

Monhegan Associates, Inc.
P.O. Box 97
Monhegan, Maine 04852

INVESTMENT POLICY STATEMENT

(revised and approved August 16, 2024; original approved June 27, 2020)

PURPOSE OF THIS INVESTMENT POLICY STATEMENT

This Investment Policy Statement (IPS) is intended to govern the investment practices of the assets of the Monhegan Associates, Inc., (MAI Portfolio), so that all individuals with either direct or indirect responsibility may more effectively understand and manage the investable assets.

The IPS addresses the following issues:

- The general goals of the MAI Portfolio
- The specific investment objectives of the MAI Portfolio
- Asset allocation and rebalancing policies
- Evaluation of investment performance

MAI is incorporated as a Non-Profit Corporation and has been granted tax-exempt status under Internal Revenue Code Section 501(c)(3). It also has tax exempt status in the state of Maine.

GENERAL GUIDELINES

The management of the MAI Investments will be conducted in compliance with the investment policy guidelines detailed below.

The MAI Portfolio will consist of two accounts: The first account will be the Endowment account (Endowment) which will be managed for the long term. It will be managed to maximize the total rate of return, given the investment objective, asset allocation ranges, and constraints. Consistent with achieving the applicable investment objective set forth herein, MAI Investments IPS will be implemented within the framework predicated on incorporating environmental, social and governance (ESG) factors as core components of decision- making and risk management. Given the long-time horizon of the Endowment, it shall be managed for long-term results, not short-term performance. The Finance Committee expects that dividend and interest income will comprise an important part of the total return realized on the Endowment. It is expected that selected investment products will be comprised of well-diversified equity and fixed income securities. The securities shall be diversified by sector, industry, maturity, etc., as appropriate.

The second account will be the Operating account (Operating). The purpose of this account is to build and maintain an adequate level of net assets to support the organization's day to day operations in the event of unforeseen shortfalls or cash needs. The account will be a liquidity reserve account invested in high quality cash and cash equivalents such as FDIC insured bank accounts, US Treasury Bills, short term certificates of deposit, and or money market mutual funds. Not more than the FDIC insured limit should be invested in a certificate of deposit at any one bank, given the current limit of government insurance on deposits.

ASSET ALLOCATION GUIDELINES AND RETURN REQUIREMENTS

The overall objective of the Endowment is Moderate. Primary emphasis is to strike a balance between portfolio stability and portfolio appreciation over time with the assumption of a moderate level of risk and level of volatility and principal loss.

The Risk level for the Endowment is moderate.

To achieve this objective, the MAI Finance Committee may vary the market value of the asset allocation within the following ranges and invest in the asset classes below. Funds that are obtained through future bequests and restricted donations will be transitioned into the Endowment investment mix gradually; as such, they will be excluded from the portfolio ranges for a period of up to 12 months.

ENDOWMENT ACCOUNT

MODERATE

ASSET CLASS	STRATEGIC RANGE		STRATEGIC TARGET
EQUITY	48%	68%	58%
FIXED INCOME	31%	51%	41%
CASH/EQUIVALENTS	0%	10%	1%

The asset class shall be reviewed no less than annually and rebalanced as deemed appropriate.

The MAI Portfolio and all securities must comply with the following constraints:

Equities: It is expected that the equity component of the portfolio will be diversified with regard to size, industry, and geography. Broadly diversified mutual funds or exchange traded funds should be utilized to limit the overall exposure of the portfolio to one segment of the market. In addition to diversification and market focus, selection should also focus on low expense ratios and transaction costs.

Fixed Income: The fixed income component of the portfolio will be implemented using a combination of diversified mutual funds, ETFs, Closed-End Funds, intermediate/long term Certificates of Deposit, and U.S. government bonds. Fund selection should focus on diversification and market focus, but also have low expense ratios and transaction costs. No more than the FDIC insured limit should be invested in a certificate of deposit at any one bank, given the current limit of government insurance on deposits.

Cash and Equivalents: The following cash and equivalent securities are permissible investments: FDIC insured bank accounts, short term treasury bills, short term certificates of deposit, and money market mutual funds. Not more than the FDIC insured limit should be invested in a certificate of deposit at any one bank, given the current limit of government insurance on deposits.

LIQUIDITY REQUIREMENTS

Beyond the spending policy and the Operating account, there is no ongoing requirement for short-term liquidity.

INVESTMENT CONSTRAINTS

Future investments in individual stocks, bonds or non-diversified investment products are prohibited. Moreover, the use of leverage is expressly prohibited. The use of any options, futures, and/or forwards on stocks, bonds, currencies, and/or indices is prohibited. It is the general policy of the MAI Investments that “derivatives” not be used in the management of the portfolio, although it realizes that the exact definition of a derivative is not universally recognized. By way of example, fixed income securities such as “interest only” securities, “inverse floaters”, etc. are not acceptable investments for the MAI portfolio.

PERFORMANCE MEASUREMENT

It is expected that the Endowment performance will be comparable to appropriate “market” benchmarks over a complete market cycle, assumed to be 3-5 years, such “market” portfolio should reflect the various investment policy guidelines set forth herein.

SPENDING POLICY

Each year, MAI is authorized to withdraw up to 5% of the total market value of the MAI Portfolio (market value to be determined as of the last business day of the preceding fiscal year) for MAI’s operating purposes. That spending percentage is applied to the three year average of the May 31st market value. Subject to the approval of the MAI Board of Trustees (Board), non-recurring expenses may be excluded from this Spending Policy. The dollar amount and timing of any distribution(s) from the Investments will be left up to the discretion of the MAI Finance Committee. Any withdrawals in excess of 5% needs Board approval.

ADMINISTRATION & REPORTING

Investment reports of the MAI Portfolio (including but not limited to; portfolio holdings, realized gains/losses, unrealized gains/losses, portfolio yield, performance, etc.) shall be provided to the MAI Trustees annually or as more frequently requested by the Trustees.

The MAI Finance Committee shall review and approve the investment policy at least every 3 years or as needed and any changes must be submitted in writing to the Trustee and approved by the Trustees.

The Finance Committee must affirm annually that the portfolio is in compliance with these investment guidelines.

The Trustees shall review and approve the investment policy at least every 3 years or as needed. Any changes must be submitted in writing to the Trustees and approved by the Trustees.