



STATEMENT OF INVESTMENT AND SPENDING POLICY

**As adopted by the PCC Foundation Board of Directors on April 10, 2012
And amended by the PCC Foundation Board of Directors on June 16, 2021**

Please be aware that this IPS is subject to change based on considerations currently before the Board of Directors

I. MISSION STATEMENT

The mission of the Pasadena City College Foundation is to develop funding and community support for the enhancement of teaching and learning at Pasadena City College.

II. STATEMENT OF PURPOSE

This Statement of Investment and Spending Policy is set forth by the Pasadena City College Foundation Finance Committee and ratified by the Foundation's Board of Directors ("Board.") Its purpose is to reflect policy, objectives and constraints of the Foundation assets advised to by the investment management consultant and investment managers. The intent of this Statement to establish a clear understanding for all involved parties of the investment goals and objectives of fund assets while establishing guidelines and limitations for their management and spending according to prudent standards. It is meant to outline a rationality which will guide the investment management and spending of the assets toward the desired results.

III. LINES OF AUTHORITY AND DELEGATION

The Board of Directors and the Finance Committee of the Pasadena City College Foundation are fiduciaries, and are responsible for directing and monitoring the investment management of Foundation fund assets ("Fund"). As such, they are authorized to delegate certain responsibilities to professional experts in various fields. These may include, but are not limited to:

1. **Investment Management Consultant (if applicable).** The investment management consultant is any individual or organization employed to provide advisory and investment-related services, including with respect to investment objectives and/or asset allocation, manager search and selection, and performance monitoring.
2. **Investment Manager(s).** An investment manager is any individual, or group of individuals, employed to manage the investments of all or part of the Foundation's assets. An Investment Manager may be the same entity as the Investment Management Consultant or an entity affiliated therewith.
3. **Custodian.** The custodian will physically (or through agreement with a sub-custodian) maintain possession of securities owned by the Foundation, 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 funds' accounts.

4. **Additional specialists** such as attorneys, auditors, accountants and others may be employed by the Foundation to assist in meeting its responsibilities and obligations to administer the fund's assets prudently.

The Finance Committee and the Board will not reserve any control over investment decisions, with exception of development of investment guidelines and specific limitations described in these statements. The Investment Management Consultant and the Investment Manager(s) will be held responsible and accountable to achieve the objectives herein stated. All expenses for professional experts must be customary and reasonable and will be borne by the respective fund as deemed appropriate and necessary.

IV. ASSIGNMENT OF RESPONSIBILITY

A. Responsibility of the Board of Directors of the Foundation

The law charges the Board of Directors with the responsibility for the management of the assets of the Foundation. The Board of Directors shall discharge its duties solely in the interest of the Foundation, with the care, skill, prudence and diligence under the circumstances then prevailing, that a prudent investor, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims. The Board may delegate its responsibilities to the Finance Committee. The specific responsibilities of the Board relating to the investment management of Foundation assets include:

1. Projecting the Foundation's financial needs.
2. Determining the Fund's risk tolerance and investment horizon.
3. Establishing reasonable and consistent investment objectives, policies and guidelines that will direct the investment of the Fund's assets.
4. Regularly reviewing the performance of the Investment Management Consultant and Investment Manager(s) to monitor investment objective progress.
5. Selecting and/or replacing the Investment Management Consultant or Investment Manager(s) as necessary.

B. Responsibility of the Investment Management Consultant

The Investment Management Consultant's role is that of a discretionary advisor and investment-related service provider to the Board and Finance Committee. Investment advice concerning the investment management of the Fund will be offered by the Investment Management Consultant, and will be consistent with the investment objectives, policies, guidelines and constraints as established in this statement.

Specific responsibilities of the Investment Management Consultant include:

1. Assisting with development and periodic review of investment policy
2. Evaluating and monitoring the performance of the Investment Manager(s)
3. Communicating matters of policy, manager research, and manager performance to the Board

4. Reviewing investment history and historical capital markets performance.
5. Communicating to the Board and Finance Committee any major changes to economic outlook, investment strategy, or any other factors that affect implementation of their investment process.
6. Informing the Board and Finance Committee regarding any qualitative change to an investment management organization: Examples include changes in portfolio management personnel, ownership structure, and investment philosophy.
7. Conducting investment manager searches
8. Selection of Investment Manager(s)

If the Board decides to select an Investment Management Consultant, the selection process must be pursuant to a Request for Qualification (“RFQ”). An RFQ shall be offered no less than each five years absent board resolution to extend such period.

