that FAME invests in commingled investment vehicles (e.g., collective bank trusts or mutual funds), the Board/Risk Management and Audit Committee acknowledges that the investment guidelines defined in the governing documents for these investments shall preside over those outlined in this Statement. It is expected that the FAME's Managers will:

i. exercise full investment discretion over the assets in their care, custody, and/or control consistent with the presiding investment guidelines set forth;

ii. be directly responsible for determining and implementing investment strategy in accordance with the mandate for which they were hired;
iii. be responsible for seeking best execution of trades related to the portfolios they manage;
iv. provide periodic performance evaluation reports that comply with the Global Investment Performance Standards (GIPS) issued by the CFA Institute;
v. promptly communicate to FAME any material organizational changes;
vi. shall promptly vote all proxies and related actions consistent with the interests of FAME (or those of their commingled fund investors if appropriate).

c. Custodian Bank

The Custodian Bank (Custodian) is responsible for:

i. fulfilling all the regular duties of a custodian as required by applicable state and federal laws (as further defined in the custodial services agreement);
ii. receiving all contributions and paying all withdrawals as directed in proper instructions;
iii. safekeeping of assets, timely settlement of securities transactions, timely crediting of all income and principal realizable by the Plans, and the daily sweep of excess cash from manager accounts into a suitable cash management vehicle;
iv. upon direction, rebalancing FAME assets under custody and raising required cash;
v. reporting periodically on all monies received or paid on behalf of FAME and on all securities under the custody contract including securities transactions that remain unsettled;
vi. and distributing promptly to the Committees or their designees all proxy materials or other corporate actions received by the Custodian relating

d. Investment Consultant

The Investment Consultant shall:

i. provide independent and unbiased information to the Risk Management and Audit Committee;
ii. assist in the development and amendment of this Investment Policy;
iii. assist in the establishment of strategic allocation targets;
iv. assist in the development of performance measurement standards;
v. report quarterly investment performance results and risk characteristics of the FAME's investments to the Risk Management and Audit Committee/Board;
vi. monitor and evaluate Manager performance on an ongoing basis;
vii. and conduct due diligence on FAME's current and prospective managers.

III. PRUDENCE AND INDEMNIFICATION

The standard of prudence to be used for managing FAME's assets 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.

FAME's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. FAME recognizes that no investment is totally without risk and that

its investment activities are a matter of public record. Accordingly, FAME recognizes that occasional measured losses may occur in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented.

IV. ETHICS AND CONFLICTS OF INTEREST

FAME's employees or members of the Board of Directors involved in the investment process shall refrain from any activity that could conflict with proper execution of the investment program or which could impair or create the appearance of an impairment of their ability to make impartial investment decisions. Those individuals involved with FAME's investments shall disclose annually in writing any material financial interests they have in financial institutions that conduct business with FAME.

V. INVESTMENT OBJECTIVES

FAME's primary investment objectives for the portfolio are:

i. Grow the real value of capital to further expand and achieve FAME's mission.
ii. Maintenance of sufficient liquidity to meet anticipated cash flow needs and other financial obligations.
iii. Seek growth of assets using a diversified portfolio of investments.
iv. Attainment of a competitive rate of return relative to an appropriate risk tolerance.
v. Conformance with all applicable State and Federal regulations.

To meet these objectives, FAME has segmented the FAME portfolio into two components, a liquid short-term operating asset pool, the Reserve Portfolio, and a long-term diversified investment pool, the Growth Portfolio.

The level of assets allocated to the Reserve Portfolio is to be based on a multiple of reasonable expectations for yearly cash flow needs, where cash flow needs and the reserve multiple is to be reviewed on a regular basis.

i. Reserve Multiple: Two times annual cash flows
ii. Review Frequency: Annually

VI. STRATEGIC ALLOCATION

a. Asset Allocation

Strategic allocation refers to the strategic deployment of assets among the major classes of investments. It is the primary determinant of success in meeting longterm investment objectives. The strategic allocation is established by the Board with input from the Risk Management and Audit Committee and the Investment Consultant.

The strategic allocation policy is implemented through the use of full discretion investment managers who invest the assets of the portfolios assigned to them, subject to specific investment guidelines provided by the fund's governing documents (e.g., commingled funds).

