

SECTION: **POLICY STATEMENT – GENERAL**

SUBJECT: **INVESTMENT AND SPENDING POLICY**

SCOPE: This Policy is applicable to Permanently Restricted Funds (Fund) that have been donated for the purpose of establishing an endowment where the interest earned on the principle is used to benefit students and programs at College of the Canyons. The principle is not invaded for any reason. Investments do not include operating funds or temporarily restricted funds including those funds held at the Los Angeles County Office of Education (LACOE)

PURPOSE: This investment and spending policy is set forth by the Finance Committee of the College of the Canyons Foundation in order to:

1. Define and assign the responsibilities of all involved parties. Definitions are listed in Appendix 2.
2. Establish a clear understanding for all involved parties of the investment goals and objectives of Fund assets.
3. Offer guidance and limitations to all Investment Managers regarding the investment of Fund assets.
4. Establish a basis for evaluating investment results.
5. Manage Fund assets according to prudent standards as established in common trust law
6. Establish the relevant investment horizon for which the Fund assets will be managed.
7. Create a structure and identify the investment asset classes used to achieve a diversified portfolio and how these assets are best allocated towards a larger goal.

In general, the purpose of this policy is to outline a philosophy and attitude, which will guide the investment management of the assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

NEW/REVISED: Revised

EFFECTIVE DATE: January 26, 2021

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## **I. POLICY**

### **A. Delegation of Authority**

The Finance Committee of the College of the Canyons Foundation is a fiduciary, and is responsible for monitoring the investment management of Fund assets, by way of recommendations to the Executive Committee of the Foundation. The Finance Committee will not exercise any control over investment decisions of individual securities.

Investment Managers, selected to oversee the Foundation's portfolio, will be held responsible for providing complete, accurate and timely accounting of all investment activities and performance. The Investment Managers will also be expected to achieve the objectives as stated in the Investment and Spending Policy. All expenses for such experts must be customary and reasonable, and will be borne by the Fund as deemed appropriate and necessary.

Duties of professional experts include, but are not limited to:

1. Investment Management Advisor. The Advisor may assist the Finance Committee in: establishing investment policy, objectives, and guidelines; selecting investment managers; reviewing such managers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate.
2. Investment Manager. The investment manager has discretion to purchase, sell, or hold the specific securities that will be used to meet the Fund's investment objectives.
3. Custodian. The custodian will physically (or through agreement with a sub-custodian) maintain possession of securities owned by the Fund, 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 Fund accounts.
4. Additional specialists such as attorneys, auditors, actuaries, CPA's, retirement plan consultants, and others may be employed by the Foundation to assist in meeting its responsibilities and obligations to administer Fund assets prudently.

## **B. Responsibility of the Investment Manager(s)**

Each Investment Manager will have full discretion to make all investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this statement. Specific responsibilities of the Investment Manager(s) include:

1. Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this statement.
2. Reporting, on a timely basis, quarterly investment performance results.
3. Communicating any major changes to economic outlook, investment strategy, or any other factors, which affect implementation of investment process, or the investment objective progress of the Fund's investment management.
4. Informing the Foundation and the Finance Committee regarding any qualitative change to investment management organization. Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.

## **C. Responsibility of the Investment Advisor(s)**

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

1. Assisting in the periodic review of investment policy.
2. Conducting investment manager searches when requested by the Foundation and the Finance Committee.
3. Providing "due diligence", or research, on the Investment Manager(s).
4. Monitoring the performance of the Investment Manager(s) to provide the Foundation and the Finance Committee with the ability to determine the progress toward the investment objectives.
5. Communicating matters of policy, manager research, and manager performance to the Foundation and the Finance Committee.

6. Reviewing Fund investment history, historical capital markets performance and the contents of this investment policy statement to any newly appointed members of the Finance Committee.

#### **D. Fiduciary Responsibilities**

The Investment Manager shall manage the portfolio in a manner consistent with the investment objectives, guidelines and constraints outlined in this policy statement and in accordance with applicable laws and “Prudent Investor” standards. The Investment Manager shall at all times be registered as an investment advisor under the Investment Advisers Act of 1940 (where applicable), and shall acknowledge in writing that he is a fiduciary with respect to the assets managed.

#### **E. Selection Criteria for Investment Managers**

The Foundation’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 Advisers Act of 1940, or a bank or insurance company.

The Investment Manager, on or before his selection to act on behalf of the Foundation, shall provide proof of errors and omissions, directors and officers, or other appropriate insurance (“insurance”) in a form and limits acceptable to the Foundation. The insurance shall be with a carrier admitted in California with a Best’s Rating of A or higher. The foundation, in lieu of or in addition to this insurance requirement may require the Investment Manager to provide proof of a Fidelity or other appropriate Bond (“Bond”) to the Foundation in a form and limit(s) acceptable to the Foundation. The Investment Manager shall provide proof of insurance or bond to the Foundation including, but not limited to, a certificate of insurance on or before the anniversary date of the Investment Manager’s retention by the Foundation.

