

# Investment Policy Statement

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# **Investment Policy Statement**

## **PURPOSE**

The purpose of this Investment Policy Statement (the “IPS”) is to establish and communicate the long range goals and investment guidelines for the Endowment Fund (the “Fund”) of The Foundation @ FCOE (the “FOUNDATION”) to those concerned with the management of the FUND, including the Board of Directors (the “BOARD”) of the Foundation and its Finance Committee (the “COMMITTEE”), as well as other interested parties.

The FUND includes DESIGNATED and UNDESIGNATED monies. The purpose of DESIGNATED monies is to make payments from the payout earnings to the programs as designated by contributors. The purpose of UNDESIGNATED monies is to accumulate additional principal plus earnings, with no disbursements before the UNDESIGNATED total reaches one million dollars (\$1,000,000.00).

This investment policy is to be approved and may be amended from time to time only by a majority vote of the Board of Directors.

The FOUNDATION intends to make periodic additions to the FUND from both public and private donations, as well as portions of other available monies.

The FOUNDATION acknowledges that the economy and financial markets are volatile and go through cycles, which can affect the performance of FUND either positively or negatively during any given period.

Further this policy defines investment parameters which are intended to limit risk arising from imprudent or unauthorized acts.

The IPS will be reviewed annually and revisions made as necessary.

## **GOAL OF ENDOWMENT FUND**

It is the goal of the BOARD of the FOUNDATION that any DESIGNATED portions of the FUND be conservatively invested, from which payments will be made as designated by individual contributors.

It is the initial goal of the BOARD of the FOUNDATION that the UNDESIGNATED portion of the FUND reaches a balance of one million dollars (\$1,000,000.00). The BOARD’S policy is that no disbursements shall be made from the UNDESIGNATED portion of the FUND until that goal is reached. The FOUNDATION will continue to add principal to the FUND.

## **INVESTMENT GOALS, OBJECTIVES, AND GUIDELINES**

Fund investments shall be limited to fixed income securities, cash equivalents, professionally managed funds (this would include equity mutual funds or managed equity

portfolios) or individual securities per the Target Allocation Matrix subject to the following criteria:

1. The FUND'S assets shall be diversified to avoid undue exposure to any single economic, industry or geographic sector, or individual security. Direct obligations of the U.S. Government shall be exempt from undue concentration considerations. The portfolio return objective is a long-term rate of return on assets of at least 5.00%. The target asset allocation is designed to meet this return objective while working within the risk tolerance and other constraints of the endowment.
2. All assets should have a readily ascertainable market value and be readily marketable.
3. Realization of capital gains and losses should be viewed solely in terms of investment merit.
4. Investments in fixed income securities may be made through mutual funds, other professionally managed investment vehicles, or individual bonds, notes or certificates of deposit. Allowable assets are U.S. Government and agency securities, corporate notes and bonds, mortgage backed bonds, preferred stock, fixed income securities of foreign governments and corporations.
5. Cash equivalents or short term investments shall consist of investment grade, liquid securities such as certificates of deposit, U.S. Treasury Bills, and other Treasury obligations, government agency paper, and high quality, short term corporate securities that do not exceed a two year maturity. Cash equivalents may also include money market funds insured by the FDIC, NCUA, SIPC, or other such protection as deemed appropriate by the COMMITTEE.
6. Investments in equities may be made through stock mutual funds or other professionally managed vehicles, or individual securities. Mutual fund investments will be diversified. Stock mutual funds or professional managers shall be selected on the basis of their relative performance measured against applicable comparative indexes, and other criteria as recommended by the Advisor and the COMMITTEE. The goal for a total return on equity portion shall be the Standard and Poor's 500 Index or other more suitable equity index such as but not limited to the Russell 1,000, Russell 2,000, EAFA, MSCI EAFE or other industry standard index.
7. Balanced and Asset Allocation mutual funds will be monitored and assessed according to the most appropriate and suitable benchmark for each individual fund's stated investment goal, as well as, comparable peers and funds.

## **RESPONSIBILITIES OF THE BOARD**

The Board has sole responsibility for investing the Foundation's assets.

The Board is responsible for the development, approval and amendment of this Investment Policy Statement and for the compliance of the Foundation investment activities with it.

The Board is responsible for hiring the Advisor to provide the professional expertise for the management of the Foundation's assets.

The Board and AUTHORIZED INVESTORS (see definition below), will monitor the performance of the Advisor and the Foundation's investments on a regular basis.

### **RESPONSIBILITIES OF THE FINANCE COMMITTEE**

Subject to the authority and approval of the Board and in compliance with their IPS, the Superintendent, the Deputy Superintendent of Business Services, and the Deputy Superintendent of Educational Services ("AUTHORIZED INVESTORS"), will have the responsibility for investing the Foundation's assets. Any two AUTHORIZED INVESTORS can act on investment recommendations.

Subject to the authority and approval of the Board, the Finance Committee is responsible for making recommendations regarding the development, approval and amendments to this IPS and for reviewing the compliance of the Foundation investment activities with it. Subject to the authority and approval of the Board, the Finance Committee is responsible for recommending the hiring of the Advisor to provide the professional expertise for the management of the Foundation's assets.

The Finance Committee will monitor the performance of the Advisor and the Foundation's investments on a regular basis, at least quarterly, and report its finding to the Board.

### **RESPONSIBILITIES OF THE ADVISOR**

The Advisor is expected to respect and observe the specific limitations, guidelines, attitudes, and philosophies stated herein and as expressed in any written amendments or special instructions.

The Advisor's acceptance of responsibilities for managing these funds will constitute a ratification of this statement, affirming the Advisor's belief that it is realistically capable of achieving the portfolio's investment objectives within the guidelines and limitations stated herein as well as those special instructions applicable to the investment funds allocated to the Advisor.