The strategic allocation for FAME's two asset pools are as follows:

Reserve Portfolio

Strategic Class	**Target**
Cash & equivalents and short-term fixed income	100%
Total	**100%**

Growth (Diversified) Portfolio

Strategic Class	**Target**
Diversifying	40%
Growth	60%
Total	**100%**

b. Growth Portfolio's Strategic Class Ranges

The Board will utilize the following asset class ranges/bounds in managing the diversified investment portfolio. These ranges apply to the prevailing evolving policy allocation that is in effect.

Strategic Class	Target	Range
Diversifying		
Core Fixed Income	40%	± 5% (35% - 45%)
Growth		
Global Equity	60%	± 5% (55% - 65%)
-US Equity	*36%*	*± 3% (33% - 39%)*
-International Equity	*24%*	*± 2% (22% - 26%)*

c. Growth Portfolio's Strategic Class Definitions

FAME will utilize the following portfolio components to fulfill the asset allocation targets and total fund performance goals established in this document.

i. **Global Equity** – The Board expects the Global equity component to achieve long-term returns in-line with the traditional public equity markets. The underlying strategies are broadly susceptible to changes in global economic growth and corporate profitability. The Board expects that over the long run, total returns on global equities will be higher than the returns of fixed income securities, understanding such returns may be subject to substantial volatility over shorter periods of time.

   1. Index Funds / Core Stocks – This portfolio will provide broadly diversified, core exposure through index funds to the Global equity market, primarily in large capitalization companies. The target index fund to be tracked by this segment shall be the MSCI ACWI Index.

   2. US / Non-US – The class may be split into US and Non-US Investment vehicles depending on factors including vehicle availability, cost ,etc.

ii. **Fixed Income** – The primary role of the fixed income portfolio is to provide a more stable investment return and to generate income while diversifying the Fund's investment assets.

   1. Index Funds / Core Bonds – This portfolio will provide core exposure through index funds to the U.S. fixed income market including investment grade corporate debt, U.S. Treasury, mortgage-backed, and asset backed securities with short, intermediate, and long maturities in excess of one year, resulting in a portfolio of

intermediate durations. The target index fund to be tracked by this segment shall be the Bloomberg Barclays Capital U.S. Aggregate Bond Index.

d. Rebalancing

The Board/Risk Management and Audit Committee has a policy of rebalancing the Portfolio when actual strategic allocations fall outside of the strategic class ranges. Subject to market conditions, portfolio rebalancing shall be executed by FAME Staff on a systematic basis when strategic allocations fall outside of the strategic class ranges. In order to minimize transaction costs and operational risks, cash flows, such as contributions received or payments made, will be the primary mechanism used to achieve rebalancing objectives when strategic allocations are not at the targets but are not outside the strategic class ranges. Staff shall have FAME to rebalance towards strategic allocation targets without cash flows and when actual allocations are not outside of the strategic class ranges if the intent is to reduce overall portfolio risk. These customary rebalancing procedures notwithstanding, during periods of extreme market conditions, illiquid markets, or other extenuating circumstances in which rebalancing may be difficult or costly, the Board may, at its discretion, elect to suspend rebalancing until a time it believes is prudent.

VII. GENERAL INVESTMENT GUIDELINES

a. Authorized Security Types

The following types of securities are authorized for investment purposes by FAME:

i. State Treasurer's Cash Pool: The cash investment pool managed by the Maine State Treasurer.

ii. Money Market Mutual Funds registered under the Investment Company Act of 1940 which: are "no-load" (i.e. no commission fee shall be charged on purchases or sales of shares); have the objective of maintaining a constant daily net asset value per share of $1.00; have a maximum stated maturity and weighted average maturity in accordance with Rule 2a-7 of the Investment Company Act of 1940; and have a rating of AAA or the equivalent.

iii. Equity Funds registered under the Investment Company Act of 1940 that: are "no-load" (i.e. no commission or fee shall be charged on purchases or sales of shares); owns a diversified portfolio of common stocks publicly traded in the U.S. and International markets

iv. Bond Funds registered under the Investment Company Act of 1940 that: are "no-load" (i.e. no commission or fee shall be charged on purchases or sales of shares); owns a diversified portfolio of fixed income securities.

