APPROVED
9/27/13
Board of Trustees

FINAL
INVESTMENT POLICY STATEMENT (IPS) FOR FLORIDA MEMORIAL UNIVERSITY, INC.

Policy Compliance

The Investment Policy Statement that follows is pursuant to the enactment of the Florida Uniform Prudent Management of Institutional Funds Act, Section 617.2104, Florida Statutes, effective as of July 1, 2012.

Statement of Purpose

The Investment Policy Statement is to provide guidelines for the management of the assets of Florida Memorial University, Inc. investment accounts by outlining an investment policy which describes the University's investment objectives and related considerations. This document applies to the University's endowment accounts (donor restricted) quasi-endowment accounts (unrestricted) and other unrestricted accounts. For endowment accounts specific conditions provided by the donor may supersede the policies of this document.

This investment policy will:

- Establish a Statement of Authority
- Set forth the spending policy for these accounts
- Establish investment objectives
- Outline risk tolerance
- Determine asset classes and target asset allocations
- Describe asset quality
- List specific portfolio constraints
- Describe the selection of investment managers and sub-managers
- Outline the factors for the termination of managers
- Delegate proxy voting

The guidelines in this Investment Policy Statement should provide sufficient flexibility to allow for changing economic conditions and securities markets, subject to change at the discretion of the Investment Management Committee of the University.

The investment manager(s) will be notified of any changes in this investment policy.

Statement of Authority

The Board of Trustees of Florida Memorial University, Inc. has established an Audit and Investments Committee (AIC) for the management of its investment portfolio. The Committee members shall be appointed by the Board of Trustees for renewable terms in accordance with the

FMU Board of Trustee By-Laws. All decisions of the Committee must be by majority vote, and a quorum is at least two members.

The initial staff members of the Audit and Investments Committee shall be:

President of the University
Vice President Business and Fiscal Affairs

The Committee must meet at least twice a year and may hold additional meetings as deemed necessary.

The Board of Trustees charges the Audit and Investments Committee with governing the investments of the University's assets. Specifically, it is responsible for:

a. Developing, revising and maintaining the University's Investment Policy Statement periodically as deemed necessary,

b. Selecting and monitoring the individual investment manager(s),

c. Overseeing the allocation of the investment assets,

d. Monitoring the performance of all University assets to assure compliance with the stated goals and objectives outlined in this Investment Policy Statement as approved by the Board of Trustees, and

e. Reporting to the Board of Trustees at least semi-annually on the status of the University's investment accounts.

The Audit and Investments Committee may employ a qualified independent investment consultant, if required, to assist in the selection of the investment manager(s) and for performance measurement services.

University Spending Policy

The spending rules differ according to whether the funds are in an endowment or quasi-endowment fund. The specific rules for each are given below:

Endowment Funds

Distributions of these funds should be guided by the endowment documents provided by the donor. The attached Investment Policy Statement is required to adhere to the donor distribution requirements or restrictions as mandated by the donor (see attachments). The following rules will apply when disturbing funds.

1. Distributions can be made for direct program and administrative expenses as well as investment management and custody fees.

2. Income should be disbursed annually in accordance with spending policy.
3. Disbursements should occur on the 15th of August and January of each year
4. Income can take the form of interest payments, dividends or total returns.
5. Excess total returns should be maintained in the fund.
6. Any income remaining from the previous year may be disbursed prior to current year income.

Quasi Endowment funds

The distribution of these funds shall be directed by the following rules for the purposes dictated by the Audit and Investments Committee. These rules are:

1. Distributions can be made for direct program and administrative expenses as well as investment management and custody fees associated with such funds.
2. Distributions can be made at any time during the year as approved by the Audit and Investments Committee, and must be made by the investment manager within 30 days following such request .
3. Investment management fees not to exceed (0.75%) must be paid from these disbursements.
4. There should be no invasion of the corpus of the endowment.
5. The University should attempt to provide as much notice as possible to investment managers about future disbursement to minimize disruption to the portfolio. Portfolios should keep sufficient cash on hand to make such distributions without disrupting long-term investments of the portfolio.

The University shall bear the responsibility of notifying any investment manager of the need for cash from time to time. Also, if the University elects to increase its annual payout the University will notify its investment manager(s) of the change in the spending policy. If there is more than one investment manager, when funds are needed by the University for disbursements, the University can elect from which manager funds are to be taken.

