Pasadena City College Foundation

STATEMENT OF INVESTMENT AND SPENDING POLICY

As adopted by the Foundation's Executive Committee on February 10, 2009

As ratified by the Foundation's Board of Directors on April 14, 2009

Objectives & Guidelines

I. STATEMENT OF PURPOSE

This Statement of Investment and Spending Policy is set forth by the Pasadena City College Foundation Finance Committee and ratified by the Foundation's Board of Directors. Its purpose is to reflect policy, objectives and constraints of the Foundation assets advised to by the investment management consultant and investment managers. The intent of this Statement to establish a clear understanding for all involved parties of the investment goals and objectives of fund assets while establishing guidelines and limitations for their management and spending according to prudent standards. It is meant to outline a rationality which will guide the investment management and spending of the assets toward the desired results.

II. LINES OF AUTHORITY AND DELEGATION

The Board of Directors and the Finance Committee of the Pasadena City College Foundation are fiduciaries, and are responsible for directing and monitoring the investment management of fund assets. As such, they are authorized to delegate certain responsibilities to professional experts in various fields. These include, but are not limited to:

1. **Investment Management Consultant**. The investment management consultant is any individual or organization employed to provide advisory services, including advice on investment objectives and/or asset allocation, manager search, and performance monitoring.
2. **Investment Manager**. The investment manager is any individual, or group of individuals, employed to manage the investments of all or part of the Foundation assets.
3. **Custodian**. The custodian will physically (or through agreement with a sub-custodian) maintain possession of securities owned by the Foundation, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian may also perform regular accounting of all assets owned, purchased, or sold as well as movement of assets into and out of the funds' accounts.
4. **Additional specialists** such as attorneys, auditors, accountants and others may be employed by the Foundation to assist in meeting its responsibilities and obligations to administer the fund's assets prudently.

The Finance Committee and the Board will not reserve any control over investment decisions, with exception of specific limitations described in these statements. Investment Managers will be held responsible and accountable to achieve the objectives herein stated. While it is not believed that the limitations will hamper investment managers, each manager should request modifications that they deem appropriate.

If such experts employed are also deemed to be fiduciaries, they must acknowledge such in writing. All expenses for such experts must be customary and reasonable, and will be borne by the respective fund as deemed appropriate and necessary.

III. ASSIGNMENT OF RESPONSIBILITY

A. Responsibility of the Board of Directors of the Foundation

The law charges the Board of Directors with the responsibility for the management of the assets of the Foundation. The Board of Directors shall discharge its duties solely in the interest of the Foundation, with the care, skill, prudence and diligence under the circumstances then prevailing, that a prudent investor, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims. The Board may delegate its investment responsibilities to the Finance Committee. The specific responsibilities of the Board and the Finance Committee relating to the investment management of Foundation assets include**:**

1. Establishing reasonable and consistent investment objectives, policies and guidelines that will direct the investment of the Fund's assets.
2. Selecting the appropriate Investment Management Consultant(s).
3. Selecting highly qualified Investment Manager(s) recommended by the Investment Management Consultant(s).
4. Projecting the Foundation's financial needs.
5. Determining the Fund's risk tolerance and investment horizon.
6. Regularly evaluating the performance of the Investment Manager(s) to monitor investment objective progress.
7. Developing and enacting proper control procedures: For example, replacing Investment Manager(s) due to a fundamental change in their investment management process.

B. Responsibility of the Investment Management Consultant(s)

The Investment Management Consultant's role is that of a non-discretionary advisor to the Finance Committee of the Board. Investment advice concerning the investment management of Foundation assets will be offered by the Investment Management Consultant, and will be consistent with the investment objectives, policies, guidelines and constraints as established in this statement. Specific responsibilities of the Investment Management Consultant include:

1. Assisting in the development and periodic review of investment policy.
2. Conducting investment manager searches when requested by the Finance Committee.
3. Recommending Investment Manager(s) for selection by the Finance Committee.
4. Monitoring the performance of the Investment Manager(s) to provide the Board of Directors with the ability to determine the progress toward the investment objectives.
5. Communicating matters of policy, manager research, and manager performance to the Finance Committee.
6. Keeping the Board and Finance Committee abreast of market conditions and trends.

7. Informing the Finance Committee regarding any qualitative change to an investment management organization: Examples include changes in portfolio management personnel, ownership structure, and investment philosophy.
8. Reviewing investment history and historical capital markets performance.

