

# Rowan Cabarrus Community College Foundation Investment Policy

## I. Definitions

**A. Fund** An accounting unit for which assets and liabilities as well as revenue and expenses are tracked. An activity, program or department may be recorded within a fund by segregating only the revenues and expenses.

**B. Restricted Fund** (Also known as Temporarily Restricted Fund) A fund in which the use of cash and other assets are restricted by the directions of or agreement with donors. Typically the assets of a restricted fund may be used or spent for the purpose agreed upon.

**C. Endowment** (Also known as Permanently Restricted Fund) A fund in which assets may not be used or spent in the course of normal operations by direction of or agreement with donors. The earnings of the endowment are typically used or spent in part or in total for an agreed upon purpose, although a General Endowment fund may be established, the earnings from which may be used for any foundation purpose.

**D. Designated Fund** A fund in which the use of cash and other assets is limited by the Foundation Board of Directors (the Board). Designated funds are treated in the same manner as restricted funds for operational purposes, but because the Foundation Board has the right to change the terms of the designation, these funds are not truly restricted. They are therefore reflected on the financial statements as unrestricted funds. For purposes of this investment policy, references to restricted funds will be understood to apply to designated funds, as well.

**E. Quasi Endowment** A fund set aside by the Foundation Board to be treated as an endowment, without using or spending the assets of the fund, but using or spending all or part of the earnings as directed by the Board. For purposes of this investment policy, references to endowment funds will be understood to apply to quasi endowments, as well.

**F. Earnings** Dividends, interest, capital gains and other payments from deposits or investments. Returns of capital are not considered earnings for the purpose of this investment policy.

## II. General Investment Philosophy

The assets of the Foundation, including the deposits and investments held in endowments and other funds, are intended to provide income to support operations, programs, activities and scholarships of the RCCC Foundation and Rowan-Cabarrus Community College, and to achieve growth of principal and income over time. The goal of investing is to provide earnings which will be used for the various purposes specified by donors or the Board while preserving the invested capital. While all investing involves risk, the intention of this policy is to describe appropriate investment strategies and mechanisms by which performance can be measured.

Because the principal of endowments is not spent, endowments may be invested differently from other funds which may be invested only temporarily, pending the need for cash. For that reason, separate strategies are described for endowments and for other funds.

The Finance Committee is responsible for managing the investments of the Foundation. If appropriate, the

Committee may further delegate specific areas of responsibility to others, such as another financial manager or the Foundation Director or Treasurer, who will make regular reports to the Committee.

**A. Endowment Funds**

Endowments are intended to provide reliable streams of earnings for a particular purpose or activity for a long period of time, if not in perpetuity. While investment returns may vary significantly from year to year, it is important to maintain a consistent level of spending from year to year. Furthermore, over time, even modest levels of inflation erode the purchasing power of an endowment if provision is not made to increase the principal balance of an endowment. Consequently, the two main goals in managing endowments are to maintain appropriate spendable balances and to increase the principal balance of the endowment.

To accomplish these goals, the earnings from each endowment are divided into spendable and non-spendable portions. The spendable portion of the earnings is held in a restricted fund related to the parent endowment, while the non-spendable portion of the earnings along with any returns of capital are added to the principal balance of the endowment. Each year, as part of the budget process, the accumulated balance in each endowment's spendable restricted fund will be made available as specified in the spending policy defined below.

Endowments shall be established only when the amount to be contributed under the endowment agreement is sufficient to accomplish the purpose for which the endowment is established. The RCCC Gift Acceptance Policy sets the minimum amount for which a discrete endowment may be established. (At the time this policy was drafted, that amount was \$15,000. Refer to the Gift Acceptance Policy for the current minimum amount.)

Recognizing that each Endowment fund has its own unique identity, origin and purpose, it is essential that the Finance Committee, as well as any appointed Investment Managers preserve this identity while managing the funds. This is true for the original endowment contribution and all additions to the principal, as well as the accumulated earnings held in the related restricted fund. This is not meant to preclude combining one or more funds into a large pooled income fund to maximize growth potential of assets. When investments are pooled, however, separate accounting of each fund must be maintained throughout the fund's existence.

**B. Funds other than Endowments**

The Finance Committee will also be responsible for the investment of spendable funds such as non-endowed gifts, earnings from fund raising events, and the spendable restricted funds related to endowments described above. These funds include both restricted and unrestricted funds. Like endowment funds, restricted funds may, when appropriate, be separately identified by purpose and/or by grantor or donor. Appropriate accounting to preserve the identity of these separate funds will be maintained throughout the life of each restricted fund. When possible, funds from two or more donors that are designated for the same purpose and that are to be spent within the current year will be combined in a single fund.

It is essential that sufficient liquidity be maintained to support the spending that is anticipated in the annual budget for the current and coming years. Because the time frame of these investments is much shorter, more emphasis will be given to the preservation of capital for these funds than for endowments. These short term funds will include any donations that are to be fully spent within a year, all program grants, and any portion of the balance of other funds that are to be spent within the year. Earnings on these short-term investments

will be added to the Foundation's Unrestricted General Fund.

