STATEMENT OF POLICY AND INVESTMENT OBJECTIVES

HARBOR BRANCH OCEANOGRAPHIC INSTITUTE FOUNDATION, INC.

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I. INTRODUCTION

The purpose of this Investment Policy Statement is to establish a clear understanding between the Finance Committee of Harbor Branch Oceanographic Institute Foundation (HBOIF), the Investment Consultant and the Investment Managers as to the investment objectives and policies applicable to HBOIF's investment portfolio.

This Investment Policy Statement will:

- establish reasonable expectations, objectives and guidelines in the investment of the assets;
- set forth an investment structure detailing permitted asset classes and expected allocation among asset classes;
- encourage effective communication between the Investment Consultant, the Investment Manager(s) and the Finance Committee;
- create the framework for a well-diversified asset mix that can be expected to generate acceptable long-term returns at a level of risk suitable for the assets.

This Investment Policy Statement is intended to be a summary of an investment philosophy that provides guidance for the HBOIF. It shall serve the Investment Managers as the principal source for developing an appropriate strategy. In addition, it shall serve as the basis for performance evaluation. Any changes in this Investment Policy Statement will be in writing and will be communicated to the Investment Managers.

II. PURPOSE

The Harbor Branch Oceanographic Institute Foundation endowment was established in order to provide a future source of funding for operations, capital improvements and internal sponsored research at HBOIF.

III. SPENDING POLICY

The spending policy reflects the fundamental objective of preserving and enhancing the resources of HBOIF, both at present and in the future. Current spending and the long term objectives of preserving and enhancing the assets are balanced by considerations given to reasonable expectations of investment returns, gift contributions, operating expenses and inflation. The spending policy rate is to be up to five percent (5%) of the assets, calculated on a rolling three year average of the market value.

IV. INVESTMENT OBJECTIVES

The objective is to earn the highest possible total return (capital appreciation and income return) consistent with prudent levels of risk. At a minimum, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of these assets and provide necessary capital to fund an annual spending policy of up to five percent (5%), based on a three year rolling average of the market value. Therefore, the desired minimum rate of return is equal to the Consumer Price Index (CPI) plus 500 basis points (5%) on an annualized basis. In light of this return requirement, the portfolio should be constructed using a total return approach with a significant portion of the funds invested to seek growth of principal over time. The assets are to be invested for the long term, and a higher short-term volatility in these assets is to be expected and accepted.

V. TIME HORIZON

The time horizon for these assets is perpetual. For strategic planning purposes, a minimum of twenty years will be considered for decision-making purposes. Capital values do fluctuate over shorter periods and the Finance Committee recognizes that the possibility of capital loss does exist. However, historical asset class return data suggest that the risk of principal loss over a holding period of at least three to five years can be minimized with the long-term investment mix employed under this Investment Policy Statement.

VI. RISK TOLERANCE

The Finance Committee recognizes that prudent investing requires taking reasonable risks in order to raise the likelihood of achieving the targeted investment returns. Research has demonstrated that portfolio risk is best minimized through diversification of assets. The portfolio of funds will be structured to maintain prudent levels of diversification. In terms of relative risk, the volatility of the portfolio should be in line with general market conditions.

VII. PROCEDURES

The roles of the Finance Committee, the Investment Consultant, and the Investment Managers with regard to the funds are delineated as follows.

The Finance Committee, with active assistance and recommendations from the Investment Consultant, shall have responsibility for the following:

- Establishing overall financial objectives and setting investment policy;

- Setting parameters for asset allocation;
- Establishing a process and criteria for the selection and termination; of investment managers, investment consultants and custodians;
- Selecting a qualified investment consultant;
- Selecting qualified investment managers;
- Selecting a qualified custodian;
- Monitoring investment results quarterly to assure that objectives are being met; and that policy and guidelines are being followed; and
- Communication on a structured and ongoing basis with those persons responsible for investment results.