C. Responsibility of the Investment Manager(s)

Each Investment Manager must acknowledge in writing the acceptance of responsibility as a fiduciary. Each Investment Manager will have full discretion to make all investment decisions for the assets placed under its jurisdiction. Specific responsibilities of the Investment Manager(s) include:

1. Discretionary investment management including decisions to buy, sell, or hold individual securities.
2. Reporting, on a timely basis, monthly activity and quarterly investment performance results.
3. Communicating to the Finance Committee any major changes to economic outlook, investment strategy, or any other factors that affect implementation of their investment process.
4. Voting proxies, if requested by the Finance Committee, on behalf of the Fund, and communicating such voting records to the Board if requested.
5. Adherence to Investment Discipline: Investment managers are expected to adhere to the investment management styles for which they were hired. Managers will be evaluated regularly for adherence to investment discipline.

IV. GENERAL INVESTMENT PRINCIPLES

Investments shall be made solely in the interest of the beneficiaries of the Foundation. The Fund shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent investor acting in like capacity and familiar with such matters would use in the investment of a fund of like character and with like aims and in accordance with Uniform Management of Institutional Funds Act ("UMIFA") regulations.

A. Diversification.

1. Investment of the Fund shall be diversified so as to minimize risk.
2. The Board of Directors may employ one or more investment managers of varying styles and philosophies to attain the Fund's objectives.
3. Cash is to be employed productively at all times by investment in short-term cash equivalents to provide safety, liquidity and return.
4. The Board does not believe it is necessary or desirable that securities held in the Fund represent a cross-section of the economy. However, in order to achieve a prudent level of portfolio diversification, the securities of any one company should not exceed five percent (5%) of the total Fund at the time of acquisition, and no more than twenty percent (20%) of the total Fund should be invested in any one economic sector.

B. <u>Preservation of Capital</u>. Consistent with their respective investment styles and philosophies, investment managers should make reasonable efforts to preserve capital, understanding that losses may occur in individual securities.

C. <u>Risk Aversion</u>. Understanding that risk is present in all types of securities and investment styles, the Board of Directors recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Foundation's objectives. However, the investment managers are to make reasonable efforts to control risk, and will be evaluated regularly to ensure that the risk assumed is commensurate with the given investment style and objectives of the managed portfolio as set out in the section on performance objectives below. The Board defines risk as: "The probability of not achieving expected returns and therefore not maintaining purchasing power over the Foundation's investment time horizon."

V. <u>PERFORMANCE OBJECTIVES</u>

The overriding goal of this Foundation is to maintain purchasing power in perpetuity. That is, net of spending, the objective is to grow the aggregate portfolio value at, or in excess of, the rate of inflation over the Foundation's investment horizon. Future giving to the Foundation is expected to be inconsistent and therefore unpredictable. As a result, the Board of Directors has set an investment strategy with the objective of maintaining purchasing power of Foundation assets before consideration of gifts. Future giving will thus serve to increase purchasing power.

A. <u>Strategy</u>. The investment strategy of portfolio is to emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income.

The primary objective in the investment management for Fund assets shall be:

<u>Preservation of Purchasing Power After Spending</u>: To achieve returns at or in excess of the rate of inflation plus spending over the investment horizon in order to preserve purchasing power of Fund assets. Risk control is an important element in the investment of Fund assets. Expectations may be expressed by the following formulae:

Total Return = Spending + Inflation + Expenses, while

Giving = Increase in Purchasing Power

The secondary objective(s) in the investment management of Fund assets shall be:

<u>Long-term Growth of Capital</u>: While emphasizing long-term growth of principal, the portfolio avoids excessive risk *through the use of Modern Portfolio Theory ("MPT"). Reduced risk is accomplished through investment in different asset classes that have inversely correlated risks.* Short-term volatility will be tolerated inasmuch as it is consistent with the volatility of a comparable *composite* market index.

B. Performance Measures. Over the 3-5 year investment horizon established in this statement (see Definitions, Addendum A-10), it is the goal of the aggregate Fund assets to equal or exceed a return (net of management fees) as measured by the composite market index. It should be cautioned that to "beat" the market, above-average risk must be taken.

The investment goals above are the goals of the aggregate Fund and are not meant to be imposed on each investment account (if more than one account is used). The goal of each investment manager, over the investment horizon, shall be to:

- Meet or exceed the market index, or blended market index, after fees, selected by the Investment Management Consultant and agreed to by the Finance Committee that most closely corresponds to the style of investment management. Investment Managers will be selected and evaluated on their ability to most closely meet this objective over the investment horizon.
- Display an overall level of risk in the portfolio that is consistent with the risk associated with the benchmark specified above. Risk will be measured by the standard deviation of quarterly returns.