v. Bank/Credit Union Deposits, including NOW Accounts, Time Certificates of Deposit, and Other Accounts with a maturity not exceeding 5 years from the date of trade settlement in state or nationally chartered banks, credit unions, or savings and loans and which are insured by the FDIC or NCUA, are fully guaranteed by a letter of credit, or are fully collateralized with U.S. Treasuries or securities issued by the Government National Mortgage Association (Ginnie Mae), and qualify as a depository for State funds. Amounts which exceed the FDIC or NCUA insured amount may only be invested in financial institutions which have a Highline Data Rating of 20 or better, or other similar rating from a comparable entity, at the time of purchase. In addition, if the aggregate amount of the accounts in any one financial institution exceeds 25% of the firm's capital, surplus and undivided profits or 25% of the firm's reserve fund and undivided profits, the accounts shall be collateralized in accordance with Maine Revised Statutes Annotated. No new accounts/banking relationships will be opened without an authorizing resolution approved by the Board of Directors.

vi. Repurchase Agreements with a termination date not exceeding 1 year, collateralized by U.S. Treasury, Agency or Instrumentality securities listed in 1, 2 or 3 above with maturity of the collateral not exceeding 10 years. The purchased securities shall have an original minimum

market value including accrued interest of 102% of the dollar value of the transaction and the collateral maintenance level shall be 101%. Collateral securities shall be marked-to-the-market weekly.

1. Repurchase Agreements shall be entered into only with primary dealers reporting to the Federal Reserve Bank of New York or with a financial firm that has a primary dealer within its holding company structure, or banks which meet the credit criteria as outlined in the section of this Policy relating to Selection of Banks and Savings and Loans.

It is the intent of FAME to invest in the foregoing list of authorized securities. Any deviation from this list must be preapproved by the Risk Management & Audit Committee and documented in the minutes of the Risk Management & Audit Committee.

b. Selection of Banks and Savings and Loans

FAME may use bank rating services, the assistance of its investment advisor, or the State Treasurer's Office to help identify banks and savings and loans qualified to provide depository and other banking services, and from which FAME may purchase Certificates of Deposit. To be eligible for authorization, a bank or savings and loan must be a member of the FDIC. FAME will periodically evaluate existing banking relationships to determine that they are acceptable.

c. Safekeeping and Custody

The CEO shall select one or more financial institutions to provide safekeeping and custodial services for FAME. A safekeeping agreement shall be executed with each custodian bank prior to utilizing that bank's safekeeping services. Custodian banks shall be selected on the basis of their ability to provide services for FAME's account and the competitive pricing of their safekeeping related services. FAME may use bank rating services, the assistance of its investment advisor, or the State Treasurer's Office to help select appropriate institutions.

The purchase and sale of securities and Repurchase Agreement transactions shall be settled on a delivery versus payment basis. It is the intent of FAME that all securities be perfected in the name of FAME. Sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

All deliverable investments purchased by FAME will be held in third party safekeeping by an Authority approved custodian bank, its correspondent bank, or the Depository Trust Company (DTC). Excluded from these investments are those amounts held in the State Treasurer's Cash Pool and FAME's operating bank accounts.

All fed wirable book-entry securities owned by FAME shall be evidenced by a safekeeping receipt or a customer confirmation issued to FAME by the custodian bank stating that the securities are held in the Federal Reserve system in a Customer Account or Trust Account for the custodian bank which will name FAME as "customer."

All securities which are eligible for delivery through the Depository Trust Company (DTC) shall be held in the custodian bank's DTC participant account and the custodian bank shall issue a safekeeping receipt to FAME evidencing that the securities are held by the DTC for FAME as "customer."

VIII. SELECTION PROCESS OF INVESTMENT MANAGERS/FUNDS

The process of investment manager/fund selection shall originate with the Board/ Risk Management and Audit Committee. Unless the Board decides otherwise, all searches shall be conducted by FAME staff and the investment consultant.

The first step shall involve the establishment of appropriate minimum criteria such as minimum asset base, performance history, special firm qualifications, years of experience, etc. that reflect an appropriate level of institutional investment service. Based upon these criteria, FAME staff and/or consultant shall design the appropriate request for proposal (RFP) or request for information (RFI) to be delivered to the institutional marketplace.

