



Investment and Spending Policy
Approved November 5, 2015

College of Southern Maryland Foundation

Mason Investment Advisory Services

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I. Executive Summary

Type of Fund: Foundation/Endowment

Planning Time Horizon: Greater than 5 years

Asset Allocation:

Asset Allocation Targets - "C" Portfolio (Growth & Income)	
<u>Asset Category</u>	<u>Portfolio Percentage Allocation</u>
I. Safety Assets	2.0%
Total Safety Assets	2.0%
II. Income Assets	
Domestic Bonds:	
Short Term Maturities (1-5 yrs)	7.25%
Intermediate Term Maturities (5-10 yrs)	7.5%
Long Term Maturities (10+ yrs)	7.5%
Inflation Protected Bond	5.75%
International Bonds	5.0%
Total Income Assets	33.0%
III. Growth Assets	
Large Cap U.S. Stocks - Value	13.5%
Large Cap U.S. Stocks - Growth	8.0%
International Stocks - Value	8.0%
International Stocks - Growth	5.5%
Growth Real Estate	11.0%
Total Growth Assets	46.0%
IV. Aggressive Assets	
Small Cap U.S. Stocks - Value	5.0%
Small Cap U.S. Stocks - Growth	3.0%
International Small Cap	2.5%
Energy/Natural Resources	4.25%
Commodities	4.25%
Total Aggressive Assets	19.0%
TOTAL PORTFOLIO	100.0%

Rebalancing Triggers: 30% above or below targeted allocation

Evaluation Benchmark: Total return to exceed performance of two weighted indices – one domestic index comprised of 65% Wilshire 5000 Total Market Index and 35% Barclays Capital Aggregate Bond Index and one global index comprised of 65% S&P Global Broad Market Index and 35% Barclays Capital Global Aggregate Index

II. Introduction

Description of the Organization

As the leader among Maryland community colleges, the College of Southern Maryland is a thriving and technologically advanced institution that delivers quality higher education programs and services. The CSM Foundation is the fundraising arm of the College of Southern Maryland. The Foundation's primary function is to further the objectives of the College by cultivating relationships, actively seeking and accepting tax-deductible gifts, managing, investing, and disbursing all funds and endowments raised to support the needs of CSM students and the College.

Investing in the College of Southern Maryland through the Foundation is an investment in the community. Your gift, regardless of size, will transform the life of a CSM student by providing lifelong learning opportunities to meet the educational, employment and enrichment needs of our community.

The College of Southern Maryland Foundation, established in 1970, is a non-profit, tax-exempt organization with a charge to promote academic excellence, growth, progress, and the general welfare of the College of Southern Maryland by raising and managing funds and providing support to strengthen and develop the college and its objectives.

The foundation seeks to provide outstanding educational opportunities and services to students, employees and the Southern Maryland community, which is accomplished through successful friend-raising and fundraising.

Purpose

The purpose of this Investment Policy Statement (IPS) is to assist the Foundation's Board of Directors in effectively supervising, monitoring and evaluating the investment portfolio. The Pooled Investment Fund's investment program is defined in the various sections of the IPS by:

- Stating in a written document the Board's attitudes, expectations, objectives and guidelines for the investment of all Fund assets.
- Setting forth an investment structure for managing all Fund assets. This structure includes various asset classes, investment management styles, asset allocation and acceptable ranges that, in total, are expected to produce a sufficient level of overall diversification and total investment return over the long-term.
- Providing guidelines for each investment portfolio that control the level of overall risk and liquidity assumed in that portfolio, so that all Fund assets are managed in accordance with stated objectives.
- Encouraging effective communications between the Board, To Be Selected Asset Management, Inc. (Consultant) and the money managers.

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- Establishing formal criteria to monitor, evaluate and compare the performance results achieved by the money managers on a regular basis.
- Complying with all applicable fiduciary, prudence and due diligence requirements that experienced investment professionals would utilize, and with all applicable laws, rules and regulations from various local, state, federal and international political entities that may impact Fund assets.

This IPS has been formulated, based upon consideration by the Board of the financial implications of a wide range of policies and describes the prudent investment process that the members deem appropriate.

