

# *Wharton County Junior College Endowment Fund*

## *INVESTMENT POLICY*

- **PURPOSE**

This document is the official policy governing the investment practices of the Wharton County Junior College Endowment Fund (the “WCJCEF” or “Endowment”). The policies in this document have been adopted by the Wharton County Junior College Board of Trustees (the “Board”), which has the fiduciary duty of overseeing the Endowment’s investments. The policies are not to be deviated from without the prior written permission of the Board.

Responsibility for management of donations, gifts, endowments and other monies rests with Board of Trustees.

Investment management for the WCJCEF principally involves endowed funds. Endowed funds are invested in perpetuity to provide on-going income for operations, scholarships, endowed chairs, fundraising events, and other activities as determined by the Board. Long-term investment objectives shall be established consistent with prudent management of similar endowments at other educational institutions. In instances where donors make requests, endowed funds will be invested as the donor has instructed as long as the instructions meet the prudent management requirements.

In addition, funds may be available for short periods of time before distribution. These funds are primarily invested for relatively short periods in cash equivalent or short-term interest earning obligations with maturities spaced to coincide with anticipated needs.

- **GOALS AND OBJECTIVES**

It is assumed that endowed funds will have a permanent life and that it is important to protect the principal and purchasing power of these funds. It is also assumed that some inflation will continue, thus the need to emphasize the total return of the Endowment’s investment portfolio. These assumptions call for an aggressive investment performance target while maintaining a prudent and reasonable risk level. It is anticipated that the return results for various asset classes will fluctuate and that each asset class will be impacted differently by changes in the economic environment. As an example, it is within the reasonable risk level that in times of economic recessions the equity markets will have negative returns. During the same timeframe, it is reasonably expected that certain fixed-income securities will experience market value increases. The Board recognizes that maintaining a disciplined strategy of diversification through targeted asset allocation will help mitigate return volatility. As long as the funds are invested in diversified portfolios, short-term negative returns may be unavoidable.

A primary goal is to provide a reasonably stable, somewhat predictable and increasing endowment income each year so that disbursement objectives can be maintained. *During those times of economic recession, income from long-term endowments may decline because of declines in equity portfolio values.* The Endowment will seek to maintain an appropriate asset allocation to minimize, as much as possible, the volatility of investment returns.

A secondary goal is to reflect a disciplined and consistent investment philosophy that will encourage planned gifts and bequests. At the same time, it is important that the Board and all involved parties demonstrate honesty and integrity in consideration of the donors' generosity. All participants in the Endowment's investment process shall seek to act responsibly as custodians of the donors' trust.

A third goal is to encourage donor support of the WCJCEF through donations and gifts, event sponsorships, and other financial commitments that will allow the organization to achieve its goals.

Performance targets will be established for each asset class authorized by the Board and will be evaluated on an annualized, net-of-fees basis for comparison to the appropriate benchmark.

- **INVESTMENT MANAGERS AND CONSULTANTS**

To fulfill the Board's objective of effectively managing the financial assets of the Endowment, the WCJCEF may contract with professional investment managers or consultants. Each investment manager will be selected from strongly established and financially sound organizations that have a proven and demonstrable record of experience in managing long-term money. The investment portfolio may be diversified to provide reasonable assurances that no single security (investment) or class of securities (asset class) has a disproportionate or significant impact on the total portfolio. Contracts with each investment manager will stipulate the composition and asset diversification to which that advisor must adhere. The WCJCEF may also consider an investment consultant to assist in managing the portfolio or monitoring the investment manager(s).

The WCJCEF will consider the cost-effectiveness utilizing an investment manager(s). Multiple investment managers may be required to effectively diversify according to the approved asset classes. The WCJCEF may determine that the most cost effective decision will be to invest in and diversified through mutual funds versus investment managers.

Diversification of the portfolio through asset allocation is established by this Policy and any deviation must be formally approved by the WCJCEF prior to the execution of any trade that would violate the allocation objective. In the case where an investment transaction causes an unintended allocation violation, the investment advisor must take immediate prudent action to resolve the situation and must report the violation and resolution to the Board within two business days.

The WCJCEF may contract with professional investment consultants to perform duties related to developing investment policy, asset allocation, selection of investment managers or mutual funds, and other Endowment-related advice. In the course of its duties, the consultant may oversee the Endowment's performance and to report to the WCJCEF the manager(s) or fund(s)' activities, and the effectiveness of their management relative to established benchmarks.

