



*Complete and submit this form, along with any supplemental documentation, to the Office of the President by 5:00pm on the seventh day prior to the Board meeting.*

**Date of Board Meeting:** July 19, 2022

**Subject:** Endowment Fund Investment Policy

**Recommendation:** Recommend Approval

**Background and Rationale:**

The Wharton County Junior College Endowment Fund Investment Policy requires the policy be reviewed and approved on an annual basis by the Board of Trustees. There are no recommended changes.

**Cost and Budgetary Support:** N/A

**Strategic Priority Alignment:**  Student Success  Community Impact  
 Resource Optimization  Institutional Excellence

**Resource Person(s):**

Bryce D. Kocian, Vice President of Administrative Services  
Gus Wessels, CPA, Dean of Financial and Business Services  
Cynthia Ward, Controller

**Signatures:**

Cynthia Ward Gus Wessels  
Originator

7.6.22  
Date

B. D. Kocian  
Cabinet-Level Supervisor

07/11/2022  
Date

**President's Approval:**

Bryce D. Kocian  
President

7-11-22  
Date

# *Wharton County Junior College Endowment Fund*

## *INVESTMENT POLICY*

- **PURPOSE**

This document is the official policy governing the investment practices of the Wharton County Junior College Endowment Fund (the “WCJCEF” or “Endowment”). The policies in this document have been adopted by the Wharton County Junior College Board of Trustees (the “Board”), which has the fiduciary duty of overseeing the Endowment’s investments. The policies are not to be deviated from without amendment and adoption of the Policy by the Board.

Responsibility for management of donations, gifts, endowments and other monies rests with the Board.

Investment management for the WCJCEF principally involves endowed funds. Endowed funds are invested in perpetuity to provide on-going income for operations, scholarships, endowed chairs, fundraising events, and other activities as determined by the Board. Long-term investment objectives shall be established consistent with prudent management of similar endowments. In instances where donors make requests, endowed funds will be invested as the donor has instructed as long as the instructions meet prudent management and Policy requirements.

In addition, funds may be available for short periods of time before distribution. These funds are primarily to be invested for short periods to meet the distribution requirements.

- **GOALS AND OBJECTIVES**

It is assumed that endowed funds will have a permanent life and that it is important to protect the principal and purchasing power of these funds. It is also assumed that inflation will impact the funds, thus the need to emphasize the total return of the Endowment’s investment portfolio. These assumptions call for an aggressive investment performance target while maintaining a prudent and reasonable risk level.

It is anticipated that the return results for various asset classes will fluctuate and that each asset class will be impacted differently by changes in the economic environment. As an example, it is within the reasonable risk level that in times of economic recessions the equity markets will have negative returns. In addition, it is reasonably expected that certain fixed-income securities will experience market value fluctuations. The Board recognizes that maintaining a disciplined strategy of diversification through targeted asset allocation will help mitigate return volatility. As long as the funds are invested in diversified portfolios, volatility and short-term negative returns will be unavoidable. The investment portfolio may be diversified to provide reasonable

assurances that no single security (investment) or class of securities (asset class) has a disproportionate or significant impact on the total portfolio.

A primary goal is to provide a reasonably stable, somewhat predictable and increasing endowment income each year so that disbursement objectives can be maintained. *During those times of economic recession, income from long-term endowments may decline because of declines in equity portfolio values.* The Endowment will seek to maintain an appropriate asset allocation to minimize, as much as possible, the volatility of investment returns.

A secondary goal is to reflect a disciplined and consistent investment philosophy that will encourage planned gifts and bequests. It is critical that the Board and all involved parties demonstrate honesty and integrity in consideration of the donors' generosity. All participants in the Endowment's investment process shall seek to act responsibly as custodians of the donors' trust.

A third goal is to encourage donor support of the WCJCEF through donations and gifts, event sponsorships, and other financial commitments that will allow the organization to achieve its goals.

Performance targets will be established for each asset class authorized by the Board and will be evaluated on an annualized, net-of-fees basis for comparison to the appropriate benchmark and with consideration of economic and market conditions.

#### • FIDUCIARY CONDUCT

Fiduciaries for the WCJCEF include all persons who exercise any authority or control in the investment of the assets of the Endowment or render advice to the Endowment. The fiduciaries include, but are not limited to the members of the Board, the college staff, the investment advisor and bank custodians.