Investment Objectives

The investment objective of the University's accounts differs according to the specifics of each fund.

Endowment Funds

For endowment funds the principal investment objective is guided by the specifics of the endowment document. In general, the objectives will be to provide a sufficient investment return to (1) support a given level of annual disbursements and operating expenses, and (2) to preserve the value, in real dollar terms, the assets used to support these disbursements.

Therefore, the orientation of such funds is typically towards income generation with a minimum of growth unless otherwise specified by the endowment documents. In general the combination of inflation (2.5%) and investment management fees (0.75%) will average 3.25% during an economic cycle and therefore investment returns need to generate income above this minimum to insure maintenance of the real value of the portfolio. If investment returns minus payout rates are below this level then the real value of the portfolio will fall. Given this income goal, portfolio performance should be measured over a rolling 3-year period.

Quasi Endowment Funds

Given their non-restrictive nature, the investment objective for the quasi endowment funds will be more long-term than that of the endowment funds. The time horizon should be 10 years with the investment objective being total return (after fees) on the entire portfolio being at least 5% above the rate of inflation. Interim medium-term objectives, over a moving 3-5 year period, should be to outperform (after fees) the return of a balanced market index comprised of the following:

- 60% S&P 500 Index
- 40% Barclay's Capital Aggregate Bond Composite Index

While these are the goals of the entire quasi-endowment fund held by the University, they need not to be imposed on each investment account. The goal for each investment manager should be to:

- meet or exceed the market index or blended market index selected and agreed upon by the Audit and Investments Committee and the manager as the one that most closely corresponds to the investment style of the particular manager, and
- incur an overall level of risk of each portfolio that is consistent with the risk level of that management style and asset allocation.

<u>Risk Tolerance</u>

Investment theory and historical capital market return data suggest that over long periods of time there is a relationship between the level of risk assumed and the level of return that can be expected in an investment program. In general, higher risk (e.g., volatility of return) is associated with higher return.

Given this relationship between risk and return, the University recognizes that a fundamental step in determining the investment policy for the University is the determination of an appropriate risk tolerance. There are two primary factors that affect the University's risk tolerance:

- Financial ability to accept risk within the investment program, and
- Willingness to accept return volatility

Taking these two factors into account, the University rates its own risk tolerance as conservative for Endowment funds and moderately aggressive for quasi-endowment funds. The University is thus willing to tolerate declines in the value of the endowment fund of 5-7% and potential declines in the quasi-endowment fund of 9-11%.

Inasmuch as the portfolio goal is to strive to achieve higher total return, this will involve increased volatility, and the University is able to tolerate greater fluctuations in the value of its quasi-endowment portfolio than its endowment portfolio.

Asset Allocations

Keeping in mind the different investment objectives of the endowment vs. quasi-endowment portfolios there should be different asset allocation targets for each. These allocations take into account an asset class' projected return, its projected volatility and correlation with other asset classes. However, due to fluctuations in market values, the actual allocations within the portfolio at any given time may deviate from the target allocations. Rebalancing of the portfolio will vary, depending upon the extent and length of time the deviation has existed, and may also be necessary when funds are disbursed to cover the University' distributions and expenses.

The assets of the portfolio should be diversified both by asset class and, within asset classes, by economic sector, industry and market capitalization. The purpose of diversification is to limit this specific risk associated with any single security or class of securities.

Endowment funds

While the specific asset allocation targets might be dictated by the endowment documents, in the case where this is not specified, the target asset allocation and the associated ranges are given below taking into consideration the Current Income orientation of these funds.

Following is the asset mix with asset allocation targets:

	Percent of Total Fund	
Marketable Assets	Range of Allocation	Target Allocation
Equity Portfolio:		
Large Cap Stocks	6-14%	12%
Mid-Cap Stocks	0-3%	4%
Small Cap Stocks	0-3%	1%
Developed Int'l Equity	0-6%	3%
Int'l Emerging Mkts Equity	0- 2%	1%
Total Equity Allocation	**10- 28%**	**21%**
Fixed Income Portfolio:		
"Core" U.S. Fixed Inc	40-80%	60%
Inflation Protected Sec	0-25%	7%
International Bonds	0-25%	0%
High Yield Bonds	0-10%	7%
Total Fixed Income	**50-84%**	**74%**

Alternative Investments		
Real Estate Fund	6%	3%
Commodities	0%	0%
Hedge Strategies/Absolute Ret	0%	0%
Total Alternative Assets	**6%**	**3%**
Cash/CD/short-term US Treasuries	**0-20%**	**2%**
		100%

Cash reserves may need to be increased from time to time to provide funds for periodic grant distributions and for expenses and excise taxes. Exposure to high yield bonds should be done by mutual funds to diversify risk.

