

## **Board Responsibilities – Investment Policy for Defined Benefit Plans**

### **2.1 – Investment Policy Statement**

Date Adopted: June 9, 2016

Date Amended: November 10, 2016; May 11, 2017; June 8, 2017; September 14, 2017; December 14, 2017; November 12, 2020; January 14, 2021; May 12, 2022; February 9, 2023; March 14, 2024; November 13, 2025.

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### **Policy**

The Board of Trustees of the Maine Public Employees Retirement System is authorized and responsible for administering defined benefit retirement programs at the State and local levels. The Board carries out this responsibility by adopting investment objectives and establishing an investment program through which the policy is implemented. In the case of conflicts, this policy statement supersedes previous policies and actions by the Board.

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- Participating Local District Retirement Program, which includes retirement plans of withdrawn participating local districts and the Consolidated Plan for Participating Local Districts.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.

### **Statutory/Legal Provisions**

- Me. Const. art. IX, § 18.
- 5 M.R.S. §§ 1957-1958 (divestment statutes)
- 5 M.R.S. §§ 17102, 17103, 17435; 18-B M.R.S. § 801, et seq. (Maine Uniform Trust Code); 18-B M.R.S. § 901, et seq. (Maine Uniform Prudent Investor Act).
- 5 M.R.S. §§ 17153(4).
- Restatement (Third) of Trusts § 78(1) (2007) (the “sole interest rule”).
- Restatement (Third) of Trusts formally permits, and in some cases requires, the delegation of investment decisions from trustees to internal staff or external agents with the necessary skills and knowledge.

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- The Employee Retirement Income Security Act (“ERISA”), codified at 29 U.S.C. § 1002, *et seq.*, provides a description of the standard of care that applies to trustees of private sector retirement plans. Although the System as a public retirement plan is not specifically governed by the fiduciary duty standard set forth in ERISA, courts will often consider the standard set forth in ERISA when addressing public pension plan issues. Under ERISA, a fiduciary must act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person (expert) acting in a like capacity would act. This statutory standard is derived from the common law of trusts, which is applicable in the State of Maine.

## **Resources**

The Board of Trustees implements this investment policy in coordination with:

- in-house investment professionals (the “Investment Team”), with experience, authority and responsibility to implement the investment policy and administer investment operations;
- consultants, with appropriate expertise, to assist the Board and the Investment Team;
- 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;
- custodians qualified to carry out recordkeeping, reporting, measurement and custodial functions; and
- other advisors that the Board deems appropriate and necessary.

The Investment Team shall oversee the processes by which Custodians, Consultants, and other Advisors are hired, evaluated, and terminated, and shall work with the General Counsel on the terms of contracts of engagement.

At least every five years, the Investment Team will evaluate the performance and contract terms of all such service providers and make a recommendation to the Board as to whether or not a search process for new providers and/or renegotiation of terms be initiated.

## **Investment Objectives**

MainePERS’ investment objectives balance the System’s twin goals of generating investment returns (to ensure growth of the trust funds) and minimizing investment risks (loss of capital and cash flow shortfalls). The Board recognizes and accepts that these goals are in opposition, and that a trade-off exists between expected risk and return. The Board balances these goals by seeking to optimize portfolio returns consistent with an established targeted portfolio risk level. Additionally, by optimizing investment returns on trust assets, rather than attempting to maximize them, the Board seeks to maintain contribution rate and funding level volatility at acceptable levels that have been determined from time to time during strategic asset allocation planning and asset/liability reviews.

## **Strategic Asset Allocation and Rebalancing**

The Investment Team and Board consultants shall conduct an asset/liability study at least every five years and annually review long-term capital market expectations and existing asset class allocations with Trustees. The Board shall review, and when strategically appropriate, approve recommended changes to the existing strategic asset classes, target weights, and ranges for implementation by the Investment Team (see Appendix 1).

The specified policy weight ranges define minimum and maximum acceptable weights for each asset class (see Appendix 2). The Investment Team shall maintain asset class weights within target ranges, subject to considerations such as transaction costs and the unique characteristics of the asset class investments, by reallocating capital within existing strategies and investments. The Investment Team will provide Trustees with reports showing the fund's current asset allocation at least monthly, and report on rebalancing activity quarterly.

## **Portfolio Risk Management**

The primary method of controlling risk shall be the selection of the strategic asset allocation and asset class target weights within the allocation (see Appendix 1). Combined with long-term capital market expectations, these policy weights define a portfolio with a specific level of risk.

The Chief Investment Officer shall develop a risk strategy for managing assets within the Board approved strategic asset allocation. The risk strategy will specify practices and procedures for the measurement and management of portfolio risk, including the provision of a portfolio risk report to the Board at least quarterly (see Appendix 3).

