# Investment Policy Statement

## Nashville State Community College Foundation

*Adopted and approved on December 8, 2005*
*Updated September 20, 2011*

## I. Purpose of this Investment Policy Statement

This investment policy statement outlines the goals and investment objectives for the investment portfolio of The Nashville State Community College Foundation. (These assets may be referred to as the *"NSCC Foundation" or "Foundation" or "Portfolio")* Since this document is intended to provide investment guidelines for managing these assets, this document outlines certain specific investment policies that may govern how the Portfolio's goals are to be achieved. This statement:

- Describes an appropriate risk posture for the investment of the Portfolio's assets;
- Establishes suggestions regarding the selection and retention of investment managers;
- Specifies options for evaluating the performance of investment managers and the Portfolio as a whole;
- Defines the responsibilities of third party investment managers responsible for the management or oversight of the Portfolio;

## II. Information About the Portfolio

The investment assets covered under this investment policy statement stems from the donation of monies to the NSCC Foundation. This policy applies to all current and future funds of the Foundation not otherwise specifically excluded by the Board of Trustees of the Foundation.

There shall be an Investment Committee (Committee) which shall be charged with investment oversight of the Foundation, within the guidelines of this policy. The Committee shall consist of at least three members, each of whom shall have a general knowledge of investments. Members will be appointed by the Board of Trustees of the NSCC Foundation.

The Endowment Fund is created and exists solely for the charitable and educational purposes of the Foundation. Specifically, the Endowment Fund shall be used solely to fund scholarships for the students at Nashville State Community College.

This Portfolio, which is the bulk of the NSCCFoundation's net worth, has been set aside for the purpose of income generation and long-term investment growth to stay ahead of inflation.

**Contact Information:**
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| Primary Contact: | Keith Ferguson<br>Executive Director<br>Tel: 615-353-3604 |
| Secondary Contact: | Current Chairman of the Board of Trustees<br>Or<br>Current Chairman of the Investment Committee |

**Tax Status**

NSCC Foundation is a public charity as described in sections 501(c)(3),of the Internal Revenue Code of 1986, and is accordingly, exempt from federal income taxation under Section 501(a) of the code.

## III. Goals and Objectives

### Goals

The assets in the Portfolio are expected to be invested in a combination of income and long-term growth. Distributions from the Portfolio may be used to fund The NSCC Foundation's charitable objectives. The distributions are expected be funded from income generated from the investment holdings, investment principal of the Foundation or donations as needed.

The portfolio should be managed to meet the operating obligations of the Foundation in addition to funding its charitable purposes. The investment objective of the portfolio is to achieve a proper mix of current income, liquidity and growth.

### Performance Objectives

Based on the annual cash flow needs of the Foundation and its growth objective, the Portfolio wishes to allocate its assets into three separate buckets as it relates to its goals and objectives; they are as follows

<u>Cash Equivalent:</u>
Assets that may be accessible with 12 months: Approximate return objective: Current 90 Day Treasury Bill or better

<u>Conservative Growth</u>
Short-Term - 12 months to 5 years: Approximate return objective: 5% to 6%

<u>Moderate Growth</u>
Long-Term – 5 years or more: Approximate return objective: 7% to 8%

### Cash Flow

It is more prudent to establish an asset mix that will provide the necessary cash flow and/or liquidity according to the anticipated annual withdrawal amount.

The annual cash flow needs are expected to fluctuate depending on the needs of the Foundation. All cash flow needs will be based on applicable laws, portfolio value, the operational needs of the Foundation and any large donations that may arise.

The Board of Trustees may choose to defer or reinvest all dividends and interest back into the corpus if necessary.

## IV. Risk Tolerance

Historical investment return data suggest that over long periods of time there is a relationship between the level of risk assumed and the level of return that can be expected in an investment program.

Given the relationship between risk and return, a fundamental step in determining the investment strategy for this portfolio is the determination of an appropriate risk tolerance. There are two primary factors that should be considered in determining the appropriate risk tolerance for the Portfolio:

1. Willingness to accept return volatility
2. Financial ability to accept risk within this investment plan

The NSCC Foundation is willing to expose the investments under this investment policy statement to a conservative to moderate level of risk depending on the objective of the particular investment account.

## V. Asset Allocation

Studies suggest that asset allocation is the cause of over 90% of the volatility of returns of an investment portfolio. The following asset classes are established to help achieve the stated goals and objectives of the investment portfolio. Minimum and Maximum guidelines are merely suggestions in order to adhere to the stated goals and risk tolerance objectives.

