

**3354:2-31-03 Investment and Spending Policy – Endowment Funds.****1. PRIMARY GOVERNANCE MATTERS****A. Purpose**

Lakeland Community College (College) is a political subdivision of the State of Ohio. The purpose of this statement is to articulate a comprehensive and disciplined investment and spending program for the College's endowment funds.

The portfolio's investable assets must be managed effectively and prudently. The College recognizes that matters concerning the investment of the portfolio's assets are of sufficient importance to merit serious attention and frequent consideration.

This statement will need to be reviewed periodically to ensure that it continues to meet the College's attitudes, expectations, and objectives.

**B. Governance, Prudence, Delegation of Authority**

Specific endowment fund investment decisions shall be made pursuant to the College's Board of Trustees adopting this investment policy.

This investment policy requires all fiduciaries to discharge their duties with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

Authority to manage the College's endowment fund investment program as allowed under applicable Federal and State laws and statutes and is delegated to the College's Treasurer. The Treasurer is responsible to establish procedures for the operation of the investment program consistent with this Investment Policy. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Treasurer. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of internal control to regulate those activities.

The Treasurer is charged to work with the Board of Trustees as a "committee of the whole" in reviewing and recommending revisions to the Investment Policy. Additionally, the Treasurer is required to report investment information and decisions to the Board of Trustees, at a minimum, each quarter.

**C. UPMIFA Considerations**

In accordance with the State of Ohio's adoption of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the Treasurer and the Board of Trustees will take, but not be

limited to, the following criteria into consideration when making both investment decisions and setting its spending policy:

- Purpose of the College's endowment funds
- Duration and preservation of the endowment funds
- Need of the College to make distributions and preserve capital
- Expected total return from income and appreciation
- The role that each investment plays within the overall portfolio
- General economic conditions
- The possible effect of inflation or deflation
- Other resources of the organization
- Assets of special relationship or special value to the charitable purpose
- Any expected tax consequences

#### D. Ethics and Conflicts of Interest

All individuals involved in the investment process shall comply with the ethics laws of the State of Ohio and refrain from personal business activity that could conflict with the proper execution of the College's investment program, or which could impair their ability to make impartial investment decisions.

#### E. Statement of Investment Policy Review

To assure the continued relevance of the guidelines, objective, financial status and capital markets expectations as established in this Investment Policy, the College Treasurer is charged to review this statement at least bi-annually with the Board of Trustees.

#### F. Utilization of Investment Management and/or Investment Consultant Services

In order to develop and maintain an effective investment program, the College may engage the services of an Investment Manager (Manager) and/or Investment Consultant (Consultant). Any agreements entered into with a Manager and/or Consultant can allow those firms/individuals complete investment discretion, provided that these parties agree to adhere to the College's Investment Policy Statement.

Each investment manager has discretion to purchase, sell, or hold the specific securities that will be used to meet the Funds' investment objectives. Each investment manager will be held responsible and accountable to achieve the objectives herein stated. While it is not believed that limitations will hamper any investment manager, the investment manager should request modifications that it deems appropriate.

Retaining the services of a qualified Manager and/or Consultant requires approval by the College's Board of Trustees.

## 2. INVESTMENT POLICY GUIDELINES

### A. Endowment Funds

#### Investment Philosophy

The goal for the College's Endowment investment portfolio is to provide a real total return that preserves the purchasing power of the Endowment's assets, while providing an income stream to support the College's activities. This income stream shall be provided from both income and dividends earned on the portfolio investments, and liquidation of non-income producing assets (a total return approach). The Endowment's real total return will be sought from an investment strategy that provides an opportunity for superior total returns within acceptable levels of risk and volatility. The College recognizes that risk (i.e. the uncertainty of future events), volatility (i.e. the potential for variability of asset values), and the potential loss in purchasing power due to inflation are present to some degree with all types of investment vehicles. While high levels of risk are to be avoided, the assumption of a moderate level of risk is warranted and encouraged in order to allow the investment portfolio the opportunity to achieve satisfactory results consistent with the objectives and character of the portfolio.