A fiduciary shall discharge his or her duties exclusively in the interest of the beneficiaries of the Endowment and shall:

1. Act with the same care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person or prudent expert acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims;
2. Act with due regard for the stability of the investment issuer ;
3. Make investments for the sole purpose of providing for the funding objectives developed by the WCJCEF and for defraying the expenses of the Endowment; and
4. Give appropriate consideration to facts and circumstances that are known or should be known relevant to the investment or strategy involved, including the role which the investment or strategy plays in the portfolio. For purposes of this subdivision, "appropriate consideration" shall include, but is not necessarily limited to, a determination by an investment fiduciary that a particular investment

or investment course of action is reasonably designed, as part of the investments of the Endowment, to further the purposes of the Endowment, taking into consideration the risk of loss and the opportunity for gain or other return associated with the investment or investment course of action. The WCJCEF shall give consideration of the following factors as they relate to the total Endowment's investment course of action:

- a. The diversification of the investments of the Endowment;
  - b. The liquidity and current return of the investment of the Endowment relative to the anticipated cash flow requirements of the Endowment; and
  - c. The projected return of the investments of the Endowment relative to the funding objectives of the Endowment.
5. Act in accordance with these guidelines and all applicable policies, laws and statutes.

## • INVESTMENT RESPONSIBILITY

### **Board of Trustees**

The Board of Trustees has the ultimate fiduciary responsibility for the portfolio(s). In fulfilling this responsibility, the Board will establish an Investment Committee and adopt investment policies and objectives. Within this framework, the Board will select, contract with, monitor and evaluate the investment advisor, bank custodian and other parties to ensure that actual results meet objectives. The Board will approve broker/dealers. The Board will, no less than quarterly, review the entire portfolio.

### **Designation of Investment Officer**

The Board designates the Vice President of Administrative Services and the Controller as Investment Officers and authorizes Investment Officers to deposit, withdraw, invest, or manage WCJC funds that are eligible for investment.

### **Investment Committee**

An Investment Committee composed of the Vice President of Administrative Services, the Dean of Financial and Business Services, Controller, and the Administrative Assistant to the Vice President of Administrative Services, serve in an administrative capacity by overseeing and approving investment transactions and strategy decisions. The Committee will approve training sources and monitor investment performance.

### **Investment Advisor**

To fulfill the Board's objective of effectively managing the financial assets of the Endowment, the WCJCEF may contract with a professional SEC-registered investment advisor. The WCJCEF will decide the cost-effectiveness of utilizing one or more investment advisors(s). The advisor will be an established and financially sound firm with a proven and demonstrable record and experience in managing long-term money. Contracts with any investment advisor will stipulate the composition and asset diversification to which that advisor must adhere. The Advisor will be monitored and directed by the WCJCEF Investment Committee.

The investment advisor's duty is to render competent, professional advice and assistance and to work with the WCJCEF with respect to the investment process. This includes meeting regularly with the WCJCEF to provide perspective as to the Endowment's goals, structure and the investment management team as well as the progress being made in fulfilling each. The advisor will advise, consult and work with the WCJCEF to develop and maintain a properly diversified portfolio.

The investment advisor will perform its duties and obligations to the WCJCEF in conformance with generally accepted industry standards, and its contract with the Endowment. The Advisor will recommend changes to the investment policy, recommend asset allocation selection of mutual funds, Endowment-related advice and provide investment reporting.

The investment advisor will construct and manage the investment portfolio(s) consistent with this Policy, the investment philosophy and policy and in the respective investment advisory agreement with the Endowment. Investment advisors select specific securities or funds, buy and sell such securities/funds and manage the investment portfolio within the terms, provisions and requirements set forth in the Investment Policy and approved by the Investment Committee. Full discretion is not delegated to the investment advisor regarding the investment of the respective portfolios.

Each investment advisor is expected to maintain a consistent philosophy and style.

Each investment advisor will prepare monthly and quarterly reports on the performance of the portfolio, including comparative returns of their respective benchmark. The reports will contain a complete listing of investments and full accounting of all transactions during the period, the beginning and ending book and market values of each position, the performance versus benchmarks, and detail of gains/losses and income for the portfolio.

#### **Bank Custodian(s) and Safekeeping**

The designated bank will hold all cash and fixed income or money market investments, and will report monthly on the holdings. A secondary custodian may be designated to hold any equity positions. In addition, a bank or trust depository arrangement will be utilized to accept and hold cash prior to allocating it to the investment manager and to invest in bank interest-bearing accounts as directed by the Committee.

