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| Policy Number and Title: | 200.304 Title III Quasi-Endowment Fund Investment Policy | | |
| Approval Authority: | Board of Regents | Date Effective: | June 18, 2021 |
| Responsible Office: | Accounting | Responsible Office Contact: | Vice President for Business and Finance |

1. POLICY STATEMENT/REASON FOR POLICY

The purpose of this policy statement is to implement a set of general investment policies which the Board of Regents of Bay Mills Community College considers appropriate for the Quasi-Endowment Fund, which comply with applicable federal law, and which provides direction and guidance to the Quasi-Endowment Fund's investment managers, as they may be designated from time to time.

2. ENTITIES AFFECTED BY THIS POLICY

Accounting and Administration Department(s).

3. WHO SHOULD READ THIS POLICY

Administrators.

4. WEB SITE ADDRESS FOR THIS POLICY

-This policy can be found at:

<http://www.bmcc.edu/about-bmcc/governance-administration/college-policies>

5. FORMS/INSTRUCTIONS

No forms required.

6. HISTORY

-Amended: June 19, 2015; June 18, 2021.

-Next Review Date: June 19, 2018; June 18, 2024.

-BMCC reserves the right to revise policies at any time.

7. THE POLICY

BAY MILLS COMMUNITY COLLEGE TITLE III QUASI-ENDOWMENT FUND INVESTMENT POLICY

- I. **Purpose.** The Quasi-Endowment Fund is a fund which the governing board of BMCC establishes to function as an endowment in that the principal is to be retained and invested. However, the entire principal and income may be spent at any time at the discretion of the governing board.

The purpose of this policy statement is to implement a set of general investment policies which the Board of Regents of Bay Mills Community College considers appropriate for the Quasi-Endowment Fund, which comply with applicable federal law, and which provides direction and guidance to the Quasi-Endowment Fund's investment managers, as they may be designated from time to time.

- II. **General Goal.** The investment goals for the Quasi-Endowment Fund are:

- A. Obtain a competitive rate of return on the fund commensurate with the "prudent man rule", as defined and established by Michigan trust law principles for investment management, consistent with the College's risk taking ability, and the Board of Regents' responsibility to manage the Fund for the benefit of the College; and
- B. Comply with applicable federal law, which requires investment of the income and corpus in low-risk securities in which a regulated insurance company may invest under the laws of the State of Michigan, such as federally insured bank savings accounts, comparable interest-bearing accounts, certificates of deposit, money market funds, mutual funds, or obligations of the United States.

- III. **Investment Objectives.**

- A. The overall financial objectives of the Quasi-Endowment Fund are to support the current and future operations of Bay Mills Community College and to preserve and enhance the purchasing power of the of the Quasi-Endowment Fund.
- B. Investment objectives are primarily oriented toward the long term capital growth and appreciation of the Quasi-Endowment Fund.
1. Achieve at least a 4% real rate of return (i.e., after adjusting for inflation as measured by the Consumer Price Index) on a long-term basis (i.e., 3 to 5 year time frame over the course of a market cycle).
 2. Achieve long-term investment results that meet or exceed an appropriate blended market index representative of the investment strategies utilized by the Quasi-Endowment Fund.
 3. Investment performance will be judged primarily on a long-term basis (i.e., 3 to 5 year time frame over the course of a market cycle) rather than on a short-term basis (i.e., one year or less).
- C. The Fund shall be diversified so as to minimize the annual volatility of returns consistent with the pursuit of higher long-term returns.

IV. Asset Allocation.

- A. Diversification is a key factor in asset allocation. As a result, the asset allocation process is strategic in nature and focuses on growth while minimizing risk. Asset allocation is the primary factor in performance variability over time.

The Quasi-Endowment Fund asset allocation targets and ranges stated below have been established in an effort to achieve the investment objectives noted previously.

| | Target | Range |
|------------------|--------|----------|
| Equity | 60% | 30 - 75% |
| Fixed Income | 40% | 25 - 55% |
| Cash Equivalents | 0-5% | 0 - 15% |

Real assets includes only commodities. Complimentary strategies include the use of hedge funds offered in a mutual fund format.

The investment manager, within the above ranges, will make all tactical asset allocation decisions (over- and under-weights) based on their view of market conditions and their outlook in order to pursue the investment objectives stated herein. Any deviation beyond the noted asset allocation ranges must have prior approval by the Board of Regents, or their designated Agent.

- B. Equity Guidelines.

In recognition of the expected returns and volatility provided by different segments of the equity market, the following targets have been established (values shown as a percentage of overall assets held within the portfolio).

| | Target | Range | Benchmark |
|---------------------------|--------|--------|-----------------------|
| Large Cap Domestic Equity | 40% | 15-55% | Russell 1000 Index |
| Mid Cap Domestic Equity | 7% | 5-15% | Russell Midcap Index |
| Small Cap Domestic Equity | 8% | 5-15% | Russell 2000 Index |
| International Equity | 5% | 0-15% | MSCI EAFE Index |
| Emerging Markets | 0-5% | 0-5% | MSCI Emerging Markets |

The equity assets will be managed in accordance with the following:

1. The equity component of the portfolio may be comprised of individual equity selections, mutual funds, common trust funds, or similar equity funds designed to achieve the goals stated herein.
2. The equities are to be broadly diversified; equity investment in any single company should not exceed 7% of the total equity assets.

