



# **Los Angeles Harbor College Foundation**

## **Statement of Investment Policy**

Revised and Adopted September 19, 2016

### **Introduction**

This Statement of Investment Policy of Los Angeles Harbor College Foundation sets forth investment policies by which the Endowments of the Foundation will be managed.

### **General Information**

Mindful of its fiduciary responsibility, the Board of Directors of the Los Angeles Harbor College Foundation has adopted the following investment policy guidelines. These guidelines apply to those gifts and donations in the form of Endowments, and those monies set aside by the Board and designated as quasi-Endowment (collectively, the "Endowments"). As of (date), the Endowment consists of the General Endowment, (identify if applicable).

### **Investment Goals and Objectives**

The goals and objectives of the Endowment's assets are:

- To earn a rate of return on Endowment assets that will provide for the Endowment's spending policy,
- To earn an additional rate of return on Endowment assets to offset the impact of inflation, and
- To earn an additional rate of return to increase the purchasing power of the Endowment's assets.

The Endowment will pursue these goals and objectives while maintaining portfolio exposures that provide transparency, and liquidity enabling the Endowment to focus on the long-term, while having the flexibility to adjust the asset allocation to take advantage of evolving market opportunities. Risks will be measured, monitored, and controlled to enable the Endowment to achieve its objectives within a prudent risk framework.

### **Investment Philosophy**

The investment philosophy for the Endowment has been determined with careful consideration given to its primary purpose, its investment goals and objectives, common practices in prudent investment program management, spending policies, and liquidity needs. The investment philosophy embraces the following:

- The Endowment's purpose is to exist in perpetuity and, therefore, a long-term time horizon is appropriate.



- Strategic asset allocation is the important factor influencing long-term investment returns, but the Endowment recognizes the importance of periodically adjusting asset allocation in light of evolving market opportunities to preserve assets and potentially increase returns.
- Market-related risks are unavoidable as the Endowment pursues its investment strategies. The Endowment will, however, broadly diversify its assets across and within asset classes and pursue asset allocation strategies to manage risks appropriately.

### **Roles and Responsibilities**

All parties that serve a role in managing and investing Endowment assets will discharge their duties solely in the best interests of the Endowment.

#### ***Board of Directors***

The Board of Directors of the Los Angeles Harbor College Foundation is ultimately responsible for establishing and approving investment policies and broad investment direction. Specifically, the Board is responsible for:

- Establishing and periodically reviewing a Statement of Investment Policy.
- Setting the risk profile of the Endowment's investment program by establishing an asset allocation strategy and rebalancing ranges.
- Ensuring strategies and policies are in place to achieve the Endowment's investment goals and objectives.
- Reviewing total Endowment and investment manager performance.

#### ***Finance/Investment Committee***

The Finance/Investment Committee of the Board of Directors of the Los Angeles Harbor College Foundation are responsible for carrying out its fiduciary responsibilities. The Finance/Investment Committee acts as an advisor to the Board by vetting all key investment issues that are brought before the Board for consideration. Specifically, the Finance/Investment Committee is responsible for:

- Evaluating a Statement of Investment Policy to ensure that the Endowment will be able to achieve its goals and objectives; specific attention will be given to the matching of assets and liabilities over the near- to medium-term given the related factors noted previously in this policy.
- Considering recommendations on which asset classes and investment strategies are appropriate for the Endowment to invest in or pursue given its circumstances and the risk tolerance of the Board of Directors.
- Evaluating recommendations to hire and fire investment managers.
- Evaluating capabilities and services of the investment consultant.
- Appropriately reviewing Endowment and investment portfolio performance and risk characteristics.



### ***Investment Consultant***

The Investment Consultant will act solely in the best interests of the Endowment in the advice they render. The consultant will work with the Finance/Investment Committee, the Board of Directors, and the Staff to ensure a thorough understanding of investment issues facing the Endowment. In addition, the consultant is responsible for advancing recommendations with respect to the management and oversight of the Endowment's investment portfolio. These recommendations include, but are not limited to:

- Formulation of the investment policy statement and appropriate asset allocation strategies.
- Delineation of the implementation options.
- Identification of asset categories and investment strategies appropriate for the Endowment.
- Establish performance benchmarks for the portfolio.
- Hiring and firing of individual investment managers including implementation of individual investment management agreements with the investment managers.
- Ongoing risk assessment of the investment portfolio to ensure compliance with the investment policy, and the Board of Directors' objectives.
- Monitoring and reporting portfolio performance to the Finance/Investment Committee and the Board of Directors.

The consultant will also provide regular and timely reporting of the Endowment's assets, including the Endowment's use of any derivatives securities and compliance with these guidelines and any other restrictions on investment of Endowment assets. The consultant will monitor compliance with this policy and individual manager guidelines, and report to the Finance/Investment Committee any non-compliance if/when they occur.

