

# **Davidson-Davie Community College Foundation**

## **Investment and Spending Plan Policies**

### **I. INTRODUCTION**

The purpose of this document is to provide guidelines for the management of funds of the Davidson-Davie Community College Foundation. The investment policy seeks to translate the investment goals and objectives of the Foundation into a cohesive, long-term investment framework that is consistent with the overall mission of the Foundation.

### **II. SCOPE**

This investment policy applies to all financial assets of the Davidson-Davie Community College Foundation except those that are governed in another manner.

### **III. PURPOSE OF POLICY**

The purpose of this statement is to establish the investment policy for the management of funds and other assets of the Davidson-Davie Community College Foundation. This statement of investment policies is set forth in order to:

1. Establish and document the investment objectives, philosophy, policies, guidelines and goals for the investment funds of the Foundation.
2. Provide the Investment and Executive committees with a written document and understanding of said investment objectives, philosophy, policies and goals.
3. Clearly communicate to the Investment Committee and investment manager(s) their roles, duties and responsibilities.
4. Establish the basis for evaluation of the investment performance of the portfolio and of any investment manager servicing the portfolio.

This statement is meant to be sufficiently specific to be meaningful, but also flexible enough to attain the objectives to be outlined, allowing for changing economic conditions and securities markets.

### **IV. CONTEXT OF POLICY**

In developing the Investment Policy, the Investment Committee recognizes the following:

- Fluctuating rates of return are a characteristic of the investment markets, and

- Performance cycles cannot be accurately predicted as to their beginning, end or magnitude.

Therefore, the asset allocation decisions set forth in this policy are based on a careful examination of:

- Mission and goals of the Davidson-Davie Community College Foundation
- Historical review of various asset categories and investment plans

## **V. INVESTMENT GOALS AND OBJECTIVES**

The primary investment objective of the Davidson-Davie Community College Foundation is to produce a favorable investment return as compared against inflation. The Foundation seeks long term principal growth while preserving capital by means of minimizing the risk of substantial loss in asset value through investment in a diversified portfolio of quality investment assets.

The Executive Committee recommends that the primary investment goals be:

- growth of the fund corpus
- income sufficient to meet projected distribution requirements
- preservation of principal

## **VI. PERFORMANCE GOALS**

The Davidson-Davie Community College Foundation expects to achieve competitive results on its investment portfolio. The following performance goals have been established to provide a basis upon which to judge the effectiveness of the investment objective and those responsible for implementing investment decisions on a day-to-day basis. Investment managers will be judged over a cycle of three to five years.

- Exceed the annualized rate of inflation
- Meet or exceed investment results for various asset classes as measured by the following base line indices:
  - Standard & Poor 500
  - Lehman Government/Corporate & Intermediate
  - Other indices, mutually agreed on by the Investment Committee and the investment manager, which provide a better match for the manager's investment style or strategy

## VII. INVESTMENT GUIDELINES

### Asset Allocation:

The asset allocation of the portfolio will be maintained within the allowable ranges indicated below:

Cash Equivalents:	0%	to	10%
Fixed Income Securities:	20%	to	50%
Equities:	35%	to	70%
Alternative Investments:	0%	to	15%
Investment Real Estate:*	0%	to	20%

The Investment Committee recognizes that a rigid asset allocation would be both impractical and to some extent, undesirable under various market conditions. Therefore, the allocation of the Davidson-Davie Community College Foundation's total assets may vary within a 5% deviation from time to time without being considered an exception to this investment policy.

Notwithstanding anything to the contrary set forth herein, funds invested in co-mingled vehicles such as mutual funds, shall be managed in accordance with the prospectus and/or other fund documentation for such vehicles.

### Prohibited Investments:

The following categories of securities and other investment activity are not permitted for investment without the prior approval of the Investment Committee:

- Short sales
- Margin purchases
- Letter or unregistered stock
- Direct or private placements

### Allowable Investments:

#### U.S. Equities (Large, Mid- and Small-Cap)

The following guidelines apply to the U.S. Equity portion of the Davidson-Davie Community College Foundation's portfolio. Exposure to U.S. Equities may be gained through investment in a fund:

1. Permissible investments: common stocks including ADRs and foreign issues traded on U.S. exchanges and in the over-the-counter market securities convertible into common stocks.
2. The rate of turnover will not be a factor in the evaluation of the portfolio.