C. Fixed Income Guidelines.

Fixed income assets will be managed in accordance with the following:

1. Permissible securities include U.S. Treasuries, U.S. Government Agencies, corporate bonds, mortgage-backed securities (MBS), and asset-backed securities (ABS). With the exception of obligations of the U.S. Government and its agencies, no purchase should be made which would cause holdings of any one issuer to exceed 5% of the assets under management.
2. Fixed income securities are limited to those considered investment grade at the time of purchase. Investment grade shall be defined as those securities rated by Standard and Poor's to be BBB or better, or Moody's as BAA or better, or an equivalent rating by a nationally recognized rating agency.
3. Fixed income mutual funds may be used to further enhance diversification, provide better coverage of the yield curve, and/or improve liquidity.
4. Notwithstanding the above, a fixed income mutual fund may contain certain bonds that are not investment grade as long as the overall credit quality of the fixed income mutual fund is investment grade.
5. Notwithstanding the above, in the interests of diversification and lowering overall volatility in the portfolio, the portfolio may allocate up to 5% of its assets in a high yield mutual fund.
6. The portfolio may also invest up to 10% of its assets in international bonds through the use of a mutual fund.

D. Prohibited Investments.

The following types of private placement investments may not be purchased without the prior approval of the Board of Regents:

1. Commodities
2. Private Placements
3. Letter Stock
4. Short sales or margin transactions.

However, mutual funds may be used in the portfolio to achieve the targeted weights in commodities (4% target) and complimentary strategies (14% target).

V. Performance Measurement.

The following standard of performance shall be utilized to determine achievement of the Quasi-Endowment Fund under this policy.

The Fund's performance will be evaluated in comparison to a blended market index representative of the investment strategies employed by the Quasi-Endowment Fund. In alignment with the Quasi-Endowment Fund's allocation targets stated previously, the blended market index shall consist of the following market indexes.

| Index | Representative of Strategy |
|---|-------------------------------------|
| Russell 1000 Index | Large Cap Equity |
| Russell Midcap Index | Mid Cap Equity |
| Russell 2000 Index | Small Cap Equity |
| MSCI EAFE Index | International Equity |
| MSCI Emerging Market Index | Emerging Markets Equity |
| Barclays Capital (1-3 Year) Gov/Credit Index | Short Term Bonds |
| Barclays Capital Gov/Credit Intermediate Index | Intermediate Bonds |
| High-Yield Debt | Merrill Lynch High Yield Master II |
| International Markets Debt | Citi WBIG Non-US |
| Commodities | S&P Goldman Sachs Commodity Index |
| Diversified Hedge | HFRX Macro Index |
| Aggressive Hedge | HFRX Equity Hedge Index |
| Conservative Hedge | HFRX Relative Value Arbitrage Index |
| Citigroup 3 Month T-Bill | Cash & Equivalents |

VI. Communications.

- A. Investment Manager Communications with Board of Regents and/or Agent.
 1. The Board of Regents shall designate in writing an agent to receive communications with the investment manager, and may designate in writing itself or a committee of the Board to receive specific communications.
 - a. The investment manager shall provide timely quarterly portfolio valuations and investment returns.
 - b. The investment manager shall provide timely updates and/or review of any significant changes in management, research, personnel, or ownership of the investment manager.
 2. In order to ensure that the guidelines established herein are being adequately met and to review the continued appropriateness of said investment policy and guidelines, a meeting between the investment manager and the Board of

Regents, or its designated Agent, shall be held at least annually. During these meetings, the investment manager will address the following:

- a. Review past investment performance, evaluate the current investment outlook, and discuss investment strategy.
 - b. Discuss any changes to anticipated cash flows, investment objectives, or other criteria of the Bay Mills Community College Quasi-Endowment Fund that may warrant changes to this investment policy, asset allocation, and/or investment strategies utilized within the Fund.
3. The investment manager shall make such other communications as it feels necessary to facilitate achievement of the goals and objectives of the Quasi-Endowment Fund.
- B. Board of Regents and/or Agent Communications with Investment Manager.
1. The investment manager shall be provided on a timely basis with the annual revision of this Policy should one be merited. Absent such revision or amendment, this policy should be considered effective and absolute.
 2. The agent, committee, or the Board shall meet each year to:
 - a. Review and discuss any modifications and changes to the Title III Quasi-Endowment Fund Investment Policy.
 - b. Identify significant anticipated changes in the cash flow of Bay Mills Community College.
 - c. Consider any other matters that bear upon the performance of the Fund or the interest of the Bay Mills Community College.

We do hereby certify that the foregoing Bay Mills Community College Title III Quasi-Endowment Fund Investment Policy was duly presented and adopted by a vote of ____ For, ____ Against, ____ Abstaining, ____ Absent; by a vote of the Bay Mills Community College Board of Regents, taken June 18, 2021.

BAY MILLS COMMUNITY COLLEGE
BOARD OF REGENTS

By: _____
Beverly Carrick
Secretary