FOUNDATION

Investment and Spending Policy

Finance Committee Approval of the above policy 11/10/2016
Adopted by the Foundation Board on 11/17/2016

I. Introduction

The MiraCosta College Foundation (hereafter the "Foundation") was created to provide perpetual financial support to MiraCosta College (hereafter the "College"). This policy is intended as a basic guide for safeguarding and managing the Foundation's assets including the development of spending goals, investment strategies (including asset allocation) and investment performance review and reporting.

Foundation assets will collectively comprise the "Portfolio". The Portfolio's assets will normally be held in one of two subordinate portfolios (or pools). These are (1) the "Reserve Portfolio" and (2) the "Endowment Portfolio".

Assets in the Reserve Portfolio are those intended for use "on demand". Investments in this portfolio require liquidity and preservation of capital as primary objectives. Only high-quality short –term investment vehicles are appropriate for this portfolio.

Assets in the Endowment Portfolio are intended to preserve real (inflation adjusted) purchasing power while providing a relatively predictable, stable, and constant (inflation adjusted) stream of income; consistent with the Foundation's spending guidelines (reference section V).

II. Role of the Finance Committee and the Foundation Board

The Foundation Board (hereafter the "Board") has a fiduciary responsibility to comply with the restrictions imposed by the donors of endowment funds. The Board also has a legal responsibility to ensure that the management of endowment funds is in compliance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA).

The Finance Committee of the Foundation Board (hereafter the "Committee") acts in a fiduciary capacity with respect to the Portfolio, and is accountable to the College and the Board for overseeing the investment and safeguarding of all assets owned by, or held in trust for, the Portfolio.

Foundation Management (hereafter "Management") is defined as the Foundation's Executive Director who oversees endowment accounting and makes recommendations to the Committee.

A. This investment Policy Statement sets forth the investment objectives, distribution policies, and investment guidelines that govern the activities of the Committee and any other parties to whom the Committee has delegated investment management responsibility for Portfolio assets.

B. The investment policies for the Foundation contained herein have been formulated consistent with the College's anticipated financial needs and in consideration of the College's tolerance for assuming investment and financial risk, as reflected in the majority opinion of the Committee.

C. Policies contained in this statement are intended to provide guidelines, where necessary, for ensuring that the Portfolio's investments are managed consistent with the short-term and long-term financial goals of the Foundation. At the same time, they are intended to provide for sufficient investment flexibility in the face of changes in capital market conditions and in the financial circumstances of the Institution.

D. The Committee will review this Investment Policy Statement at least once per year. Changes to this Investment Policy Statement can be made only by affirmation of a majority of the Committee, and final Board approval. Written confirmation of the changes will be provided to all Committee members and to any other parties hired on behalf of the Portfolio as soon thereafter as is practicable.

E. Standard of Fiduciary Care. The primary and constant standard for making investment and spending decisions for all Portfolio assets is the "Prudent Person Rule" which states that "the members of the governing board shall act with the care, skill, prudence, and diligence under the circumstances then prevailing a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of like character and with like aims to accomplish the purposes of the institution" in compliance with Uniform Prudent Management of Institutional Funds Act.

III. Manager Selection

Investment management of the Portfolio (including its constituent pools) shall be recommended by the Committee for approval by the Board based on a selection process as established by the Committee. The Committee may elect to appoint a single manager for the Reserve Portfolio and the Endowment Portfolio or separate managers for each. The Committee may also elect to manage the Reserve Portfolio itself. In addition to evaluating a manager's historical performance compared to appropriate benchmarks, a manager's ethical standards, financial viability, organizational structure, experience of key personnel, and investment philosophy will also be reviewed.

IV. Investment Objectives

A. The Endowment Portfolio. The Endowment Portfolio is to be invested with the objective of preserving the long-term, real purchasing power of assets while providing a relatively predictable and growing stream of annual distributions in support of the institution. The attainment of this broad objective will provide a balance between current spending needs of the Foundation and the need to preserve the purchasing power of the endowment for future generations.

B. The Reserve Portfolio. Assets apportioned to the Reserve Portfolio are to be invested with the objective of security of principal and short term liquidity.

V. Spending Policy

A. Foundation spending shall be funded from these sources:
- Current undesignated gifts (not designated as endowments),
- An annual endowment management fee (presently 1.5%) assessed on total Endowment Portfolio assets), and
- Partial distributions of net investment income (from interest or dividends) or net realized capital gains from the Endowment Portfolio
- Short term deficiencies or excess of cash needs may be balanced by withdrawals from/deposits to the Reserve Portfolio. Cash accumulations from earnings and capital gains that exceed the approved spending budget for any year will be reinvested.

B. Purpose of Spending. The Foundation exists to support the educational needs of the College. Consistent with prudent financial stewardship, the Foundation will spend its income each year for the purposes designated and/or approved by its Board. This will include a portion (1.5% endowment management fee) designated for the foundation's business operations, fundraising and other work of the Foundation and a percentage set by the Board (currently 4%) for charitable purposes. Thus, the current spending rate is 5.5%. Endowment Portfolio earnings in excess of the Board established spending rate will be reinvested in the Endowment Portfolio to protect the endowment's purchasing power from one generation to the next.

