INVESTMENT POLICY STATEMENT

And Spending Policy Statement

for

Montgomery Community College Foundation

Approved February 14, 2018

Montgomery Community College Foundation
INVESTMENT POLICY STATEMENT

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MISSION:

The Montgomery Community College Foundation is a nonprofit organization whose purpose is to monetarily support the College's students and educational programs by providing resources above and beyond the minimal basic operating funds. The Foundation is organized to receive gifts of money and/or property through contributions from individuals, businesses, industries, civic organizations, and fund raising events.

PURPOSE:

The purpose of this Investment Policy Statement (IPS) is to assist the Board of Directors of The Montgomery Community College Foundation ("The Board") in effectively supervising, monitoring and evaluating the management of the funds of the organization. Additionally, the investment policy:

- Sets forth in writing the attitudes, expectations, objectives and guidelines in the investment of all asset classes.

- Defines an investment structure for managing assets. This structure includes various asset classes, investment management styles, asset allocation and acceptable ranges that, in total, are expected to produce a sufficient level of overall diversification and total investment return over an agreed investment time horizon.

- Provides guidelines for the investment portfolio in order to measure and control the overall level of risk in the portfolio.

- Establishes formal criteria to monitor, evaluate, and compare performance results achieved on a regular basis.

- Encourages effective communication between the Finance Committee, the Professional Investment Manager, and the asset managers.

The relevance of an IPS is maintained by regular reviews to ensure changing needs are accommodated. This IPS shall be reviewed periodically, generally on an annual basis, and revised if necessary to ensure it adequately reflects special circumstances or changes related to The Montgomery Community College Foundation, its assets, and the capital markets.

INVESTMENT AUTHORITY:

The Board has a fiduciary responsibility for the oversight of the assets and as such is responsible for ensuring the proper investment of the portfolio.

The Board has delegated responsibility for implementing the investment policy to the Finance Committee.

The Finance Committee ("The Committee") is responsible for recommending the selection of a professional investment advisor, and monitoring the chosen firm in terms of how it invests and manage the funds according to the IPS.

FUND CLASSIFICATIONS:

The funds may be classified into:

- **Long Term Endowment Fund** – Funds set aside by the board to be invested for long term support of the organization. Any gifts made by donors that are directed to be endowment gifts will be managed as a part of this fund.
  There are two underlying classifications of funds –
    - **Permanently Restricted Fund – funds that must be maintained permanently in perpetuity**
    - **Temporarily Restricted Fund – funds that must be maintained for a specified term**
- **Board-Designated Fund – funds earmarked by the board for long-term support**

<u>**Long Term Endowment Fund**</u>

INVESTMENT OBJECTIVES

- To provide a total return to allow for authorized disbursements (spending policy)
- To preserve the principal of the fund
- To seek to generate an overall annualized time weighted (net of investment related fees) long-term return on assets that is equal to inflation as measured by the CPI-U index plus 3%. Funds Manager will provide reporting on the progress on an annual basis.
- To minimize risk given the expected and desired rate of return.
- To control the costs of administering and managing the Fund.

SPENDING POLICY

The spending policy for the Endowment is established by the Committee and the Board in a manner consistent with its bylaws, the Endowment Criteria document and duly noted in official minutes.

Notwithstanding the intent of a donor as expressed in a gift instrument, all assets held in the Long Term Endowment Fund will be spent subject to this spending policy. Absent unusual or emergency circumstances, the Board will not distribute portions of the Long Term Endowment Fund's principal; rather the Board shall only spend income made from the investment of the principal. On an annual basis, the Finance Committee shall apply a spending rate as a percentage of the twelve-quarter rolling average of the total fund market value as of JUNE 30. The spending rate applied to this calculation will not exceed 5%.

Each year the Finance Committee will determine the spendable amount based on this policy and will make a recommendation to the Board regarding whether the distribution will be made or whether the funds will be reinvested.

Any portion of the long-term fund that is a donor restricted gift will be administered according to the donor restrictions and the spending policy described above will be used.

Interpretation of the Uniform Prudent Management of Institutional Funds Act (UPMIFA)

The Board recognizes the standard of conduct in managing and investing institutional funds and donor restricted funds as detailed in state law, specifically UPMIFA, and has developed this investment policy statement with the intentions of being compliant with the statute.

Further, the Board acknowledges that each person responsible for managing and investing an institutional fund shall manage and invest the fund in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances

For purposes of both investing the Fund and appropriating for expenditure, the organization considers the following factors:

1. The duration and preservation of the fund
2. The purposes of the organization and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the organization
7. The investment policies of the organization

General Investment Guidelines: The following items shall provide guidance to the Board and Finance Committee in the decision-making process for investment.