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\* The portfolio is allowed to invest directly in income-producing real estate. These investments are not included when calculating the asset allocation described here.

There are no qualitative guidelines suggested with regard to equity ratings, rankings, etc., except that the manager has developed prudent standards and that the manager maintains those standards. There are no quantitative guidelines regarding industry to country exposure that are imposed; however, the manager is expected to develop and apply prudent standards.

#### International Developed Markets Equities

The guidelines below apply to the International Developed Markets Equities portion of the Davidson-Davie Community College Foundation's portfolio. Exposure to International Developed Markets may be gained through investment in a fund. The Davidson-Davie Community College Foundation's portfolio will be broadly diversified across countries and sectors. Permissible investments:

1. Common and preferred stocks (including ADRs and GDRs) listed on established exchanges;
2. Currency spot and forward contracts, including long currently forward contracts, in excess of underlying equity denominated in that currency;
3. Stock index futures, options on futures, and options on currencies;
4. Warrants including participation notes, rights, private placements, IPOs and secondary offerings, Exchange Traded Funds (ETFs), and Income Trusts; Securities convertible into common stock.

There are no qualitative guidelines suggested with regard to equity ratings, rankings, etc. except that the manager has developed prudent standards and that the manager maintains those standards.

#### Emerging Markets Equities

The guidelines below will be observed by the managers for the International Emerging Markets Equity portion of the Account. Exposure to International Emerging Markets Equities may be gained through investment in a fund. The Davidson-Davie Community College Foundation's portfolio will be broadly diversified among Emerging Markets countries. Permissible investments:

1. Common and preferred stocks (including ADRs and GDRs) listed on established exchanges;
2. Currency spot and forward contracts, including long currently forward contracts, in excess of underlying equity denominated in that currency;
3. Stock index futures, options on futures, and options on currencies;
4. Warrants including participation notes, rights, private placements, IPOs and secondary offerings, Exchange Traded Funds (ETFs), and Income Trusts; Securities convertible into common stock.

There are no qualitative guidelines suggested with regard to equity ratings, rankings, etc. except that the manager has developed prudent standards and that the manager maintains those standards.

#### REITs and Commodities

Exposure to Real Estate Investment Trusts (REITs) and Commodities may be gained through investment in a fund. Such fund may invest in a variety of asset classes including, without limitation, inflation-protected fixed-income securities, such as Treasury Inflation-Protected Securities (TIPS) and similar bonds issues by governments outside the United States, commodities, equity securities, such as commodity-related stocks, real estate securities, utility securities, infrastructure-related securities, securities and derivatives linked to the price of other assets (such as commodities, stock indices and real estate) and currencies. The portfolio may seek inflation protection from investments around the globe, both in developed and emerging market countries.

Its commodities investments may include exposure to energy commodities, agricultural products, and industrial and precious metals, such as gold. Its real estate investments may include REITs, other real-estate related securities, infrastructure-related securities, and direct ownership of properties.

The portfolio may invest in both U.S. and non-U.S. denominated equity or fixed income. The portfolio may invest in currencies for hedging or for investment purposes, both in the spot market and through long or short positions in currency-related derivatives. In addition, the portfolio may invest significantly to the extent permitted by law in derivatives, such as options, futures, forwards, swap agreements or structured notes.

The portfolio may also seek to gain exposure to physical commodities traded in the commodities market through investments in a variety of derivatives instruments, including investments in commodity index-linked notes.