Specific investment goals and constraints for each investment manager, if any, shall be incorporated as part of this statement of investment policy. Each manager shall receive a written statement outlining the managed portfolio's specific goals and constraints and will be asked to comment as to whether they perceive any conflict in managing the fund in accordance with the stated investment policy. It shall be the responsibility of the consultant to procure the written statements.

C. Volatility of Returns. The Board of Directors understands that in order to achieve its objectives for Foundation assets, the Fund will experience volatility of returns and fluctuations of market value. It states that the Fund could tolerate a maximum loss of 15-20% over any one-year period, and a maximum loss of 5% over the investment horizon. Therefore, the Board supports an investment strategy that minimizes the probability of losses greater than stated above. However, it realizes that the Fund's return objective is its primary concern. There is, of course, no guarantee that the Fund will not sustain losses greater than those stated herein.

D. Liquidity. To minimize the possibility of a loss occasioned by the sale of a security forced by the need to meet a required payment, the Finance Committee will periodically provide investment counsel with an estimate of expected net cash flow. To allow sufficient time to build up necessary liquid reserves the Finance Committee will notify the Investment Management Consultant in a timely manner.

VI. INVESTMENT GUIDELINES

A. Allowable Assets & Allocations

	Lower Limit	Upper Limit
Cash Equivalents[*]	5%	15%
Fixed Income:		
Domestic Bonds	15%	30%
International Bonds	0%	15%
Emerging Market Bond Funds	0%	10%
High-Yield Bond Funds	0%	10%
Equities:		
Large Cap Value	10%	30%
Large Cap Growth	10%	30%
Mid Cap Value	0%	10%
Mid Cap Growth	0%	10%
Small Cap Value	0%	10%
Small Cap Growth	0%	10%
REITS (listed on major exchanges)	0%	10%
International Equities/Developed Markets	10%	30%
Emerging Market Equities	0%	10%

[*] Cash Equivalents may include (a) treasury bills; (b) money market funds: (c) STIF funds; (d) commercial paper; (e) banker's acceptances; (f) repurchase agreements; and (g) certificates of deposit.

(It should be noted that the Foundation is a non-profit charitable organization and cannot recover foreign tax credits.)

B. Alternative Asset Classes

It is the consensus of the Finance Committee that alternative asset classes not previously considered in the Foundation Investment Portfolio be available for investment. Alternative investments may include such categories as emerging market equities and bond funds, high-yield bond funds, commodity funds, hedge funds, and derivatives (*i.e.*, options and futures). The Board of Directors will take a conservative posture on alternative asset classes in order to maintain its risk averse nature. So long as the alternative asset class conforms to the guidelines and risk tolerances established in this Statement of Investment Policy, the Investment Manager(s) may invest Fund assets in it at the Manager's discretion**.**

C. Prohibited Assets

Prohibited investments include, but are not limited to the following:

- Individual Limited Partnerships
- Individual Venture-Capital Investments
- Individual Real Estate Properties

D. Prohibited Transactions

Prohibited transactions include, but are not limited to the following:

- Short Selling
- Margin Transactions

E. Guidelines for Fixed Income Investments and Cash Equivalents

- Foundation assets may be invested in individual investment grade bonds rated by Moody's and/or Standard & Poors. Non-investment grade bonds (high yield) and emerging market bonds may only be invested as bond funds.
- Foundation assets may be invested only in commercial paper rated A1 (or equivalent) or better.
- Fixed income maturity restrictions are as follows: The average maturity of the fixed income portfolio may not exceed ten (10) years.
- Money Market Funds selected shall contain securities whose credit rating at the absolute minimum would be rated investment grade by Standard and Poors, and/or Moody's.

VII. CATEGORIES OF FOUNDATION ASSETS

In accordance with Generally Accepted Accounting Practices (GAAP), net assets (the difference between assets and liabilities) of a not-for-profit organization must be split into three (3) classifications: (1) Unrestricted; (2) Temporarily Restricted; or (3) Permanently Restricted. Both temporarily and permanently restricted net assets arise because of donor restrictions. (Note that only donors may impose restrictions on gifts, though unrestricted gifts may be **designated** for a particular purpose or time restriction by the organization's board. For accounting purposes, however, these funds would remain unrestricted.)

- **Unrestricted**: In the absence of restrictions placed on the use of the funds by the donor, these contributions may be used by the organization in any way that meets the mission, articles of incorporation, bylaws, etc., of the organization. Thus, unrestricted gifts to the PCC Foundation may be used for any purpose related to support Pasadena City College.

- **Temporarily Restricted**: Use of these gifts are limited by either a donor-imposed time restriction or a donor-imposed purpose restriction. Investment income is considered temporarily restricted and may be spent in accordance with the donor's wishes.