Liquidity: Short-term liquidity requirements may be met from specific investments identified to meet liquidity needs as well as from total return on the invested assets.

Time Horizon: The investment guidelines are based upon an investment horizon of greater than 10 years. Similarly, the invested assets' strategic asset allocation is based on a long-term perspective.

Risk Tolerance: In light of the uncertainties and complexities of contemporary investment markets, the Board recognizes and acknowledges that risk must be assumed in order to provide an opportunity to achieve long-term investment objectives.

In establishing the risk tolerances of the IPS, the ability to withstand short and intermediate term variability was considered. Specifically, The Montgomery Community College Foundation's current financial condition and other factors were considered and suggest collectively that interim fluctuations in market value and rates of return may be tolerated in order to achieve the longer-term objectives.

ASSET ALLOCATION:

The risk and liquidity characteristics of a portfolio are, in large part, a function of asset class mix. The Finance Committee will regularly review the long-term performance of various asset classes, focusing on balancing the risks and rewards of market behavior. The following asset classes are permitted within the limits specified below:

- US Equities
- International Equities (Developed, Emerging, and Frontier)
- Real Estate Funds (Public only)
- Commodity Funds
- Domestic & International Investment Grade Fixed Income
- High Yield Fixed Income
- Cash

Asset Allocation Overview

Asset Class	Lower Limit	Strategic Target	Upper Limit
Cash	0%	3%	10%
Fixed Income	10%	30%	40%
Equities	45%	61%	80%
Real Assets	0%	6%	20%

Detailed Asset Allocation breakouts based on sub – asset classes are included in *Appendix A*.

Asset Allocation Rebalancing: An asset class is considered to be within an acceptable range if the current allocation is within the lower and upper limits as stated above and further detailed in the appendices. When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation. If there are no cash flows, the allocation will be reviewed quarterly. If the cash flows are insufficient to bring the overall asset allocation within the broad asset classes, the Professional Investment Manager is authorized to determine transactions to bring the strategic allocation within threshold ranges (Strategic Allocation).

SECURITIES GUIDELINES:

Every Asset Manager selected to manage the invested assets must adhere to the following guidelines. The investment strategy may be implemented through mutual funds and separate account managers.

1. If mutual funds are employed in any of the investment categories, each fund selected is solely governed by the terms and conditions set forth in its prospectus.

2. If portfolios of individual securities are managed by separate account managers, each manager is solely governed by the terms and conditions set forth in its agreement with the investment platform provider.

Investment Restrictions
The following activities are not permitted:

- The purchase or sale of options or futures.
- The use of leverage or margin accounts.
- Lending, pledging or mortgaging the Fund assets.
- The purchase of unregistered issues or private placements.
- The purchase of direct interests in gas, oil, or other mineral exploration and development programs.
- The purchase of either general or limited partnerships.
- Letter stock and other unregistered securities, commodities in kind or other direct commodity contracts;
- Investments in the equity securities of any company with a record of less than three years' continuous operation, including the operation of any predecessor;
- Investments for the purpose of exercising control of management;
- Short selling, securities lending, non-collateralized and/or non-delivered repurchase agreements, use of financial futures or options, use of municipal securities, non-marketable direct investments in equity or debt private placements or leasebacks or any other specialized investment activity without the prior written consent of the Committee. Mutual funds or pooled assets held in the Funds may undertake these activities only on a limited, immaterial basis.

The following guidelines apply:

Domestic Equity:

- Equity holdings in any one company should not exceed more than 10% of the market value of the Fund's equity portfolio.
- Allocation to any one economic sector should not be excessive and should be consistent relative to the broad equity market and to managers following similar style disciplines.
- The Manager shall emphasize quality in security selection and shall avoid risk of large loss through appropriate diversification.
- The Manager shall have the discretion to invest a portion of the assets in cash reserves when deemed appropriate. However, the Manager will be evaluated against their peer group on the performance of the total funds under his direct management.
- Holdings of individual securities shall be large enough for easy liquidation.
- Convertibles, Preferred Stock, and Warrants are also permitted.
- Mutual Funds or pooled instruments which invest in securities as allowed in this statement are permitted.