C. 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.

Specific responsibilities of the Investment Manager(s) include:

1. Discretionary investment management including decisions to buy, sell, or hold individual securities.
2. Reviewing investment history and historical capital markets performance.
3. Reporting, on a timely basis, monthly activity and quarterly investment performance results.
4. 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.
5. Communicating to the Investment Management Consultant and Finance Committee any major changes to economic or capital markets outlook, investment strategy, or any other factors that affect implementation of their investment process.
6. Informing the Board and Finance Committee regarding any qualitative change to an investment management organization. Examples include changes in portfolio management personnel, ownership structure, and investment philosophy.
7. Voting proxies, if requested by the Board, on behalf of the Fund, and communicating such voting records to the Board if requested.

The Investment Consultant’s recommendations 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 Advisors Act of 1940, as amended.

V. INVESTMENT POLICY

A. General Investment Principles

Investments shall be made solely in the interest of the Foundation. The Fund shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent investor acting in like capacity and familiar with such matters would use in the investment of a fund of like character and with like aims and in accordance with Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) regulations.

B. Diversification

Investment of the Fund shall be diversified so as to control risk. The Board may employ one or more investment managers of varying styles and philosophies to attain the Foundation’s objectives. Cash is to be employed productively at all times by investment in short-term cash equivalents to provide safety, liquidity and return.

C. Preservation of Principal

Consistent with their respective investment styles and philosophies, Investment Managers should make reasonable efforts to preserve principal, understanding that losses may occur in individual securities.

D. Risk Management

“Risk” has many meanings with the appropriate definition ultimately depending on an investor’s unique circumstances. The Board broadly defines risk as: “The probability of not achieving expected returns and therefore not maintaining purchasing power over the Foundation’s investment horizon.”

Understanding that risk is inherent to all securities and investment styles, the Board recognizes that some risk is necessary to meet the Foundation's long-term objectives.

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 of the Foundation as set out in the section on performance objectives below.

One common but imperfect measure of risk is price volatility. Price volatility can be partially mitigated through:

1. The Foundation’s long investment horizon, which provides time for recovery from market downturns; and
2. The Foundation’s strict spending policy, which smooths withdrawals from permanently restricted funds thereby decreasing sequence of returns risk (i.e., large, untimely outflows following market downturns, leading to permanent loss of capital).

E. Performance Objectives

The overriding goal of this Foundation is to maintain purchasing power into perpetuity. That is, net of spending, the objective is to grow the aggregate portfolio value at, or in excess of, the rate of inflation over the Foundation's investment horizon. Future giving to the Foundation is expected to be inconsistent and therefore unpredictable. As a result, the Board of Directors has set an investment strategy with the objective of maintaining purchasing power of Foundation assets before consideration of gifts.

- 1. Strategy.** The investment strategy of portfolio is to emphasize total return; that is, the aggregate return from capital appreciation, dividends, and interest income.

Example: $7.5\% = \text{Spending (4\%)} + \text{Foundation Administration Fee (1.5\%)} + \text{Inflation (2\%)}$

- a. Risk management is an important element in the investment of the Fund.
 - b. While emphasizing long-term growth of principal, the portfolio avoids excessive risk through the use of Modern Portfolio Theory ("MPT"). Reduced risk is accomplished through investment in different asset classes that have low correlated risks.
 - c. Short-term volatility will be tolerated inasmuch as it is consistent with the volatility of comparable composite market indices or a blended benchmark.
- 2. Performance Measures.** Over the Foundation investment horizon established in this statement, it is the primary goal of the Foundation to generate total returns that equal or exceed the sum of our net spending, inflation, and foundation administration fee. Investment returns (net of fees) shall be measured against the appropriate Blended Benchmark to evaluate the Investment Manager's process and identify the drivers of long-term results.
 - a. This investment goal is the goal for the aggregate assets and is not meant to be imposed on each investment account (if more than one account is used).
 - b. The goal of each Investment Manager, over the Foundation investment horizon, shall be to:
 - i. Meet or exceed the appropriate market indices, or blended market benchmark, after fees, agreed upon by the Investment Management Consultant, Investment Manager(s), and the Finance Committee that most closely corresponds to the style of investment management. Investment Managers will be selected and evaluated on their ability to most closely meet this objective over the Foundation investment horizon.
 1. The minimum meaningful period for such a comparison is five years or a complete market cycle, with a market cycle encompassing both a bear and bull market.

- c. For performance measurement purposes, a blended market benchmark shall be comprised of the following asset class benchmarks:

Asset Class	Benchmark
Cash Equivalents	90-Day T-Bill
Fixed Income	Bloomberg Barclays Aggregate Index
Global Equities (U.S. & Non-U.S.)	MSCI All Country World Index
REITS	MSCI U.S. REIT Index
Alternative Investments	HFRI FOF Conservative Index

- 3. Volatility of Returns.** The Board understands that in order to achieve its objectives for Foundation assets, the Fund will experience volatility of returns and fluctuations of market value.
- 4. Liquidity.** To minimize the possibility of a loss occasioned by the sale of a security forced by the need to meet a required payment, the Board will periodically provide to the Finance Committee and Investment Manager(s) with an estimate of expected net cash flow.
- 5. Objectives of short-term funds.** The purpose of these funds is to provide for the Foundation's operating expenses and for other short-term needs. Thus, the primary objectives of short-term funds are to protect principal and provide liquidity. Here, risk is defined as the inability to access the full principal value of funds for their intended purpose in a timely manner.