The types of stock and market capitalization of the companies purchased for the portfolio are within the discretion as only limited by the objectives as expressed in this document.

#### Investment Objective

For the long-term (defined as a rolling five-year period), the primary investment objective for the Endowment portfolio is to earn a total return (net of portfolio management and custody fees) within prudent levels of risk, which is sufficient to maintain in real terms the purchasing power of the Endowment's assets and support a desired annual spending policy of 4.5% of the five-year average of the market value of the Endowment portfolio.

The overall investment objective is a long-term rate of return on total assets that is at least 500 basis points greater than the rate of inflation as measured by the Consumer Price Index. This target rate of return for the invested Endowment Funds has been based upon the assumption that future real rates of return will approximate the historical long-term rates of return experienced for each asset class. The use of the CPI (which has been greater than zero for the past 50 years) plus 500 basis points is indicative of the College's preference for an absolute return orientation over that of relative returns.

The College recognizes that market performance varies and that achieving real rates of return may not be achieved during some periods. The College also recognizes that historical performance is no guarantee of future performance.

The investment policies and restrictions presented in this Investment Policy serve as a framework to achieve the investment objectives at a level of risk deemed acceptable. These policies and restrictions are designed to minimize interference with efforts to attain overall objectives and to minimize the potential of excluding any appropriate investment opportunities.

Asset Allocation

The College's endowment asset allocation guidelines will be reviewed periodically. The portfolio's major allocation guidelines will allow an allocation of the portfolio to be invested in equity securities. Remaining portfolio funds may be invested in either fixed income or cash equivalent securities.

Strategic Asset Allocation:

The College's endowment assets shall be invested in a manner consistent with the asset allocation guidelines specified below. This asset allocation details the percentages at market value of total assets invested in various asset classes. The **Strategic Target** is simply a long-term target and will at times not reflect actual asset allocation as this is dictated by current market trends and/or conditions, independent actions of the College's Board of Trustees, Manager, and/or Consultant, as well as required cash flows to and from the assets or funds.

The **Tactical Range** reflects and anticipates fluctuation and provides flexibility to vary around the target without the immediate need for rebalancing. Such variations are most likely to occur based on the relative attractiveness of various asset classes. Deviations outside of the tactical range shall require the pre-approval of the College Treasurer. As material cash flows into and out of the portfolio this may result in a deviation from the targeted range. In this situation, it is acceptable to rebalance the portfolio within a reasonable period of time after the occurrence of the cash flow change. Additionally, market changes may also contribute to deviations from the acceptable range. In such case, it is acceptable to rebalance the portfolio at least quarterly.

		<b>Portfolio Allocation – Strategic Target &amp; Tactical Range</b>		
		<b>Low</b>	<b>Target</b>	<b>High</b>
<u>Equities</u>		<u>60%</u>	<u>67%</u>	<u>80%</u>
<u>Fixed Income</u>		<u>20%</u>	<u>26%</u>	<u>40%</u>
<u>Alternatives</u>		<u>0%</u>	<u>5%</u>	<u>10%</u>
<u>Cash Equivalents</u>		<u>0%</u>	<u>2%</u>	<u>10%</u>
			<u>100%</u>	

Equity Allocation:

The following equity asset classes may be held in the portfolio with the following Strategic Target and Tactical Ranges as a percentage of total market value.

		<b>Portfolio Allocation – Strategic Target &amp; Tactical Range</b>		
		<b>Low</b>	<b>Target</b>	<b>High</b>
<u>Large/Mid Cap U.S. Equities</u>		<u>30%</u>	<u>40%</u>	<u>56%</u>
<u>Small Cap U.S. Equities</u>		<u>3%</u>	<u>10%</u>	<u>20%</u>
<u>International Equities</u>		<u>10%</u>	<u>17%</u>	<u>26%</u>

Any desired deviations from the equity allocation guidelines established herein shall require the approval of the College's Treasurer prior to implementation.