Quasi-endowment funds

While the specific asset allocation targets might be dictated by the endowment documents, in the case where this is not specified, the target asset allocation and the associated ranges are given below taking into consideration the total return orientation of these funds.

Following is the asset mix with asset allocation targets:

	Percent of Total Fund	
Marketable Assets	Range of Allocation	Target Allocation
Equity Portfolio:		
Large Cap Stocks	15-35%	31%
Mid-Cap Stocks	0-10%	7%
Small Cap Stocks	0-10%	6%
Developed Int'l Equity	0- 15%	10%
Int'l Emerging Mkts Equity	0-6%	5%
Total Equity Allocation	**35- 75%**	**59%**
Fixed Income Portfolio:		
"Core" U.S. Fixed Inc	15-35%	22%
Inflation Protected Sec	0-10%	4%
International Bonds	0-10%	5%
High Yield Bonds	0-6%	3%
Total Fixed Income	**20-40%**	**34%**
Alternative Investments		
Real Estate Fund	0%-10%	5%
Commodities	0%	0%

Hedge Strategies/Absolute Ret	0%	0%
Total Alternative Assets	**0%-10%**	**5%**
Cash/CD/short-term US Treasuries	**0-20%**	**2%**
		100%

Cash reserves may need to be increased from time to time to provide funds for periodic grant distributions and for expenses and excise taxes. Exposure to high yield bonds should be done via mutual funds to diversify risk.

No more than 5% of the total equity portfolio shall be invested in the securities of any one issuer at the time of purchase, and no more than 20% of the total equity assets should be invested in any one industry at the time of purchase. Also, the exposure of the portfolio to any one fixed income security, other than securities of the U.S. Government or its agencies, shall not exceed 10% of the market value of the total fixed income portfolio. The portfolio may be invested in mutual funds, limited partnerships and/or other pooled investment vehicles. The weightings of mutual funds can vary, and actual allocations may differ from time to time.

If an investment manager believes that certain opportunities justify allocations beyond the limits described in this policy, it may exceed them only with the written approval of the Investment Committee.

Asset Quality

Common Stock

An investment manager may invest in any unrestricted, publicly traded common stock that is listed on a major exchange or a national over-the-counter market and which is appropriate for the University's investment objectives, asset class and/or investment style. Permitted equity asset classes would include: Large Cap Equities (value, core, growth), Mid-Cap Equities (value, core, growth), Small Cap Equities (value, core, growth), and global equities. Within global equities small positions in Emerging Market equities purchased through ADR's are permitted as long as they are part of a global diversification strategy. Stock selection can be done directly by investment manager or through a 3rd party manager if the investment manager has access to a Separately Managed Account platform. Use of such managers should not entail additional costs to the University.

Convertible Preferred Stock and Convertible Bonds

An investment manager may use convertible preferred stocks and bonds as equity investments. The quality rating of convertible preferred stock and convertible bonds must be BBB or better as rated by Standard & Poor's or BAA or better as rated by Moody's. The common stock into which both may be converted must satisfy the asset quality standard for common stocks above. If a mutual fund is used for such investments, they must adhere to the above conditions.

Fixed Income Securities

The quality rating of bonds and notes must be A or better as rated by Standard & Poor's or Moody's. However, high-yield fixed income investments may be made within the parameters specified above as part of a specific high yield fund. Such a fund will diversify the security specific risk while proving access to this group of assets. Purchase of any specific bond rates rated less than A must require explicit approval by the Investment Committee. If a bond falls below A while part of the portfolio, it must be sold within 30 days if the Investment Committee does not provide a waiver. At no time can more than 10% of the market value of the fixed income portfolio be invested in securities rated less than A quality or in high yield funds. Duration of the fixed income portfolio is targeted at 5 years – differences can occur over the economic cycle as managers seek to optimize return and control risk.

