

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM

INVESTMENT POLICY STATEMENT FOR THE ASSETS OF THE SYSTEM'S DEFINED BENEFIT RETIREMENT PLANS

INTRODUCTION

The Board of Trustees of the Maine Public Employees Retirement System is authorized and responsible to administer Defined Benefit retirement programs at the State and local levels. Funding for benefits under these plans is provided by employee and employer contributions and earnings on the investment of contributions. In the exercise of its authority and responsibility, the Board has defined its investment objective and established an investment policy and the investment program by which the policy is implemented. In the case of conflicts, this policy statement supersedes previous policies and actions by the Board.

In implementing the investment policy, the Board of Trustees relies on:

- staff, with authority and responsibility to implement the investment policy and administer investment operations;
- consultants, with appropriate expertise, to assist the Board and the staff;
- investment managers, selected individually and collectively to reflect and implement the investment policy, having full discretion within policy and contractual limits to manage assets allocated to them; and
- custodians qualified to carry out recordkeeping, reporting, measurement and custodial functions.

EXCLUSIVE BENEFIT RULE AND PRUDENT PERSON RULE

In the exercise of its investment authority and responsibility, the members of the Board of Trustees act as fiduciaries and are subject to what are generally known as the "exclusive benefit rule" and the "prudent person rule." The exclusive benefit rule, which is embodied in the Maine Constitution, states that the Board of Trustees holds the System's retirement assets in trust for the exclusive purpose of providing retirement benefits to the System's members. The prudent person rule requires that in investing, the Board of Trustees use the reasonable care, skill, and caution that is expected of reasonable investors in similar circumstances and that the investment strategy have risk and return objectives suited to the trust.

SCOPE

This policy covers the investment management of the assets of the following Defined Benefit programs administered by the Board:

- Legislative Retirement Program;
- Judicial Retirement Program;
- State Employee and Teacher Retirement Program, which includes State employees and public school members; and
- Participating Local District Retirement Program which includes retirement plans of withdrawn participating local districts and Consolidated Plan for Participating Local Districts.

Collectively, the assets of these programs are referred to as the DB Plan Assets. Statutes allow for the pooling of the DB Plan Assets for the purpose of investment. Pooling provides significant efficiencies. Because the relevant characteristics of the DB plans are sufficiently similar, all the DB Plan Assets are pooled for investment.

INVESTMENT OBJECTIVE

The Board's objective for the investment of the DB Plan Assets is to balance the following two goals over a long time horizon (30-year plus):

- maximize the funding ratio of the plans; and
- minimize the volatility of the funding ratio of the plans;

For the purposes of this Investment Policy, the funding ratio is defined as the ratio of the market value of a program's retirement assets to the market value of that program's retirement liabilities. This funding ratio may differ from the funding ratios presented in the programs' actuarial valuations.

INVESTMENT STRATEGY

Strategic Asset Allocation:

The Board has established the following strategic asset class allocations to satisfy the investment objectives:

	% of Total Assets
U.S. Equities	30%
Non-U.S. Equities	25%
Alternative Assets	20%
Opportunistic Strategies	0% (up to 10%)
Return-Seeking Assets	75%
Fixed Income	25%
Low Risk Assets	25%
Total Assets	100%

The broad target of 20% Alternative Assets includes target allocations to various asset classes: 10% to Real Estate, 5% to Infrastructure and 5% to Private Equity.

The Board has adopted a policy to implement 100% of the U.S. Equity and Non-U.S. Equity asset classes with passive strategies (i.e. index funds). This policy does not rule out the use of active management within the Alternative Asset, Opportunistic Strategies, and Fixed Income asset classes.

The actual holdings in the portfolio are not limited to the named asset classes. The category of opportunistic assets will encompass other categories of asset classes.

Whenever a change is made to the asset allocation, the transition to the new allocation will occur in the most reasonable, advantageous manner with the lowest fees.

It is anticipated that the transition to this new asset allocation will take from two to up to five years to implement. During the implementation period, the Policy Benchmark will reflect the actual asset allocation in effect at the beginning of each quarter. After the target asset allocation for each asset class has been reached, the Policy Benchmark weights will be the ones described below.

ASSET ALLOCATION REBALANCING

The Board has delegated the management of asset class allocation to Staff. Staff will periodically rebalance the total fund allocation subject to the following ranges:

	Target % of Total Assets	Range
U.S. Equities	30%	25 – 35%
Non-U.S. Equities	25%	20 – 30%
Alternative Assets	20%	5 – 25%
Opportunistic Strategies	0%	0% - 10%
Return-Seeking Assets	75%	65 – 80%
Fixed Income	25%	20 – 35%
Low Risk Assets	25%	20 - 35%
Total Assets	100%	100%

On a monthly basis the actual asset allocation would be compared to these asset class ranges. To the extent that one or more asset classes are outside of these ranges, a rebalancing of the asset allocation would occur through desirable trades at the lowest possible cost and accomplished in the most reasonable and advantageous manner. Generally the asset classes would be rebalanced to roughly their target weights, but in some circumstances (i.e. poor trading conditions, crossing opportunities, etc.) rebalancing the asset classes might be accomplished more appropriately to a different point within the acceptable ranges. The Board would review reports on rebalancing at least annually.

