INVESTMENT POLICY

I. Statement of Purpose

This policy statement provides a framework for the management of the investable assets of the Monterey Peninsula College Foundation. This policy will assist the Foundation and Board of Directors in supervising and monitoring the investments in its 1) Endowment/Long-Term, 2) Intermediate-Term and 3) Short-Term Portfolios. A subcommittee of the Foundation Board of Directors, called the Investment Committee, has been charged with the management of the Portfolios, in accordance with this policy statement. These guidelines allow for flexibility and a process to capture investment opportunities, while prudently and carefully setting forth reasonable risk control parameters for the investment program.

The statement of investment policy is intended to address asset deployment, liquidity and diversification requirements. Policy issues relate directly to the return requirements and risk parameters of the Portfolios and are to be considered the general principles governing the investment management of the Portfolios. The management of the Portfolios will follow basic fiduciary responsibilities. The investments of the Endowment/Long-Term and Intermediate-Term Portfolios will be diversified to help minimize the overall risk of the Portfolio.

This policy addresses the following issues:

- The goals and objectives of the Portfolios and the investment program; and
- The investment strategy including asset allocations, spending policy, rebalancing procedures and investment guidelines.

II. Endowments and Other Long-Term Investments

Endowments and Funds Functioning as an Endowment (FFE) funds whose investment horizon is five years or more are managed in the Endowment/Long-Term Portfolio.

A. Investment Objectives. The primary investment objectives of the Endowment/Long-Term Portfolio are to:

- Provide Growth;
- Preserve the real purchasing power of the principal; and
- Provide a stable source of perpetual or long-term financial support.

B. Investment Philosophy. The Endowment/Long-Term Portfolio has a long-term investment horizon. Asset allocation is the major determinant of investment performance over the long term. Consequently, a long-term asset allocation plan, consistent with the Portfolio's objectives and performance goals will be developed and followed.

Assets will be managed on a total return basis. Although the policy recognizes the importance of preserving capital, it must also reflect that varying degrees of investment risk are generally rewarded with increased returns that compensate the additional risk. Additionally, risk greater than that of stable long-term low-risk securities will be required to preserve the purchasing power of the Portfolio. It is appropriate to pursue riskier investment strategies if such strategies are in the Foundation's best interest. Selection of investment strategies will be evaluated on a risk-adjusted basis as needed to meet the investment objectives of the Portfolio.

This portfolio will be managed using predominantly a passive asset-class management style based on the historical results that such a passive asset-class investment style, that is well diversified, is effective in most markets. In those areas that the Investment Advisor deems passive management to be less efficient, the advisor may recommend funds with managers who have successful track records in these areas. The Foundation understands that the results may range from above to below market results based on the manager's skill of selection as well as on the overall markets.

The basic tenets under which this Policy will be managed include the following:

1. Modern Portfolio Theory, as recognized by the 1990 Nobel Prize, will be the philosophical foundation for how the portfolio is structured and how subsequent decisions are made. The underlying concepts of Modern Portfolio Theory include:

   a. Investors are risk adverse. The only acceptable risk is that which is adequately compensated by potential returns.

   b. Markets are efficient. It is virtually impossible to anticipate the future direction of the market as a whole or of any individual security. It is, therefore, unlikely that any portfolio will succeed in consistently "beating the market."

   c. The design of the portfolio as a whole is more important than the selection of any particular security within the portfolio. The appropriate allocation of capital among asset classes will have far more influence on long-term portfolio results than the selection of individual securities. Investing for the long-term becomes critical to investment success as it allows the long-term characteristics of the asset classes to surface.

   d. For a given risk level, an optimal combination of asset classes will maximize returns. Diversification helps reduce investment volatility. The proportional mix of asset classes determines the long-term risk and return characteristics of the portfolio as a whole.

e. Portfolio risk can be decreased by increasing diversification of the portfolio and by lowering the correlation of market behavior among the asset classes selected. (Correlation is the statistical term for the extent to which two asset classes move in tandem or opposition to one another.)

2. Investing globally helps to minimize overall portfolio risk due to the imperfect correlation between economies of the world. Investing globally has also been shown historically to enhance portfolio returns, although there is no guarantee that it will do so in the future.

3. Equities offer the potential for higher long-term investment returns than cash or fixed income investments. Equities are also more volatile in their performance. Investors seeking higher rates of return must increase the proportion of equities in their portfolio, while at the same time accepting greater variation of results (including occasional declines in value.)

4. Picking individual securities and timing the purchase or sale of investments in the attempt to “Beat the market” are unlikely to increase long-term investment returns and are likely to increase the portfolio operating costs. In most cases such practices, therefore, are to be avoided. Accordingly, new gifts will be invested promptly, or as specified in the donor’s Letter of Gift.

Given these tenets, the underlying approach to managing this Policy shall be to optimize the risk-return relationship appropriate to the Foundation’s needs and goals. The Policy investments will be diversified globally employing a variety of asset classes. Mutual funds, ETFs, or managed portfolios will be employed to implement the portfolio and the chosen asset classes will be periodically rebalanced to maintain a more consistent risk/reward profile.

