Finance and Investment Policies

Investment Policy

I. Statement of Purpose

The purpose of this policy statement is to assist the FKCC Foundation’s Board of Directors in effectively supervising and monitoring its investment activities and to provide guidance to investment managers employed to manage its assets on behalf of the Directors. This statement shall be reviewed every three years to ensure that it continues to reflect the appropriate expectations, goals, and objectives of the Foundation.

II. Operational Cash Investments

Cash may be retained in a Foundation checking account or other liquid asset management account to cover operational costs of the Foundation and the special funds that it oversees. Whenever possible, operational funds should be deposited in liquid income producing account(s). The Foundation Executive Director and/or the President of the Foundation’s Board of Directors have the authority to transfer operational funds between accounts. All other funds should be placed in long-term investments.

   a. Sufficient Cash will be retained in a Foundation checking account or other liquid asset management account to support timely payment of all obligations. A cash flow analysis should be performed on a regular basis to ensure proper balances.
   b. Cash in excess of short term requirements will be deposited in a liquid but income producing account(s).

Contributions to restricted funds, quasi-endowment funds, or endowment funds should be deposited in the appropriate intermediate or long term account by the Executive Director with the approval of the President of the Foundation’s Board of Directors at least on a quarterly basis. Matching funds, earned interest, or realized or unrealized gains should be credited to the appropriate accounts and deposited accordingly at least annually.

III. Endowment Investment Policy Objectives

The purpose of the Foundation is to support the Florida Keys Community College (College) and its mission over the long-term. All Foundation investments should comply with the prudent man rule. Accordingly, the primary investment objectives of the Foundation Endowment investments are to:

   a. Preserve the real purchasing power of the principal, and
   b. Provide a stable source of perpetual financial support to the College in accordance with the Foundation’s Endowment spending policy.
Three types of funds are classified Endowment funds for this Policy. “True Endowment” funds are funds received from a donor with the restriction that the principal is not expendable. “Term Endowment” funds are funds for which the donor stipulates that the principal may be expended after a stated period or upon the occurrence of a certain event. “Quasi-endowment” funds or “funds functioning as endowment” are funds that are established by the Board to function like an endowment fund but may be expended at any time at the discretion of the Board.

In order to preserve the purchasing power of both principal and of withdrawals made available for spending, the long-term annualized total rate of return objective for the Foundation is inflation plus 5 percent. A minimum rate of return equal to the rate of inflation is required to preserve the real purchasing power of the Foundation, and the additional 5 percent is required to provide for spending.

To satisfy its long-term rate of return objective, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and from current yield (interest and dividends). Asset allocation guidelines and the investment manager structure should ensure adequate diversification to reduce the volatility of investment returns.

IV. **Target Asset Allocation**

To achieve its investment objectives, the Foundation’s funds shall be allocated among a number of asset classes. These asset classes may include: Cash and cash equivalents, Domestic equity, Domestic fixed income, International equity, International fixed income, Real estate.

The following Target Asset Mix Table defines the Foundation’s target asset allocation and the minimum and maximum allocation limits of each asset class:

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Minimum</th>
<th>Target</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities</td>
<td>60 percent</td>
<td>70 percent</td>
<td>80 percent</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>20 percent</td>
<td>25 percent</td>
<td>30 percent</td>
</tr>
<tr>
<td>Real Estate, Other</td>
<td>0</td>
<td>5 percent</td>
<td>10 percent</td>
</tr>
</tbody>
</table>

V. For Unrestricted and Restricted funds the target asset allocation will be dependent on the cash flow requirement of each type of funds as follows:

<table>
<thead>
<tr>
<th>Cash Flow Requirement</th>
<th>Asset Class</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 to 6 months</td>
<td>Interest checking or money fund</td>
</tr>
<tr>
<td>6 months to 5 years or</td>
<td>Short Term or Intermediate Term Fixed Income</td>
</tr>
<tr>
<td>uncertain/reserves</td>
<td></td>
</tr>
</tbody>
</table>

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VI. The Foundation’s Board of Directors may designate certain Unrestricted or Restricted funds as Quasi-endowment funds and invest them for long term appreciation.

