



**Pima***Foundation*<sup>™</sup>

**Investment Policy Statement  
(including Endowment Distribution Policy)**

*Reviewed by Investment Committee 5/3/11, 8/11/11*

*Approved by Board of Directors 8/25/11*

*Approved by Board of Directors 2/27/2020*

*Reviewed by Finance / Investment Committee 7/13/2021*

*(no changes recommended)*

## **Executive Summary**

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### **Strategic Asset Allocation Plan for PCC Foundation Endowed and Reserve Funds:**

For both Endowed and Reserve (aka Board-designated) the percentage allocation to each asset class, including equities, fixed income and multi-strategy, may vary depending upon market conditions; however, the position in equities shall not exceed 60%. When necessary, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation. The Portfolio will be reviewed at least quarterly to evaluate if the Portfolio is within threshold ranges.

This Investment Policy Statement provides that investable funds of the Foundation's Endowed and Reserve Funds be invested in a manner that produces the optimum return to the Foundation. Optimum is defined as obtaining the highest return commensurate with an acceptable level of risk.

Except for the funds which must be invested in accordance with contractual or other arrangements which are subject to other restrictions on investment alternatives, all permanently restricted endowed funds of the Foundation will be invested based on a strategic asset allocation that is designed for long-term growth with moderate risk.

The Investment Committee will be aware of planned spending needs and invest Reserve funds (generally short-term, temporarily-restricted or unrestricted funds) in financial instruments that provide more stability of principal and liquidity.

Investment of both Endowed and Reserve funds will be under the direction of the Investment Committee. The Investment Committee may select professional managers or use pooled funds at their discretion. The emphasis for Endowed funds is on long-term total rate of return and at the same time de-emphasizes a trading or market timing strategy.



## **Purpose**

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The purpose of this Investment Policy Statement (IPS) is to assist the Pima Community College Foundation's Investment Committee (Committee) in effectively selecting, monitoring, and evaluating investment structure and management of the Foundation's Investment Portfolio (Portfolio). The IPS is designed to document the policies and procedures for the Committee to follow.

The Foundation's investment program is defined in the various sections of the IPS by:

1. Documenting in written form the Foundation's attitudes, expectations, objectives, and guidelines for the management and investment of its Portfolio.
2. Setting forth an investment structure for managing the Foundation's Portfolio. 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 horizons of Endowed and Reserve funds.
3. Establishing formal criteria to select, monitor, evaluate, and compare the performance results achieved by each investment option on a regular basis.
4. Encouraging effective communication between the Committee and parties involved with investment management decisions.
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 political entities that may impact the Portfolio.



## **Statement of Objectives**

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### **Background**

Since 1977, the Pima Community College Foundation has supported the College's efforts to develop the local community through learning.

The IPS has been adopted by the Committee after consideration of a wide range of policies, and describes the prudent investment process the Committee deems appropriate. This process includes offering various asset classes and investment management styles that, in total, are expected to offer a overall diversification and total investment return as determined for both Endowed and Reserve funds. The objectives of the Foundation have been established in conjunction with a comprehensive review of the current and projected financial requirements. The objectives are:

1. Maintain the purchasing power of the current Portfolio and all future additions. The objective is to maintain the Foundation's level of services and programs in relation to inflation.
2. Maximize return within reasonable and prudent levels of risk, while attempting to preserve the Portfolio's capital.
3. Maintain an appropriate asset allocation based on a total return policy that is compatible with a flexible spending policy, while still having the potential to produce positive real returns.
4. Control the cost of administering the IPS and managing the Portfolio's investments.
5. Maintain an appropriate endowment spending policy in support of organization and investment objectives.

### **Time Horizon**

For Endowed funds, the investment guidelines are based upon an investment horizon of greater than ten years. Therefore, interim fluctuations should be viewed with appropriate perspective and understanding of the short-term vagaries of the U.S. and International public markets.

For Reserve funds, the investment guidelines are based upon an investment horizon of no more than three years. Since then-current Boards of the Foundation have authority to expend Reserve Funds, investment guidelines for Reserve funds should prioritize the funds' liquidity.