This document states the investment policy of the Board of Directors (the “Board”) of the College of Southern Maryland Foundation (the “Foundation”). It applies to the Foundation’s professionally managed invested assets (the “Pooled Investment Fund”) and to the spending rate for assets invested in the Pooled Investment Fund. The Pooled Investment Fund consists of endowed funds and long term funds.

The Investment Committee (Committee) is empowered by the Board to direct and monitor the investment management of the Pooled Investment Fund. This statement has been chosen by the Committee and approved by the Board as the most appropriate policy for achieving the financial objectives of the Pooled Investment Fund, which are described in the “Investment Objectives” section of this document. The Foundation has adopted a long-term investment horizon such that the chances and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets.

Certain terms in this document, that are italicized, are more specifically defined in the Definitions (Section X).

III. Investment Objectives

The primary investment objective of the Pooled Investment Fund is to provide a relatively stable, inflation adjusted, annual payout to support the Foundation’s defined spending rate. There will be some inevitable volatility in principal value in this Pooled Investment Fund, but it may offer the potential for a sustainable payout plus inflation protection over the long term.

To assist the Foundation in gauging the success of the return on investments, the Foundation shall employ as its investment minimum return goal the following formula:

Nominal Net of Fee Time-weighted Return - CPI = Spending Rate (5%)

The target return is measured based on a trailing five year annualized return. This is the time period used to gauge whether or not the portfolio is meeting its objective. The return in any individual period may be more or less than the target. The probability of success of achieving the minimum return goal

increases as the length of the evaluation period increases. It is anticipated that there will be periods of time where the five year trailing calculation will be below the minimum return goal. There must be a tolerance for these periods in order to remain with the long term strategy and not change at inopportune times.

IV. Spending Policy

The Foundation shall support the Foundation's charitable pursuits by annually distributing an amount not to exceed 5% of the Pooled Investment Fund's average market value over the prior 20 quarters. This 20 quarter average was chosen to smooth out the payouts based on a more volatile, growth-oriented portfolio.

This spending policy may be revised by the Committee and submitted to the Board for approval from time to time.

V. Asset Allocation

The Committee believes that the Pooled Investment Fund's risk and liquidity posture are, in large part, a function of asset class mix. The Investment Consultant (Consultant) has presented, to the Committee, summary information about the long-term performance of various asset classes, focusing on balancing the risks and rewards of market behavior. Considering the Pooled Investment Fund's investment objective, time horizon, risk tolerances, performance expectations, and asset class preferences, an appropriate portfolio allocation was identified, as shown in the following "Asset Allocation Targets" chart. The targets shown in the chart will not be changed without Committee approval.

After the allocation strategy is implemented, the percentage allocation to each asset class sub-category may vary by as much as 30% of the target on either side of the target amount. These ranges are illustrated in the following Asset Allocation Target chart in this section. The Committee recognizes that significant capital market movements, as well as relative manager performance, can lead to the asset allocations moving beyond the allowable ranges of 30%. The Consultant shall monitor the asset allocations periodically and assure that the allocations stay within the established ranges by rebalancing as needed. Any change in methodology will be communicated to the Foundation in writing contemporaneously.

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Long Term Strategic Asset Allocation Targets - "C" Portfolio (Growth & Income)			
<u>Asset Category</u>	<u>Rebalancing Trigger - Low End</u>	<u>Portfolio Percentage Allocation</u>	<u>Rebalancing Trigger - High End</u>
	←————→		
I. Safety Assets	1.4%	2.0%	2.6%
Total Safety Assets		2.0%	
II. Income Assets			
Domestic Bonds:			
Short Term Maturities (1-5 yrs)	5.1%	7.25%	9.4%
Intermediate Term Maturities (5-10 yrs)	5.3%	7.5%	9.8%
Long Term Maturities (10+ yrs)	5.3%	7.5%	9.8%
Inflation Protected Bonds	4.0%	5.75%	7.5%
International Bonds	3.5%	5.0%	6.5%
Total Income Assets		33.0%	
III. Growth Assets			
Large Cap U.S. Stocks - Value	9.5%	13.5%	17.6%
Large Cap U.S. Stocks - Growth	5.6%	8.0%	10.4%
International Stocks - Value	5.6%	8.0%	10.4%
International Stocks - Growth	3.9%	5.5%	7.2%
Growth Real Estate	7.7%	11.0%	14.3%
Total Growth Assets		46.0%	
IV. Aggressive Assets			
Small Cap U.S. Stocks - Value	3.5%	5.0%	6.5%
Small Cap U.S. Stocks - Growth	2.1%	3.0%	3.9%
International Small Cap	1.8%	2.5%	3.3%
Energy/Natural Resources	3.0%	4.25%	5.5%
Commodities	3.0%	4.25%	5.5%
Total Aggressive Assets		19.0%	
TOTAL PORTFOLIO		100.0%	