Nothing in the risk strategy shall override the Asset Classes, Policy Weights and Ranges described in Appendix 1.

## **Performance Objectives and Benchmarks**

The Board acknowledges that benchmarks provide insight into fund and asset class performance, but are not necessarily guides for changing asset allocations or fund managers. The rate of return earned by fund assets will be measured against a policy benchmark comprised of the asset class benchmarks (see Appendix 4). Returns earned by individual managers will be compared with a benchmark 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 asset allocation to another, certain transitional allocations to appropriate benchmarks are permitted.

## **Investment Implementation**

The Investment Team shall implement the investment policy, subject to Board guidelines:

- Exposures within the Public Equity and Public Fixed Income asset classes are expected to be obtained passively and with weightings substantially similar to those of the benchmarks specified in Appendix 4. Any exceptions must be approved by the Board.
- Investments within each Asset Class should be consistent with the Asset Class definitions provided in Appendix 1.

## **Environmental, Social, and Governance; Engagement**

In performing due diligence and monitoring activities, the Board and the Investment Team shall comply with Board Policy 2.6, Environmental, Social and Governance Policy; and Board Policy 2.7, Engagement.

## **Investment Manager Selection and Allocation Process**

MainePERS invests through external investment managers, who are charged to act as fiduciaries, and allocates fund assets among them in accordance with the strategic asset allocation. The Investment Team identifies, performs due diligence on, and recommends investment managers and allocations to the Board. The Investment Team also monitors performance and recommends retention and termination decisions to the Board. The Board retains final authority for manager selection, retention and termination decisions.

Managers are selected and retained on the basis of an evaluation that establishes sufficient confidence that the manager will assist in meeting the goals of the investment program. As the Investment Team and/or consultant(s) identify an investment manager that they believe will improve the investment program, the Investment Team will make a recommendation to the Board of Trustees that the manager be hired. This recommendation will be accompanied by an opinion from the investment consultant on this recommendation. The Board retains the final authority to accept or reject such recommendations.

The Investment Team will prepare and present to the Board of Trustees selection criteria they deem pertinent for each manager search and recommendation to hire. The Investment Team will provide the Board with all the necessary information and analysis to enable an informed decision and the Board will have the opportunity to interview the recommended manager.

## **Derivatives**

In general, the use of derivatives is permitted provided that the purpose of the derivative is to achieve an investment objective at lower cost and/or risk than would be the case with direct investments in the underlying securities. The System may also invest in strategies which use derivatives to obtain leverage. In all such cases, the use of derivatives must be disclosed to the

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Board prior to the Board's approval, and the strategy must be structured so as to limit System liability to the amount committed to the strategy.

### **Leverage**

The System may invest in strategies in which managers have discretion to use leverage. The use of leverage in any strategy must be disclosed to the Board prior to the Board's approval, and the strategy must be structured so as to limit System liability to the amount committed to the strategy.

### **Fossil Fuel and Private Prison Investments**

The System may invest in strategies providing managers with broad discretion in the selection of investments. The potential for fossil fuel or for-profit prison investment must be disclosed to the Board prior to the Board's approval of a strategy. For those strategies likely to invest in stocks, securities or other obligations of fossil fuel or for-profit prison assets, disclosures will include a description of the expected role of such investments in the proposed strategy and discussion of the process leading to the selection of the strategy.

On an annual basis, the Board will be provided with a report summarizing the System's fossil fuel and for-profit prison investments. This report will include a discussion of the actual and expected changes in these exposures, and analysis of these exposures within the context of the divestment statutes, 5 M.R.S. §§ 1957 and 1958.

### **Currency Hedging**

The Board has reviewed the benefits and risks associated with foreign currency exposures. As a general rule the Board has chosen not to hedge currency at the portfolio level. Unless otherwise directed asset managers will have discretion to hedge investments under their management as they deem most beneficial to their mandate.

### **Co-Investments and Continuation Vehicles**

The System may co-invest alongside private market funds in which the System is a current investor and may invest in continuation vehicles within the guidelines set forth in Appendix 5 without further Board approval. A continuation vehicle is a fund established by the general partner of an existing private market fund that is in the later stages of its life to receive one or more portfolio investments from the existing fund and provides the opportunity for limited partners to remain invested in these assets.

## **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 System as an investor. 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**

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. All DB Plan Assets are available for securities lending.

## **Monitoring**

The Board relies on the Investment Team and the investment consultant(s) to continuously monitor the investment program and to report to the Board as outlined below.