C. Limitations on Spending -- General Policy. In general, current spending will not be funded by accessing the principal corpus of the Endowment Portfolio. The distribution of Endowment Portfolio assets will be permitted to the extent that such distributions do not exceed a level that would erode the Foundation's real assets over time. The Committee will seek to reduce the variability of annual Foundation distributions by factoring past spending and Portfolio asset values into its current spending decisions. The Committee will review its spending assumptions annually for the purpose of deciding whether any changes therein necessitate amending the Foundation's spending policy, its target asset allocation, or both.

D. Establishing the Spending Rate. The Committee will review and recommend the annual spending rate to the Board within 60 days following the end of each calendar year. The Foundation presently seeks to maintain an annual spending rate of no more than 5.5% of the 3-year trailing average of the Endowment Portfolio (valued on December 31 of each year.) Any excess earnings will be re-invested into the Endowment Portfolio. An endowment management fee of 1.5% will be assessed first, then a maximum of 4% will be used for charitable purposes as designated by the donor or determined by the Board. (See Appendix 1 for related administrative procedures.)

E. Adjusting the Endowment Management Fee. The Committee has the option of adjusting the endowment management fee up to the Uniform Prudent Management of Institutional Funds Act mandated maximum of 2%. The Committee also has the option of reducing the fee as long as the resulting fee income to the Foundation is adequate to fully fund operational and employee costs. (See Appendix 1 for related administrative procedures.)

F. Maintaining an Operational Reserve. Recognizing that stability and continuity are important to good management and administration, the Management will seek to hold an operational reserve such that in down market years reductions in business operations and layoffs are unnecessary. In addition, Management will aim for a stable budget, and when necessary, plan for significant increases or cuts to the budget to meet extraordinary one-time costs.

VI. Portfolio investment policies

A. Diversification – All Portfolios

1. Diversification across and within asset classes is the primary means by which the Committee expects the Portfolio to avoid undue risk of large losses over long time periods. To protect the Portfolio against unfavorable outcomes within an asset class due to the assumption of large risks, the Committee will take reasonable precautions to avoid excessive investment concentrations. Specifically, the following guidelines will be in place:
    a) With the exception of fixed income investments explicitly guaranteed by the U.S. Government, no single investment security shall represent more than 5% of total Portfolio assets.

    b) With the exception of passively managed investment vehicles seeking to match the returns on a broadly diversified market index, no single investment pool or investment company (mutual fund) shall comprise more than 20% of total Portfolio assets.

    c) With respect to fixed income investments, for individual bonds, the minimum average credit quality of these investments shall be investment grade (Standard & Poor's BBB or Moody's Baa or higher).

2. Other Investment Policies. Unless expressly authorized by the Committee, the Portfolio and its investment managers are prohibited from:
    a) Purchasing securities on margin or executing short sales.

    b) Pledging or hypothecating securities, except for loans of securities that are fully collateralized.

    c) Engaging investment managers who promise to engage in such practices.

B. Asset Allocation-General

1. The Committee recognizes that the careful allocation of Portfolio assets among financial asset and sub asset categories with varying degrees of risk, return, and risk-return correlation will be the most significant determinant of long-term investment returns and achievement of Portfolio objectives for each of the Foundation's Portfolios.

2. The Committee expects that actual returns and return volatility may vary from expectations and return objectives across short periods of time. While the Committee wishes to retain flexibility with respect to making periodic changes to the Portfolio's asset allocation, it expects to do so only in the event of material changes to the Foundation, to the assumptions underlying Foundation spending policies, and/or to the capital markets and asset classes in which the Portfolio invests.

C. <u>Asset Allocation Policy-Specific to the Endowment Portfolio</u>

1. Foundation assets comprising the Endowment Portfolio will be managed as a balanced portfolio composed of two major components: an equity portion and a fixed income portion. The expected role of equity investments will be to maximize the long-term real growth of Endowment Portfolio assets, while the role of fixed income investments will be to generate current income, provide for more stable periodic returns, and provide some protection against a prolonged decline in the market value of the Endowment Portfolio's equity investments.

2. Cash investments will, under normal circumstances, only be considered as temporary holdings in the Portfolio, and will be used for Foundation liquidity needs or to facilitate a planned program of dollar cost averaging into investments in either or both of the equity and fixed income asset classes.

3. Exhibit A (below) presents the long-term strategic asset allocation guidelines, presently determined by the Committee to be the most appropriate for the Endowment Portfolio, given the Foundation's long-term objectives and short-term constraints.

