

# Board Responsibilities – Investment Policy for MainePERS Other Post-Employment Benefits Trust

## 2.1-D – OPEB Trust Investment Policy Statement

Date Adopted: November 9, 2023

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### Policy

The members of the Board of Trustees, as trustees of the MainePERS Other Post-Employment Benefits Trust (“OPEB Trust” or “Investment Trust”), are authorized and responsible for investing and managing the assets of the Investment Trust in accordance with legal requirements and the Maine Public Employees Retirement System Other Post-Employment Benefits Trust Agreement dated April 8, 2010 (the “Trust Agreement”). The Board carries out its investment responsibility by adopting investment objectives and strategic asset allocations and delegating implementation to the investment staff (the “Investment Team”).

### Statutory/Legal Provisions

- 5 M.R.S. §§ 17431 - 17439; 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.
- 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.
- 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.

### Background

The OPEB Trust is established by Trust Agreement to hold and invest funds for the exclusive purpose of providing funds to pay OPEB for certain MainePERS retired employees and their beneficiaries. The Trust Agreement names the Board members as the trustees of the OPEB Trust (“Trustees”).

## **Governance Manual**

MainePERS Board of Trustees

### **Investment Objectives**

The assets of the OPEB Trust are to be invested with a long-term time horizon in accordance with the Maine Uniform Trust Code and the Maine Uniform Prudent Investor Act.

The primary goals of OPEB Trust are the preservation and growth of principal in accordance with long-term investment assumptions established from time to time by the Board for the defined benefits plans of the System, as considered appropriate by the Trustees.

The Board recognizes and accepts that these goals are in opposition, and that a trade-off exists between expected risk and return. The Board seeks to achieve these goals by constructing a diversified portfolio containing a moderate-to-high level of investment risk.

### **Strategic Asset Allocation and Rebalancing**

The strategic asset allocation and asset class target weights set forth in Appendix 1 are established for the OPEB Trust investments. The Investment Team shall maintain asset class weights within target ranges. The Investment Team will provide Trustees with reports showing current asset allocations at least quarterly. The Investment Team shall annually review the investments and asset allocations with Trustees. The Board shall review, and when strategically appropriate, approve recommended changes for implementation by the Investment Team.

### **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 2). 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 OPEB Trust Investment Policy, subject to Board guidelines:

## **Governance Manual**

MainePERS Board of Trustees

- Exposure to publicly traded equity securities is expected to be obtained passively and with weightings substantially similar to those of the benchmarks specified in Appendix 2. Any exceptions must be approved by the Board.
- Investments within each asset class should be consistent with the asset class definitions appended to Board Policy 2.1.

### **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 improve the return and risk of the investment program. If and when 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 by 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. The Board may choose to interview the recommended manager or they may rely on the Investment Team to conduct interviews.

### **Derivatives/Leverage**

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. Derivatives are not to be used as a means of obtaining leverage. The use of leverage in any strategy must be disclosed to the Board prior to the Board's approval.

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

## **Governance Manual**

MainePERS Board of Trustees

otherwise directed asset managers will have discretion to hedge investments under their management as they deem most beneficial to their mandate.

### **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.

### **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
- 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.

## Governance Manual

MainePERS Board of Trustees

### Board Responsibilities – Investment Policy for MainePERS OPEB Trust

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

Date Adopted: November 9, 2023

The OPEB Trust assets are invested across four asset classes that play distinct roles. The asset classes and target policy weights and ranges are set forth below.

Weights			
	Minimum	Policy	Maximum
Public Equity	60%	70%	80%
Traditional Credit	10%	15%	20%
US Government Securities	10%	15%	20%
Cash	0%	0%	10%

## Governance Manual

MainePERS Board of Trustees

### Board Responsibilities – Investment Policy for MainePERS OPEB Trust

#### Appendix 2: Policy Benchmarks

Date Adopted: November 9, 2023

<b>Asset</b>	<b>Benchmark</b>	<b>Weight</b>
Total Public Equity	Russell 3000 & MSCI ACWI ex-USA, based on ACWI weights	70%
Traditional Credit	Barclays US Aggregate, ex Treasury	15%
U.S. Government Securities	50% Bloomberg Barclays U.S. Government Bond Market Index + 50% Bloomberg U.S. TIPS Index	15%