FAME staff and/or consultant shall devise a ranking system to evaluate the qualifications of the RFP/RFI respondents. Their objective shall be to narrow the field to several firms for in-depth review and finalist selection. Following the selection, FAME staff shall negotiate final terms and conditions with the chosen manager and complete the review and negotiation of all appropriate contracts and agreements.

IX. PERFORMANCE STANDARDS

a. Reserve Portfolio

The investment portfolio shall be designed to attain a competitive rate of return throughout budgetary and economic cycles, taking into account prevailing market conditions, risk constraints for eligible securities, and cash flow requirements. The basis for measurement used to determine whether a competitive rate of return is being achieved shall be a comparison to the yields earned on similar funds and/or indices as approved by the Board/Risk Management & Audit Committee.

b. Growth Portfolio

i. Performance Evaluation

Managers will be evaluated against their stated investment objectives and investment performance standards, and it is expected that each manager will meet or exceed these objectives over a complete market cycle. Performance will be judged relative to the Managers' benchmarks, as well as comparable peer universes of similar strategies. Performance will be measured and analyzed quarterly. Evaluation will take into consideration both rates of return and volatility of returns.

c. Termination

It is the Board/Risk Management and Audit Committee's intention to maintain long-term investments with Managers and to avoid unnecessary Manager turnover. From time to time, however, it may be necessary, to terminate a relationship. Termination may occur due to any number of qualitative factors and/or quantitative factors. Absent overriding factors for keeping a Manager, the following factors may result in termination:

i. a significant change in the structure, management style, or personnel of the Investment Manager's organization;

a lack of confidence that the manager can produce acceptable results in the future;

failure to achieve the performance standards set for that manager's style classification;

a change in the FAME's investment strategy that makes retaining a given Manager imprudent;

Evidence of illegal or unethical behavior by the investment management firm;

Unwillingness to cooperate with reasonable requests by the FAME, such as information, meetings or other material related to its portfolio;

or any other reason the Risk Management and Audit Committee deems appropriate.

X. PORTFOLIO MONITORING PROCEDURES AND CRITERIA

a. Reserve Portfolio

The assets in the Reserve Portfolio are to be invested in the State Treasurer's Cash Pool. Results of the State Treasurer's Cash Pool shall be reviewed against other ultra-low risk investment options.

To the extent assets in the Reserve Portfolio are invested outside the State Treasurer's Cash Pool, the CEO shall prepare periodic reports that include the following information: a listing of individual investments in the portfolio, including the date of purchase, maturity, original cost and market value; income earned for the period, return for the period, and weighted average maturity. The CEO shall present to the Risk Management & Audit Committee, at least three times a year, a review of the portfolio's performance and seek approval for all transactions.

b. Growth Portfolio

Monitoring procedures are designed to take place in sequence in order to provide an ample amount of information and feedback before any significant changes are decided upon. The Board/Risk Management and Audit Committee may review and modify investment performance criteria or other portions of this document periodically on an as needed basis.

There are two major groups of monitoring activities: Ongoing Monitoring and Periodic Monitoring. Both the investment manager/fund and the Board/Risk Management and Audit Committee (and/or its investment consultant) conduct certain monitoring functions. A significant aspect of the Ongoing Monitoring activity is the measurement and assessment of investment performance. This procedure is described below.

i. Ongoing Monitoring Activities

As part of the ongoing reporting process, the investment manager will report quarterly and trailing annualized performance of the respective portfolio(s)/fund(s) to FAME and its consultant on a quarterly basis (i.e., every three months). In addition, the investment manager will provide performance attribution statistics that explain the causes of under- or out-performance relative to the established benchmarks.

The investment manager will also report any changes in investment-related personnel, organization or investment approach/strategy that may
potentially impact the investment results of the portfolio in question.

FAME (or its investment consultant) will evaluate investment performance on a quarterly basis using the investment performance criteria. Such evaluations will also be used to verify the quarterly performance information disclosed by the investment managers themselves (see above). If the investment manager(s) do(es) not meet one or more of the criteria, the Board/Risk Management and Audit Committee will place the specific investment manager(s)/fund(s) on watch status for investment performance reasons.