International Equity:

- Equity holdings in any one company shall not exceed more than I 0% of the International Equity managers' respective portfolio.
- Allocation to any one economic sector should not be excessive and should be consistent relative to a broadly diversified international equity market and to managers following similar style disciplines.
- Allocations to any specific country shall not be excessive relative to a broadly diversified international equity manager peer group. It is expected that the non-U.S. equity portfolio will have no more than 40% in any one country.
- The managers of pooled instruments held within the Funds may enter into foreign exchange contracts on currency, provided that use of such contracts is limited to hedging currency exposure existing within the manager's portfolio. There shall be no direct foreign currency speculation or any related investment activity.

Short Term Investments:

- Obligations of the U.S. Treasury and Agencies with a maturity of not more than one year.
- Repurchase agreements collateralized with other acceptable securities.
- Investment grade commercial paper.
- Certificates of deposit.
- Bankers' acceptances.
- Money market funds.

Fixed Income Investments:

- U.S. Government and Agency Securities.
- Corporate Bonds rated investment grade or better, or fixed income mutual funds or pooled instruments with an average rating at the time of acquisition of investment grade or better by either Standard & Poor's or Moody's.
- Domestic or foreign bonds.
- Not more than 5% of corporate issues in same corporation.

RESPONSIBILITIES:

Responsibilities of the Board

The Board of Directors has the responsibility for ensuring proper management of the Foundation funds. The Board of Directors is responsible for approving the spendable amount for distribution at the beginning of each fiscal year. It is understood the Board of Directors retains its fiduciary responsibility for the assets.

Responsibilities of the Finance Committee

The Board has delegated certain functions to the Finance Committee. The specific responsibilities of the Finance Committee as they relate to this policy are:

- Establishing, reviewing, and maintaining the Investment Policy Statement;
- Selection and evaluation of the Professional Investment Manager(s)
- Monitoring Professional Investment Manager(s) performance and costs;
- Regularly inform the Board as to the status of the portfolio investments; and
- Communicate any material changes in the portfolio or the Professional Investment Manager to the Board immediately.

Responsibilities of the Treasurer

The Finance Committee has delegated certain functions to the Treasurer of the Foundation. On a day-to-day basis, the Finance Committee will be represented by the Treasurer, who is to act as liaison for day to day communications between the Finance Committee and Professional Investment Manager retained. Responsibilities of the Treasurer as they relate to this policy are:

- Communicate the spending policy adopted by the Board to Professional Investment Manager

- Clearly communicate the major duties and responsibilities of those accountable for achieving investment results;

- Develop sound and consistent policies regarding transactions and monitoring of the investments; and

- Direct day to day administrative actions with respect to the investment accounts such as requesting disbursements or authorizing account information to be provided to tax advisors or accountants

Duties and Responsibilities of the Professional Investment Manager

The Professional Investment Manager will have discretion regarding the day to day portfolio to manage the funds within restrictions stated in this policy. The Professional Investment Manager will periodically make tactical asset allocation change recommendations to the Treasurer or the Finance Committee with respect to the entire portfolio; however, the Professional Investment Manager may implement tactical allocation changes within the upper and lower limits established in this policy and Appendix A.

The Professional Investment Manager has the authority and the responsibility to make selection of separate account managers and funds (Asset Managers).

In selecting separate account managers, the following criteria will be considered.

1. Be a bank, insurance company, investment management company, or investment adviser as defined by the Registered Investment Advisers Act of 1940;

2. Provide historical quarterly performance numbers calculated on a time-weighted basis, based on a composite of all fully discretionary accounts of similar investment style, and reported net and gross of fees;

3. Provide detailed information on the history of the firm, key personnel, key clients, fee schedule, and support personnel;

4. Clearly articulate the investment strategy that will be followed and document that the strategy has been successfully adhered to over time;

The primary objective of due diligence is to verify and ensure a manager's ongoing adherence to stated philosophy and process and to identify any material divergences. Ongoing review and analysis of equity managers and mutual funds is just as important as the due diligence implemented during the manager and mutual fund selection process. Therefore, the performance of investment managers will be monitored on an ongoing basis and the Professional Investment Manager shall have discretion to take corrective action by replacing a manager/fund previously engaged by the Professional

Investment Manager as deemed appropriate at any time. A formal due diligence review shall be generally conducted quarterly.

Major organizational changes also warrant immediate review of the manager/fund, including:

1. Change in professionals
2. Significant account losses
3. Significant growth of new business
4. Change in ownership

Duties and Responsibilities of the Asset Managers

1. Managing the assets under its care, custody and/or control in accordance with the separate account agreement objectives and guidelines, and also expressed in amendments to the separate account agreement when deviation is deemed prudent and desirable.