Balances in non-endowment funds that are not anticipated to be spent in the near future should be invested considering the longer time frame in which such funds will be available. These funds might include contributions that are being accumulated for a capital project or other longer term purpose, as well as the balances in restricted funds related to endowments that are being held to assure spendable balances in coming years. The earnings on these investments will be added to the funds from which the investments are made.

### **III. Investment Strategies**

The general policy shall be to diversify investments both in the nature of investments – classes of equity and fixed-income securities; and among market segments – different industries or industry related groups. Such diversification will enhance total return while avoiding undue risk concentration in any single asset class or investment category.

#### **A. Equity vs. Fixed-income Investments**

The maintenance of the endowment value in both real and nominal terms is best accomplished by a significant equity allocation in the overall portfolio. The Finance Committee shall, at least annually, set a target asset allocation ranging from 50% to 100% in equity investments with the balance to be invested in cash, fixed income investments or other investments authorized by the Board.

Should the Board authorize that a portion of the endowment investments will be placed in alternative diversifying investments other than normal equity or fixed-income investments, no more than 15% of the investment balance shall be in such alternatives.

Investments from non-endowment funds that have a time horizon of over a year will be invested in instruments that may sacrifice yield in favor of asset preservation. No more than 25% of this total shall be invested in equity investments and any portion of this total may be invested or deposited in the same manner as permitted for short term balances, as described below.

Balances that are expected to be spent within one year shall be invested or deposited in money market funds, the State Short Term Investment Fund or other highly liquid investments that meet reasonable standards of safety and liquidity.

In the future, additional asset classes may be considered for addition to the Foundation's structure.

#### **B. Market Segments**

The principal category of equity investments may be common stock mutual funds, with primary emphasis on stocks in companies that are financially sound and that have favorable prospects for earnings growth. Selection of these mutual funds will include consideration of the funds' diversification among market segments. If a fund is selected which includes an unacceptable concentration in one or a few market segments, compensating investments in other funds shall be made. At the discretion of the Committee and the Investment Managers, to increase return and reduce volatility, a portion of the equity component may be invested in international stocks.

The Finance Committee and any Investment Manager will abstain from investing Foundation assets into mortgage-backed derivative options or any mechanism with a return of principal.

#### **IV. Spending Policy on Invested Funds**

It is the policy of the Foundation to annually distribute for support of College programs, not more than 5% of a trailing three-year average of each endowment's total asset value. Such distributions shall be made from the endowments' related spendable restricted fund. This limit is established with the understanding that the spending rate plus inflation will not normally exceed total real return (return net of inflation) from investments. This trailing three-year average shall be either calendar or fiscal-year periods, according to the nature of the funds and the requirements of the budgetary process.

It shall be the responsibility of the Finance Committee to periodically review the spending policy against actual returns in order to make adjustments necessary for the preservation of capital and income of the endowment.

Endowment funds established for specific purposes with spending policies negotiated between Foundation and donor will be strictly adhered to as agreed. If the negotiated terms permit, any such negotiated endowment shall be pooled with any other investments.

#### **V. Investment Management**

##### **A. Finance Committee**

The Finance Committee shall be responsible for supervising investments; monitoring adherence to these policy guidelines; recommending to the Board changes to these policies and the selection of any Investment Advisor(s) or Manager(s); and reporting to the Board the results of investment activities.

It is the Foundation's policy to utilize professional management services for the investment of the pooled endowed funds. This may be accomplished through investing in mutual funds which are professionally managed or by contracting with investment firms or banks. No individual committee member may make decisions or act on behalf of the whole committee or the Board without the consent of the majority of the committee or the Board, except that the Treasurer may make such decisions for those investments for which responsibility is delegated by the committee – typically short-term interest bearing accounts. (*RCCCF By-Laws Section 4.8*)

##### **B. Investment Manager Evaluation**

Investment Advisor(s)/Manager(s) are expected to achieve an annualized total rate of return, net of costs and fees, over a three-to-five-year period that equals or outperforms competitive appropriate market indexes. The selection of the index or indices to be used to measure performance will be agreed upon by the committee and the investment manager(s) prior to the execution of any contract or agreement. Investment performance will be measured and compared to appropriate market indexes as agreed, with an emphasis on longer term performance. An Advisor/Manager can be recommended for replacement at any time deemed necessary by the Committee, whether or not the investments outperform the agreed upon index.

The Finance Committee will meet at least quarterly to review the investment results. All Investment Managers are required to report their performance and portfolio holdings monthly on all accounts to include a comparison of appropriate market indexes and/or a total combined index; and moreover, should be accessible to a request of net asset value or account balance on any given day. The committee will regularly report on these matters to the full Board and/or the executive committee.

##### **C. Ethics and Conflict of Interest**

Committee members, Directors and employees of RCCC Foundation involved in the investment process

shall refrain from activities that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions.

*Adopted by Board of Directors at meeting on November10, 2010*