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

## **Emergency Measures**

Immediate action may be taken beyond the bounds of this policy under extraordinary circumstances and in order to preserve the best interests of the plans' participants by unanimous decision of the following:

- The Chair, or in the Chair's absence, Vice Chair of the Board
- The Chief Executive Officer, or in the Chief Executive Officer's absence, the Chief Operating Officer and General Counsel
- The Chief Investment Officer, or in the Chief Investment Officer's absence, Deputy Chief Investment Officer, or in the absence of both of them, the general investment consultant

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

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### Appendix 1: Asset Classes, Policy Weights and Ranges

Date Adopted: June 9, 2016

Date Amended: June 8, 2017; September 14, 2017; January 14, 2021; May 12, 2022, November 13, 2025

The System's assets are invested across six Asset Classes that play a number of roles in the overall Fund. The Trustees define these Asset Classes and set target policy weights and ranges below.

|                     | Weights |        |         |
|---------------------|---------|--------|---------|
|                     | Minimum | Policy | Maximum |
| Public Equity       | 20.0%   | 27.5%  | 35.0%   |
| Private Equity      | 5.0%    | 10.0%  | 20.0%   |
| Risk Diversifiers   | 5.0%    | 7.5%   | 10.0%   |
| Real Assets         | 15.0%   | 22.5%  | 25.0%   |
| Alternative Credit  | 10.0%   | 15.0%  | 20.0%   |
| Public Fixed Income | 12.5%   | 17.5%  | 25.0%   |
| Cash                | 0.0%    | 0.0%   | 5.0%    |

### Asset Class Definitions

The below Asset Class definitions are simplified and are intended to convey the general characteristics of investments held within each class. Some investment strategies involve assets and securities that span multiple asset classes.

#### Public Equity

The Public Equity asset class consists of ownership interests in companies traded on global stock exchanges in U.S., developed international, and emerging markets. It may include different classes of common stock as well as interests in other structures such as REITs. Its primary role is long-term capital appreciation, and the asset class features higher short-term volatility and drawdown risk relative to other liquid assets. Public Equity is characterized by a high level of liquidity to meet operational needs as well for efficient portfolio rebalancing.

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### Private Equity

The Private Equity asset class consists of ownership interests in companies and assets that are not publicly traded and accessed primarily through commingled limited partnerships and other specialized structures. Private Equity may include venture capital, growth equity, buyouts, distressed assets, and other similar strategies. It seeks to generate superior long-term returns relative to public equity markets by exploiting illiquidity premia, active ownership, and operational value creation. Private Equity is characterized by long investment horizons, limited liquidity, and higher dispersion of returns across investments. Diversification across strategies, vintage years, industries, and geographies is emphasized to mitigate risk.

### Risk Diversifiers

The Risk Diversifier asset class seeks exposure to return streams that are not available through traditional public market investments, with an emphasis on risk-adjusted performance and little to no exposure to broad market returns. Investments are typically accessed through commingled limited partnerships or other pooled vehicles. The allocation may include a variety of globally diverse strategies including long-short equity, credit oriented, opportunistic, and multi-strategy approaches. These underlying strategies are designed to provide attractive standalone returns as well as diversification benefits away from traditional growth assets, and are expected to maintain low correlation to both rising and falling markets over full market cycles. Liquidity provisions vary by strategy and manager, and typically feature periodic redemption windows and initial lockups.

### Real Assets

Real Assets is a private market asset class that serves as a diversifier to equity, credit, and fixed income, offering potential for stable income, capital appreciation, and inflation protection. It includes investments in real estate, infrastructure, natural resources, and other investment opportunities that derive value from their physical and enduring characteristics. A substantial portion of asset class returns is expected to come from ongoing cash flows. Real Assets investments are illiquid and typically accessed through commingled limited partnerships or other pooled vehicles, and may be open- or closed-ended. Diversification across asset types, sectors, geographies, and return sources (e.g., income versus capital appreciation) is emphasized to manage risk.

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### Alternative Credit

The Alternative Credit asset class plays a role in enhancing portfolio income, diversifying fixed income exposures, and capturing illiquidity and complexity premia, while recognizing that investments may carry elevated credit, structural, and liquidity risks. It consists of investments in debt instruments issued primarily by non-investment grade and unrated entities. Typical investments are unrated debt, bank loans, structured credit, and asset-backed debt. Strategies may encompass direct lending and other opportunistic credit approaches that provide exposure to less liquid markets and higher yields than traditional investment grade fixed income. Investments are typically accessed through illiquid commingled limited partnerships or other pooled vehicles. Diversification across borrower types, sectors, geographies, structures, and vintage years is emphasized to manage risk.

### Public Fixed Income

The Public Fixed Income asset class consists of investment grade debt instruments, including U.S. Treasuries, Treasury Inflation-Protected Securities (TIPS), mortgage-backed, and corporate bonds. The asset class seeks to provide stable income, preserve capital, and reduce overall portfolio volatility. Public Fixed Income is highly liquid, allowing for a high level of liquidity to meet operational requirements and efficient portfolio rebalancing.

