ROLLINS COLLEGE

ENDOWMENT POOL
STATEMENT OF INVESTMENT OBJECTIVES AND POLICIES

INTRODUCTION

This statement is issued by the Trustee Investment Committee of Rollins College for the information of interested parties and the guidance of its investment advisors in the management of endowment pool assets. The Investment Committee is responsible to the Board of Trustees for adopting investment objectives and overseeing policy implementations. The Committee is also responsible to monitor investment performance. A full statement of the investment management responsibilities of the Investment Committee is provided in Appendix A.

A. Management and Investment Objectives

1. The management objective for the endowment pool is to provide a sustainable and increasing level of distribution to support the College's annual operating budget while preserving the real (inflation adjusted) purchasing power of the endowment pool exclusive of gift additions. The level of distribution is expected to grow over time at least at the same rate as the annual average increase in the College's operating budget.

2. The investment objective for the endowment pool is to attain a compound return (net of fees) of at least 7.5% over the long term, as measured over rolling five-year time periods. The table below summarizes the calculation of the compound return need:

Spending Rate	4.5%
Inflation	2.5%
Real Growth	0.5%
Compound Return Need, net of expenses	7.5%

The Committee's investment policies assume that annual spending over the long term will represent 4.5% of the market value of the endowment pool. The "corridor method" is used to calculate spending: Gift and other endowment additions earn spending amounts equivalent to an annual rate of 4.5% of the principal addition in the first fiscal year of investment. Each fiscal year thereafter, the spending amount, in dollars, is increased by 3%. The annual spending amount will not be less than 3.5% nor will exceed 5.5% of the endowment's fair market value measured as a 4 fiscal quarter average lagged one quarter at the beginning of any fiscal year.

Furthermore, in recognition of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), spending shall comply with the evolving "prudent spending" guidelines of UPMIFA in the state of Florida. This policy will be reviewed annually as part of the budgeting process. Investment managers should be given ample notice of the required withdrawal schedule. Appropriate liquidity should be maintained to fund these withdrawals without impairing the investment process.

B. Investment Management Structure

1. A major role of the Investment Committee is to oversee the allocation of the endowment pool among asset classes, investment vehicles, and investment managers. The Committee continuously reviews, monitors, and adjusts the asset allocation.

2. The endowment pool is managed primarily by external investment fund managers generally in the form of mutual funds. However, separate accounts may be established. The fund managers have discretion, within their espoused guidelines set forth in the prospectus of the mutual fund Managers will normally handle only one type of investment in each fund. For example, stocks and bonds will not be combined in a balanced fund assigned to a single manager.

C. Portfolio Composition and Risk Management

1. To attain the investment objective, the endowment pool assets are divided into three groups: fixed income, equities, and alternative investments. The purpose of using the asset allocation model is to ensure that the overall asset allocation among the major asset classes remains under the scrutiny of the committee and is not permitted to become the residual of separate manager decisions.

   The long-term commitment is described in the asset allocation model presented on the following page:

Asset Class	**Policy Target**	**Policy Range**
Global Equity	47%	37.0-57.0%
Global Private Equity	13%	10.5-15.5%
Flexible Capital (Hedge Funds)	17%	12-22%
Inflation Hedging (Real Assets)	12%	7-17%
Multi-Strategy Fixed Income	10%	5-15%
Cash	1%	1-6.0%

Investment in alternative asset categories is an incremental process that normally requires several years to be fully implemented. Assets awaiting deployment to alternative investments may be invested in other authorized asset classes, resulting in a transitional allocation that is not compliant with the model.

The asset allocation model should be periodically reviewed by the Committee, which may direct changes to accommodate investment in other permitted asset classes (see Permissible Asset Classes, below), or to adjust allocations to the various asset subclasses that comprise the major asset groups. In all cases, the revised overall asset allocation should provide reasonable assurance that the investment objective (defined in Section A of this policy) will be achieved.

2. The purpose of fixed income assets is to provide a hedge against deflation and to reduce the overall volatility of returns of the endowment pool. The percentage of total endowment pool assets allocated to fixed income at any time should be sufficient to provide that the capital value of the endowment pool fund does not decline by an intolerable amount during a period of extended deflation.

3. The fixed income fund should not include more than 5% of non-dollar denominated foreign bonds without the advance approval of the Investment Committee.