- **FIDUCIARY CONDUCT**

An investment fiduciary includes, but is not limited to, a person who exercises discretionary authority or control in the investment of the assets of the Endowment or who renders, for a fee, advice for the Endowment. The term investment fiduciary includes, but is not limited to, the members of the Board, the college staff, the investment consultant, investment managers and bank custodians.

An investment fiduciary shall discharge his or her duties exclusively in the interest of the beneficiaries of the Endowment and shall:

1. Act with the same care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims;
2. Act with due regard for the management reputation and stability of the issuer, and the character of the particular investments being considered;
3. Make investments for the sole purpose of providing for the funding objectives developed by the WCJCEF and of defraying reasonable expenses of supervising, safeguarding and investing the assets of the Endowment; and
4. Give appropriate consideration to those facts and circumstances that an investment fiduciary knows or should know are relevant to the particular investment or investment course of action involved, including the role which the investment or investment course of action plays in that portion of the investments for which an investment fiduciary has responsibility. For purposes of this subdivision, "appropriate consideration" shall include, but is not necessarily limited to, a determination by an investment fiduciary that a particular investment or investment course of action is reasonably designed, as part of the investments of the Endowment, to further the purposes of the Endowment, taking into consideration the risk of loss and the opportunity for gain or other return associated with the investment or investment course of action. The WCJCEF shall give consideration of the following factors as they relate to the total Endowment's investment course of action:
  - a. The diversification of the investments of the Endowment;
  - b. The liquidity and current return of the investment of the Endowment relative to the anticipated cash flow requirements of the Endowment; and
  - c. The projected return of the investments of the Endowment relative to the funding objectives of the Endowment.

5. Act in accordance with these guidelines and all applicable policies, laws and statutes.

- **INVESTMENT RESPONSIBILITY**

**Board of Trustees**

The Board of Trustees has the fiduciary responsibility for managing the investment process. In fulfilling this responsibility, the Board will establish and maintain investment policies and objectives. Within this framework, the Board will select, contract with, monitor and evaluate the investment consultant, investment managers, bank custodian and other parties to ensure that actual results meet objectives.

**Investment Consultant**

The investment consultant's duty is to render competent, professional advice and assistance and to work with the WCJCEF with respect to the investment process. This includes meeting regularly with the WCJCEF to provide perspective as to the Endowment's goals, structure and the investment management team as well as the progress being made in fulfilling each. The consultant will advise, consult and work with the WCJCEF to develop and maintain a properly diversified portfolio.

The investment consultant will perform its duties and obligations to the WCJCEF in conformance with generally accepted industry standards, and its contract with the Endowment.

Fund allocation and performance will be regularly reviewed and recommendations will be made as appropriate. The consultant will assist the WCJCEF in investment manager selection, when needed, and will promptly inform the WCJCEF and discuss the impact of material changes taking place within any current manager's organization and/or investment process. Within this process, the investment consultant assumes fiduciary responsibility for advice given regarding the management of the investment process.

**Investment Managers**

The investment managers will construct and manage investment portfolios consistent with the investment philosophy and disciplines they were hired to implement and which are specified in this Policy and in the respective investment manager agreement they execute with the Endowment. Investment managers will select specific securities or funds, buy and sell such securities/funds and manage the investment portfolio within the terms, provisions and requirements set forth in the Investment Policy, the applicable local, state and federal laws, and the investment manager agreement. Full discretion is delegated to the investment manager to carry out the investment of the respective portfolios within stated guidelines.

Each investment manager is expected not only to maintain a consistent philosophy and style, but also to perform well versus others utilizing the same style and to add incremental value after costs.

Each investment manager will be responsible for preparing a quarterly report on the performance of the portfolio, including comparative returns of their respective benchmark. The quarterly report will contain a complete accounting of all transactions involving the portfolio during the quarter, the beginning and ending market values of each position, and detail of gains/losses and income for the portfolio.

### **Bank Custodian(s)**

The bank custodian(s) will hold all cash and investments, will value the investments monthly, and will list and summarize these holdings for the WCJCEF's review. In addition, a bank or trust depository arrangement will be utilized to accept and hold cash prior to allocating it to the investment manager and to invest in cash-equivalent, interest-bearing instruments.