The quarterly evaluation will indicate (i) whether an investment manager/fund is on watch status; (ii) the reason for watch status, (iii) the approximate date the investment manager

and the respective portfolio/fund was placed on watch status, (iv) the length the investment manager/fund has been on watch status, and (v) additional comments. If the investment manager/portfolio/fund was placed on watch status for investment performance reasons, the status report will also include post-watch investment performance to gauge if the investment manager/fund is addressing investment performance issues.

ii. Periodic Monitoring Activities

As part of its ongoing fiduciary responsibilities, as well as in assessing the potential of an investment manager/fund to produce future added value, FAME and its investment consultant should regularly review several qualitative aspects of an investment manager's management and practices. Key qualitative factors include, but are not limited to:

1. Compliance with the guidelines agreed upon for management of the portfolio,
2. Review of the investment manager(s)/fund(s) investment strategy and style,especially the buy/sell disciplines;
3. Review of portfolio activity, specifically the turnover rate, number of holdings, and execution costs;
4. Risk profile relative to the portfolio's benchmark;
5. Review of organizational structure;
6. Stability of investment manager personnel and organization;
7. Review of investment manager contractual obligations (including management fees);
8. Evidence of illegal or unethical behavior by the investment management firm; and
9. Unwillingness to cooperate with reasonable requests by the Board/Risk Management and Audit Committee, such as information, meetings or other material related to its portfolios.

As previously discussed, certain investment manager(s)/fund(s) may (i) fail to meet pre-established investment performance criteria and/or (ii) may prove sub-standard across any number of qualitative factors. In such cases, the next step would be for FAME (or FAME's investment consultant) to produce a document called a Portfolio Review. This Portfolio Review would explain those factors where the investment manager(s) and/or portfolio(s)/fund(s) are failing to meet specific criteria and provide a basis for putting investment manager(s)/fund(s) on watch status. The Portfolio Review would typically be in the form of a memo to the Board/Risk Management and Audit Committee.

iii. Watch Status

An investment manager/portfolio attains watch status if at least one of two events occurs: (i) the portfolio's investment performance does not meet one of the criteria found in Schedule 1, or (ii) after the Portfolio Review is conducted, FAME staff and/or the investment consultant recommends to the Board/Risk Management and Audit Committee that an investment manager/fund is a candidate for watch status. The Board/Risk Management and Audit Committee then approves or disapproves the recommendation.

Watch status serves two basic purposes. First, it is a major decision step the Board/Risk Management and Audit Committee takes to begin transitioning from one investment manager/fund to an alternative investment manager/fund. Second, it allows the investment manager/fund on watch status time to take any corrective action (or justify its changing condition) before the Board/Risk Management and Audit Committee elects to terminate its existing relationship with the investment manager/fund.

Typically, once a manager/fund is placed on watch status, it should be able to exhibit improvement within a time frame of nine to fifteen months, if not sooner.

Release from Watch Status

Investment managers/funds that show indications of an improvement, as reviewed by the investment consultant and determined by the Board/Risk Management and Audit Committee, in one or more of the factors described earlier may be released from watch status. Examples of improvements warranting a change in status are:

1. Improved investment performance in approximately fifteen months (or less) from the time of being placed on watch status.
2. Investment style characteristics return to, and remain at, levels originally agreed upon.
3. Qualitative factors (such as organizational structure stabilizes, personnel adjustments, compliance requirements, etc.) are met/satisfied.

To release an investment manager/fund from watch status, the Board/Risk Management and Audit Committee must formally take action to do so. This action should be supported by documentation similar in format to the Portfolio Review described above. This document would highlight original reasons for the watch status and discussion of how the investment manager/fund has addressed these issues and warrants release from watch status.

Replacement / Termination

If an investment manager/fund is not released from watch status within the appropriate period (given as nine-to-fifteen months from the Board's decision), then the investment consultant should recommend that the Board/Risk Management and Audit Committee replace and/or terminate the investment manager. The Board/Risk Management and Audit Committee then approves or disapproves the recommendation.