Within the guidelines provided herein and in the special instructions provided to the Advisor, the Advisor will be responsible for making asset allocation and buy/sell recommendations on a non-discretionary basis regarding all portfolio assets and will be held accountable for achieving the investment objectives indicated herein.

A detailed summary of any portfolio changes made during a quarter shall be provided no less than quarterly. This summary should include the dates of the transactions, the dollar value, and a brief rationale.

## RISK TOLERANCE

The assets of the total fund should be well diversified to minimize the potential for a significant reduction in value. In that regard, there is a relatively low tolerance for risk commensurate with investments that blend together to promote relative stability with the opportunity for competitive long-term total rates of return.

## ASSET ALLOCATION

The asset allocation target is recommended by the Finance Committee to facilitate the achievement of the fund's investment objectives within the established risk parameters. Due to the fact that the allocation of funds between asset classes may be the single most important determinant of the investment performance over the long run, the invested assets shall be divided into the following classes:

<b>Target Allocation Matrix</b>			
	Target	Minimum	Maximum
<b>Fixed Income</b>	60	0	100
<b>Equities</b>	40	0	70
Domestic	30	0	70
International	10	0	20
Commodities	Up to 25% of the domestic equity allocation can be invested in individual companies that are commodity-related businesses such as Chevron or Alcoa.		
<b>Cash Equivalents</b>			100

The actual asset allocation, which will fluctuate with market conditions within the prescribed ranges, will receive the regular scrutiny of the Finance Committee.

- A. Within the guidelines set forth in this document, the asset allocation decisions, including rebalancing to target allocations, shall be implemented by the authorized investors and monitored by the Finance Committee. The sector weightings and security selections are recommendations to be made by each Advisor. However, they must be consistent with the philosophy of this policy at all times.
- B. The equity and fixed income funds will be adequately diversified as to quality, size and style so that the performance of any single security or class of securities

shall not have a disproportionate impact on the aggregate performance of the Foundation's endowment portfolio, therefore minimizing the risk of large losses.

- C. The equity and/or fixed income Advisor will always invest in multiple industries and securities. With the exception of securities guaranteed by the U.S. Government, its agencies or instrumentalities, no more than five percent (5%) of the total endowment portfolio will be invested in any single company (excluding mutual funds). The total securities position (debt and equity) in any one company shall not exceed ten percent (10%) of the aggregate endowment portfolio. No single industry shall represent more than twenty percent (20%) of the portfolio.
- D. Assets invested in balanced or asset allocation mutual funds will be deemed as properly diversified portfolios in and of themselves. The particular asset class weightings internal to balanced and asset allocation funds will be left to the underlying mutual fund management teams per prospectus of the specific mutual fund.

## **INVESTMENT VEHICLES**

The following are permitted for investment:

- Common and preferred stock
- Common stock of foreign companies (ADRs and the equity securities of foreign companies traded on registered U.S. stock exchange or NASDAQ)
- U.S. and Foreign Corporate notes and/or bonds including convertibles
- U.S. and Foreign Government and agency securities
- Money Market funds
- Certificates of Deposit
- Mutual Funds
- Commercial Paper
- Indexed Funds or ETF (Exchange Traded Funds)
- Cash Equivalents

Any two AUTHORIZED INVESTORS can act on investment recommendations. Each Advisor shall use the lower of the Moody's and Standard & Poor's ratings to determine compliance with quality conditions.

In the event an individually owned security is downgraded below investment grade, the Advisor will notify the Finance Committee within 10 business days in writing with an evaluation and recommendation as to the continued holding or sale of that security in the portfolio.

The following investments are prohibited, except when used inside mutual funds, or are related to the underlying business of a public company:

- Commodities

- Options (including puts, calls, straddles, spreads or any combination thereof, except it shall be a permissible investment to buy a protective put or sell a covered call)
- Oil, gas or other mineral exploration or development programs
- Futures
- Unregistered letter stock (including but not necessarily limited to over-the-counter stock, shares of closely held corporations or ventures, etc.)
- Venture Capital Investments
- Collectibles
- Margin Purchases
- Direct ownership of real estate (unless required by the Gift Agreement and then for a period not exceeding two years)
- Short sales
- Exotic and leveraged derivative securities
- Precious metals
- Any investment without a readily ascertainable market value or which is not readily marketable
- Companies which have a record of less than five year's continuous operation, including predecessor companies
- Investment trust or an investment company except in the open market where there is no profit to a sponsor or dealer thereof other than customary brokerage
- Companies for the purpose of exercising control or management

## **CUSTODIANSHIP OF FOUNDATION ASSETS**

Foundation staff has responsibility for all property deposited in the name of the Foundation and such property will be in the custody of the approved institutions such as banks and/or brokerage firms deemed financially sound by the Board. Foundation staff is authorized and will conduct day-to-day operations on behalf of the Board and Finance Committee, including Investment Advisor communications/directions, and said staff will oversee general accounting and tracking of all Foundation assets. Foundation staff will prepare periodic asset reports reconciling all accounts held by approved custodians.

## **LIABILITY**

The Advisor is licensed to sell securities products on a commission basis. The Advisor will be held liable for failing to act prudently with respect to assets it manages for the Foundation.

Furthermore, the Advisor must be registered under the Securities Exchange Act of 1934, the Investment Advisors Act of 1940 or the Investment Company Act of 1940 and must be currently and continuously registered as an Investment Advisor with the Securities and Exchange Commission and with state regulators. The Advisor will maintain the necessary insurance coverage for the management of "fiduciary" moneys managed by the Advisor. Coverage should include, but is not limited to: errors and omissions, surety bonds, fiduciary liability, ERISA bonds, etc.