

Island Heritage Trust

Investment and Spending Policy

Adopted 3.12.07 revised 2/14/11

The Board of Trustees of the Island Heritage Trust, Inc. has established this Investment and Spending Policy upon the recommendation of the Finance Committee for the purpose of providing general guidelines for the prudent investment management of all the Trust's long-term investments. It is recognized that changing economic and market conditions may make it difficult for the funds to precisely mirror all aspects of this policy at all times, and as such, this policy is to serve primarily as a general framework for the management of the funds.

I. Spending Policy

A. Funds from the Endowment and Board Restricted Funds shall be withdrawn periodically to help supplement the Trust's other sources of revenue. These withdrawals shall be limited on a calendar year basis to no greater than 4.5% of the five-year rolling average of the Endowment's immediately preceding year end market values. For the years prior to 2012, the five-year average will be adjusted to equal the number of years between the applicable year and 2007.

II. Investment Objectives

The investment objectives of the Endowment and the Board Restricted Funds are to:

A. Provide for a spending distribution rate in accordance with the spending policy currently in force (4.5%) and increase the value of the funds by the amount of inflation in order to protect the real (net of inflation as measured by the Consumer Price Index{CPI}) value of the corpus.

B. Attain an average annual real return (net of inflation) which exceeds 4.5 percent over the long term as measured by rolling five-year periods

C. Control risks that may hinder the achievement of these goals. To this end the committee shall seek to diversify the fund broadly across as many attractive asset classes as possible.

III. Investment Guidelines

A. To achieve its investment objectives the funds shall be invested in three broad asset classes: "Investment Grade Bonds", "Equities", and "Short-Term Securities". The purpose of the Equities is to provide an engine of real total return sufficient to drive the Fund to its return objective and to hedge against inflation. Equities may include traditional stocks investments, as well as other assets termed "Equity Substitutes" or alternative investments. Equities shall be measured against an appropriate equity index and manager universe. To mitigate risk a portion may be invested in "Equity

Substitutes”. The target allocation for equities and equity substitutes combined is seventy percent of the total portfolio, but in any event not less than fifty percent.

C. The investment objective for Investment Grade Bonds is to match or outperform, net of fees, the Lehman Brothers Government/Credit Bond Index. The average quality of the Investment Grade Bond portfolio shall be A+ or higher, and no investments are permitted rated lower than “BBB-” by Standard and Poors. The aggregate obligations of any single non-US government or government agency issue may not exceed ten percent of the Investment Grade Bond portfolio.

D. The investment objective for the Short-Term Securities is to outperform, net of fees, a 91 T-Bill index. Non-US government or government agency obligations must be from issuers rated A-1/P-1 or higher by Standard and Poor’s or Moody’s. The aggregate obligations of any single non-US government or agency issuer shall not exceed ten percent of the “Short Term Securities” portfolio.

E. In no case (exempting mutual fund shares) shall a single equity security exceed five percent of the portfolio. Additionally, no single major industry sector shall represent more than twenty-five percent of the market value of the equities. The manager may not acquire any security subject to any restriction on the sale thereof, or subject to any investment representation.

F. The Finance committee may select managers for a single asset class or managers who utilize many/several classes within a single portfolio and who comply with the guidelines of this policy.

G. The Finance Committee shall review investments annually in order to monitor compliance with these guidelines. The Finance Committee shall review investment performance of the funds over longer time frames to assure that the performance meets the target return and compares favorably to an appropriate benchmark and other available investment options.

H. The Finance Committee shall report to the board annually on the Endowment’s investment performance in accordance with the above guidelines.