## **Risk Tolerances**

The Foundation recognizes and acknowledges some risk must be assumed in order to achieve the investment objectives of the Portfolio, and there are uncertainties and complexities associated with contemporary investment markets. In establishing the risk tolerances for this IPS, the Committee must regularly consider its ability to withstand short and intermediate-term market variability.

## **Performance Expectations**

Over a complete market cycle, the Portfolio's overall annualized total return for Endowed and Reserve funds should perform at or above a customized index comprised of market indices weighted by the strategic asset allocation of the Portfolio for each type of fund. These expected returns are to be calculated after the deduction of advisory and money management fees, transaction costs and custodial fees.

The Foundation realizes that market performance varies. Accordingly, relative performance benchmarks for the managers are to be agreed upon by the Committee in consultation with the Portfolios' manager(s) and reviewed at least annually.



## **Duties and Responsibilities**

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### **Investment Committee**

The Committee shall invest and manage Portfolio assets as a prudent investor would, or hire a professional advisor to assist, by considering the purposes, terms, distribution requirements and other circumstances of the account. In satisfying this standard, the Committee shall exercise reasonable care, skill, and caution.

As a fiduciary, the primary responsibilities of the Committee are

1. Prepare, maintain, periodically review and update this IPS as appropriate and submit such to the Board of Directors for approval.
2. Prudently select an Investment Advisor and review their recommendations.
3. In coordination with the Investment Advisor, prudently diversify the Portfolio's assets to meet an agreed upon risk/return profile.
4. In coordination with the Investment Advisor and custodian, control and account for all investment, recordkeeping, and administrative expenses associated with the Portfolio.
5. In compliance with the Investment Advisory Agreement, monitor and supervise the Investments Advisor and investment options.
6. In coordination with Investment Advisor, avoid prohibited transactions and conflicts of interest.
7. Meet at least quarterly to review the portfolio considering current economic conditions and submit a report to the Board of Directors of the Foundation for informational purposes.

### **Investment Advisor**

The Foundation will retain an objective, third-party Advisor to assist the Committee in managing the overall investment process. The Advisor will be either a state or SEC Registered Investment Advisor in good standing with all generally accepted oversight agencies and associations, or a federally- or state-chartered financial institution.

The Advisor will be responsible for guiding the Committee through a disciplined and rigorous investment process to enable the Committee to prudently manage their fiduciary duties and responsibilities regarding the Foundation's Portfolio.

As a result of providing investment advice for a fee to the Foundation, the Investment Advisor will be a fiduciary. The Investment Advisor shall also communicate to the Committee all significant changes pertaining to any investment option. Changes in the ownership, organizational structure, financial condition, or professional staff of an investment option are examples of changes that should be reported to the Committee.

The Investment Advisor shall provide the Committee with written investment performance information on the Portfolio after the end of every quarter. The Investment Advisor should also contact the Committee upon any material change in investment options or market conditions that require further consideration prior to the next quarterly report.

## Asset Class Guidelines

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It is common knowledge in the investment community that long-term investment performance is primarily a function of asset class mix and time in the market. While interest-generating investments such as bond portfolios have the advantage of relative stability of principal, they provide little opportunity for real long-term capital. On the other hand, equity investments such as common stocks, have a significantly higher expected return but have the disadvantage of much greater year-by-year variability. From an investment decision-making point of view, this relative variability is worth accepting for the endowed portion of the portfolio which has a time horizon of ten years or more).

The following asset classes are approved, but are by no means all-inclusive:

- Cash and Equivalents
- Domestic Fixed Income
- Foreign Fixed Income Inflation-Protected Securities (TIPS)
- US Large Blend
- US Large Value
- US Large Growth
- US Mid Cap
- US Small Cap
- International Developed
- International Small Cap
- International Emerging Markets
- Multi-Strategy / Balanced
- Real Estate
- Commodities (non-direct)

With the approval of the Committee and in consultation with the Advisor, a portion of the Portfolio may be invested in instruments such as socially responsible investments (SRI) as well as other similar or related activities, environmental/social/governance (ESG) investing, impact investing, shareholder activism, etc.

Alternative Investments, with the approval of the Committee in consultation with the Advisor, might also be included in the portfolio, especially for purposes of extending the endowment portfolio's investment horizon. Examples of Alternative Investments might include: private equity, hedge funds, and certain types of real estate investment.

