

Long Term Investment Policy

INTRODUCTION

The Principle purpose of this Investment Policy Statement is to provide long term direction to Southern Maine Community College (SMCC) for the investment of its funds and the spending of income. A secondary purpose is to describe the underlying logic and philosophy supporting this statement.

PRINCIPLES AND ASSUMPTIONS

We, the **Foundation Board of Directors, on behalf of SMCC** outline below the principles that have guided us in preparing this Policy Statement.

- **We are long term investors.** This enables us to purchase long term assets, such as equities, which tend to have high returns over many years but whose price volatility precludes their use by those with shorter time horizons. By keeping our long term focus in mind at all times, we hope to weather the periodic bad times when investors with short term orientations tend to panic. We expect this long term view to provide us with better long range results than will be earned by those who pick short term investments or who will abandon planned strategies during turbulent years.
- **We expect equities to provide greater returns over the long term, than bonds or cash.** We say this knowing that both economics and markets suffer periodic (but normally brief) declines, and knowing that there have been and will continue to be some periods when cash and bonds outperform stocks.
- **We expect the American economy to grow, in real (inflation-adjusted) terms.** We expect the economy to show modest real growth over full business cycles, even after allowance for occasional recessions. We expect stock prices to grow somewhat in line with the economy, although the naturally volatile nature of stock prices makes such growth invisible except when observed over long periods. We expect dividends from stocks to grow more or less in line with the economy, and to fluctuate (in a real sense) much less than stock prices do.
- **We expect continued inflation.** We believe some inflation is a natural by-product of our present economic system. Its timing and severity we cannot predict, but we believe it be of sufficient magnitude that to ignore it would damage our ability to meet our long term objectives.

Southern Maine Community College

OBJECTIVES

- To achieve a balance between providing as much real spendable income as possible for current and future expenditures, without compromising all of the long term growth potential of the portfolio needed to offset the effects of inflation.
- To provide sufficient liquidity in the portfolio to meet the planned annual withdrawals set by the **Board Finance Committee, with input from the Foundation Board of Directors.**
- To avoid taking excessive risks with the portfolio.

STRATEGY

- The **Foundation Board of Directors'** aim is to set guidelines regarding the management of the Fund's assets that will allow the Investment Manager to meet the objectives of the Fund. (Real inflation adjusted returns without taking excessive investment risk to achieve it.) These guidelines include asset allocation parameters and diversification requirements.
- The Investment Manager has the latitude and discretion to make tactical asset allocation changes between equities, fixed income, and cash equivalents, as the Investment Manager deems appropriate and prudent, based on changing conditions in the capital markets, providing the Manager stays within the guidelines set by the **Foundation Board of Directors** as outlined in the Investment Policy.
- The bond portion of the portfolio will be, first, to provide a higher income stream to supplement the modest current income from stocks, and second, to dampen overall portfolio price volatility.

RESTRICTIONS

While realizing that all investments involve both uncertainty and risk, and that some (but not all) kinds of risk bear long term rewards, the **Foundation Board of Directors** does not wish to take unnecessary risks with the portfolio. Asset allocation will therefore be bound by the following limits:

Cash & Cash Equivalents	0% to 20% of portfolio
Debt Securities	30% to 70% of portfolio
Equity Securities	30% to 70% of portfolio

- Purchases of fixed income securities should be investment grade (S & P or Moody's "A" rated or better) with downgraded fixed income securities considered for sale.

Southern Maine Community College

- No single equity will comprise more than 10% of the total value of the portfolio. In an attempt to diversify equities across a variety of domestic sectors and industries, the domestic portfolio's sector exposure will be restricted to a variance of 50% to 200% of the S & P 500 sector breakdown, with the exception of those sectors representing only 5% or less of the S & P 500.
- The equity portfolio may be diversified as follows:
 - Small capitalization equities – 0% - 20% of portfolio.
 - International equities – 0% - 25% of portfolio.
- The following assets and transactions are prohibited: commodities, option contracts, derivative securities or similar instruments (except US Treasury Strips and mutual funds), short selling, margin credit, limited partnerships, and direct real estate investments.
- The Investment Manager may not sell any security short, buy securities on margin, borrow money or pledge assets, or buy or sell uncovered options, derivative securities, commodities, or currencies within this account. All equity positions must be priced in U.S. Dollars.

SPENDING POLICY

- The **Board Finance Committee, with input from the Foundation Board of Directors**, will determine on an annual basis how much income will be spent and how much will be reinvested unless such income is specified by the donor and was approved by the Foundation. Since the assets are to be managed on a total return basis, payouts may come from earned income, realized capital gains, or a combination of the two. Any return above the payout is to remain invested to grow for future needs.

PERFORMANCE MEASUREMENT & EVALUATION

- Ultimately the success of this account will be measured against its stated objectives. The performance will be the result partly of the constraints and guidelines established in this Statement, and partly the results of the Investments Manager's actions.
- Our Inflation measure will be the Consumer Price Index for Urban Consumers.
- The Investment Manager's total account performance will be compared to an appropriate blended benchmark that includes Lehman Intermediate Government Bond Index, the Standard and Poor's 500, Russell 2000, and MSCI EAFE. Each asset class within the portfolio, including cash dedicated to that asset class, will be compared to the indices described above.
- We require account performance to be calculated in accordance with the Association for Investment Management and Research (AIMR) Performance Presentation Standards.

SUPERVISION

- The **SMCC Dean of Finance** will periodically report to the **Foundation Board of Directors** and **Board Finance Committee** on the administration of these funds.
- The **Board Finance Committee** will periodically report to the **Foundation Board of Directors** on the administration of these funds.
- The Investment Manager, in recognition of its role as a fiduciary of the Funds, must assume the responsibilities related to the following areas:

Investment Program

1. Investing assets in accordance with the objectives as defined in the document.
2. Exercising full discretionary authority as to all buy, hold and sell decisions for each security under management.

Communication

Monthly – Statements will be provided to the **SMCC Dean of Finance**

1. All principal cash transactions, including all buys and sells in sufficient descriptive detail, and including commissions paid. Statements should also indicate all income cash transactions, including the sources and nature of all interest and dividends.
2. Portfolio Composition showing asset structure for each major asset class security.
3. Positions, by individual security, showing both cost and market value. In cases of commingled assets, the unit position cost and market value will be used.

Annually – The Investment Manager will report either on an annual basis or at the request of the **SMCC Dean of Finance**, the investment performance of the fund.

At least once a year the **Foundation Board of Directors and the Board Finance Committee** will review this Policy Statement to ensure that it remains appropriate and is complete.

The **Foundation Board of Directors and the Board Finance Committee** requests prompt notice of any changes in the Investments Manager's (1) fundamental investment strategy, (2) personnel, (3) firm ownership. We also request prompt notice of any deviations from the restrictions outlined in this policy.

REVIEW DATES: Annual review by the Foundation Board of Directors in January.
Midyear review by Board Finance Committee in July.