#### **• INVESTMENT PROGRAM GUIDELINES**

##### **Asset Allocation**

The asset allocation plan provides for diversification of assets in an effort to optimize the investment return and manage the risk of the Endowment's investment portfolio consistent with market conditions. Due to fluctuation of market values, allocations within a specified range constitute compliance within the Policy. An extended period of time may be required to fully implement the asset allocation plan and periodic revisions will be required. This Policy includes a targeted allocation table to include all funds not segregated to provide for normal operating expenses and projected cash needs. Such segregated funds will not be in excessive amounts and

will be periodically monitored to ensure that all available funds are invested as effectively as possible.

Diversification of the portfolio through asset allocation is established by this Policy and any deviation must be formally approved by the WCJCEF prior to the execution of any trade that would violate the allocation objective. In the case where an investment transaction causes an unintended allocation violation, the investment advisor must take immediate prudent action to resolve the situation and must report the violation and resolution to the Board within two business days.

### **Guidelines for Short-Term Investments**

Short-term investments are made with maturities spaced to coincide with anticipated needs. The highest rate of return is sought with minimum risk. The investment consultant or manager will perform a rate review at least quarterly and report findings to the Board on a quarterly basis. To achieve these goals, the following procedures are to be followed:

1. All major funds are pooled into one account not to exceed FDIC coverage in any one financial institution or collateralized in compliance with applicable State law;
2. A projection of cash needs for the next 18 months will be kept;
3. Short-term and cash-equivalent investments will be selected that impose minimal liquidity and price volatility risk;
4. The economic environment and relative interest rates should be monitored; and
5. Investments in banks and savings and loans should be only those with FDIC insurance and limited to full FDIC insurance coverage.

### **Guidelines for Long-Term Investments**

The long-term investments portfolio shall:

1. Honor requests by donors relating to investment of those specific donations to the Endowment, provided that the request falls within the Policy and does not compromise prudent safety and risk limitations;
2. Hold no more than ten (10%) percent of the individual securities portfolio by book value, or 15 % by market value, in securities of any one issuer (except the U. S. Government and its agencies and instrumentalities) Hold no more than 20% in any one mutual fund including reinvested dividends and additional shares of an issue that are contributed from time to time. Diversification should be a consideration with no more than 20% of the portfolio at book, or 25% at market, in any one industry;
3. Invest only in equity securities listed on the New York Stock Exchange, American Stock Exchange, or the NASDAQ or mutual funds invested in these securities;
4. Hold no more than 5% of the outstanding stock of any one company, except for shares that may be contributed. New contributions affecting the diversification limit will require review of the entire position in the company;
5. Not invest for the purpose of exercising control of company management;
6. Not invest in letter stock, except for shares that may be contributed by donors;
7. Not invest in commodities or commodity contracts;
8. Not invest in securities on margin or sell short, nor in mutual funds that leverage;

9. Make no direct loans
10. Investments will not be made in church bonds or loans to churches, except those contributed by donors;
11. Make no investment in stock options, unless in sales of call options against stock held in the portfolio; and

**Investments purchased prior to adoption of Wharton County Junior College Endowment Fund Investment Policy**

Any investments held prior to amendment of Public Funds Investment Act may be held to maturity or sold when advantageous to Wharton County Junior College.

• **AUTHORIZED INVESTMENTS**

The Endowment's portfolio will be diversified both by asset class and within asset classes. Within each asset class, investments will be diversified among economic sector, industry, quality and size. The purpose of diversification is to provide reasonable assurance that no single issuer or class of investment will have a disproportionate impact on the performance of the total fund. Asset Allocation may be accomplished by placement of investment funds into individual securities or mutual funds that include only the authorized securities listed below.

**Cash and Equivalent Investments**

The WCJCEF may invest in the

- investment grade (A1/P1) commercial paper,
- repurchase agreements backed by marketable government securities,
- Obligations of the U.S. government, its agencies and instrumentalities,
- FDIC insured financial institution deposits, and
- money market funds to provide income.

The WCJCEF should keep cash and equivalents to a minimum. Such investments shall be used for income distribution purposes, or as needed for temporary placement of funds directed for future investment to the longer-term investments.

**Equity**

The purpose of equity investments, both domestic and international, in the portfolio is to provide capital appreciation, growth of income and current income. This asset class carries the assumption of greater market volatility and increased risk of loss, but also provides a traditional approach to meeting portfolio total return objectives. Authorized investments include:

- domestic and international common stocks,
- American Depository Receipts (ADR),
- preferred stocks, and
- convertible stocks traded on the world's stock exchanges or over-the-counter markets.