## Implementation

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The Committee and Investment Advisor will apply the following due diligence criteria in screening each investment used within the Portfolio.

1. *Regulatory oversight:* All mutual funds in the Portfolio are to be registered under the Investment Company Act of 1940. If the Investment Advisor recommends an investment outside of this registration standard, the Committee is to be given an opportunity to consider the investment prior to investment being made.
2. *Correlation to style or peer group:* The investment option should be highly correlated to the asset class being implemented. This is one of the most critical parts of the analysis since most of the remaining due diligence involves comparisons of the investment option to the appropriate peer group.
3. *Performance relative to a peer group:* The investment option's performance should be evaluated against the peer group's median manager return for 3 and 10-year cumulative periods (for the Reserve and Endowed funds, respectively). Performance should be above the peer group median for cumulative 3 and 10-year periods.
4. *Performance relative to assumed risk:* The investment option's risk-adjusted performance (Alpha and/or Sharpe Ratio) should be evaluated against the peer group's median manager's risk-adjusted performance. Risk-adjusted performance should be above the peer group median.
5. *Minimum track record:* The investment option should have enough history so that performance statistics can be properly calculated; for Endowed funds, such history is defined as at least five years.
6. *Assets in the fund:* The investment option should have enough assets so that the portfolio manager can properly trade the account. The investment option should have at least \$75 million under management (can include assets in related share classes).
7. *Holdings consistent with style:* The underlying securities of the investment option should be consistent with the associated broad asset class. At least 80% of the underlying securities should be consistent with the broad asset class. For example, a Large-Cap Growth product should not hold more than 20% in cash, fixed income, and/or international securities.
8. *Expense ratios/fees:* The investment option's fees should be fair and reasonable. Fees should not be in the bottom quartile (most expensive) of the peer group.

## **Monitoring**

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### **Performance Objectives**

The Committee acknowledges fluctuating rates of return characterize the securities markets, particularly during short time periods. Recognizing that short-term fluctuations may cause variations in performance, the Committee intends to evaluate investment performance from a long-term perspective.

The Committee is aware the ongoing review and analysis of the investment options is just as important as the due diligence process. The performance of the investment options will be monitored on an ongoing basis by the Advisor and the Foundation and it is at the Advisor's discretion to take corrective action by replacing a manager if deemed appropriate at any time.

Quarterly, the Committee will review whether each investment option continues to conform to the search criteria outlined in the Implementation section; specifically:

1. The adherence to investment guidelines as outlined in this document and the Investment Advisory Agreement;
2. Material changes in liquidity requirements;
3. Material changes in the investment option's organization, investment philosophy, and/or personnel; and,
4. Any material legal, SEC, and/or other regulatory agency proceedings affecting the investment option's organization.

### **Benchmarks**

The Foundation has determined that performance objectives be established for each investment used within the Portfolio. Such investment benchmarks are to be established in conversation between the Committee and the Advisor, then reviewed at least annually. An example of the types of benchmarks that might be considered in the following asset categories is outlined below:

<b>Asset Category</b>	<b>Index</b>	<b>Peer Group Universe</b>
<b>Large Cap Equity</b>		
Core/Blend	S&P 500/Russell 1000	Core/Blend Equity Style
Value	S&P 500/Russell 1000 Value	Value Equity Style
Growth	S&P 500/Russell 1000 Growth	Growth Equity Style
<b>Mid Cap Equity</b>		
Core/Blend	S&P 400 / Russell Mid Cap	Mid Cap Core/Blend Equity Style
Value	Russell Mid Cap Value	Mid Cap Value Equity Style
Growth	Russell Mid Cap Growth	Mid Cap Growth Equity Style
<b>Small Cap Equity</b>		
Core/Blend	S&P 600/Russell 2000	Small Cap Core/Blend Equity
Value	Russell 2000 Value	Small Cap Value Equity Style
Growth	Russell 2000 Growth	Small Cap Growth Equity Style
<b>Int'l Equity Developed Mkts</b>		
Core/Blend	MSCI EAFE	Int'l Core/Blend Equity Style
Value	MSCI EAFE Value	Int'l Value Equity Style
Growth	MSCI EAFE Growth	Int'l Growth Equity Style
Small Cap	MSCI EAFE Small Cap	Int'l Small Cap Equity Style
<b>Int'l Equity Emerging Mkts</b>		
Core/Blend	MSCI Emerging Markets	Emerging Markets Equity Style
<b>Balanced / Multi Strategy</b>		
Balanced	Vanguard Balanced Index	Balanced Fund Style
Multi Strategy	60/40 Global Index	Alternative Fund Style
<b>Fixed Income</b>		
Core/Core Plus	BarCap Aggregate	Core/Core Plus Bond Styles
TIPS	BarCap US Treasury TIPS	TIPS Style
Short-Term	Citi Treasury Bill 3 Month	Short-Term Style
<b>Real Estate</b>		
Domestic Real Estate Stocks	FTSE NAREIT Equity Index	Domestic REIT Equity Group
Global Real Estate Stocks	EPPARA NREIT Global	Global REIT Equity Group
Domestic Real Property	NACREIF	