Alternatives Allocation:

The following alternative asset classes may be held in the portfolio with the following Strategic Target and Tactical Ranges as a percentage of total market value.

		<b>Portfolio Allocation – Strategic Target &amp; Tactical Range</b>		
		<b>Low</b>	<b>Target</b>	<b>High</b>
<u>Real Estate</u>		<u>0%</u>	<u>2%</u>	<u>5%</u>
<u>Commodities</u>		<u>0%</u>	<u>2%</u>	<u>5%</u>
<u>Absolute Return Strategies</u>		<u>0%</u>	<u>1%</u>	<u>5%</u>
			<u>5%</u>	

Any desired deviations from the alternatives allocation guidelines established herein shall require the approval of the College's Treasurer prior to implementation.

Investment Performance

Portfolio performance against accepted benchmarks will be presented on a periodic basis. In that respect, investment performance shall be evaluated over a long-term planning period on a total portfolio return basis. Performance will be calculated on time-weighted basis that is in compliance with industry standards for the total account as well as for each asset segment. The most relevant time horizon for evaluating performance is a rolling five-year period since this typically encompasses an entire market cycle.

The Endowment Portfolio will be measured against a blended benchmark that is reflective of the established long-term asset allocation targets. In that regard, it is important to recognize and understand that in certain periods performance returns of the endowment portfolio may be less than established benchmarks.

The overall endowment benchmark shall be weighted as follows:

- 45% assigned to the S&P 500 Index;
- 9% assigned to the Russell 2000 Index;
- 13% assigned to the MSCI EAFE Index;
- 26% assigned to the Lehman Aggregate Bond Index;
- 2% assigned to the Wilshire RE Operating Company Index;
- 2% Goldman Sachs Natural Resources Index, and
- 3% assigned to the 91 day Treasury Bill.

By selecting a blended benchmark to measure manager performance, the College is able to judge both: (a) the contribution to return of individual investments, as well as (b) the value added by the manager resulting from tactical asset allocation weightings relative to long-term strategic

targets. In addition, individual fund investments will be compared with relevant benchmarks and peer universes that most closely resemble the style and discipline of the manager(s)/fund(s).

### Diversification, Marketability, Yield, and Quality Consideration

#### Cash Equivalents Component

- It is desirable that interest-bearing money market funds and other cash equivalent securities with a maturity of 30 days or less be used.

#### Equity Component

- The portfolio's equity exposure to any one industry group within a Standard & Poor 500 sector may not exceed 15 percent of the market value of the total Endowment Funds portfolio.
- The equity holding in any one company, at the time of its purchase(s), may not exceed five (5) percent of the market value of the total Endowment Funds portfolio.
- In addition to individual stocks, mutual funds may be used as a means of enhancing the diversification of the portfolio, provided such investments are consistent with the asset allocation guidelines established herein.

#### Fixed Income Component

- Portfolio diversification requirements do not pertain to investments in debt securities issued by the United States Treasury (bills, notes, bonds), or in securities issued by the United States Government agencies and instrumentalities.
- For non United States Treasury obligations, there should be a wide discretion in the diversification of fixed income securities by maturity, sector, and geography.
- Fixed income securities will only be purchased and held with a credit quality of investment grade "BBB" or higher. In the event of a split rating, the lower rating shall apply (i.e. an issue that is split-rated BBB/BB is not permissible).
- The portfolio's fixed income holding of any one industry may not exceed ten per cent of the market value of the total Endowment Funds portfolio. Fixed income holdings of any one company, including its affiliates and subsidiaries, may not exceed five percent of the market value of the total Endowment Funds portfolio. Fixed income holdings in any one company, including its affiliates and subsidiaries, may not be duplicated in another fund.
- In addition to individual fixed income securities, mutual funds may be used as a means of enhancing the diversification of the portfolio, provided such investments are consistent with the asset allocation guidelines established herein.