#### **F. General Investment Principles**

1. Investments shall be made solely in the interest of the beneficiaries of the Fund.
2. The Fund shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent individual acting in like capacity and familiar with such matters would use in the investment of a fund of like character and with like aims.
3. Investment of the Fund shall be so diversified as to minimize the risk of large losses.

4. The Foundation may employ one or more investment managers of varying styles and philosophies to attain the Fund's objectives.
5. Cash is to be employed productively at all times, by investment in short-term cash equivalents to provide safety, liquidity, and return.

**G. Investment Management Policy**

1. Preservation of Capital - 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.
2. Risk Aversion - Understanding that risk is present in all types of securities and investment styles, the Foundation and the Finance Committee recognize that some risk is necessary to produce long-term investment results that are sufficient to meet the Fund'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.
3. 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.

**H. Asset Allocation Model**

Investment management of the assets of the College of the Canyons Foundation shall be in accordance with the asset allocation guidelines listed below. The preferred Asset Allocation is based on the current investment market and is reviewed at least annually by the Finance Committee and revised if needed:

1. Aggregate Fund Asset Allocation Guidelines (at market value)

	<b>Lower Limit</b>	<b>Preferred <u>Allocation</u></b>	<b>Upper Limit</b>
Domestic Large Cap Equities	23.50%	32%	35%
<i>Growth Style</i>	12%	16%	18%
<i>Value Style</i>	12%	16%	18%
Domestic Mid Cap Equities	2.50%	10%	10%
Domestic Small Cap Equities	2.50%	10%	10%
International Equities	5%	13%	20%
Fixed Income	25%	35%	45%
<i>Intermediate Bonds</i>	10%	18%	23%
<i>Short Term Bonds</i>	10%	18%	23%
*Cash & Equivalents	0%	1%	5%

- \* Investments, particularly index and mutual funds, may hold separate securities inside of them that may not fit in the Asset Allocation Model, but are categorized separately. These categories include but are not limited to Real Estate, Alternative, and Non Classified categories. These categories should equal no more than 5% of the total investment.
- \* Funds held at LACOE represent Cash and Equivalents outside of this Allocation Model

**Evaluation Benchmark:** When an Investment Manager is hired, total return is expected to exceed the performance of a policy index based upon the strategic asset allocation of the Fund to various broad asset classes. As an example, the policy index will be a weighted index which may be comprised of some or all of the following:

S&P 500	28.50%
S&P Midcap 400 with income	5.50%
Russell 2000 with income	4.50%
MS EAFE Index	16.50%
Lehman Intermediate Govt/Corp	35%
90 Day T-Bills	10%

2. The Foundation may employ investment managers whose investment disciplines require investment outside the established asset allocation guidelines. However, taken as a component of the aggregate Fund, such disciplines must fit within the overall asset allocation guidelines established in this statement.
3. In the event that the Fund assets move outside the above aggregate asset allocation guidelines, the Foundation will take the appropriate steps to bring the portfolio into balance. Rebalancing is expected to occur at least annually.
- 4.

IPS Monitoring Criteria	Threshold	Weight
Total Return - 3 Year	In top 50% of peer group	10%
Total Return - 5 Year	In top 50% of peer group	10%
Total Return - 10 Year	In top 50% of peer group	10%
MorningStar Rating	3 Stars or More	10%
Sharpe Ratio - 5 Year	In top 50% of peer group	5%
Max Draw Down - 5 Year	In bottom 50% of peer group	5%
Down Capture - 5 Year	In bottom 50% of peer group	5%
Expense Ratio	In bottom 50% of peer group	10%
Manager Tenure	At least a 5 year track record	15%
Style Consistency Score	Less than 29	10%

Assets Managed in Product	\$75 million or more	5%
AUM Change	Less than 50% in last 12 months	5%
		100%

Summary

Performance	55%
Expense	10%
Tenure	15%
Style	10%
Assets	10%

Investment option meets investment monitoring criteria if score is greater than or equal to: 65

Number of consecutive quarters of failure of IPS criteria evaluation before investment option is recommended for replacement: 6

**I. Rebalancing**

At times, as a result of capital appreciation, depreciation and trading activity, the portfolio’s investment allocation can materially deviate from the asset allocation set forth in Section H above. The Foundation may then request rebalancing by the Investment Manager, if the Foundation deems it prudent to do so. The Foundation, in consultation with the Investment Manager, shall decide the timing and most prudent strategy to rebalance the portfolio. The Foundation, if it deems appropriate to achieve a rebalancing of the portfolio, may also shift assets to another Investment Manager.