### ***Staff***

The staff of Los Angeles Harbor College is responsible for the day to day activities of the investment program including:

- Executing investment management and consulting contracts.
- Directing the custodian to move assets consistent with Board of Directors or Finance/Investment Committee's approved investment decisions.
- Monitoring the Endowment's asset allocation relative to the strategy and implementing any necessary rebalancing actions.

### ***Investment Managers***

Investment managers will invest Endowment assets in a manner consistent with the style for which they were hired. Investment managers are given full discretion, within policy and guideline limits to:

- Select individual securities
- Diversify portfolio assets



## Asset Allocation Policy

Asset Class	Target Allocation	Permissible Ranges
US Equities	30%	20% - 60%
Non-US Equities	20%	5%-30%
Developed Markets	15%	5%-25%
Emerging Markets	5%	0-15%
Fixed Income	30%	20%-50%
Alternative Investments	20%	0% - 30%
Cash Equivalents	0%	0% - 20%

### Permissible Asset Categories:

#### *Equities*

The purpose of the equity investments in the Endowment is to provide principal appreciation that exceeds inflation. It is recognized that equity investments carry greater market price variability and risk than other asset classes.

The equity component (both US and Non-US) of the Endowment should represent 50% of the total assets at market value. Although the actual percentage in equity investments will vary with market conditions, continued on-going levels in excess of 70% or below 40% will require authorization by the Board.

It is expected that the Endowment will have exposure to a broad range of the US and Non-US stock market including, but not limited to, growth and value stocks of large- and small-capitalization companies. The different segments of the global stock market represent varying degrees of market efficiency with active managers exhibiting varying degrees of success. These issues will be evaluated in determining the appropriate mix and use of active and passive investment strategies.

#### Guidelines

- The equity portfolio will normally be fully invested in US and Non-US stocks, with cash equivalent securities not to exceed 10% of stock assets.
- The portfolio will seek to limit exposure to any single security to 5% at cost.
- Convertible bonds, preferred stocks and other securities convertible into common stock are permitted.
- Exchange traded funds are permitted.
- Derivatives including futures, options and structured notes are permitted provided their use is consistent with the Endowment's Derivatives Policy.

#### *Fixed Income*



The purpose of the fixed income investments in the Endowment is to provide a stable component of return and to dampen the overall volatility of the Endowment. The fixed income allocation should represent 30% of the total assets at market value. Although the actual percentage will fluctuate with market conditions, levels of less than 20% or in excess of 50% will require authorization by the Board.

### Guidelines

- The portfolio will normally be fully invested in investment grade and non-investment grade issuers of notes, debentures and other fixed income securities.
- The portfolio may invest, without limitation in the following: obligations of the US Government, US Federal Agencies and US government-sponsored corporations and agencies.
- Investment grade and high yield corporate bonds, preferred stock, convertible securities, mortgage and asset-backed bonds, including commercial mortgage backed securities and mortgage derivatives are permitted.
- The duration of the bond portfolio may vary within a band of 3– 7 years.
- No more than 20% of the portfolio may be invested in securities rated below BBB- or Baa3; issues that have no rating also will apply against this limit.
- No more than 50% of the portfolio may be invested in issues denominated in foreign currencies.
- Rule 144A securities are permitted.
- Futures, forwards, options, swaps, structured notes and other derivative securities are permitted, provided their use is consistent with the Endowment's Derivatives policy.
- The portfolio will maintain an average credit quality of "A".
- Except for US Government and Agency securities and securities issued by developed non-US Governments, the Endowment will seek to ensure that no more than 5% of the fixed income assets will be invested in any single issuer.

### *Alternative Investments*

The purpose of alternative investments in the Endowment is to enhance overall portfolio returns and/or reduce portfolio volatility through the use of investment vehicles that have low correlation to traditional equity and fixed income asset classes. Alternative investment strategies may include such vehicles as hedge funds, venture capital, private equity, distressed debt, or real estate and mezzanine investing. A portion of the alternative investment segment of the portfolio may also include real assets or other securities intended to provide a hedge against inflation, such as commodities, commodity-oriented funds and securities, and inflation protected fixed income instruments. Some alternative investment vehicles use marketable securities, but may employ non-traditional strategies such as short selling and leverage. Although leverage may be employed within an alternative investment vehicle, no alternative investment vehicle shall be used that will obligate or encumber the College beyond its original investment commitment.



Assets not committed to other asset classes may be allocated to alternative investments. The alternative investments component of the Endowment can represent 20% of the total assets at market value. Although the actual percentage will fluctuate with market conditions, levels in excess of 30% will require authorization by the Board.

### Guidelines

- Broadly diversified and niche strategy fund of funds are permitted.
- Other than fund of funds investments, total commitments to a single manager or general partner shall not exceed 5%.

### **Performance Measurement**

The Endowment's performance will be measured against a Policy Portfolio. A Policy Portfolio is a passive representation of the Endowment's long-term investment policy.