#### Intermediate Duration Fixed Income

The following investment guidelines will be observed with respect to the U.S. Fixed Income portion of the portfolio:

1. Permitted investments include but are not limited to the following:
  - Government securities (both investment-grade and non-investment-grade securities from sovereign, supranational, government-sponsored and government agency issuers)
  - Mortgage-related securities (includes agency and non-agency fixed-rate and hybrid pass-throughs, agency and non-agency CMOs [PACs, sequentials, VADMs only], dollar rolls)
  - Corporate debt (both investment-grade and non-investment-grade securities)
  - Commercial mortgage-backed securities (CMBS)
  - Asset-backed securities (ABS)
  - Basket, index, and other structured securities
  - Bank loans
  - Preferred, perpetual, and convertible securities
  - Municipal bonds, both taxable and tax-exempt issues

- Derivatives
  - Cash equivalent instruments
  - 144A securities and other publicly traded securities exempt from U.S. and/or other applicable local registration requirements
  - Reverse repurchase agreements
2. The portfolio *may* include holdings issued by domestic and foreign corporations, governments, government-sponsored and supranational issuers in both developed and developing countries. (Developing countries are those classified as middle and low income economies by the World Bank.)
  3. The following credit quality restrictions will apply:
    - Overall portfolio minimum average quality is A
    - Manager will rely on credit ratings provided by S&P, Moody's, or Fitch. If unrated, the manager will apply, in its sole discretion, a credit rating it deems appropriate
    - In the case of a split rating, the higher rating shall apply
    - Minimum issuer quality is CCC (at time of purchase)
    - Minimum rating for mortgage related/ABS/CMBS (at time of purchase) BBB
    - Credit ratings encompass entire range for the grade (i.e., A includes A-, A+, etc.)
    - Max % of portfolio rated below investment grade: 25%
    - Min % rated AAA or U.S. government issued/guaranteed: 30%
    - Max % in mortgage related/CMBS/ABS rated below AAA that are not issues or guaranteed by the U.S. government, its agencies or instrumentalities: 5%
    - In the event that a security is downgraded below the minimum credit quality required at the time of purchase, the manager will decide, in its sole discretion, whether to continue to hold such security and in connection with any such security the portfolio may take possession of and hold securities and other property that may be given to holders of such security as a result of a restructuring
  4. The portfolio will not use leverage.
  5. The portfolio duration is +/- 1 year of the Barclays Capital Aggregate Bond Index.

Exposure to Intermediate Duration Fixed Income may be gained through investment in a fund.

### Inflation Sensitive Fixed Income

The following investments are permitted by the managers for the Inflation Sensitive Fixed Income portion of the portfolio:

1. TIPS, directly or by gaining indirect exposure to TIPS through derivatives transactions such as total return swaps linked to TIPS
2. Other fixed-income investments such as U.S. and non-U.S. government securities, corporate fixed-income securities and mortgage-related securities, as well as derivatives linked to such securities
3. Assets other than fixed-income securities
4. Fixed-income securities rated BB or B or the equivalent by at least one national ratings agency (or deemed by the manager to be of comparative credit quality) which are not

investment grade (“junk bonds”); however, it is expected that investment grade securities will be principal

Exposure to Inflation Sensitive Fixed Income may be gained through investment in a fund.

### Global Bonds

The following investments are permitted by the managers for the Global Bonds portion of the portfolio:

1. Government securities
2. Municipal bonds, both taxable and tax-exempt issues
3. Corporate debt
4. Perpetual, convertible, preferred, and hybrid securities
5. Emerging markets debt
6. Bank loans
7. Residential mortgage-backed and asset-backed securities (RMBS) – all securities that are backed by mortgages or loans on residential properties including pass-through or CMO structures with fixed- or variable-rate coupons; agency and non-agency issues permitted
8. Commercial mortgage-backed securities (CMBS)
9. Asset-backed securities (ABS) backed by collateral other than residential MBS
10. Basket, index, and other structured securities
11. Cash equivalent investments (any investment-grade security that has a maturity less than one year, including repurchase agreements)
12. Inflation-indexed securities
13. Variable and floating-rate instruments
14. 144A securities and other publicly traded securities exempt from U.S. and/or other applicable local registration requirements
15. Reverse repurchase agreements
16. Certain derivatives

Exposure to Global Bonds may be gained through investment in a fund.

