

KENNEBUNK FREE LIBRARY INVESTMENT ACCOUNT POLICY

I. Definition of Investment Account

This Investment Account (“Account”) exists to fund the operating and/or capital expenses of the Kennebunk Free Library (“Library”) as approved by the Board of Trustees. Since the Library is operating as a tax-exempt organization as defined by Federal Income Tax Code Section 501 (C) (3) and the Account supports liabilities that are both long and short term in nature, the Account will be managed with a total return orientation. A total return orientation is defined as focusing on both the production of income from dividends on equity securities and interest earned on fixed-income securities, cash, and cash equivalents as well as on appreciation in the market value of equity and fixed income investment securities held by the Account.

II. Investment Oversight

The Finance Committee (“Committee”) is charged with the oversight of the Account and reports to the Board of Trustees. The Committee shall have the power to retain investment counsel, evaluate the work of said counsel, and make the appropriate changes in investment counsel when warranted. In performing its duties, the Committee, will adhere to the “Prudent Investor” Rule. Basically, prudent investing defines the *process* that one follows. If the process followed in making investment decisions is prudent (based on what is known and not known at that time), then the decisions being made are prudent, regardless of subsequent investment results. Investing prudently is a process, not a performance guarantee.

III. Asset Allocation

Investment in the common stock of publicly traded corporations (generally known as “equities”) has historically provided higher long-term investment return over debt instrument assets such as government, municipal, or corporate bonds and cash equivalents. While the returns on debt (generally referred to as “fixed-income”) securities have not provided the growth that equities have, fixed-income securities have historically provided income generation from periodic and regular interest payments. When equities and debt are combined in an investment portfolio, debt holdings tend to reduce portfolio market value variability. The process of deciding how much debt to hold relative to equity in an investment portfolio is generally referred to as “asset allocation.”

Since the KFL investment account supports current spending needs as well as liabilities of varying durations, an allocation between equity and fixed-income portfolio holdings will be utilized that is expected to provide for both long-term portfolio growth and current income needs required from the investment account. The Board of Trustees has established that the KFL investment account will be invested with a strategic (long-term) asset allocation of 60% in equities and 40% in fixed-income securities.

The Finance Committee expects the investment manager to maintain a 60/40 asset allocation, allowing no more than +/- 5 percentage points variation at any time. It is expected that quarterly distributions and periodic rebalancing routinely performed by the investment manager will generally maintain the proper asset allocation. If at any time the deviation exceeds the 5 percentage point allowance the investment manager will promptly notify the Finance Committee and discuss recommend remedial action to rebalance the portfolio.

IV. Asset Class Definitions

A. Equities

Equity investments will consist of open-ended mutual funds (“mutual funds”) and exchange traded funds (“ETFs”) holding the common stock, or securities convertible into the common stock, of both publicly traded U.S. and non-U.S. (“International”) domiciled corporations. International equity holdings are not generally expected to exceed 40% of the total equity portfolio. Further, the equity portion of the investment account of both U.S. and International asset classes should be diversified among mutual funds and ETFs invested in large, medium, and small capitalization stocks, in such amounts as deemed appropriate by the investment manager.

B. Fixed Income

Fixed-income investments will consist of open-ended mutual funds (“mutual funds”) and exchange traded funds (“ETFs”) holding publicly traded debt obligations guaranteed by, or backed by, the U.S. Government or any of its Agencies as well as corporate bonds or preferred securities, in such amounts as deemed appropriate by the

investment manager. International fixed income investments are allowed in such amounts as deemed appropriate by the investment manager.

C. Cash and Equivalents

This sub-set of the fixed income asset class will be used as a temporary holding area by the investment manager for cash contributions or distributions held in the Account while awaiting investment or distribution by the investment manager. Cash investments will be kept in U.S. Government money market accounts or ultra-short-duration U.S. bond mutual funds.

V. Prohibited Investments

The Account shall not invest in the following securities: derivatives, private placements, options contracts, and futures contracts. Transactions such as short selling are prohibited.

VI. Spending

See: The Kennebunk Free Library Investment Spending Policy Approved by the Board of Trustees on October 28, 2008 and as subsequently amended.

VII. Reporting

The investment manager will report to the Committee at least semi-annually to review the performance of the Account. The report will consist of at least the following items: purchase and sale report; gains and losses report; portfolio summary; portfolio appraisal showing individual securities holdings with date-of-purchase; and, finally, a performance report which examines performance by asset class vs. asset class benchmarks as well as performance of the total Account vs. our benchmark 60/40 allocation.

VIII. Amendment

The Finance Committee shall review this Policy annually at its May meeting and the Board of Trustees shall review this Policy annually at its June meeting. The Board reserves the right to amend the Investment Spending Policy at any time.