- **Permanently Restricted**: These are net assets that a donor has instructed the Foundation to maintain in perpetuity. Also known as "endowments," the donor contributes assets to an organization with instructions that the corpus (the original amount donated) is never to be spent, but the income generated by the endowment fund can be used. This income may be considered temporarily restricted or unrestricted, depending on the terms of the endowment agreement. Appreciation in the value of investments made under an endowment agreement may also be permanently restricted by the donor.

It shall be the responsibility of the Foundation staff to place all new funds into one or more of the designated categories. The staff shall prepare a schedule of projected sub-fund liquidation dates quarterly. The Finance Committee shall review the schedule and make transfers between funds as necessary to bring the categories into conformity with the schedule.

VIII. SPENDING POLICY

For all permanently restricted accounts held by the Pasadena City College Foundation (the "Foundation"), the Foundation will allow an annual spending limit of no more than four percent (4%) of the trailing twelve quarters' average of the account balance/unit value. The Foundation's Finance Committee will review the spending rate annually on March 31 and, if any change is deemed prudent, will submit such change to the Foundation's Board of Directors in time for approval at the Foundation's June quarterly meeting. Any such spending limit change will be effective the subsequent July 1.

If spending in excess of the approved annual spending rate is desired by a signatory to a permanently restricted account, a written request with specificity and detail shall be submitted to the Foundation at the signatory's earliest convenience. Thereafter, such written requests will be considered by the Foundation's Board of Directors in a timely fashion and a written response by the Foundation issued after a ruling is made.

The date of March 31 of each year will be used in determining the unit value for the twelve quarter average calculation as referenced in paragraph one above. The Foundation further reserves the right to assess an annual administrative fee on July 1 of each fiscal year, which fee shall be in addition to the annual spending limit set forth above.

It is further understood that this "total return" basis for calculating spending is sanctioned by the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), under which guidelines the Foundation is permitted to allow an expenditure of amounts in excess of the current yield (interest and dividends earned), including either realized or unrealized appreciation.

IX. SELECTION OF INVESTMENT MANAGERS

The Finance Committee's selection of Investment Manager(s) must be based on prudent due diligence procedures. A qualifying investment manager must be a registered investment advisor under the Investment Advisors Act of 1940, or a bank or insurance company. The Board requires that each investment manager provide, in writing, acknowledgment of fiduciary responsibility to the Foundation.

X. INVESTMENT MANAGER PERFORMANCE REVIEW AND EVALUATION

Performance reports generated by the Investment Management Consultant shall be compiled at least quarterly and communicated to the Finance Committee for review. The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement.

The Finance Committee intends to evaluate the portfolio(s) over a full business cycle of 3-5 years, but reserves the right to terminate a manager for any reason including the following:

- Investment performance that is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
- Significant qualitative changes to the investment management organization.

Investment managers shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

XI. INVESTMENT POLICY REVIEW

To assure continued relevance of the guidelines, objectives, financial status and capital markets expectations as established in this statement of investment policy, the Finance Committee plans to review investment policy at least annually.

ACCEPTANCE

This document supersedes all previous versions of the Pasadena City College Foundation's Investment Policy. The Finance Committee of the Pasadena City College Foundation, through its chairman whose signature appears below, hereby adopts this amended Statement of Investment Policy on February 3, 2009.

____

L.R. Schield, Jr., Chairman

ADDENDUM A - DEFINITIONS

1. **"Foundation"** shall mean the Pasadena City College Foundation
2. **“Board of Directors”** shall refer to the Board of Directors of the Pasadena City College Foundation
3. **"Finance Committee”** shall refer to the governing committee established by the Board of Directors to administer the fund management.
4. **“Endowment Fund”** shall mean the endowed portion of the total Fund.
5. **“Short-term Bond Fund”** shall mean a no-load fund of U. S. Treasury securities with maturities of 1-5 years.
6. **“Money Market Fund”** shall mean a mutual fund invested in high-quality certificates of deposit, bankers’ acceptances, commercial paper, and U. S. Government securities.
7. **“Fiduciary”** shall mean any individual or group of individuals that exercises discretionary authority or control over fund management, or any authority or control over management, disposition or administration of a fund’s assets.
8. **"Securities"** shall refer to the marketable investment securities that are defined as acceptable in this statement.
9. **“Investment Horizon"** shall be the time period over which the investment objectives, as set forth in this statement, are expected to be met. The investment horizon for this Foundation is a stock market cycle (3 to 5 years).
10. **“Custodian”** shall be defined as a brokerage firm, bank, etc., where funds are kept and monitored.