To terminate and/or replace an investment manager/fund, the Board/Risk Management and Audit Committee must formally take action to do so. This action should be supported by documentation similar in format to the Portfolio Review described above. This document would highlight original reasons for the watch status and discussion of continued developments during watch status that led to the termination/replacement recommendation.

Schedule 1: Manager Watch Criteria[1]

	Short-term (Rolling 12 mth periods)	Medium-term (Rolling 36 mth periods)	Long-term (Rolling 60 mth periods)
Strategic Class	**Tracking Error[2]>** 2 consecutive Calendar qtr end dates	**Tracking Error[3]>** 2 consecutive Calendar qtr end dates	**Portfolio Annlzd Return< Benchmark Annlzd. Return** 2 consecutive Calendar qyr end dates
Passive Domestic Equities	0.35%	0.20%	-0.10%
Passive International Equities	0.70%	0.40%	-0.25%
Passive Fixed Income	0.40%	0.55%	-0.35%

[1]Separate accounts, institutional commingled funds, and LPs are evaluated gross of manager fees. Mutual funds are evaluated net of manager fees.

[2]Tracking error is a measure of the volatility of the average annual difference between the portfolio's return and the benchmark's return.

[3]Tracking error is a measure of the volatility of the average annual difference between the portfolio's return and the benchmark's return.

XI. MANAGER INVESTMENT GUIDELINES

Commingled Funds (mutual funds, etf's and the State Treasurer's Cash Pool)

For external investment manager relationships in which FAME is invested in a commingled vehicle, the portfolio is to be managed in accordance with the commingled vehicle guidelines.

Separate Accounts

External managers are expected to notify FAME and its investment consultant of any non-compliance with the applicable investment manager guidelines in a reasonable timeframe. This notification should include the cause of the non-compliance and the method by which the issue will be resolved.

POLICY REVISIONS

This Investment Policy has been adopted by the Finance Authority of Maine and it replaces any previous investment guidelines formulated by members of FAME's staff. This Investment Policy has been reviewed by the Finance Authority of Maine Board of Directors at its meeting on XXXXX.

The CEO and the Risk Management & Audit Committee shall review this Investment Policy annually.

APPENDICIES

Appendix I

AUTHORIZED PERSONS

The following persons are authorized to conduct investment transactions on behalf of FAME:

Chief Executive Officer
Director of Finance
Accounting Manager
Senior Accountant

Appendix II

Investment Performance Benchmarks

Bloomberg U.S. Aggregate Bond Index

The Bloomberg U.S. Aggregate Index consists of taxable fixed income securities that are SEC-registered and U.S. dollar denominated. The index covers the broad U.S. investment grade fixed coupon rate bond market with index components for government and corporate securities, residential mortgage-backed securities, commercial mortgage-backed securities and asset-backed securities. Government and corporate securities include non-U.S. issuers, although non-U.S. issuers represent only a small portion of the index. Each security in the index must have at least one year to final maturity regardless of call features. Each security must be rated investment-grade (Baa3/BBB- or higher) in quality by at least two of the following ratings agencies: Moody's, S&P, Fitch. If only one of the three ratings agencies rates a security, the rating must be investment grade. The index typically has a weighted average duration between three and five years which is considered to be intermediate-term in duration.

MSCI ACWI ex US Index ND

The MSCI All Country World ex USA Index ND is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets excluding the US. The MSCI ACWI ex USA consists of 45 country indexes comprising 22 developed and 23 emerging market country indexes. The developed market country indexes included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. The emerging market country indexes included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates. Net total return indexes reinvest dividends after the deduction of withholding taxes, using (for international indexes) a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.

Russell 3000 Index

The Russell 3000 Index measures the performance of the largest 3,000 publicly held US companies based on total market capitalization, which represents approximately 98% of the investable US equity market.

GLOSSARY

Bankers' Acceptance (BA): A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

Broker: A broker brings buyers and sellers together for a commission paid by the initiator of the transaction or by both sides.

Callable Bond: A bond issue in which all or part of its outstanding principal amount may be redeemed before maturity by the issuer under specified conditions.

Certificate of Deposit: A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs are typically negotiable.

Collateral: Securities or property pledged by a borrower to secure payment.

Commercial Paper: An unsecured promissory note with a fixed maturity of no more than 270 days. Commercial paper is normally sold at a discount from face value.