The Investment Consultant will be proactive in advising and making recommendations to the Finance Committee regarding:

- Investment Policy
- Asset Allocation
- Manager Selection
- Performance Evaluation
- Other investment matters and responsibilities of the Finance Committee

The Investment Managers will be responsible for the following:

- Determining their investment strategy
- Implementing security selection and timing within policy guideline limitations

VIII. ASSET ALLOCATION & STYLE DIVERSIFICATION

The Finance Committee recognizes the strategic importance of asset allocation and diversification in the investment performance of the assets over long periods of time. Domestic and international equities both large and small capitalization, fixed income, cash equivalent securities and alternative investments have been determined to be acceptable. Additional asset classes and strategies may be incorporated into the investment philosophy in the future.

A. Summary of Asset Allocation Guidelines:

After reviewing the long-term performance and risk characteristics of various asset classes and balancing the risks and rewards of market behavior, the following asset allocation strategy is incorporated to maximize the probability of achieving portfolio objectives:

~~Asset Category~~	~~Minimum~~	~~Target~~	~~Maximum~~
~~**Fixed Income**~~	~~**15.00%**~~	~~**30.00%**~~	~~**55.00%**~~
~~Cash~~	~~0.00%~~	~~2.00%~~	~~10.00%~~
~~Domestic~~	~~15.00%~~	~~28.00%~~	~~55.00%~~
~~Non-Dollar~~	~~0.00%~~	~~0.00%~~	~~10.00%~~
~~**Equity**~~	~~**45.00%**~~	~~**70.00%**~~	~~**85.00%**~~
~~Large Cap~~	~~45.00%~~	~~50.00%~~	~~85.00%~~
~~Small Cap~~	~~0.00%~~	~~10.00%~~	~~20.00%~~
~~International~~	~~0.00%~~	~~10.00%~~	~~20.00%~~
~~**Alternative Investment**~~	~~**0.00%**~~	~~**0.00%**~~	~~**15.00%**~~

Asset Category	Minimum	Maximum
Equities	**45.00%**	**75.00%**
Large Cap	20.00%	45.00%
Small Cap	5.00%	20.00%
International	10.00%	30.00%
Fixed Income	**15.00%**	**35.00%**
Long Term	0.00%	10.00%
Short Term	0.00%	10.00%
Cash	0.00%	10.00%
Alternative Investment	**0.00%**	**15.00%**

NOTE: Target Allocations to be determined and adjusted by the Finance Committee as may be needed.

B. Rebalancing Procedures

From time to time, market conditions may cause the investment in various asset classes to vary from the established allocation. At least on an annual basis, the Finance Committee and their Investment Consultant will review asset allocation and diversification for possible rebalancing. If the actual weighting goes above / below the maximum / minimum weighting intra-year, rebalancing may be recommended.

IX. SELECTION AND RETENTION CRITERION FOR INVESTMENTS

A. Investment Management

Investment Managers (including mutual funds, ETFs, Index Funds, MLPs, etc.) shall be chosen using the following criteria:

- The investment style and discipline of the proposed manager;
- How well each proposed investment complements other assets in the portfolio;
- The size of the organization as measured by the amount of assets under management with respect to the investment style under consideration;
- Experience of the organization as measured by the tenure of the

professionals with respect to the investment style under consideration;

- Past performance, considered relative to other investments having the same investment objective. Consideration shall be given to both performance rankings over various time frames and consistency of performance; and
- The historical volatility and down-side risk of each proposed investment.

B. Individual Security Investment Guidelines

The Finance Committee desires to permit investment managers flexibility to maximize investment opportunities. However, it is cognizant of its responsibility to practice prudent management in order to conserve and protect the assets and to prevent exposure to undue risk. Exceptions to the guidelines stated below may be made upon special written approval of the Committee and shall be subject to annual review.

The Finance Committee expects to use mutual funds, ETFs, alternatives investment, etc. and understands that they would not have any control over the management of such funds with regard to guidelines and restrictions. However, they intend to utilize funds that generally comply with the investment guidelines stated in this Investment Policy Statement.

i. Equity Holdings

Security Types:

No restrictions except as noted below.

Diversification:

No more than five percent (5%) of the market value of the equity portfolio shall be in one issue. **If more than one investment manager manages equities, this restriction shall apply separately to each equity portfolio.**

Quality:

There are no qualitative guidelines with regard to equity ratings, etc., except that prudent standards should be developed and maintained by the Investment Managers.