The general policy shall be to diversify investments among both equity and fixed income securities so as to provide a balance that will enhance total return while avoiding undue risk concentration in any single asset class or investment category. The Investment Consultant/Manager(s) should monitor the total portfolio to ensure that risk and return levels are appropriately balanced as per prudent practices.

VII. Equity Securities

The purpose of equity investments, both domestic and international, is to provide capital appreciation, growth of income, and current income, with the recognition that this asset class carries with it the assumption of greater market volatility and increased risk of loss. The Investment Consultant/Manager should maintain the equity portion of the portfolio at a risk level roughly equivalent to that of the equity market as a whole, over an annualized moving three and five year time period.

Equity holdings shall generally be restricted to readily marketable securities of corporations that are actively traded on the major stock exchanges. International equity investments of similar marketability will be permitted in the total equity position.

Decisions as to individual security selection, number of industries and holdings, current income levels and turnover are left to the selected Investment Manager(s), subject to the standards of fiduciary prudence. However, no single major industry shall represent more than 20 percent of the total market value of the investments, and no single security shall represent more than 5 percent of the total market value of the investments.

The Investment Manager(s) is prohibited from buying securities on margin, borrowing money or pledging assets, or trading uncovered options, commodities or currencies without the advance written approval of the Foundation’s Board of Directors. The Investment Manager(s) is also restricted from investing in private placements and restricted stock unless otherwise permitted in writing by the Finance and Investments Committee. It is expected that no assets will be invested in securities whose issuers are or are reasonably expected to become insolvent, or who otherwise have filed a petition under any state or federal bankruptcy or similar statute.

Within the above guidelines and restrictions, the Manager(s) has complete discretion over the timing and selection of equity securities.

Investments in commingled multi-strategy funds (such as the CommonFund or similar managers) are permitted to the extent the fund has a large client participation base of similar interests.
VIII. **Fixed Income Securities**

The purpose of fixed income investments, both domestic and international, is to provide diversification, and a predictable and dependent source of current income. It is expected that fixed income investments will not be totally dedicated to the long-term bond market, but will be flexibly allocated among maturities of different lengths according to interest rate prospects.

Investments in fixed income securities should be managed actively to pursue opportunities presented by changes in interest rates, credit ratings, and maturity premiums, with the objective of meeting or exceeding the results of the fixed income market as represented by the annualized returns of the appropriate standardized market index or blend of indices which match the portfolio asset allocations (e.g. Lehman Aggregate Bond Index, Merrill Lynch High Yield Master II Index, etc.) over an annualized moving three and five year time period.

The Investment Manager(s) may select from appropriately liquid preferred stocks, corporate debt securities, and obligations of the U. S. Government and its agencies. These investments will be subject to the following limitations.

- No issues may be purchased with more than 30 years to maturity;
- Investments of a single issuer, with the exception of the U. S. Government and its agencies, may not exceed 5 percent of the total market value of the investments;
- No more than 15 percent of the corporate debt securities in the fixed income portfolio may be rated below-investment grade.

Within the fixed income component, the Investment Manager(s) is prohibited from investing in private placements, and fixed income or interest rate futures, without the prior written approval of the Foundation’s Board of Directors.

Within the above guidelines and restrictions, the Manager(s) has complete discretion over the timing and selection of fixed income securities.

Investments in commingled multi-strategy funds (such as the CommonFund or similar managers) are permitted to the extent the fund has a large client participation base of similar interests.

IX. **Cash and Cash Equivalents**

The Investment Manager(s) may invest in the highest quality commercial paper, repurchase agreements, Treasury Bills, certificates of deposit, and money market funds to provide income, liquidity for expense payments, and preservation of the Foundation’s principal value. Commercial paper assets must be rated at least A1 or P-I (by Moody’s or S&P). No more than 5 percent of the total market value of the investments may be invested in the obligations of a single user, with the exception of the U. S. Government and its agencies.

Uninvested cash reserves shall be kept to a minimum; short term, cash equivalent securities are usually not considered as appropriate investment vehicle for the Foundation’s
endowment or quasi-endowment assets. However, such vehicles are appropriate as
depository for income distributions from longer-term investments, or as needed for
temporary placement of funds directed for future investment to the longer-term capital
markets. Also, such investments are the standard for contributions to the current fund or
for current operating cash.