#### Alternatives Component

- Alternative investments are limited to investments in real estate, commodities and absolute return (long/short) funds. Investments in alternative asset classes may only be done in the form of a publicly traded security, which is priced daily (i.e. a mutual fund).

Investments may be made in securities that employ the use of leverage or short selling as a strategy.

#### B. Liquidity

The investment manager(s) may be expected to provide funds for distribution. In the event investment income is insufficient to meet any withdrawal requirements, the investment manager(s) will be instructed to sell securities and remit required funds. The Treasurer, or their designee, shall provide the investment manager(s) with a schedule of any required withdrawals in advance of their required date of receipt.

#### C. Prohibited Transactions for All College Funds

The following transactions are strictly prohibited unless the Treasurer receives prior approval from the Board of Trustees:

- Purchase of individual stocks or bonds on margin (or lending or borrowing money), naked call options, and short sales transactions. Such strategies may only be employed by mutual funds that are part of the alternatives allocation.
- Letter stock, private placement or direct placement.
- The use of real estate, unlisted limited partnerships, or venture capital loans as fixed income investment vehicles. Investments in real estate may only be done through mutual funds that are part of the alternatives allocation.
- Stock ownership of the asset manager, the custodian, their parent or subsidiaries (excluding proprietary/common fund products).
- Direct investments in contracts of financial futures, arbitrage, commodities, and currency exchange. Strategies in these areas may only be employed by mutual funds that are part of the alternatives allocation.
- Direct investment in derivative contracts.
- Physical ownership of precious metals, gems, or other collectibles.
- Non-marketable securities.

### 3. SPENDING POLICY FOR COLLEGE ENDOWMENT FUNDS

The College spending policy is based on a total return approach in order to maintain stable cash flows over an extended period of time, to protect endowment funds against inflation, and to preserve the purchasing power of endowment funding by improving investment growth and management.

The College's Spending Policy is designed to determine the maximum amount of assets that may be removed from the Endowment portfolio. Spending up to a maximum of 4.5 percent of the five -year average market value of a designated endowment fund of the College is allowable. Spending may include net realized gains earnings over that five-year period, and is offset by any previously designated spending amounts. All returns (gains, loses, and income – net of external and internal fees and previously designated spending amount) above 4.5 percent will be reinvested in the Endowment Funds portfolio.

The Endowment Funds spending policy of the College will be closely monitored, and a thorough review will occur each fiscal year for recommendations as to future spending levels.

#### 4. FURTHER RESPONSIBILITIES

##### A. Responsibilities of Appointed Manager and/or Consultant

The Manager and/or Consultant has the following responsibilities:

- Discretion and authority for security selection and timing consistent with the Investment Policy. The College expects the purchase and sale of its securities to be made in a manner designed to receive the combination of best price and execution.
- Comply with all legislation and regulations that involve the assets and/or responsibility as a fiduciary.
- Vote proxies on securities in the assets and or funds in the portfolio. Unless the Investment Committee provides information on how to vote a specific proxy, the investment manager shall vote the proxies in a manner consistent with maximizing shareholder returns.
- Meet with the College on request to report on current portfolio status, performance, and future prospects.
- Provide account statements on a monthly basis, or as requested by the Treasurer.
- Seek to meet or exceed established performance standards.

The Manager and/or Consultant shall advise the Treasurer promptly of any event that is likely to adversely impact, to a significant degree, the management, professionalism, integrity or financial position of that individual / organization including, but not limited to, events such as:

- Loss of one or more key individuals.
- Significant change in investment philosophy.
- Appointment of a new portfolio manager to assets and/or fund accounts.
- Change in ownership or control (whether through acquisition, disposition, merger, spin off or otherwise).