## **• INVESTMENT PROGRAM GUIDELINES**

### **Asset Allocation**

The asset allocation plan provides for diversification of assets in an effort to optimize the investment return and manage the risk of the Endowment's investment portfolio consistent with market conditions. Due to fluctuation of market values, allocations within a specified range constitute compliance within the Policy. An extended period of time may be required to fully implement the asset allocation plan and periodic revisions will be required. This Policy includes a targeted allocation table to be authorized to include all funds not segregated to provide for normal operating expenses and projected cash needs (see ASSET ALLOCATION). Such segregated funds will not be in excessive amounts and will be periodically monitored to ensure that all available funds are invested as effectively as possible.

### **Guidelines for Short-Term Investments**

Short-term investments are made with maturities spaced to coincide with anticipated needs. The highest rate of return is sought with minimum risk. The investment consultant will perform a rate review at least quarterly and report findings to the Board on a quarterly basis. To achieve these goals, the following procedures are to be followed:

1. All major funds are pooled into one account not to exceed FDIC coverage;
2. A projection of cash needs for the next 18 months will be kept;
3. Short-term and cash-equivalent investments will be selected that impose minimal liquidity and price volatility risk;
4. The economic environment and relative interest rates should be monitored; and
5. Investments in banks and savings and loans should be only those with FDIC insurance and limited per entity to the amount that would carry full FDIC insurance.

### **Guidelines for Long-Term Investments**

The Long-Term Investments portfolio shall:

1. Honor requests by donors relating to investment of donations to the Endowment, provided that the request does not compromise prudent safety and risk limitations;
2. Hold no more than 10 percent of the portfolio at cost, or 15 % at market, in securities of any one issuer (except the U. S. Government and its agencies and

- instrumentalities), except for additional shares of an issue that are contributed from time to time. Diversification should be a consideration with no more than 20% of the portfolio at cost, or 25% at market, in any one industry;
3. Invest only in equity securities listed on the New York Stock Exchange, American Stock Exchange, or the NASDAQ;
  4. Hold no more than 5% of the outstanding stock of any one company, except for shares that may be contributed;
  5. Not invest for the purpose of exercising control of management;
  6. Not invest in letter stock, except for shares that may be contributed by donors;
  7. Not invest in commodities or commodity contracts;
  8. Not invest in securities on margin or sell short, nor in mutual funds that leverage;
  9. Make no loans, except by the purchase of bonds or other obligations of the type commonly distributed publicly or privately to financial institutions. Investments will not be made in church bonds or loans to churches, except those contributed by donors;
  10. Make no investment in stock options, unless in sales of call options against stock held in the portfolio; and
  11. Use short-term cash held as the result of sales of stock or options for investment in interest-bearing instruments, with the understanding that such cash will be reinvested in equity securities in a timely manner.

### **Investments purchased prior to adoption of Wharton County Junior College Endowment Fund Investment Policy**

Any investments held prior to amendment of Public Funds Investment Act may be held to maturity or sold when advantageous to Wharton County Junior College.

- **AUTHORIZED INVESTMENTS**

The Endowment's portfolio will be diversified both by asset class and within asset classes. Within each asset class, investments will be diversified among economic sector, industry, quality and size. The purpose of diversification is to provide reasonable assurance that no single issuer or class of investment will have a disproportionate impact on the performance of the total fund. Asset Allocation may be accomplished by placement of investment funds into various mutual funds that include the authorized securities listed below.

#### **Cash and Equivalent Investments**

The WCJCEF may invest in the highest quality commercial paper, repurchase agreements backed by marketable government securities, U.S. Treasury and agencies and instrumentality obligations, insured financial institution deposits, and money market funds to provide income.

The WCJCEF should keep cash and equivalents to a minimum since short-term, cash equivalent securities are usually not considered an appropriate investment vehicle for long-term strategies. However, such investments are appropriate as a depository for income distributions from longer-term investments, or as needed for temporary placement of funds directed for future investment to the longer-term capital markets.

Funds segregated to cover short-term operating and disbursement needs of the Endowment will be held in money market or other cash equivalent positions authorized by the Board.