Within the above guidelines and restrictions, the Investment Manager(s) has complete
discretion over the timing and selection of cash equivalent securities.

X. Real or Personal Property

As a normal practice the Foundation will not directly purchase or own any real or personal
property for investment purposes. However, the Foundation may purchase real estate that
has a strategic value to the College. Normally, the Foundation will not accept property
offered by a donor unless it is useable by the College or it can quickly be turned into cash
by the Foundation. However, the Foundation may retain property contributed by a donor
for as long as the Foundation’s Board of Directors deems it advisable.

XI. Donor Requests for Separately Managed Funds

Occasionally gifts are offered to the FKCC Foundation whereupon the donor wishes to
place certain restrictions on the form of investment to which these amounts may be
applied. These funds may be endowment funds, charitable trusts or other resources
required by their nature to be separately invested and managed. Such gifts will be invested
according to the donor’s requirement only to the extent such requirement is a condition of
the gift, and the amount of the gift justifies the unique investment administration. The
Finance and Investment Committee must approve acceptance and separate administration
of such funds. These monies will be excluded from the total pool of available funds for the
purposes of establishing asset allocation percentages as directed in the policy. As a normal
course, donors will be encouraged to entrust endowed gifts to the Foundation without
restriction of the investment of these funds, and the Foundation may, from time to time,
determine that the refusal of such restrictions, and the gift, is more prudent than
acquiescence.

XII. Investment Manager(s) Selection, Reporting, and Evaluation

The Finance and Investments Committee will select Investment Manager(s) for the
Foundation assets based on proven record of performance versus industry benchmarks and
reasonable management fees. References from comparable institutions will be required
from all competing investment managers.

The Investment Manager(s) responsible for the investment of assets shall report quarterly
on the performance of the portfolio, including comparative returns for the funds and their
respective benchmarks; also included will be a complete accounting of all transactions
involving the funds during the quarter, together with a statement of beginning market
values, fees, capital appreciation, income and ending market value, for each account; and will be supplemented by other meetings as necessary for proper review.

The Foundation recognizes that market conditions may greatly influence the ability of a manager to meet year-to-year investment goals and objectives. Further, the Foundation realizes that significant cash flow may also affect the ability of a manager to meet a specific short term objective. Accordingly, the Foundation expects to monitor performance through absolute, relative, and comparative terms over annualized time periods. Absolute results will determine the rate of fund growth, while relative results will provide the Foundation with a view of investment performance compared to the securities markets and comparative results will present performance as compared to other investment managers.

Review of portfolio results in absolute terms shall be made with consideration towards meeting and/or exceeding the expressed minimum real rate of return over a moving five and ten year time period. Review of portfolio results in relative terms shall be accomplished primarily comparing results, over a moving annualized three and five year time period, to assigned market indices. Review of portfolio results in comparative terms shall be accomplished primarily through universe comparisons over moving annualized one, three and/or five year time periods.

XIII. Investment Consultant Selection and Function

The Finance and Investments Committee may recommend to hire the services of an Investment Consultant to assist in development or amendment of this Investment Policy, or selection or evaluation of Investment Manager(s). The Investment Consultant must have a proven record of performance, reasonable fees, and references from comparable institutions.

XIV. Execution of Policies

The Foundation’s Board of Directors shall delegate responsibility for execution of the policies and procedures outlined in this statement to the Executive Director and President of the Foundation’s Board of Directors. Operational cash investments and endowment investments may be executed by either the Executive Director or the President of the Foundation’s Board of Directors.

Foundation Expenses

I. Policy Statement

The FKCC Foundation is empowered to expend, on behalf of the Florida Keys Community College, monies for the advancement of the College for any lawful purpose including but not limited to: scholarships, loans, educational promotion, program support, and general operations.
II. Administrative Guidelines

a. Foundation Executive Director may approve expenditures of unrestricted funds consistent with the approved Foundation Budget.

b. Purchasing must be performed per the College purchasing policies and procedures. The Foundation Board of Directors must be informed of all purchases exceeding $25,000 at the next Board meeting.

c. The Executive Director of the Library Gallery Fund may negotiate and sign contracts for artistic productions and support services for artistic productions on behalf of the Foundation consistent within the approved annual budget for the Library Gallery Fund. Artistic productions and support services shall be exempt from purchasing rules in (b).