Restrictions:

Investment in the following is prohibited unless written permission is granted:

- Derivative investments (futures or option contracts) for speculative purposes (as opposed to protection of asset value: *Covered call writing is permissible*)
- Direct ownership of letter stock

- Restricted stock
- Short sales
- Margin purchases or borrowing money
- Stock loans

ii. Fixed Income Holdings:

Security Types:

Investment in obligations of the U.S. Government, including Treasury Inflation-Protected Securities (TIPS), U.S. Government Agencies, U.S. Corporate entities, Mortgage Backed Securities (MBS), Preferred Stock, Collateralized Mortgage Obligations, Asset Backed Securities, Municipal securities, Commercial Mortgage Backed securities (CMBS), REIT debt, non dollar denominated foreign bonds, and dollar denominated foreign bonds is permitted unless otherwise prohibited by investment restrictions.

Diversification:

With the exception of U.S. Treasury and Agency obligations, no more than five percent (5%) of the fixed income portfolio at market shall be invested in a single issue or corporate entity. If more than one investment manager manages fixed income, these restrictions apply separately to each portfolio.

Maturity:

The investment managers shall have responsibility for setting the appropriate maturity schedule for the fund based on the fund's investment objectives and risk profile.

Quality:

The weighted average quality of the fund shall be A or better.

Restrictions:

Investment in the following is prohibited without written permission:

- Private Placements (However, private placement medium term notes and securities issued under SEC Rule 144A are permitted)
- Margin purchases or borrowing money to effect leverage into the portfolio
- Inverse floater, interest only and principal only mortgage structures

iii. Alternative Investments

Investment in these securities may be used to enhance total return or reduce risk.

X. PERFORMANCE OBJECTIVES

The overall fund performance will be reviewed on a quarterly basis, with long term emphasis placed on results achieved over a three to five year period. Objectives will be reviewed annually and adjusted, if necessary, after consultation with the Finance Committee, Investment Consultant and Investment Managers.

A. Total Fund:

Fund performance will be compared to the performance of a similarly structured balanced index. This custom index will be comprised of the S&P 500 Index, Russell 2000 Index, EAFE International Index, Bloomberg U.S. Aggregate Bond Index, Citigroup World Government Bond Index, and Citigroup 30-day Treasury Bill Index and/or other appropriate indices. The Fund should at least equal the performance of the custom balanced index

B. Equity Segment:

The performance of the domestic large cap equity portion of the Fund is expected to meet or exceed the performance of S&P 500 Composite Index.

The returns of the large capitalization equity portion of the Fund should rank in the top thirty-three percent (33%) of a nationally recognized evaluation service's universe for comparable funds and investment styles over rolling three to five year time period.

The performance of the small capitalization equity portion of the Fund should meet or exceed the performance of the Russell 2000 Index.

The returns of the small capitalization equity portion of the Fund should rank in the top thirty-three percent (33%) of a universe for comparable funds over a rolling three to five year time period.

The performance of the international equity portion of the Fund should meet or exceed the performance of the Morgan Stanley Capital International's Europe Australia Far East (EAFE) Index.

The returns of the international equity portion of the Fund should rank in the top thirty-three percent (33%) of a universe for comparable funds over a rolling three to five year time period.

C. Fixed Income Segment:

The performance of the fixed income portion of the Fund is expected to meet or exceed the performance of the Bloomberg U.S. Aggregate index.

The returns of the fixed income portion of the Fund should rank in the top forty percent (40%) of a universe for comparable fixed income funds over a three to five year time period.

D. Alternative Investments:

The Finance Committee recognizes that a benchmark for alternative investments does not exist.

XI. CONTROL PROCEDURES

A. Review and Evaluation of Investment Objectives:

The achievement of investment objectives will be reviewed on an annual basis by the Finance Committee. This review will focus on the continued feasibility of achieving the objectives and the continued appropriateness of the investment policy. It is not expected that the investment policy will change frequently. In particular, short-term changes in the financial markets should not require an adjustment in the investment policy.