Staff is delegated the responsibility of determining when rebalancing is necessary and appropriate, determining the appropriate adjustments and implementing the actual adjustment.

INVESTMENT MANAGER SELECTION AND ALLOCATION PROCESS

Maine Public Employees Retirement System contracts with investment managers, who are charged to act as fiduciaries, and allocates assets among them. The Board has delegated to its Staff and investment consultant the process of manager identification and recommendation for selection. The Board retains for itself final authority for manager selection, retention and termination decisions. The Staff is also charged with monitoring performance and making retention and termination recommendations to the Board.

The investment manager selection process does not require the identification of a need to hire an investment manager in a particular asset class. Rather, each manager is selected and retained on the basis of an evaluation that establishes sufficient confidence that the manager will improve the return and risk of the investment program. If and when Staff and/or consultant identify an investment manager that they believe will improve the investment program, irrespective of the asset class, Staff will make a recommendation to the Board of Trustees that the manager be hired. This recommendation will be accompanied by an opinion of the investment consultant on

this recommendation. The Board retains the final authority to accept, modify or reject such recommendations.

For each manager search and recommendation to hire, the Staff and investment consultant will present to the Board of Trustees those selection criteria that they deem appropriate to be applied in that instance. Staff and consultant will provide the Board with all the necessary information and analysis to enable an informed decision. The Board may interview the recommended manager.

DERIVATIVES/LEVERAGE

In general, investment in derivatives is permitted provided that the purpose of the investment is to achieve the investment objective at lower cost and/or risk than would be the case with direct investments in the underlying securities, and provided that the value of the assets represented by the derivative investment does not exceed the cash component of DB Plan Assets (i.e., provided that the use of derivatives does not introduce leverage).

Investment in any strategy that involves the use of leverage requires specific approval of the Board.

TRANSACTION COSTS AND BROKERAGE

The Board of Trustees expects investment managers, in their capacity as fiduciaries, to manage transaction costs in the best interests of the plans' participants. To enable the managers to fulfill this fiduciary duty, it is the Board's policy not to be party to directed brokerage programs.

SECURITIES LENDING

All DB Plan Assets are available for securities lending. The System may participate in a securities lending program either directly through its separately managed portfolios or indirectly through its investments in pooled vehicles. In each case, the securities lending program must focus on low risk, as opposed to maximization of returns.

MONITORING

The Board relies on Staff and the investment consultant to continuously monitor the investment program and to report to the Board as outlined below.

- Staff and investment consultant provide comprehensive periodic reports on the entire investment program, including asset allocation, performance of each component relative to benchmarks, attribution analysis, and commentary.

- Staff and investment consultant monitor changes and developments at investment managers and at custodian(s) on an ongoing basis and report significant changes or events with recommended actions as needed.
- On the rare occasion when extraordinary circumstances require immediate action to preserve the best interests of the plans' participants, such action may be authorized by a combination of any three of the four groups of people listed below:
 - The Chairman of the Board or the Vice Chairman of the Board
 - The Executive Director or the Chief Deputy Director
 - The Chief Investment Officer
 - The Investment Consultant

Any such action must be reported to the Board of Trustees at the earliest opportunity.

PERFORMANCE MEASUREMENT

Over reasonable measurement periods, the rate of return earned by DB Plan Assets will be measured against a policy benchmark comprised of the following market indices:

Market Indices	Asset Class
Dow Jones U.S. Total Stock Market Index	U.S. Equities
MSCI All-Country World Ex-U.S. Stock Index	Non-U.S. Equities
Custom Fixed Income Index*	Fixed Income
Wilshire Real Estate Securities Index (RESI)	Real Estate Securities
NCREIF Property Index	Private Real Estate
LIBOR + 3%	Infrastructure
Determined at time of investment	Opportunistic Strategies
Dow Jones U.S. Total Stock Market Index + 3%	Private Equity

* The Barclays Capital Aggregate Bond Index minus Treasury and Agency components plus U.S. TIPS component.

As stated in the Strategic Asset Allocation section of this policy, it is anticipated that the transition to the new strategic asset allocation will take from two to up to five years to implement. During the implementation period, the Policy Benchmark will reflect the actual asset allocation in effect at the beginning of each quarter. After the target asset allocation for each asset class has been reached, the Policy Benchmark weights will be the ones described in the Strategic Asset Allocation section.

The individual managers' returns will be compared with a market index appropriate to each manager's investment approach.

For performance evaluation purposes, all rates of return will be measured net of the deduction of investment management fees.

During a period of transition from one allocation to another, certain transitional allocations to appropriate benchmarks are permitted.

Adopted: December 9, 2004
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Amended: December 9, 2010

MainePERS Executive Director

Dated: _____

Sandra J. Matheson

MainePERS Chief Investment Officer

Dated: _____

Andrew Sawyer