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#### **Appendix 2: Rebalancing**

Date Adopted: June 9, 2016

Date Amended: May 12, 2022; July 14, 2022, November 13, 2025

The Board has set target weights for each Asset Class in Appendix 1 and delegates the management of asset class allocation to the Investment Team. The Investment Team is expected to maintain asset class weights near target, subject to considerations such as transactions costs and the unique funding and liquidity characteristics of asset class investments.

To this end, the Team is permitted to reallocate capital within existing strategies and investments for rebalancing purposes. The Investment Team is expected to consider both Asset Class policy weights and the various roles played by individual asset classes when rebalancing. The Team will provide Trustees with reports showing the Fund's current asset allocation at least monthly, and report on rebalancing activity at least quarterly.

In the specific case of the System's Risk Diversifier allocation, the Investment Team is permitted to rebalance across existing managers and strategies, consistent with the goal of maintaining diversification within the allocation. Rebalancing activity will be reported to Trustees at least quarterly.

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#### **Appendix 3: Risk Strategy**

Date Adopted: June 9, 2016

Date Amended: New

While this Risk Strategy is in development the Chief Investment Officer shall rely on the Strategic Asset Allocation and Rebalancing provisions of this policy to manage the Fund's risk.

The Investment Team and the Board believe that this approach will deliver an appropriate expected return with commensurate risk over a long term horizon. However they also recognize that the portfolio's realized risk will vary over time which may result in periods during which the fund bears substantially higher risk than the System initially targeted.

In an effort to achieve more stable (less volatile) returns, the Investment Team will seek to develop management tools and practices that they believe will be better able to keep the fund's risk in an acceptable range.

This Risk Strategy shall be updated from time to time by the Trustees to reflect recommendations developed by the Chief Investment Officer.

Nothing in the Risk Strategy shall override the Asset Classes, Policy Weights and Ranges described in Appendix 1.

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#### **Appendix 4: Policy Benchmarks**

Date Adopted: June 9, 2016

Date Amended: June 8, 2017, January 14, 2021, May 12, 2022, November 13, 2025

| <b>Asset</b>        | <b>Benchmark</b>  | <b>Weight</b> |
|---------------------|---|---------------|
| Total Public Equity | Russell 3000 & MSCI ACWI ex-USA IMI, based on ACWI IMI weights  | 27.5%         |
| Private Equity      | Russell 3000 + 3%   | 10.0%         |
| Risk Diversifiers   | 3-Month Treasury Bill + 3%  | 7.5%          |
| Real Assets         | CPI-U + 3%  | 22.5%         |
| Alternative Credit  | Morningstar LSTA US Leveraged Loan Index  | 15.0%         |
| Public Fixed Income | 40% Bloomberg Barclays US Aggregate ex-Government + 30% Bloomberg Barclays U.S. Government Bond Index + 30% Bloomberg U.S. TIPS Index | 17.5%         |

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#### Appendix 5: Co-Investments and Continuation Vehicles

Date Adopted: May 12, 2022

Date Amended: March 14, 2024, November 13, 2025

Co-investments and investments in continuation vehicles are permitted within private market asset classes, subject to the below guidelines.

|                             |  |
|-----------------------------|--|
| <b>Target Allocation</b>    | 7.5% of total Fund.<br>This target is a subset of the total 47.5% allocation to private market asset classes, and is not in addition to that allocation.<br>The 7.5% target includes investments in both co-investments and continuation vehicles.   |
| <b>Asset Classes</b>        | Co-investments and investments in continuation vehicles may be made in each of the private market asset classes.   |
| <b>Discretion</b>           | Investment Team has discretion to make co-investments and investments in continuation vehicles, in consultation with the asset class consultant.   |
| <b>Signatories</b>          | The Chief Executive Officer, Chief Investment Officer, and General Counsel are authorized as signatories to execute documents in connection with co-investments and investments in continuation vehicles.  |
| <b>Permissible Partners</b> | Unless otherwise authorized, co-investments will only be made alongside Funds in which the System is a current investor.<br><br>Unless otherwise authorized, investments in continuation vehicles will only be made in cases where the vehicle is being formed to continue ownership of assets being acquired from one or more funds in which the System is a current investor.  |
| <b>Size Limits</b>          | Unless otherwise authorized, maximum of \$25m invested into any single co-investment or continuation vehicle.<br><br>Unless otherwise authorized, maximum of \$200m aggregate continuation vehicle investment and co-investment in a single asset class with any single General Partner.<br><br>The Investment Team will provide additional reporting to Trustees for those General Partners with more than \$100m of aggregate continuation vehicle investment and co-investment in any single asset class. |