Cash Reserves

Cash reserves can be invested in money market mutual funds, commercial paper or other high quality short-term instruments. The quality rating of commercial paper must be A-1, as rated by Standard & Poor's, or P-1 as rated by Moody's or better. Issuers should have a rating of AA+ or better at the time of purchase. The assets of any money market mutual funds must comply with the quality provisions for fixed income securities or cash reserves as outlined.

Alternative Investments

Alternative investments can provide a good source of diversification and return enhancement within the context of an overall portfolio and are included in many endowment funds of the largest Universities in the country. These investments which include real estate funds as well as private equity holdings come with a different set of risks than more traditional asset classes and thus they must be carefully monitored.

<u>Portfolio Constraints</u>

Prohibited Investments

No investment may be made which would be classified as a Jeopardizing Investment under IRC Section 4944, or which would constitute a Self-Dealing Transaction under IRC Section 4941, or which would subject the University to the Excise Business Holdings tax under IRC Section 4943.

No investments should be made unless otherwise agreed in:

- Margin transactions
- Short sales
- Uncovered options
- Currency transactions

No investment may be made in securities whose issuers have filed a petition for bankruptcy which has not been resolved, without the explicit approval of the Investment Committee.

No investments should be in assets which generate Unrelated Business Taxable Income without the explicit approval of the Investment Committee of the University, or the person to whom the specific authority has been delegated.

No investment should be made in municipal bonds or other tax-exempt securities without approval.

Managers should not invest in mutual funds where they are acting as an advisor unless those assets are excluded from the standard management fee or the mutual fund advisory fee is rebated, and there has been advance disclosure and approval obtained. Managers should not invest in mutual funds that require front-end or back-end load charges.

<u>Investment Managers</u>

The assets of Florida Memorial University will be managed primarily by investment managers as selected by the Investment Committee of the University. These investment managers may select, with the approval of the Investment Committee, external managers to manage certain asset or sub asset classes in order to achieve superior investment results. These external managers will have discretion to manage the assets in their portfolios to best achieve the investment objectives, based on the expectation that the assets of the University will be invested with care, skill, prudence and diligence.

The selection of external managers should take into consideration the diversification of the portfolio among industry groups, economic sectors, market capitalization and investment philosophies. These managers will be selected by asset class and specific style, and will be based on performance and qualitative factors.

The performance factors include but are not limited to:

- Three to Five year track record
- Rolling period analysis
- Risk adjusted returns
- Downside analysis
- Style analysis & consistency
- Index & peer group benchmark comparisons

The qualitative factors beyond performance could include:

- Firm’s ownership structure
- Key personnel
- Investment philosophy & process
- Asset growth rate
- Business model
- Administrative resource & client servicing capabilities
- Attribution analysis

All investment managers should execute market transactions on the basis of best execution as to obtain the lowest possible transaction cost for the University.

Performance reports shall be submitted on a calendar quarter basis by the investment manager with separate reports for each outside manager if these are utilized. Additionally, the investment manager will be expected to meet with the Investment Committee as requested from time to time.

Subject to the constraints described in these guidelines, investment managers shall have full discretion in their investment decisions.

Depending upon the investment manager(s) selected, the University can also establish such custodial and brokerage relationships as may be necessary for the efficient management of the University’s portfolio.

Terminating Investment Managers

While the University reserves the right to terminate any investment manager relationship at any time, it would generally do so under the following circumstances:

- Investment performance is significantly below established benchmarks and has been for an extended time period, and the reasons for underperformance are not convincing
- Failure of a manager to follow his or her prescribed style
- Violation of investment guidelines
- Significant personnel departures from the organization
- Change in ownership of the organization
- Significant changes in the University’s investment strategy

Proxy Voting

The Investment Committee of the University delegates the responsibility for proxy voting to the individual investment manager(s) to be voted in the best interest of the University unless the University provides instructions to the contrary.

Review

APPROVED
9/27/13
Board of Trustees

At least once every three years, the Audit and Investments Committee of the University during the month of May, prior to the University's fiscal year-end, shall be required to review and evaluate the Investment Policy Statement, and to recommend for Board of Trustee approval the necessary revisions to comply with market trends and industry standards.

This Investment Policy was adopted on ______________________________ by the Board of Trustees of Florida Memorial University.