2. Promptly informing the Professional Investment Manager, in writing, any significant or material matters and changes pertaining to the investment of assets, including, but not limited to:

   - Investment strategy - Portfolio structure
   - Tactical approaches - Ownership of the firm
   - Organizational structure - Financial condition
   - Professional staff - Recommendations for guidelines changes
   - All publicly available material legal SEC and other regulatory agency matters.

3. Promptly address matters related to corporate actions in a manner consistent with the long-term interests of the separate account strategy. Maintain detailed records of matters pertaining to corporate actions and complying with all regulatory obligations related hereto.

4. Utilizing the same care, skill, prudence and due diligence under the circumstances then prevailing that experienced, investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like accounts with like aims in accordance and compliance with all applicable laws, rules and regulations from local, state, federal and international political entities as it pertains to fiduciary duties and responsibilities.

Mutual funds must adhere to the terms and conditions set forth in the fund's prospectus.

BROKERAGE POLICY:

All transactions effected by the Investment Manager or Asset Manager will be “best execution.”

PERFORMANCE OBJECTIVES AND MEASUREMENT:

The investment performance objective of the Long Term Fund is to achieve a total return adequate to provide for distributions, expenses, and preserve purchasing power versus inflation. Thus the primary goal of the Fund is CPI-U+3%.

The Manager is expected to present performance reports which provide returns vs. appropriate commercial benchmarks for the entire Fund (policy bench mark) as well as at an asset class level (asset manager benchmark).

Policy Benchmark - The Policy Benchmark is designed to measure the value of both the tactical allocation shifts and the underlying Asset Manager selection. It is a static benchmark that is comprised of a weighted average (based on strategic targets) of the sub asset benchmarks as shown in Appendix A.

Asset Manager Benchmark - Investment performance of the underlying managers will be reviewed by the Professional Investment Manager and evaluated to test progress toward the attainment of longer-term targets to include comparisons of the manager’s/fund’s results to appropriate indices and peer groups.

In addition to the information covered quarterly, each manager is expected to add value over a full business cycle relative to the manager’s peer universe. Extenuating circumstances will be considered in evaluating managers based on specific characteristics (e.g. limitations of cash holdings, style drift tolerance, and market cap requirements.)

COMMUNICATION:

The Professional Investment Manager is to be available to discuss the portfolio, review market events or portfolio changes, and provide performance reports in a timely manner. On a formal basis, a statement detailing all transactions occurring within the portfolio shall be provided monthly by the Professional Investment Manager. Unless waived by the Finance Committee, semi-annual meetings shall be held with the Manager with an agenda to include the following:

- Comparison of the current asset allocation of the portfolio versus the guidelines set forth in this investment policy;
- Presentation of investment results (returns and risk) including a comparison to relevant passive indices and peer group universes;
- Review of the investment results achieved over the most recent quarter, last four quarters, three years, five years, ten years and since inception in relation to the Manager's investment views and internal policies in effect.
- Review of current portfolio holdings;
- Overview of current economic conditions and the expected impact upon the portfolio;
- Discussion of desired changes to the portfolio or service levels; and
- Other matters as designated by attendees.

Quarterly performance reports will be provided to the Foundation Director to share with the Finance Committee and full board. Preferences, market events and portfolio changes will dictate the frequency of other types of communication.

SELECTION OF INVESTMENT MANAGERS AND/OR CUSTODIANS:

The Committee will recommend to the Foundation Board appropriate Investment Managers ("Managers") to manage the assets. Managers must meet the following criteria:

- Manager must be a bank, trust company, investment management company, or investment advisor as defined by the Registered Investment Advisors Act of 1940.
- Have been in business for at least ten (10) years and have at least $250 million under management or be affiliated with a bank, insurance company, and investment management company or investment advisor having at least $500 million under management.
- Provide historical quarterly performance numbers calculated on a time-weighted basis, in accordance with Global Investment Performance Standards ("GIPS") standards, based on a composite of all fully discretionary accounts of similar investment style, and reported net and gross of fees.
- Provide performance evaluation reports prepared by an objective third party that illustrate the risk/return profile of the Manager relative to other managers of like investment style.
- Provide detailed information on the history of the firm, key personnel, key clients, fee schedule, and support personnel. This information can be a copy of a recent Request for Proposal completed by the Manager.
- Clearly articulate the investment strategy that will be followed and document that the strategy has been successfully adhered to over time.

Montgomery Community College Foundation, Inc.

By________________________

Jean Abbott
President, Board of Directors

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(Date)