VI. INVESTMENT GUIDELINES

A. Allowable Assets & Allocations

1. Long-term funds

Asset allocation is a key determinant of long-term portfolio returns. Further, a suitable asset allocation mix helps to achieve diversification benefits.

The Investment Manager must invest the Foundation’s long-term funds within the following portfolio ranges unless given written approval by the Finance Committee to deviate temporarily (e.g., due to extraordinary market conditions or the Foundation’s unique circumstances).

	Lower Limit	Upper Limit	Blended Benchmark Weighting
Cash Equivalents ^(*)	0%	30%	5%
<u>Fixed Income:</u>	15%	50%	45%
Domestic Bonds	15%	50%	-
International Bonds	0%	15%	-
Emerging Market Bond Funds	0%	10%	-
High-Yield Bond Funds	0%	10%	-
<u>Global Equities:</u>	20%	75%	50%
Large Cap	20%	60%	-
Mid Cap	0%	20%	-
Small Cap	0%	20%	-
REITS (listed on major exchanges)	0%	10%	-
Alternative Investments	0%	10%	-

(*) Cash Equivalents may include:

- (a) Treasury bills
- (b) Money market funds
- (c) STIF funds
- (d) Commercial paper
- (e) Bankers acceptances
- (f) Repurchase agreements
- (g) Certificates of deposit

(It should be noted that the Foundation is a non-profit charitable organization and cannot recover foreign tax credits.)

2. **Short-term funds.** The fund’s assets shall be invested in cash and equivalents such as money market funds, commercial paper, and U.S. government obligations with short-term maturities.

B. Guidelines for Fixed Income Investments and Cash Equivalents

Foundation assets may be invested in individual investment grade bonds rated by Moody's and/or Standard & Poor's. Non-investment grade bonds (high yield) and emerging market bonds may only be invested as bond funds.

Foundation assets may be invested only in commercial paper rated A1 (or equivalent) or better. Fixed income maturity restrictions are as follows: The average maturity of the fixed income portfolio may not exceed ten (10) years.

Money market funds selected shall contain securities whose credit rating at the absolute minimum would be rated investment grade by Standard and Poor's, and/or Moody's.

C. Alternative Asset Classes

It is the consensus of the Board that alternative asset classes not previously considered in the Fund be available for investment. So long as the alternative asset class conforms to the guidelines and risk tolerances established in this Statement of Investment Policy, the Investment Manager(s) may invest the Fund in alternative asset classes.

Alternative asset securities may include real estate funds, commodity funds, and other liquid non-traditional asset mutual funds.

D. Prohibited Investments

The following Investments are prohibited:

1. Individual Limited Partnerships
2. Individual Venture-Capital Investments
3. Individual Real Estate Properties

E. Prohibited Strategies

The following transactions are prohibited:

1. Direct use of leverage
2. Direct use of option contracts

F. Acceptance of Gifts

Nothing herein shall prohibit the Foundation from accepting any gift, donation or bequest regardless of the type or amount subject to the Foundation's policy of disposition of such asset.

VII. SPENDING POLICY

A. Category of Foundation Assets

In accordance with Generally Accepted Accounting Practices (GAAP), net assets (the difference between assets and liabilities) of a not-for-profit organization must be split into three (3) classifications: (1) Unrestricted; (2) Temporarily Restricted; or (3) Permanently Restricted. Both temporarily and permanently restricted net assets arise because of donor restrictions.

(Note that only donors may impose restrictions on gifts, though unrestricted gifts may be designated for a particular purpose or time restriction by the organization's board. For accounting purposes, however, these funds would remain unrestricted.)

1. **Unrestricted:** In the absence of restrictions placed on the use of the funds by the donor, these contributions may be used by the organization in any way that meets the mission, articles of incorporation, bylaws, etc., of the organization. Thus, unrestricted gifts to the PCC Foundation may be used for any purpose related to support Pasadena City College and the Foundation.
2. **Temporarily Restricted:** Use of these gifts are limited by either a donor-imposed time restriction or a donor-imposed purpose restriction. Investment income is considered temporarily restricted and may be spent in accordance with the donor's wishes.
3. **Permanently Restricted:** These are net assets that a donor has instructed the Foundation to maintain in perpetuity. Also known as "endowments," the donor contributes assets to an organization with instructions that the corpus (the original amount donated) is never to be spent, but the income generated by the endowment fund can be used. This income may be considered temporarily restricted or unrestricted, depending on the terms of the endowment agreement. Appreciation in the value of investments made under an endowment agreement may also be permanently restricted by the donor.