4. The purpose of holding equities in the endowment pool is to provide appreciation of principal that more than offsets inflation and to provide a growing stream of current income. It is recognized that in seeking higher returns through appreciation entails the assumption of greater market variability and risk than investment in fixed income securities.

5. Permissible Asset Classes
   The Policy Asset Allocation of the Endowment is expected to include a wide range of asset classes. In the appropriate combinations, investment exposure to a variety of traditional and alternative asset classes provides reasonable assurance that the return needed to attain portfolio objectives will be realized, with reduced overall portfolio risk.

   US Stocks - Large, Mid, and Small Capitalization
   Int'l Stocks, Developed Countries, Large, Mid, Small Capitalization
   International Stocks, Emerging Markets
   US Bonds, Government and Investment Grade Corporate
   International Bonds, Developed Countries
   International Bonds, Emerging Markets
   Real Estate, including REIT's and timberland
   Private Equity, includes distressed and mezzanine debt
   Hedge Funds
   Commodities

6. Within the endowment pool, in addition to cash held by managers pending investment and re-investment, there normally is a cash or short-term investment balance representing gift receipts pending their assignment to one of the investment managers.

7. The equities within the endowment pool are placed with investment managers who have distinct and different investment philosophies. Equities in any single company may not exceed 10% (on a cost basis) of any manager's respective market value.

D. <u>Rebalancing Policy</u>
Since Policy Asset Allocation is the most critical component of the Endowment's return, it is desirable to periodically rebalance portfolio assets to minimize deviations from the Policy Asset Allocation mix. The Committee may adopt procedures to guide the routine execution of rebalancing by College investment personnel. These procedures should give consideration to the inherent costs of rebalancing and to the transitional asset allocation that may result from the staged deployment of alternative investments.

E. Fixed Income Guidelines (for Separately Invested Accounts)

1. Fixed income managers are expected to outperform their respective indices (see Appendix B), net of fees, over the long term. Performance is monitored on a monthly basis.

2. Fixed income managers are allowed to invest in U.S. government and agency issues, investment-grade corporate bonds (Baa/BBB or better), high-yield corporate bonds (Ba/BB), emerging market debt, cash, and cash equivalents. No single non-governmental agency issue is to exceed 10% (on a cost basis) of any manager's respective market value. This guideline notwithstanding, the College's fixed income portfolio should meet the goals set forth in C-2, above.

F. Equity Fund Guidelines (for Separately Invested Accounts)

1. Equity managers are expected to outperform their respective indices (see Appendix B), net of fees, over the long-term. Performance is monitored on a monthly basis. Equity managers shall demonstrate a reasonable match, or "fit", with their comparative index, as measured by an acceptable R^2 and tracking error (See Appendix B).

2. Decisions as to individual security selection, size, number of industries or holdings, income levels, and turnover are left to manager discretion subject to the normal standards of fiduciary prudence and monitoring by the Committee. The use of options, financial futures, non-marketable securities, selling on margin, or short selling requires prior approval from the Committee. No single stock position is to exceed 10% of the market value of an equity manager's portfolio without prior approval from the Committee.

3. Equity managers may at their discretion hold investment reserves of cash, cash equivalents, or short-term instruments. However, at no time are such items to constitute more than 10% of the portfolio without prior approval from the Committee. It is important that the equity manager understand that performance is measured against stock indices regardless of his non-equity reserves.

4. Since the Committee has provided for significant diversification within the endowment pool portfolio, individual managers are encouraged not to diversify beyond their own areas of expertise or to emphasize market- timing activities.

G. Alternative Investment Guidelines

1. Investment contracts entered into with alternative investment managers should align the interests of the manager with those of the College. For example, it is desirable for the general partners/managers to be investing a relatively high percentage of the total funds to be raised, or a high percentage of the general partner's liquid net worth should be so invested. Contracts with performance fees for hedge funds should not be entered into unless there is a "high water mark." When possible, there should be a hurdle rate that must be achieved by the manager before a performance fee is paid.

2. Prospective returns should be commensurate with risk. If the manager is approved to use leverage, the amount of total permitted leverage should be stipulated in the investment agreement.

3. Alternative investments, and their risks, should not be considered in isolation, but rather as a piece of the entire portfolio. Consequently, the Committee should achieve appropriate diversification and implementation among all alternative investments.