Risk management of the investment program is focused on understanding the Portfolio’s investment and operational risks. The investment program will seek to minimize operational risks and achieve appropriate compensation for the investment risks the Portfolio undertakes.

C. Investment Program Policy. The Endowment/Long-Term program will invest according to an asset allocation plan that is designed to meet the goals of the Portfolio. The plan will be based on a number of factors, including:

- The projected spending needs;
- The maintenance of sufficient liquidity to meet payout requirements; and
- The return objectives and risk tolerances of the Portfolio.

The asset allocation plan provides for diversification of assets in an effort to maximize the investment return and manage the risk of the Portfolio consistent with market conditions. Because of fluctuation of market values, allocations within a specified range constitute compliance with this Policy. Periodic revisions will be required.

D. Asset Allocations. The Endowment/Long-Term Portfolio will be allocated across a number of investment classes to provide diversification and achieve the Portfolio's investment objectives. The following table defines the Portfolio's target asset allocation and range for each asset class:

Endowment/Long-Term Portfolio Target Asset Allocation				
Asset Class	***Min. Weight***	***Target Weight***	***Max. Weight***	***Representative Index***
Global Equity	45%	55%	65%	FTSE Global All Cap Equity Index
a. Domestic Equity	+/- 5% of global market cap allocation			
b. Global Equity ex. US	+/- 5% of global market cap allocation			
Fixed Income	20%	25%	30%	Barclays U.S. Aggregate Bond Index Bloomberg Barclays U.S. TIPS Index
Alternative Investments	10%	15%	20%	Representative Index*
Cash and Equivalents	0%	5%	10%	FTSE 1-Month US Treasury Bill Index

Global Equity. The equity portion of the Portfolio shall consist of mutual funds/ETFs that hold primarily common stocks and/or preferred stocks of U.S. companies and international companies, including both developed international equity and emerging markets equity.

Individual stocks will not be held in the portfolio. Stocks deposited into the account shall be sold as soon as practicable by the Investment Advisor after the Investment Advisor has been notified by the Executive Director that the stock donation is about to, or has, occurred.

Fixed Income. The fixed income portion of the Portfolio shall consist of mutual funds/ETFs that hold U.S. and non-U.S. bonds, including bonds from the following sectors: Government, corporate, emerging markets, treasury inflation-protected securities (TIPS), and high-yield (non-investment grade).

Alternative Investments. The alternative investments portion of the portfolio shall consist of mutual funds, ETFs, ETNs, trusts, partnerships, and/or derivatives that hold or provide exposure to real assets, including but not limited to real estate, infrastructure, and commodities.

*The investment advisor shall select one or more appropriate index(es) against which to benchmark the performance of the asset class. The benchmark should be reasonable, public, and representative of the investments.

Cash and Equivalents. The Investment Managers may invest in Treasury Bills, certificates of deposits, money market funds, mutual funds/ETFs that hold commercial paper, repurchase agreements, Treasury Bills, certificates of deposit, and other short-term liquid fixed-income securities with a duration of one-year or less.

Except as needed for temporary placement of funds to be directed elsewhere, un-invested cash reserves shall be kept to a minimum.

E. Professional Investment Advisor. The Investment Committee will place Endowment/Long-Term assets with a qualified external professional Investment Advisor. The external Investment Advisor will make recommendations to the Investment Committee regarding investment strategy, security selection and timing of purchases and sales of assets subject to the guidelines of this Investment Policy Statement.

Investor Advisor Fees will be competitive and are paid directly from the fund assets.

F. Rebalancing. The purpose of rebalancing is to maintain the long-term policy asset allocation within the asset allocation guidelines on a uniform basis. The Investment Advisor shall rebalance the portfolio when money is added to the account in the form of cash or securities, thereby distributing the weights to within the stated ranges for each asset class. Stocks or other securities including mutual funds and ETFs deposited into the account shall be sold as soon as practicable by the Investment Advisor after the Investment Advisor has been notified by the Executive Director that the stock donation is about to, or has, occurred. Tactical rebalancing of asset classes within their ranges is permissible to take advantage of near-term market conditions as long as the reallocations do not cause undue risk or expense to the Portfolio.

G. Roles and Responsibilities. The Investment Committee, within the framework as set by the Foundation Board of Directors, shall have direct responsibility for the oversight and management of the Portfolio and for the establishment of investment policies and procedures. Upon recommendation of the Investment Committee, the Foundation Board of Directors shall have the power to employ or discharge fiscal agents or advisors.

The Executive Director of the Foundation shall be responsible to the Investment Committee for maintaining detailed records of all investment funds and for carrying out the investment policies and procedures established by the Board of Directors and/or Investment Committee. Reports on the Portfolio will be provided quarterly to the Investment Committee.

The Investment Advisor responsible for the investment of the Portfolio's assets shall report quarterly on the performance of the Portfolio, including comparative returns for each asset class and its respective benchmark. The Investment Advisor will maintain a complete accounting of all transactions involving the Portfolio over the quarter and present these accountings to the Investment Committee by way of the Executive Director.

