

GULF OF MAINE RESEARCH INSTITUTE INVESTMENT POLICY

Purpose

The purpose of this Investment Policy is to provide guidance to the Gulf of Maine Research Institute (GMRI) Board of Directors, Management, and Investment Manager(s) regarding the investment of GMRI funds and the use of investment income. The GMRI Investment Committee is charged with the responsibility of implementing these Board-approved investment policies and overseeing their implementation. Any amendments to this policy will require approval by the Board of Directors.

This Investment Policy is designed to address the following:

1. State in a written document the investment objectives and management guidelines for the appointed Investment Committee to implement and monitor.
2. Establish an investment framework for the management of GMRI's various investment accounts. This framework includes guidelines as to asset class, investment styles and asset allocation ranges which are expected to produce a sufficient level of diversification and investment return over the long-term.
3. Establish formal criteria to monitor, evaluate, and compare performance results on a regular basis.

Key Information

Account Holder: Gulf of Maine Research Institute

Tax Identification Number: 01-0504905

Authorized Persons to Approve of Portfolio Changes (e.g., any cash flows to or from individual managers):

1. Investment Committee, at a meeting held in person or virtually.
2. For interim portfolio changes, recommendations can be approved by any two of the following: Investment Committee Chairperson, Treasurer, Chief Financial Officer, or President of GMRI.
3. Movements of funds between the Endowment and Reserve Accounts must be approved by the Board of Directors.

Investment Objectives

GMRI's investment objectives have been established in conjunction with a comprehensive review of GMRI's current and projected financial requirements. GMRI has four different investment accounts, each with its own funding needs and investment requirements. Funds received for these separate uses have different investment requirements due to the expected term of their investment and the acceptable risk and volatility during their term. Moreover, individual donor specifications or restrictions may create additional investment requirements. GMRI and its wholly owned subsidiaries, Gulf of Maine Properties, Inc. (GMPInc) and Union Wharf, LLC (UW, LLC) currently receive or may receive contributions or accumulate surpluses that are allocated for:

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a. Operating Funds:

- To fund program expenses and to provide unrestricted income for support services.
- Investment horizon: short, with cash required within 0-12 months.
- Risk/return profile: low risk. Protect the value of principal while earning a modest rate of return.
- Income distribution: Investment income shall be used for unrestricted support services, unless otherwise restricted by donors.
- Security grade: Investment grade securities required.

b. Operating Reserve Funds:

- To fund unexpected program expenses, emergency expenses, or annual losses.
- Investment horizon: short, with cash required within 0-12 months.
- Risk/return profile: low risk. Protect the value of principal while earning a modest rate of return.
- Income distribution: Investment income shall be reinvested until required for unexpected expenses or losses.
- Security Grade: Investment grade securities required.

c. Capital Improvement Funds:

- To provide funds designated for facility capital maintenance and improvements.
- Investment horizon: medium term with funds expected to be used within 3-4 years.
- Risk/return profile: low to medium risk. Protect the value of principal as a priority. Invest in short to intermediate term, liquid instruments that maximize investment earnings while protecting principal. Investment grade securities preferred.
- Income distribution: Investment income shall be reinvested until required for capital projects.
- Security grade: A combination of investment and high yield grade are acceptable, so long as the combination of equity and high yield securities do not exceed 20% of the portfolio.

d. Endowment Funds:

- To support long-term operations and programs of the organization.
- Investment horizon: long (in excess of ten years).
- Risk/return profile: Seek growth of the real (inflation-adjusted) market value of endowment assets to meet spending policy outlined below.
- Manage volatility in endowment asset value through an investment portfolio, which shall be diversified by market geography, investment style, and asset class.
- Security grade: Investment grade securities

- Distribution Policy: The Board of Directors has approved the distribution of 4% of the trailing 12-quarter average value of the endowment fund to support current operations.

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However, during endowment-building campaigns, distributions may be calculated on the average of the ending balance of endowment funds for the four trailing quarters in lieu of the average value over the trailing 12 quarters in order to maximize immediate program impact.

- **Additional Distributions:** Additional amounts, above the normal annual distribution policy, may be distributed from Unrestricted and/or Unrestricted Board Designated funds or Restricted Funds (but the latter only for use in accordance with donor intentions), with advance approval by the Board of Directors by a super majority (two-thirds vote) after weighing the long-term repercussions of such additional distributions.

Asset Allocation for Endowment Funds

	<u>Allowable Range</u>	<u>Strategic Target</u>
Cash & Cash Equivalents	0% to 10%	0%
Debt Securities	10% to 30%	20%
Equity Securities	70% to 90%	80%

- The equity and equity-like securities may include large, mid, and small-cap stocks listed in domestic U.S., developed non-U.S., and emerging markets, among other components. GMRI's investment manager(s) may fulfill investment requirements through individual equities, mutual funds, exchange traded funds, or market index funds.
- Debt instruments purchased as individual securities by GMRI investment managers (except for mutual funds and exchange traded funds) shall be investment grade with high yield securities sold as soon as practical.

Asset Allocation for Capital Replacement Funds

	<u>Allowable Range</u>	<u>Strategic Target</u>
Cash & Cash Equivalents	0% to 10%	0%
Debt Securities	70% to 90%	80%
Equity/High Yield Securities	10% to 30%	20%

- The equity and equity-like securities may include large, mid, and small-cap stocks listed in domestic U.S., developed non-U.S., and emerging markets, among other components. The total of combined equity and high yield securities shall not exceed 20%. GMRI's

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investment manager(s) may fulfill investment requirements through individual equities, mutual funds, exchange traded funds, or market index funds.

- Debt instruments purchased as individual securities by GMRI investment managers (except for mutual funds and exchange traded funds) shall be investment grade. If there are high yield securities in the portfolio that cause the allocation of equity/high yield to exceed 20%, they shall be sold as soon as practical.

Performance Measurement for Endowment Funds

The overall endowment will be measured against a benchmark of 45% of the S&P 500 Index, 25% of the MSCI EAFE index, and 30% of the Bloomberg Barclays Capital Intermediate U.S. Government/Credit Bond Index. Individual managers shall be measured against an appropriate benchmark specific to the manager's stated approach. The performance evaluation of the endowment or individual managers shall be considered over a market cycle, generally 3 - 5 years.

Performance Measurement for Capital Replacement Funds

The capital replacement portfolio will be measured against a benchmark of 80% of the Bloomberg Barclays Capital Intermediate U.S. Government/Credit Bond Index, 10% of the Bloomberg US Corporate High Yield Index, and 10% of the S&P 500 Index.

Approvals by the Board of Directors

The above policy was originally approved by vote of the Board of Directors on January 19, 2007.

Subsequent amendments have included:

- On November 21, 2014, the Board of Directors voted to change the endowment spending policy from 5% to 4% of the trailing 12 quarters average value of the endowment.
- On July 12, 2017, the Board of Directors voted to allow annual distributions up to 4% of ending endowment balances during endowment-building campaigns.
- On September 30, 2019, this policy was reviewed by the Investment Committee, and it was determined that no changes were necessary.
- On November 19, 2021, the Board of Directors voted to update the policy considering the evolution of investment funds, clarify that the Board may consider additional endowment distributions in excess of the then standing annual distribution policy, add allocation and performance measurements for the Capital Replacement Funds, and adjust the allocations and strategic targets for Endowment Funds.