### Watchlist Procedures

An investment option may be placed on a Watchlist and a thorough review and analysis of the investment option may be conducted, when:

1. An investment option performs below median for their peer group over a 5 year time period.
2. Fund/manager consistently performs below the median (75th percentile) of its peer group over rolling 3 year periods.
3. An investment option's 5 year risk adjusted return (Alpha and/or Sharpe) falls below the peer group's median risk adjusted return.
4. There is a change in the professionals managing the investment option or a change in the ownership of the firm.
5. There is a significant decrease or increase in the investment option's assets.

6. There is an indication the investment option is deviating from the stated style and/or strategy.
7. There is a material increase in the investment option's fees and expenses.
8. Any extraordinary event occurs that may interfere with the investment option's ability to prudently manage investment assets.
9. Regulatory or prospectus violation.
10. Negative publicity affecting any investment option's management or the investment option itself.

The performance of the investments will be monitored on an ongoing basis. The decision to retain or terminate an investment option cannot be made by a formula. It is the Committee and Investment Advisor's confidence in the investment option's ability to perform in the future that ultimately determines the retention of an investment option.

## **Endowment Distribution Policy**

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This policy pertains to the portion of the Portfolio which is permanently-restricted (endowed) and sets out the processes and procedures for the calculation of the annual endowment fee assessment and distribution policy for endowed funds administered by the Foundation, excluding certain funds which may have a donor-specified distribution requirement.

### **Determining Endowment Value**

In accordance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and ARS 1228 a total return concept is utilized to calculate the value of endowed funds, which focuses on the overall return of the investment portfolio. Overall return is defined to include all realized and unrealized gains, dividends and interest. Distributions from endowed funds are subject to the Gift Management Fees as described below.

### **Distributions**

The Foundation utilizes a 12-quarter rolling average of the endowed accounts' Total Asset Value (including overall return) to calculate the annual distribution from the accounts. A distribution percentage of the 12-quarter rolling average, not to exceed 5% of each account's Total Asset Value is to be determined by the Committee annually and recommended to the Foundation's Board of Directors for approval. The distribution percentage is applied to each endowed fund subject to this policy and the distributed amount is made available for the endowed fund's intended purpose(s). In certain circumstances and only if reviewed and accepted by the Foundation's board of directors, the donor to an endowed fund may specify an alternative method of distribution.

## **Gift Management Fees**

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The Foundation charges Gift Management Fees on all gifts received by the Foundation. A structure for the Gift Management Fees is established by the Board of Directors and reviewed annually, with the expectation that as Foundation assets grow, the Gift Management Fees might be commensurately decreased.

Gift Management Fees on non-endowed gifts to the Foundation, including both new non-endowed funds and contributions to existing non-endowed funds, will be charged at the time the gifts are received.

Gift Management Fees on endowed funds will be assessed at the time distributions are made from each fund in accordance with the Endowment Distribution Policy described herein and the structure of Gift Management Fees as established or amended by the Board of Directors.



## **Review of the IPS**

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The Committee will review this IPS 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 IPS will change frequently. Short-term changes in the financial markets should not require adjustments to the IPS.

### **Agreed to by:**

\_\_\_\_\_  
Finance / Investment Committee Chair

\_\_\_\_\_  
Date

\_\_\_\_\_  
Investment Advisor

\_\_\_\_\_  
Date