The Policy Portfolio is comprised of the following:

<b>Asset Class</b>	<b>Weight in the Policy Portfolio</b>	<b>Benchmark</b>
US Equities	30%	Russell 3000
Non-US Equities	20%	
Developed	15%	MSCI EAFE
Emerging Markets	5%	MSCI Emerging Markets
Fixed Income	30%	Barclays Capital Agg. Bond
Alternative Investments	20%	HFRI Fund of Funds
Cash	0%	

Performance of the Endowment's total portfolio as well as each investment manager will be evaluated over a full market cycle and relative to the risks incurred. It is understood that there can be no guarantee of the attainment of the goals and investment objectives outlined herein.

### **Frequency of Review and Reporting**

This policy statement will be reviewed at least annually or as Endowment circumstances change. Additionally, the Investment Consultant will provide a timely monthly account statement which shows the value of Endowment assets by portfolio and in aggregate. Comprehensive, detailed performance reporting will be provided on a quarterly basis.

### **Strategic Real Estate**

The purpose of strategic real estate within the Endowment is to support the long range



goals of the College. When specific and appropriate parcels of real estate become available, Endowment funds can be used for purchase with approval of the Board of Directors. The total value of the Endowment's real estate (at cost) will be excluded from the overall asset allocation of the Endowment. However, total real estate value (at cost) should not exceed 25% of the total value of the Endowment. Amounts greater than 25% will require approval of the Board of Directors.

## **Derivatives**

Derivatives are securities whose value is determined by the value of some other security. Common types of derivatives include futures, options, swaps, and forward contracts. If used appropriately, derivative contracts can be an important component of an investor's portfolio by reducing risk, enhancing income, providing a cheaper, more efficient manner in which to obtain desired market exposures, or expanding the opportunity set in which qualified active managers seek to add value.

It is the Board's intention to allow investment managers the discretion to utilize derivatives for risk management purposes, and to obtain cost-effective market exposure. Under no circumstances are derivatives to be utilized for speculative purposes. As mentioned earlier in the document, no investment vehicle shall be used that will obligate or encumber the College beyond its original investment commitment.

## **Spending Policy**

Except as set forth in a donor's requirement or in the constitutive instruments establishing an Endowment, it is the College's policy to distribute annually up to 5% of the three fiscal year ends as of the date of the adoption of the budget for the next fiscal year. Spending will be calculated on a "total return" basis as sanctioned by the Uniform Management of Institutional Endowments Act (UMIFA), under which guidelines the College is permitted to spend an amount in excess of the current yield (interest and dividend earned), including either realized or unrealized appreciation. Distributions from the Endowments shall be for the purposes approved by the Board by a vote of not less than a majority of Directors when a quorum is present at a meeting. In addition, in any given year, the College may determine to forgo making any distribution based upon circumstances at the time. Furthermore, the Board by a vote of not less than 66% of the Directors then in office may elect to access the unrestricted portion of the principal of the Endowments for special purposes.

If the Board votes to access the unrestricted portion of the principal of the Endowments for special purposes the Board will specifically vote as to whether or not the Board will repay the principle accessed, the period of time over which the principle will be paid back and the rate of interest that will be applied while the principle is outstanding.

## **Cash Flows and Rebalancing**



New cash flow shall be allocated to investment managers by the Los Angeles Harbor College staff under the guidelines set forth in this policy, unless otherwise specified by the donor. In the event the Endowment receives contribution of assets which are not readily marketable, such assets will be excluded from the investment managers' performance.

As a general rule, new cash will first be used to rebalance the total Endowment in accordance with the target asset allocation policy. Additional rebalancing can also be implemented through withdrawals for spending purposes and transfers among investment managers. The purpose of rebalancing is to maintain the risk/reward relationship implied by the stated long-term asset allocation targets.

### **Restricted Investments**

Occasional gifts are offered to the College whereupon the donor wishes to place certain restrictions on the form of investment to which these amounts may be applied. Such Endowments will be invested according to the donor's requirement only to the extent such requirement is a condition of the gift, and, to the extent required by the donor, these monies will be excluded from the total pool of available Endowments for the purposes of establishing asset allocation percentages as directed in the Investment Policy.

As a normal course, donors will be encouraged to entrust endowed gifts to the Foundation without restriction on the investment of these Endowments, and the College may, from time to time, determine that the refusal of such restrictions, and the gift, is more prudent than acquiescence.

Monies generated through the Endowment's Annual Campaign Endowment or similar Endowment raising or other organizational efforts may be allocated to and commingled with the College's General Endowment fund on an interim basis. Annually, the Board by a vote of not less than a majority of those Directors at a meeting, when a quorum is present, shall designate what monies in the Annual Campaign Endowment or similar Endowment raising or organizational efforts shall be allocated to the Endowment on a permanent basis.

### **Conflicts of Interest**

To avoid any potential conflicts of interest, no Director (including the firms for which they work) of the Foundation or Los Angeles Harbor College may be a direct investment manager for the Foundation. In the case where a Director's firm is part of a pooled fund, this restriction is waived.

### **Exceptions to Investment Policy**

As of the date of adoption there are no exceptions to policy that have been coordinated with any investment managers or advisors.