**J. Marketability of Assets and Investment Guidelines**

The Foundation requires that all of Fund assets be invested in liquid securities, defined as securities that can be transacted quickly and efficiently for the Fund, with minimal impact on market price. Allowable assets include:

1. Cash Equivalents
  - Treasury Bills
  - Money Market Funds
  - STIF Funds
  - Commercial Paper
  - Banker's Acceptances
  - Repurchase Agreements
  - Certificates of Deposit
  
2. Fixed Income Securities
  - U.S. Government and Agency Securities
  - Corporate Notes and Bonds

- Mortgage Backed Bonds
  - Preferred Stock
  - Fixed Income Securities of Foreign Governments and Corporations
3. Equity Securities
    - Common Stocks
    - Convertible Notes and Bonds
    - Convertible Preferred Stocks
    - American Depository Receipts (ADRs) of Non-U.S. Companies
    - Stocks of Non-U.S. Companies (Ordinary Shares)
  4. Mutual Funds
    - Mutual Funds that invest in securities as allowed in this policy
  5. Other
    - Real Estate Investment Trusts

#### **K. Diversification Requirements**

The Foundation believes it is necessary or desirable that securities held in the Fund represent a cross section of the economy. In order to achieve a prudent level of portfolio diversification, the securities of any one company or government agency should not exceed 5% of the total fund, and no more than 30% of the total fund should be invested in any one industry. Individual treasury securities may represent 40% of the total fund, while the total allocation to treasury bonds and notes may represent up to 100% of the Fund's aggregate bond position.

#### **L. Prohibited Assets and Transactions**

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

- Derivative transactions;
- Short Sales;
- Purchases of letter stock, private placements (including “144A” securities), or direct payments;
- Leveraged transactions;
- Commodities transactions;
- Naked option strategies;
- Real estate, oil and gas properties, or other natural resources related properties including but not limited to marketable real estate securities, or natural resource and precious metal mutual funds;
- Investments in non-U.S. dollar denominated securities;
- Investments in limited partnerships, except for publicly traded Master Limited Partnerships;

- Investments in futures, use of margin, or investments in any derivatives not explicitly permitted in this policy statement;
- Investments by the Investment Managers in their own securities, affiliates or subsidiaries (excluding money market or other commingled funds as authorized by the Finance Committee); and
- Hedge Funds

### **M. Performance Review and Evaluation**

Performance reports 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 Foundation and the Finance Committee intend to evaluate the portfolio(s) over a three to five year period, but reserves the right to terminate an investment manager for any reason including the following:

1. Investment performance which is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results. Results will be compared to benchmarks during review of performance.
2. Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.
3. 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.

### **N. Authorized Signatories**

The Authorized Signatories on the Investment Fund are listed in the Appendix 1.

### **O. 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 Foundation and the Finance Committee plan to review investment policy at least annually.

### **P. Spending (required per Accounting Standards Update ASU 2016-14)**

This policy attempts to provide a predictable stream of funding to programs supported by the Endowments while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period. Under this policy, as approved by the Foundation Board of Directors, the endowment assets are invested in a manner that is intended to produce results that exceed the performance of a Policy Index based upon strategic asset allocation as stated in Section H of this policy.

The Foundation expects its endowment funds, over a full market cycle (5 years), to provide an average annual real rate of return, net of fees, equal to or greater than spending and inflation (5%). Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places emphasis on investments in Domestic Large Cap Equities, Domestic Mid Cap Equities, Domestic Small Cap Equities, International Equities and Fixed Income as stated in the Asset Allocation table in Section H of this policy.

Endowment funds consist of donor-restricted endowments and do not include board-designated endowments. Only Permanently Restricted Endowment funds are covered by this policy. The principle of the Endowment Funds are not invaded for any reason and therefore the Foundation is not permitted to spend from Underwater\* endowment funds, as defined in ASU 2016-14. Spending from the endowments is limited to interest and dividends only. An Endowment Fund that is Underwater should include accumulated losses of that fund in net assets with donor restrictions and not in net assets without donor restrictions.

In the event the Scholarship Fund is Underwater, scholarships will be funded from prior year dividends, the general scholarship fund or by the donor.

*\* ASU 2016-14 defines the term Underwater endowment when the fair value of the assets of an endowment is less than the original gift (or other amount that the organization must maintain in perpetuity).*

## **Appendix 1**

The Authorized Signatories on the Investment Fund are as follows:

Sharlene Coleal  
Assistant Superintendent/Vice President Business Services  
Santa Clarita Community College District

Jason Hinkle  
Associate Vice President, Business Services  
Santa Clarita Community College District

## **Appendix 2**

### **Definitions**

“Investment Committee” shall refer to the body established to administer the portfolio as specified by applicable ordinance.

“Investment Manager” shall mean any individual, or group of individuals, employed to manage the investments of all or part of the portfolio’s assets.

“Investment Management Advisor” shall mean any individual, or organization engaged to provide advisory services, including advice on investment objectives and/or asset allocation, manager search and performance monitoring.