It shall be the responsibility of the Foundation staff to place all new funds into one or more of the designated categories. The staff shall prepare a schedule of projected sub-fund liquidation dates quarterly. The Finance Committee shall review the schedule and make transfers between funds as necessary to bring the categories into conformity with the schedule.

B. Spending Limits

1. **Restricted**
 - a. For all permanently restricted accounts held by the Foundation, the Foundation will allow an annual spending limit of no more than four percent (4%) of the trailing twelve quarters' average of the account balance/unit value. The Foundation Board will review the spending rate annually at its June quarterly meeting and determine if any change is deemed prudent. Any such spending limit change will be effective July 1 of that fiscal year.

- b. If spending in excess of the approved annual spending rate is desired by a signatory to a permanently restricted account, a written request with specificity and detail shall be submitted to the Foundation at the signatory's earliest convenience. Thereafter, such written requests will be considered by the Board in a timely fashion and a written response by the Foundation issued after a ruling is made.
- c. The date of December 31st of each year will be used in determining the unit value for the twelve-quarter average calculation as referenced in paragraph 1. (above.) The Foundation further reserves the right to assess an annual administrative fee on July 1 of each fiscal year, which fee shall be in addition to the annual spending limit set forth above in Paragraph 1.

This basis for calculating spending is sanctioned by the Uniform Prudent Management of Institutional Funds Act ("UPMIFA")

2. Temporarily Restricted

- a. Distributions will be made in accordance with the governing document.
- b. Funds created by or whose spending authority includes PCC faculty, staff or administrators whose purpose is to support a division or department of the college, or educational or professional development of a PCC employee, must include signature authorization of the current dean or vice president of the division or department. In the case where the fund documents contain signature authority for a former dean or vice president that is no longer serving in their capacity, signature authority is deemed to have passed to the current dean or vice president or interim dean or interim vice president until such time as new signatures have been received.

3. Unrestricted (general funds)

- a. At its discretion, the Board shall distribute monies from these funds to carry out the mission of the Foundation. All distributions will be made in accordance with the board-approved annual budget.
- b. All unbudgeted distributions equal to or exceeding \$1,000 from Unrestricted Funds shall be approved by the Executive Committee.
- c. For total annual distributions in excess of 5% of the fiscal year's beginning market value of the Unrestricted Funds investment portfolio, a two-thirds approval of the Board shall be required.
- d. Programs receiving distributions from the Foundation including those receiving grants from the Foundation will be required to provide a timely report on how the funds were used and results/outcomes as a result of the grant. These reports will be presented to the Board, upon request.

X. LIQUIDATION OF DONATED ASSETS

- 1. Stock:** It is the policy of the Board of Directors to liquidate stock given to the Foundation as a donation upon its receipt. Exceptions to this policy may be indicated due to the volume of stock in the donation or the uniqueness of the holdings or the specific terms of a donation. Exceptions must be approved by the Finance Committee and the Board of Directors
- 2. Real Estate:** On a case-by-case basis, the Finance Committee and Board of Directors shall determine whether gifts of real estate will be (1) accepted and held, (2) accepted and liquidated within a reasonable time frame, or (3) declined.
- 3.** Please also refer to the Gift Acceptance Policy (adopted 12/09/2003) and the Financial Operations Policies (amended 12/17/2019).

XI. INVESTMENT AND SPENDING 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 Board shall review these policies at least annually.

ADDENDUM A - DEFINITIONS

"Foundation" shall mean the Pasadena City College Foundation.

Investment Management Consultant (See II. 1)

Investment Manager(s) (See II. 2)

"Board of Directors" shall refer to the Board of Directors of the Pasadena City College Foundation.

"Finance Committee" shall refer to the governing committee established by the Board of Directors to administer the fund management.

"Endowment Fund" shall mean the endowed portion of the total Fund.

"Short-term Bond Fund" shall mean a no-load fund of U. S. Treasury securities with maturities of 1-5 years.

"Money Market Fund" shall mean a mutual fund invested in high-quality certificates of deposit, bankers' acceptances, commercial paper, and U. S. Government securities.

"Fiduciary" shall mean any individual or group of individuals that exercises discretionary authority or control over fund management, or any authority or control over management, disposition or administration of a fund's assets.

"Securities" shall refer to the marketable investment securities that are defined as acceptable in this statement.

"Investment Horizon" shall be the time period over which the investment objectives, as set forth in this statement, are expected to be met. The investment horizon for this Foundation is a stock market cycle (3 to 5 years).

"Custodian" shall be defined as a brokerage firm, bank, etc., where funds are kept and monitored.