D. <u>Asset Allocation Policy-Specific to the Reserve Portfolio</u>

1. Exhibit B, (below) shows the asset allocation presently recommended by the Committee for the Reserve Portfolio.

E. Rebalancing

1. It is expected that the Endowment Portfolio's actual asset allocation will vary from its target asset allocation as a result of the varying periodic returns earned on its investments in different asset and sub asset classes. The Endowment Portfolio will be rebalanced to its target normal asset allocation under the following procedures:

2. The investment manager will use incoming cash flow (contributions) or outgoing money movements (disbursements) of the Portfolio or realign the current weightings closer to the target weightings for the Portfolio.

    a) The investment manager will review the Portfolio quarterly to determine the deviation from target weightings. During each quarterly review, the following parameters will be applied:

        i. If any asset class (equity or fixed income) within the Portfolio is +/-5 percentage points from its target weighting, the Portfolio will be rebalanced.

        ii. If any fund within the Portfolio has increased or decreased by greater than 20% of its target weighting, the fund will be rebalanced.

        iii. The investment manager may provide a rebalancing recommendation at any time.

3. Performance shall be measured on a total return, time-weighted basis and presented for the most recent quarter, year-to-date, and the trailing years, three years, and five years. Performance for periods greater than one year shall be expressed on an annualized basis. To facilitate performance comparisons, investment results should be expressed both gross and net of fees.

4. The specific performance objective is to attain, within acceptable risk levels, an average annual long-term total return that meets or exceeds the sum of the Foundation's spending rate plus inflation (as measured by the CPI, consumer price index) plus investment management and related fees. In cases where the Foundation is appointed trustee of a charitable trust, the investment objective is to achieve a return that satisfies the distribution rate while retaining as much corpus as possible.

F. Reporting

Investment reports shall be provided by the investment manager(s) on a (calendar) quarterly basis or more frequently if requested by the Committee. Each investment manager is expected to be available to review portfolio structure, strategy, and investment performance annually with the Investment Committee.

(EXHIBIT A)
Asset Allocation Guidelines for the "Endowment Portfolio"

ASSET CLASS	Conservative Limit	Target Allocation	Aggressive Limit
Equities			
U. S. Equities	36%	45%	48%
International Equities	24%	30%	32%
Total Equities	60%	75%	80%
Fixed Income			
U.S. Fixed Income	28%	17.5%	14%
International Fixed Income	12%	7.5%	6%
Total Fixed Income	40%	25%	20%
Cash and Cash Equivalents	10%	0%	0%

Exhibit A approved by Finance Committee on 11/10/2016

Approved by the Foundation Board on 11/17/2016

(EXHIBIT B)

Asset Allocation Guidelines for the “Reserve Portfolio”

Asset Class	***Sub-Asset Class***	***Target Allocation***
Equities		**50.00%**
	Domestic (U.S.) Equities	25.00%
	International (Non U.S.) Equities	15.00%
	Global Equity	10.00%
Fixed Income		**50.00%**
	Domestic (U.S.) Investment Grade	35.00%
	International (Non U.S.) Bonds	15.00%
Total		**100.00%**

Exhibit B approved by Finance Committee on 11/10/2016

Approved by the Foundation Board on 11/17/2016

Appendix 1
Administrative Procedures for providing to the Committee the Information they Need to Establish the Spending Policy
Established by Management: 11/10/2016

1. Within 60 days following the end of the calendar year, Management will provide to the Finance Committee the following information:
    a. Rate of returns on the Endowment Fund for each of the three previous calendar years
    b. Recommended spending rates based on the three-year trailing average value for the Endowment Fund and normal accounting procedures. The recommendations will include:
        i. Endowment management fee, not to exceed to 2% (currently 1.5%)
        ii. Recommended charitable purpose spending rate that is compliant with prudent management and industry best practices.

2. The process for allocating endowment earnings are as follows:
    a. In accordance with Board policy, the endowment management fee (currently set at 1.5%) is allocated first to the operational fund for the Foundation.
    b. Funds are secondly allocated for charitable purposes (currently set at 4%) as designated by the donor or for allocation by the Board.
    c. The calculation that is currently used to establish the Foundation maximum spending is as follows: 1.5% (endowment management fee + 4% (charitable purpose allocations) = 5.5% (maximum spending limit as established by policy)

3. When earnings are below the Board's established spending limits:
    a. If the three-year average growth rate of the Endowment Portfolio were to decline, and 5.2% was determined to be the prudent maximum spending rate, the calculation to derive charitable spending would be: 5.2% (earnings) – 1.5% (endowment management fee) = 3.7% for charitable purpose allocations.

4. Adjusting the endowment management fee: In the unusual occurrence when endowment portfolio earnings drop below 5.5%., the Finance Committee may consider reducing the 1.5% endowment management fee, so long as the funding provided is adequate to fully fund the Foundation's business and operating costs, including essential and productive staff positions. If the management fee is to be reduced, the reduction should be proportional. Here is an example:

a. The 1.5% endowment management fee expressed as a percentage of the 5.5 distribution is 27.27% (1.5%/5.5% = 27.27%) Therefore, if the earnings were to decline to 4.9% and the Committee agreed to proportionally reduce the management fee, the calculation would be as follows, (4.9% x 27.27%) / 100 = 1.34%. This would provide a 1.34% spending rate for charitable purposes.