The Manager is required to obtain approval from the Treasurer prior to purchasing an investment that is proprietary to the Manager.

##### B. Selection of Investment Managers

Set forth below are the considerations and guidelines employed in fulfilling this fiduciary responsibility.



The College intends to retain investment managers with some or all of the following attributes to manage the asset pool:

- The institution should be a bank, insurance company or investment management company or an investment adviser under the Registered Investment Advisers Act of 1940.
- The institution should be operating in good standing with regulators and clients, with no material pending or concluded legal actions.
- The institution should provide detailed additional information on the history of the firm, its investment philosophy and approach, and its principals, clients, locations, fee schedules and other relevant information.

Assuming the minimum criteria are met, the particular investment manager under consideration should meet the following standards for selection:

- Performance should be equal to or greater than the median return for an appropriate, style-specific benchmark and peer group over a specified time period.
- Performance reporting should be in compliance with the Association of Investment Management and Research Performance Presentation Standards (AIMR PPS).
- Specific risk and risk-adjusted return measures should be established and agreed to by the Committee and the investment consultant and be within a reasonable range relative to an appropriate, style-specific benchmark and peer group.
- The investment manager should demonstrate adherence to the stated investment objective.
- Fees should be competitive compared to similar investments.
- The investment manager should be able to provide all performance, holdings, and other relevant information on a quarterly basis.

### C. Removal of an Investment Manager

There may be circumstances which provide the College reason to consider the removal of an investment manager. Following are the general guidelines which may give reason to remove an investment manager:

- Failure to follow this Statement of Investment Policy after written notification from the College to the investment manager identifying the violation with a specific time frame to comply with policy.

- Failure to meet any of the investment return benchmarks, as established by the investment consultant and the College.
- Failure to comply with investment restrictions as defined for the manager by the College.
- Significant qualitative changes to the investment management organization.

Each investment manager shall be reviewed at a minimum annually regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact its ability to achieve the desired investment results.

If the investment manager has consistently failed to adhere to one or more of the above conditions, it is reasonable to presume a lack of adherence going forward. Failure to remedy the circumstances of unsatisfactory performance by the investment manager, within a reasonable time, shall be grounds for removal.

Any recommendation to remove an investment manager will be treated on an individual basis, and will not be made solely based on quantitative data. In addition to those above, other factors may include professional or client turnover, or material change to investment processes. Considerable judgment must be exercised in the removal decision process.

A manager shall be removed using one of the following approaches:

- Remove and replace with an alternative manager.
- Freeze the assets managed by the removed manager and direct new assets to a replacement manager.
- Phase out the manager over a specific time period.
- Continue the manager but add a competing manager.
- Remove the manager and do not provide a replacement manager.

#### D. Responsibilities of Appointed Custodian

The custodian shall be a national bank authorized to accept and execute trusts and do business in the State of Ohio under the authority granted by the Comptroller of the Currency, and in compliance with the Ohio Revised Code.

Securities held in safekeeping by the Custodian will be evidenced by a monthly statement describing such securities. The Custodian may safekeep securities in (1) Federal Reserve Bank book entry form; (2) Depository Trust Company (DTC) book entry form in the account of the Custodian or the Custodian's correspondent bank; or (3) Non-book entry (physical) securities held by the Custodian or the Custodian's correspondent bank. All securities transactions will settle using standard delivery vs. payment (DVP) procedures.

The responsibilities as Custodian shall also include:

- Ensures accuracy in reporting portfolio values.
- Timely invests cash to avoid non-invested accounts.
- Collects all income and principal realizable and properly reports same in period statements.
- Reports to the College Treasurer situations where security pricing is either not possible or subject to considerable uncertainty.

#### E. Appointment of Additional Providers

Additional specialists such as attorneys, auditors, actuaries, and others may be employed by the College to assist in meeting its responsibilities and obligations to administer the Funds prudently.

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CERTIFIED ELECTRONICALLY

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Certification

03/10/2015

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