Equity investments shall generally be restricted to high credit quality, readily marketable securities of corporations that are traded on the major stock exchanges and have the potential for meeting return targets. Equity holdings must generally represent companies meeting a

minimum market capitalization requirement of their respective asset class profile with reasonable market liquidity. Decisions as to individual security selection, number of industries and holdings, current income levels and turnover are left to the investment manager or mutual fund's discretion, subject to the standards of fiduciary prudence and the limitations set forth in the "Guidelines for Long-Term Investments" section of this Policy.

### **Fixed Income**

Domestic and international fixed income investments provide diversification and a dependable source of current income. Diversification within fixed income investments will be allocated among maturities of different lengths according to interest rate prospects and the goals of the Endowment. Fixed income instruments should reduce the overall volatility of the Endowment's assets, and prove a deflation or inflation hedge, where appropriate.

Fixed income authorized investments include:

- U.S. Treasury and US government agency and instrumentality obligations,
- public and private corporate debt,
- debt obligations of any US State or governmental entity rated A or above,
- mortgage-backed and asset-backed securities and
- other interest-bearing obligations.
- Fixed income also includes money market instruments, including Investment grade commercial paper,
- financial institution deposits,
- prime banker's acceptances, and
- repurchase agreements.

The investment manager must take into account credit quality, sector, duration, and issuer concentrations in selecting an appropriate mix of fixed income securities. Private placement bonds are not permitted.

### **Real Estate**

Investments may include equity real estate, held in the form of professionally managed, income producing commercial and residential property. Such investment may be made only through professionally managed, pooled real estate investment trusts (REIT), as offered by leading real estate managers with proven track records.

This restriction does not apply to property acquired as a donation to the Endowment.

### **Mutual or Commingled Funds**

Any investment that is made in a mutual fund and/or commingled fund will be reviewed and approved by the WCJCEF, unless it is selected by an investment manager under contract to make such decisions. It is understood that for mutual and other commingled funds, the prospectus or Declaration of Trust documents of the fund will govern the investment guidelines and allocation limitations of the fund investments and will take precedence over this Policy. It is appropriate however for the investment manager to select funds that have guidelines that are similar in nature to those authorized in this Policy governing credit quality and risk profiles. Mutual funds will have a Morningstar rating of two stars at a minimum.



- **ASSET ALLOCATION**

The purpose for establishing target asset allocation bands is to ensure that the program remains diversified in order to mitigate, as much as possible, the impact of volatility of individual markets. This Policy authorizes the following asset allocation schedule and has established appropriate benchmarks for each category of asset:

| <b>Asset Class</b>            | <b>Minimum Weighting</b> | <b>Target Weighting</b> | <b>Maximum Weighting</b> | <b>Benchmark Index</b>               |
|-------------------------------|--------------------------|-------------------------|--------------------------|--------------------------------------|
| Domestic Equities – Large Cap | 15.0%                    | 20.0%                   | 25.0%                    | Russell 1000                         |
| Domestic Equities – Mid Cap   | 15.0%                    | 20.0%                   | 25.0%                    | Russell Mid-Cap                      |
| Domestic Equities – Small Cap | 5.0%                     | 7.5%                    | 10.0%                    | Russell 2000                         |
| Domestic Real Estate          | 0.0%                     | 5.0%                    | 7.5%                     | NCREIF                               |
| International Equities        | 0.0%                     | 7.5%                    | 10.0%                    | MSCI- EAFE                           |
| Fixed Income                  | 30.0%                    | 32.5%                   | 40.0%                    | Barclays Gov/Corp                    |
| International Fixed Income    | 0.0%                     | 5.0%                    | 7.5%                     | Barclays Capital<br>Global Aggregate |
| Cash & Equivalents            | 0.0%                     | 2.5%                    | 10.0%                    | 90-day Treasury Bill                 |

**Rebalancing**

The purpose of rebalancing is to maintain the long-term asset allocation within the targeted bands in accordance with the objective of controlling portfolio risk. The asset allocation will be rebalanced within the stated ranges on no less than a semi-annual basis, if the adjustment requirement exceeds 5% of the maximum weighting.

- **POLICY REVIEW**

This Policy document will be reviewed on an annual basis by the WCJCEF. Any changes must be approved by the Board.