



## WESTERN TEXAS COLLEGE FOUNDATION

### Investment Policy Statement

*Approved July 31, 2012*

#### **Our Mission**

The Western Texas College Foundation serves Western Texas College, its students, faculty, staff, community, and service area by soliciting and administering gifts and grants from individuals and institutions that qualify as exempt organizations under Section 501(c)(3) of the Internal Revenues Code and its regulations as they now exist or as they may hereafter be amended. The Western Texas College Foundation collects and disperses monies for student scholarships, educational and cultural activities, and campus facility improvement and development. The Western Texas College Foundation provides selective and judicious financial assistance to endeavors that enhance the quality of life for all people who are served by this college.

Western Texas College Foundation

IRS Tax ID: 75-1789321

#### **Purpose**

The purpose of this Investment Policy Statement is to assist the Western Texas College Foundation and Investment Advisor in prudently and effectively growing, supervising, monitoring and evaluating the investment of the Foundation's assets. The Foundation's investment program is defined in the various sections of the Investment Policy Statement:

1. Stating in a written document the Foundation's attitudes, expectations, objectives and guidelines for the investment of their assets.
2. Setting forth an investment structure for managing the Foundation's assets. This structure includes various asset classes, investment management styles, asset allocation and acceptable ranges that, in total, are expected to produce an appropriate level of overall diversification and total investment return over the investment time horizon.
3. Establishing formal criteria to select, monitor, evaluate and compare the performance results achieved by the money managers on a regular basis.
4. Encouraging effective communication between the Foundation, Advisor and interested parties.
5. Complying with all applicable fiduciary, prudence and due diligence requirements experienced investment professionals would utilize, and with all applicable laws, rules and regulations from various local, state, federal and international entities that may impact the Foundation's assets.

## **Guidelines and Investment Policy**

### Time Horizon

The investment guidelines are based upon an average investment horizon of greater than 5 years. Similarly, the Foundation's strategic asset allocation is based on a medium-term perspective. Therefore, interim fluctuations should be viewed with appropriate perspective.

### Risk Tolerances

The Committee recognizes the difficulty of achieving the Foundation's objectives in light of the uncertainties and complexities of contemporary investment markets. It is recognized and acknowledged that some risk must be assumed in order to achieve the medium-term investment objectives.

In establishing the Foundation's risk tolerance, the ability to withstand short and intermediate term variability was considered. The Committee has determined that some interim fluctuations in market value and rates of return may be tolerated in order to achieve the medium-term objectives. The Foundation's overall risk tolerance is characterized as moderate to conservative.

### Performance Expectations

In general, the Committee would like the total portfolio to earn a minimum target return of 7%. This is especially critical for permanently restricted funds, which must increase annually to maintain inter-generational equity and allow for a 5% spending commitment annually. The desired investment objective is a medium-term rate of return that is at least 5% greater than the rate of inflation as measured by the Consumer Price Index (CPI), which has been approximately 2.5% per year recently. The target rate of return has been based upon an assumption that future real returns will approximate the long-term rates of return experienced for each asset class. It is recognized that market performance varies, and that a 7% real (above inflation) rate of return may not be meaningful during some periods.

### **Asset Class Guidelines**

The Foundation believes that long-term investment performance, in large part, is primarily a function of asset class mix. The Foundation has reviewed the long-term performance characteristics of the broad asset classes, focusing on balancing the risks and rewards.

History shows that while interest-generating investments, such as bond portfolios, have the advantage of relative stability of principal value, they provide little opportunity for real long-term capital growth due to their susceptibility to inflation. On the other hand, equity investments, such as common stocks, clearly have a significantly higher expected return but have the disadvantage of much greater year-by-year variability of return. From an investment decision-making point of view, this year-by-year variability may be worth accepting, provided the time horizon for the equity portion of the portfolio is sufficiently long (five years or great).

<b>Portfolio Allocation</b>	<b>Asset Class</b>	<b>Lower Weight</b>	<b>Target Weight</b>	<b>Upper Weight</b>
Equities		45%	50%	55%
	Aggressive	0%	4%	10%
	Growth	5%	9%	15%
	Growth & Income	15%	22%	30%
	International Equity	10%	15%	20%
Income	Income	43%	48%	53%
Cash	Cash	0%	2%	7%

**Rebalancing of Strategic Allocation**

The percentage allocation to each asset class may vary within the ranges depending upon market conditions. When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation of the Portfolio. If there are no cash flows, the allocation of the Portfolio will be reviewed quarterly for rebalancing consideration.

If the Executive Committee judges cash flows to be insufficient to bring the portfolio within the strategic allocation ranges, the committee shall decide whether to effect transactions to bring the strategic allocation within the threshold ranges.

**Duties and Responsibilities**

*Foundation / Executive Committee*

As a fiduciary, the primary responsibilities of the Executive Committee are:

1. Prepare and maintain this investment policy statement.
2. The Committee in conjunction with the recommendations of the Investment Advisor will prudently diversify the Portfolio’s assets to meet an agreed upon risk/return profile.
3. Prudently select investment options.
4. Monitor and supervise all service vendors and investment options.
5. Avoid prohibited transactions and conflicts of interest.

**Investment Advisor/Custodian**

*Advisor*

The Foundation will retain an objective, third-party advisor to assist the Executive Committee in managing the overall investment process. The Advisor will be responsible for guiding the Executive Committee through a disciplined and rigorous investment process to enable the Committee to meet the fiduciary responsibilities outlined above.

## *Custodian*

Custodians are responsible for the safekeeping of the Portfolio's assets. The specific duties and responsibilities of the custodian are:

1. Maintain separate accounts by legal registration.
2. Value the holdings.
3. Collect all income and dividends owed to the Portfolio.
4. Settle all transactions (by-sell orders) initiated by the Investment Manager.
5. Provide monthly reports that detail transactions, cash flows, securities held and their current value, and change in value of each security and the overall Portfolio since the previous report.
6. Control and account for all investment, record keeping and administrative expenses associated with the Portfolio.

## **Investment Managers**

The Western Texas College Foundation shall employ the use of an advisory program approach. Providing the features listed below, as well as research and investment management:

- Asset Allocation – Money is divided appropriately among different types of investments while taking into account risk tolerance.
- Investment Selection – Research and analysis to provide a variety of investment options.
- Rebalancing – Keep the portfolio in line with investment policy and reduce portfolio volatility.
- Ongoing Review – Continual review of investments and portfolio options.

## **Measuring Costs**

The Finance Committee will review at least annually all costs associated with the management of the Portfolio's investment program, including:

1. Expense ratios of each investment option against the appropriate peer group.
2. Custody fees: The holding of the assets, collection of the income and disbursement of payments.
3. Whether the manager is demonstrating attention to "best execution" in trading securities.

## **Investment Policy Statement Review**

The Finance Committee will review this Investment Policy Statement at least annually to determine whether stated investment objectives are still relevant and the continued feasibility of achieving the same. It is not expected that the Investment Policy Statement will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the Investment Policy Statement.

***This Investment Policy Statement which includes revisions recommended by counsel was approved by the Board of Directors at a scheduled meeting with a quorum present on July 31, 2012.***