Dealer: A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his/her own account.

Debenture: A bond secured only by the general credit of the issuer.

Delivery Versus Payment: There are two methods of delivery of securities: delivery versus payment and delivery versus receipt (also called free). Delivery versus payment is delivery of securities with an exchange of money for the securities. Delivery versus receipt is delivery of securities with an exchange of a signed receipt for the securities.

Discount Securities: Non-interest bearing money market instruments that are issued at a discount and redeemed at maturity for full face value.

Diversification: Dividing investment funds among a variety of securities and maturities offering independent returns.

Federal Agency Security: Debt issued by an agency of the federal government that is explicitly guaranteed by the full faith and credit of the United States government. The Government National Mortgage Association (GNMA or Ginnie Mae), is an example of an agency issuer.

Federal Deposit Insurance Corporation (FDIC): A federal institution that insures bank and savings and loan deposits, currently up to $250,000.

Federal Funds Rate: The rate of interest at which Fed funds are traded. This rate is currently pegged by the Federal Reserve through open-market operations.

Federal Instrumentality Security: Debt issued by a government sponsored enterprise that carries an implicit or explicit guarantee of the United States government. Examples of instrumentality issuers include the Federal National Mortgage Association (FNMA or Fannie Mae), the Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), the Federal Home Loan Banks (FHLB), and the Federal Farm Credit Bank (FFCB).

Federal Reserve Book Entry System: A computer system linking member banks and other financial institutions to the Fed, used for making inter-bank payments of Fed funds and for making deliveries of and payments for Treasury, agency and book-entry mortgage backed securities.

Guaranteed Investment Contract (GIC): A debt instrument issued by an insurance company or other financial institution, usually in a large denomination, in which the interest rate is guaranteed but the principal is not.

Investment Adviser's Act: Legislation passed by Congress in 1940 that requires all investment advisers to register with the Securities and Exchange Commission. The Act is designed to protect the public from fraud or misrepresentation by investment advisers.

Liquidity: A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value.

Mark-to-market: The process whereby the book value or collateral value of a security is adjusted to reflect its current market value.

Market Value: Current market price of a security.

Master Repurchase Agreement: A written contract covering all future transactions between the parties to repurchase or reverse repurchase agreements that establish each party's rights in the transactions. A master agreement will often specify, among other things, the right of the buyer to liquidate the underlying securities in the event of default by the seller.

Maturity: The date upon which the principal or stated value of an investment becomes due and payable.

Money Market Mutual Fund: A mutual fund governed by Rule 2a-7 of the Investment Company Act of 1940 that limits its investments to some or all types of money market instruments.

Net Asset Value: The market value of one share of an investment company, such as a mutual fund.

No Load Fund: A mutual fund that does not levy a sales charge on the purchase of its shares. **Portfolio:**

Collection of securities held by an investor.

Primary Dealer: A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks, and a few unregulated firms.

Prudent Person Rule: 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.

Rate of Return: The yield obtainable on a security based on its purchase price or its current market price. This may be the amortized yield to maturity on a bond or the current income return.

Ratings: An evaluation of an issuer of securities by Moody's, Standard & Poor's, Fitch, or other rating services of a security's credit worthiness.

Repurchase Agreements: A transaction whereby a holder of securities sells securities to an investor with an agreement to repurchase them at a fixed price on a fixed date. The security "buyer" in effect lends the "seller" money for the period of the agreement, and the terms of the agreement are structured to compensate the buyer. Dealers use repurchase agreements extensively to finance their positions.

Rule 2a-7 of the Investment Company Act: Applies to all money market mutual funds and mandates such funds to maintain certain standards, including a 13-month maturity limit and a 60-day maximum average maturity on investments, and maintenance of a constant net asset value of one dollar ($1.00).

Safekeeping: Holding of assets (e.g., securities) by a financial institution.

Treasury Bills: A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in one month, three months, six months, or one year.

Treasury Bonds: Long-term coupon bearing U.S. Treasury securities having initial maturities of more than ten years.

Treasury Notes: Intermediate term coupon bearing U.S. Treasury securities having initial maturities of from one to ten years.

Yield: The rate of annual interest income realized on a fixed-income investment, expressed as a percentage