B. Review and Evaluation of Investment Manager(s):

The Finance Committee will meet at least annually with the Investment Managers or their representatives (for separately managed accounts only). Additionally, with or without the Investment Managers, the Finance Committee will review investment results quarterly.

These reviews will focus on the Investment Managers' adherence to the policy guidelines:

- Comparison of the managers' results to the objectives established for each fund or Investment Manager as the case may be;
- Comparison of the managers' results against funds using similar policies (in terms of the stock/bond ratio and style);
- Opportunities available in both the equity and bond markets; and,
- Material changes in the Investment Managers' organizations, such as philosophical or personnel changes.

The Finance Committee may discharge or replace a manager at any time it deems such action necessary and appropriate.

Guidelines for evaluation, retention, and replacement of Investment Managers will be as follows:

- Establish appropriate benchmark/index to compare Investment Managers' performance.
- Establish performance target to outperform benchmark/index and to achieve

investment returns:

- in the top thirty-third percentile (33%) of peer manager/fund groups for equities over a three to five year period;
- in the top fortieth percentile (40%) of peer manager/fund groups for fixed income over a three to five year period;
- Monitor managers'/funds' performance on a quarterly basis and compare to selected index and peers with similar styles and objectives.

An Investment Manager will be rated in a "Favorable Status" if they are delivering favorable performance and there are no outstanding organizational issues.

An Investment Manager will be in a "Caution Status" if:

- <u>For Equities</u>:
  - Investment Manager's three year performance is below the 50^{th} percentile of their peer universe, or they are trailing the style benchmark, or
  - Investment Manager's five plus year performance is below the 33^{rd} percentile of their peer universe, or they are trailing the style benchmark.

- <u>For Fixed Income</u>:
  - Investment Manager's three year performance is below the 50^{th} percentile of their peer universe, or they are trailing the style benchmark, or
  - Investment Manager's five plus year performance is below the 40^{th} percentile of their peer universe, or they are trailing the style benchmark.

- <u>For Alternative Investments:</u>
  - Investment Manager's one year performance is negative, failing to preserve capital, or
  - Investment Manager's three year performance is below any of the appropriate indexes and in the Investment Consultant's opinion represents sub par results.

An Investment Manager will also be considered on "Caution Status" if there is a material change in the ownership structure of the Investment Manager's organization, or there is a departure of key investment professionals.

An Investment Manager that falls in "Caution Status" should undergo a formal review by the Investment Consultant. The review will address how the Investment Manager will move back to "Favorable Status" or recommend termination. An Investment Manager can move back to "Favorable Status" by improving its performance. Highest priority will be given to those failing to meet the five-year target and next to those failing to meet the three-year target. There may be situations where immediate problems, questions or short-term performance issues arise regarding an Investment Manager and the priority will shift to review these situations first.

In addition to the above, immediate termination of an Investment Manager(s) should be considered:

- When they deviate from the Finance Committee's instructions;
- When they deviate substantially from their investment disciplines and process;
- When Finance Committee members have any material problem or concern regarding the Investment Manager.

XII. COMMUNICATIONS

Month-end accounting of transactions and portfolio holdings, ending portfolio and holdings values will be provided by the custodians.

Quarter-end regular accounting of transactions, portfolio holdings, yields, current market values, summary of cash flows, calculations of the portfolio's total rate of return on a latest quarter, year-to-date and since inception basis will be provided by each Investment Manager.

The Investment Managers will maintain communication with the Foundation and the Investment Consultant with as reasonable frequency as market conditions and the portfolio warrant. Major market conditions and major portfolio changes should be called to the attention of the Foundation and the Investment Consultant by the Investment Managers.

Significant changes within the Investment Managers' operations of personnel and the anticipated impact on the funds should be brought to the attention of the Finance Committee and the Investment Consultant immediately. If any changes are made to key personnel, ownership or any other critical areas of the firm, the client should be promptly informed.

The Investment Consultant will provide comparative performance evaluation reports quarterly.

Accepted by:

HARBOR BRANCH OCEANOGRAPHIC INSTITUTE FOUNDATION, INC.

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Name Title Date

INVESTMENT CONSULTANT

ORGANIZATION:____

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Name Title Date