Conservative Risk and Return Objective

| Asset Class | Minimum | Maximum |
|---|---|---|
| US Equity | 5% | 30% |
| International Equity | 5% | 30% |
| Alternative/Hedge | 0% | 25% |
| Bonds | 50% | 90% |
| Cash | 2% | 10% |
| Growth Asset Classes | 15% | 40% |
| Income Asset Classes | 60% | 85% |

Moderate Risk and Return Objective

| Asset Class | Minimum | Maximum |
|---|---|---|
| US Equity | 10% | 50% |
| International Equity | 5% | 30% |
| Alternative/Hedge | 0% | 50% |
| Bonds | 0% | 70% |
| Cash | 2% | 10% |
| Growth Asset Classes | 50% | 70% |
| Income Asset Classes | 30% | 50% |

**Rebalancing Option**

From time to time, market conditions may cause an imbalance in certain asset classes, thus deviating from the target allocation. To remain consistent with the stated risk guidelines and the time frame established by this investment policy, a rebalancing of the asset allocation may be appropriate. If the actual weighting differs from the target weighting by 20% or more, a rebalancing of the investment portfolio is necessary. *(Example: 40% equity increases to 48% or decreases to 32%)*

## VI. Selection and Retention Criteria for Investment Managers

**Considerations for selecting and retaining third party investment managers:**

- Past performance, considered relative to other investments having similar investment objectives. Consideration shall be given to both consistency of performance and the level of risk taken to achieve results;
- A positive risk adjusted return versus an appropriate benchmark is necessary over a three to five-year period of time or a full market cycle in order for a potential manager to be considered;
- Performance is consistent with the top 50% among their peers;
- The investment style, market capitalization and discipline of the investment manager;
- How well the manager's investment style or approach complements other assets in the Portfolio;
- Level of experience, personnel turnover, financial resources, and staffing levels of the investment management firm;
- An assessment of the likelihood of future investment success, relative to other opportunities;
- Communicate with the Board of Trustees of any material event that may affect the ownership or capital structure of the investment management firm, or the management of the Portfolio.

## VII. Contributions and Withdrawals

All deposits and withdrawals to the various accounts will be determined by the Board of Directors or the Investment Committee.

**Deposit Considerations:**
All deposits, if any, should be allocated among the target asset allocation. All deposits should be allocated to bring the asset allocation back to its target unless market conditions, economic conditions or short-term withdrawals or goals dictate otherwise.

**Withdrawal Considerations:**
All large withdrawals, if any, should be taken proportionately form the target asset allocation. If the asset allocation has drifted from its target, all large withdrawals in excess of normal cash flow should be withdrawn to allow the allocation back to its target, unless market conditions, economic conditions or goals dictate otherwise.

## VIII. Investment Guidelines, Restrictions and Constraints

**Diversification Requirements for Third Party Investment Managers:**

Note: If mutual funds or exchange traded funds are purchased, the prospectus will govern the guidelines, restrictions and constraints.

- The total equity portion of the investment portfolio should have at least five economic sectors.
- The individual economic sector weightings should be no more than 2 times the appropriate benchmark or a maximum of 15%, whichever is greater. Any less diversification could cause excessive risk beyond the stated risk tolerance for this investment portfolio.
- In order to maintain the stated risk tolerance, this investment portfolio should have no more than 10% in any one security (excluding US Government Sponsored Securities).

The fixed income portfolio should be broadly diversified by issue, issue type, asset pool, quality, maturity and issuer.

- Fixed income securities of a single issuer or issue, with the exception of U.S. Government and Agency securities and Municipal Bonds fully escrowed with U.S. Government or Agency securities, are limited to no more than 10% of the market value of the fixed income portfolio;
- Should the fixed income manager invest in corporate bonds, no more than 35% of the market value of an investment manager's portfolio may be invested in a single sector of the corporate fixed income market. Sector definitions shall be according to the investment manager's own classifications, which should be provided to the NSCC Foundation upon request;
- Individual collateralized mortgage obligations bond holdings are limited to securities that are currently paying interest, receiving principal pay downs and do not contain leverage. CMO's are limited to no more than 40% of the market value of the fixed income portfolio;

**Non-Permitted Securities**

- Due to cash flow needs: Zero coupon bonds may not be purchased;
- Due to cash flow needs: Mortgage securities whose payment represents the principal payments on the outstanding principal balance of the underlying mortgage-backed security and pays no interest (*e.g.* principal only securities) should not be purchased;

- Individual futures or commodities contracts should not be purchased.

## IX. Performance and Risk Evaluation

**Evaluation Considerations:**

The Board of Trustees should consider evaluating the composite portfolio and investment managers in a variety of ways. A few of the options include, but are not limited to:

- Risk as measured by volatility, or standard deviation of quarterly returns, should be evaluated when at least 36 quarters of performance history have accumulated;

- An attribution analysis to evaluate how much of the Portfolio's investment results are due to the investment managers' investment decisions, as compared to the effect of the financial markets;

- Alpha to determine risk adjusted skill;

- Risk and return evaluation components of the investment manager(s) and the composite portfolio should be compared to an appropriate benchmarks and peer group.

## X. Approval

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**The NSCC Foundation** **Title** ______________________________ **Date** ____________

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**The NSCC Foundation** **Title** ______________________________ **Date** ____________