H. Endowment Expenditure Policy. The Investment Committee will review the Endowment Expenditure Policy annually. This policy aims to respect the gift intent of the donor, protect the long-term value of the endowments held by MPC Foundation and provide for distributions in accordance with the terms of the California's Uniform Prudent Management of Institutional Funds Act (UPMIFA). The adoption of UPMIFA replaced the use of historic dollar value with a more flexible spending standard. This standard allows trustees to spend or accumulate as much of an endowment fund, including historic dollar value, income and realized or unrealized appreciation as they deem prudent taking into account the following seven factors:

- The duration and preservation of the endowment fund
- The purposes of the institution and the endowment fund
- General economic conditions
- The possible effect of inflation or deflation
- The expected total return from income and the appreciation of investments
- Other resources of the institution
- The investment policy of the institution

While the policy does permit the Board to spend from underwater funds from time to time as considered prudent according to these factors, UPMIFA's commentary states, "when considering the purposes and duration of the fund, the institution will give priority to the donor's general intent that the fund be maintained permanently. The short-term spending flexibility provided by UPMFA's elimination of the historic dollar-value threshold does not change the organization's long-term fiduciary duty to the donor and others for a fund of perpetual duration." In addition, UPMIFA requires equally important considerations of intergenerational equity.

For the above reasons, the Banded Inflation rule for spending has been adopted by the Board. Distributions for each endowment will be based on the prior year's spending plus an inflation rate, but bounded by upper and lower percentages of asset levels. Specifics of the Endowment Expenditure Policy are provided in the Endowment Expenditure Policy statement.

I. Temporarily Restricted Funds. Temporarily restricted funds are those that have an investment horizon greater than one year but whose donor-identified goals include eventual depletion of the fund. Those temporary restricted funds whose investment horizons are five years or more are placed in the Endowment/Long-Term Portfolio. With two exceptions, these funds will be managed in a manner that is identical to endowments, as set elsewhere in this document. The exceptions are:

1. There is no necessary expectation of an annual distribution to the program or cause identified by the donor. However, as with endowments, an administrative fee of 1% of the average market value shall be levied on temporary restricted funds as of September 30 of each year.

2. Per the donor's intent, withdrawals from temporary restricted funds may invade the corpus of the gift, and may reduce the fund value to zero when warranted.

Dispensation of capital appreciation from temporary restricted funds will be determined annually by vote of the Foundation Board.

III. Intermediate-Term Investments

A. ***Definition.*** FFE funds whose investment horizons are greater than one year but less than five years are managed through the Intermediate-Term Portfolio.

B. ***Comparison to Endowment/Long-Term Portfolio.*** In most respects, the management of the Intermediate-Term Portfolio mimics that of the Endowment/Long-Term Portfolio. Investment philosophy, definitions, professional management and rebalancing requirements, and roles & responsibilities do not differ from the policy regarding long-term FFE funds. However, because of its investment horizon of less than five years, the asset allocations in this Portfolio will be more conservative, reflecting the shorter investment horizon and the relatively greater focus on asset preservation and the avoidance of risk.

C. ***Asset Allocations.*** The following table defines the Portfolio's target asset allocation and range for each asset class:

Intermediate-Term Portfolio Target Asset Allocation				
Asset Class	***Min. Weight***	***Target Weight***	***Max. Weight***	***Representative Index***
Global Equity	20%	30%	40%	FTSE Global All Cap Equity Index
a. Domestic Equity	+/- 5% of global market cap allocation			
b. Global Equity ex. US	+/- 5% of global market cap allocation			
Fixed Income	30%	45%	60%	Barclays U.S. Aggregate Bond Index Bloomberg Barclays U.S. TIPS Index
Alternative Investments	10%	15%	20%	Representative Index
Cash and Equivalents	0%	10%	20%	FTSE 1-Month US Treasury Bill Index

IV. Short-Term Investments

A. Purpose. The Short-Term investment Portfolio is the repository for funds whose investment horizon is one year or less. In addition, it serves as the temporary repository for funds that are destined for the Endowment/Long-Term Portfolio as well as funds from the Endowment/Long-Term Portfolio that are about to be distributed to the college according to donors' wishes.

B. Allowed Investments. The Monterey Peninsula College Foundation may invest in the following short-term interest-bearing vehicles:

- Insured Certificates of Deposit
- US Treasury Bills and 1-year US Treasury Notes
- F.D.I.C. insured interest-bearing bank accounts
- Money Market Funds or Accounts

C. Distribution of Interest. As the purpose of donations destined for the short-term Portfolio is not capital appreciation but rather distribution of the capital asset to the college, it is appropriate that interest earned in this Portfolio be retained by the Foundation for its internal use.

V. Performance Review. The Investment Committee will review performance of all Portfolios on a quarterly basis, and make adjustments if necessary. Actual asset allocations will be compared to target allocations to ensure compliance with the investment policy.

VI. Approval.
Approved by Board of Directors

President Date