4. Special care must be taken when entering into agreements that bind the College to long-term investment commitments. There should be a plan to achieve the targeted asset allocation over a period of time. This implementation plan will take into consideration all identified variables such as capital markets, quality of available opportunities, current allocations, current outstanding commitments, and other relevant factors.

5. The consultant will be charged with undertaking appropriate "due diligence" before any alternative investment is approved by the Committee.

H. Monitoring Results and Objectives

1. All policies and objectives are to remain in effect until modified by the Committee.

2. If at any time an investment manager believes that any of the policy guidelines inhibits his investment performance or causes him to handle the account differently from his other clients, it is the responsibility of the manager to communicate such a view to the Committee.

3. Each of the portfolios (overseen by outside managers) is monitored for return relative to objectives, consistency of investment approach, and investment risk (as measured by asset concentration, exposure to extreme economic conditions, and market volatility.) Managers are required to inform the Committee of any significant change in matters such as firm ownership, structure, personnel, etc.

4. The Committee shall establish a clearly defined process for reviewing investment managers. This process should include reviewing any structural changes of the manager and the manager's returns compared to their benchmark and to their peers. Specific consideration should include the departure of the portfolio manager, sale of the firm, or significant change to the underlying investment strategy, including style drift. With respect to performance, a review is warranted if the manager falls into the fourth quartile of their peer return universe for two consecutive quarters, or if the manager's returns relative to the benchmark exceed the allowable tracking error.

I. Other Guidelines and Considerations

1. As a matter of policy, the Committee manages the endowment pool to yield the best long-term financial results rather than to pursue other social objectives.

2. Investment managers are generally authorized to vote proxies on behalf of the College. The Committee will notify, in advance, the manager when it wishes to vote a proxy.

3. Security lending is not permitted.

4. In general, managers should avoid any transaction that could result in unrelated business income tax.

Appendix A

Excerpt of College Bylaws

Section 3. Investment Committee.

(a) The Board of Trustees exercises its responsibility for the permanent funds of the College through its Investment Committee, for which staff support is provided by the Treasurer and the Vice-President who serves as the chief business officer. The Vice-President and the Treasurer inform the Committee of changing conditions which affect the endowment and other investment assets of the College and are responsible for the implementation of policies established by the Trustees.

(b) The Investment Committee will:

(1) Secure outside professional investment counsel and communicate with them regarding expectations;
(2) Recommend investment policies, including asset allocation, to the Board of Trustees;
(3) Select and/or terminate managers in implementing the investment policy and provide specific performance criteria and objectives for each manager;
(4) Monitor each manager=s performance relative to the objectives set forth in the investment policy, against its peers, and against an appropriate index;
(5) Periodically review custodial relationships;
(6) Define procedures for controlling and accounting for investment expenses by examining manager fees and/or annual expenses of mutual funds, trading costs, soft dollar costs, custodial charges, consulting and administrative costs and fees, and insure fees for investment management are consistent with agreements and with the law;
(7) Avoid conflicts of interest and prohibited transactions;
(8) Oversee the conduct of investment and endowment activities to assure that performance is consistent with generally accepted standards.

(c) The Chairman and members of the Investment committee are appointed by the Chairman of the Board of Trustees. All members of the Investment Committee shall also be members of the Finance Committee. The Chairman of the Finance Committee shall assist in the appointment of members by providing the Chairman of the Board of Trustees nominations for Investment Committee Membership. The Committee shall consist of at least four (4) members in addition to the President of the College and the Chairman of the Board of Trustees who shall be voting members.

(d) The Committee will meet as often as it deems necessary or appropriate, either in person or telephonically and at such time and places as the Committee determines, but not less than three (3) times annually.

Appendix B

Comparative Indices for Investment Managers

Asset Class	Comparative Indices
Global Public Equity	
Domestic Equity	Russell 3000
International Equity	MSCI AC World - ex U.S.
Global Private Equity	Cambridge PE Universe
Flexible Capital (Hedge funds)	HFRI Fund-of-Funds
Inflation Hedging (Real Assets)	
Natural Resources	S&P NR Sector (Public)/Venture Economics (Private)
Commodities	Dow Jones-UBS Commodity
Real Estate	S&P Developed Properties (Public)/NCREIF (Private)
TIPS	BC US TIPS
Fixed Income	
US Fixed Income	BC Aggregate
Global Fixed Income	CG WGBI