### **Equity**

The purpose of equity investments, both domestic and international, in the portfolio is to provide capital appreciation, growth of income and current income. This asset class carries the assumption of greater market volatility and increased risk of loss, but also provides a traditional approach to meeting portfolio total return objectives. This component includes domestic and international common stocks, American Depository Receipts (ADR), preferred stocks, and convertible stocks traded on the world's stock exchanges or over-the-counter markets.

Equity investments shall generally be restricted to high-quality, readily marketable securities of corporations that are traded on the major stock exchanges and have the potential for meeting return targets. Equity holdings must generally represent companies meeting a minimum market capitalization requirement of their respective asset class profile with reasonable market liquidity. Decisions as to individual security selection, number of industries and holdings, current income levels and turnover are left to the investment manager or mutual fund's discretion, subject to the standards of fiduciary prudence and the limitations set forth in the "Guidelines for Long-Term Investments" section of this Policy.

### **Fixed Income**

Domestic and international fixed income investments provide diversification and a dependable source of current income. Diversification within fixed income investments will be allocated among maturities of different lengths according to interest rate prospects and the goals of the Endowment. Fixed income instruments should reduce the overall volatility of the Endowment's assets, and prove a deflation or inflation hedge, where appropriate.

Fixed income includes, but is not limited to, U.S. Treasury and government agency and instrumentality obligations, public and private corporate debt, mortgages and asset-backed securities and other interest-bearing obligations. Fixed income also includes money market instruments, including but not limited to, U.S. Treasury and government agency and instrumentality obligations commercial paper, financial institution deposits, banker's acceptances, and repurchase agreements. The investment manager must take into account credit quality, sector, duration, and issuer concentrations in selecting an appropriate mix of fixed income securities. Private placement bonds are not permitted.

### **Real Estate**

Investments may include equity real estate, held in the form of professionally managed, income producing commercial and residential property. Such investment may be made only through professionally managed, pooled real estate investment trusts (REIT), as offered by leading real estate managers with proven track records. This restriction does not apply to property acquired as a donation to the Endowment.

### **Mutual or Commingled Funds**

Any investment that is made in a mutual fund and/or commingled fund will be reviewed and approved by the WCJCEF, unless it is selected by an investment manager under contract to make such decisions. It is understood that for mutual and other commingled funds, the prospectus or Declaration of Trust documents of the fund will govern the investment guidelines and allocation limitations of the fund investments and will take precedence over this Policy. It is appropriate however for the investment manager to select funds that have guidelines that are similar in nature to those authorized in this Policy governing credit quality and risk profiles.

- **ASSET ALLOCATION**

The purpose for establishing target asset allocation bands is to ensure that the program remains diversified in order to mitigate, as much as possible, the impact of volatility of individual markets. This Policy authorizes the following asset allocation schedule and has established appropriate benchmarks for each category of asset:

<b>Asset Class</b>	<b>Minimum Weighting</b>	<b>Target Weighting</b>	<b>Maximum Weighting</b>	<b>Benchmark Index</b>
Domestic Equities – Large Cap	15.0%	20.0%	25.0%	Russell 1000
Domestic Equities – Mid Cap	15.0%	20.0%	25.0%	Russell Mid-Cap
Domestic Equities – Small Cap	5.0%	7.5%	10.0%	Russell 2000
Domestic Real Estate	0.0%	5.0%	7.5%	NCREIF
International Equities	5.0%	7.5%	10.0%	MSCI- EAFE
Fixed Income	30.0%	32.5%	40.0%	Barclays Gov/Corp
International Fixed Income	0.0%	5.0%	7.5%	Barclays Capital Global Aggregate
Cash & Equivalents	0.0%	2.5%	10.0%	90-day Treasury Bill

**Rebalancing**

The purpose of rebalancing is to maintain the long-term asset allocation within the targeted bands in accordance with the objective of controlling portfolio risk. The asset allocation will be rebalanced within the stated ranges on no less than a quarterly basis, if the adjustment requirement exceeds 5%.

**Proxy Voting**

The WCJCEF will make proxy voting decisions for all directly held investments. Each investment manager is required to vote all proxies for securities under its control on behalf of the WCJCEF. Investment managers are required to submit to the WCJCEF a summary of all balloting on a quarterly basis.

- **POLICY REVIEW**

This Policy document will be reviewed on an annual basis by the WCJCEF. Any changes must be approved by the Board.