### Hedge Fund of Funds

The portfolio may invest in a collective investment vehicle that operates as a fund of hedge funds. Such fund will allocate its assets among investments in portfolio funds that are managed by unaffiliated asset managers that employ a broad range of investment strategies, including without limitation:

1. Long/short equity;
2. Event-driven;
3. Credit/distressed; and
4. Emerging markets

It may, however, concentrate its investments in particular strategies in order to take perceived investment opportunities or based on its current outlook. Such fund may make investments in entities classified as passive foreign investment companies.

#### Commingled Vehicles

Investments in mutual funds, hedge funds, and other alternative investments, and other commingled investment vehicles are permitted, although it is understood that assets invested in such commingled vehicles will be managed solely in accordance with the investment policies, procedures, and guidelines set forth in the prospectus or other relevant document for such commingled vehicle, notwithstanding anything to the contrary set forth in this Investment Policy.

#### Rebalancing

The balanced portfolio will be managed in accordance with the internal rebalancing rules of the selected investment firm(s).

#### Overlay Portfolios

Within the investments described above under “Long-Term Strategic Asset Allocation Targets”, investments are permitted on an account-by-account basis in overlay portfolios, which are regulated mutual funds (the “Overlay Portfolios) to complement the long-term strategic asset allocation. This portfolio overlay strategy is designed to manage short-term portfolio risk and mitigate the effect of extreme outcomes by varying the asset allocation of a portfolio through investment in the Overlay Portfolios.

The investments in the Overlay Portfolios may cause the portfolio’s overall exposure to equities, fixed income, REITs, and other asset classes to vary significantly from the target allocations specified above. Another effect of investing in the Overlay Portfolios is that the portfolio will gain exposure to asset classes, through the holdings of the Overlay Portfolios, other than those contemplated above. The holdings of the Overlay Portfolios are limited only as provided in the prospectus then in effect for the Overlay Portfolios.

An exception for these investments is allowed in the context of the individually approved alternative investment vehicles, when employed in the broader context of the overall pre-approved strategy as disclosed in the prospectus or offering memorandum.

## **IX. MANAGER PERFORMANCE REVIEW**

### **Reporting and Review:**

The Investment Committee shall meet at least annually to review the returns of the Davidson-Davie Community College Foundation versus its performance objectives on both absolute and relative return basis. It is the responsibility of the investment manager to supply the Investment Committee with quarterly statements which detail the specific assets of the account.

**Performance Measures:**

Manager performance will be evaluated according to the long term asset allocation goals and guidelines specified in this policy.

**POLICY REVIEW AND MODIFICATION**

The Investment Committee will review periodically the investment objectives and restrictions for the Davidson-Davie Community College Foundation. The Investment Committee will also use its periodic investment performance evaluations as occasions to also consider whether any elements of the existing policy are either insufficient or inappropriate. In particular, the Investment Committee will review the following.

- The Foundation's ongoing ability to tolerate downturns in asset value (function of financial and cash flow considerations)
- Any changes in the Foundation's liquidity requirements
- Any changes in the Foundation's income requirements
- Any changes in the Foundation's rate of return objectives
- Changes in the Foundation's priorities
- Areas found to be important but not covered by policy

**X. SPENDING POLICY**

It is the policy of the Davidson-Davie Community College Foundation to annually distribute an amount that is at least 2% but not more than 10% of the market value of the Foundation, with such value determined at the beginning of a fiscal year. It shall be the responsibility of the Executive Committee and investment manager(s) to periodically review the spending policy against actual returns in order to make adjustments necessary.

Income available for spending is determined by a total return system. The amount to be spent in the coming year is calculated and is reviewed and approved by the Executive Committee.

The income that may be spent, as determined in this section, may be drawn from both ordinary income earned (i.e. dividends, interest, etc.) and appreciation, both earned and unearned. All income and appreciation not needed to meet spending needs is reinvested in the investment pool.

**XI. POLICY ADOPTION**

This revised investment policy was recommended by the Investment Committee of the Davidson-Davie Community College Foundation and approved at the Board of Directors meeting on May 7, 2014.