VI. Investment Restrictions

When selecting mutual funds and exchange-traded funds (ETFs), the Consultant will use due diligence criteria prescribed in this Investment Policy Statement (mutual funds and ETFs will be referred to as “managers” unless specifically referenced).

No “illiquid” investments, such as private placements, limited partnerships, and hedge fund vehicles (among others) may be purchased by the Consultant without the recommendation of the Committee and approval of the Board.

VII. Due Diligence Policy

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For an asset allocation strategy to be effective, each asset class must be represented by using a manager (or managers) that will best represent the class objective. Otherwise, the results will most likely be different than anticipated. This is particularly true during times of adversity or crisis.

A qualifying manager must be a registered investment advisor under the Investment Advisors act of 1940. The Consultant will decide which managers to use based upon their particular contribution to the Pooled Investment Fund.

A rigorous research process, composed of both quantitative and qualitative review, is used to identify managers for strategy implementation.

Quantitative Analysis

The quantitative analysis narrows a large universe of qualifying managers into a small group of candidates. Managers who pass this phase of the research process have characteristics which give them a better likelihood of stronger future performance based on criteria outlined below. The goal is not to chase returns, but to select the funds with the best likelihood of success going forward. A *returns based style analysis* and a *holdings based analysis* are performed where helpful in establishing an accurate asset class fit.

Qualitative Analysis

The qualitative analysis involves an in-depth review of the management company and its history. A review of historical portfolios will be used to ascertain the true style and risk posture of the manager over time. Personal interviews and on-site office visits are made, when appropriate. Existing and potential new managers are continuously monitored/ researched in an attempt to identify the best managers for strategy implementation.

The research process involves first an evaluation of fund families to identify superior families, followed by an analysis comparing the individual managers of the approved fund families in each asset class.

Fund Family Analysis

Each of the approved fund families will be reevaluated on a periodic basis. The analysis will include ranking a broad range of fund families as well as major ETF providers based on returns relative to peer universes. This performance ranking will focus on both open and terminated funds to get a full understanding of the success of the fund family as a whole over time, not just of the fund family's current offerings. We will compare performance ranking of each fund within each fund family amongst each particular fund's peer universe. These rankings will be averaged across each fund family's overall individual fund lineup. Only share classes which do not assess 12b-1 fees and only specific management mandates (not broad based fund-of-funds or target date funds) will be included. Fund share classes with 12b-1 fees will be eliminated to ensure comparisons of most competitively priced funds from each fund family being evaluated. Top fund families will then be compared based on factors such as their competitive cost structure, appropriate level of analytical talent, corporate culture, focus on long-term fundamentals, percentage of terminated/merged funds, and other intangibles.

Only when deemed necessary to obtain appropriate exposure to a desired asset class will we then look outside our list of identified superior fund families. For example where funds within superior fund

families do not provide the appropriate exposure targeted it may be necessary to utilize the best available fund from another fund family.

Individual Manager Analysis

Individual funds are selected from the approved fund families mainly on the basis of the style of manager(s) which is most appropriate in terms of constructing the target model portfolio. The manager(s) selected within each asset class should provide the appropriate level of diversification and style purity with the best likelihood of providing optimal performance after the hire date. While analysis will vary by asset class, the goal is to utilize funds from the particular superior fund families which provide strengths most relevant to the asset class being evaluated. Managers will be regularly evaluated for style drift and competitive cost structure.

Benchmarks and Reference Points

Several evaluation benchmarks are required to measure both the success of the allocation strategy as well as the managers used to implement the allocation. To measure the success of the allocation strategy, the Committee will use both domestic and global stock/bond mixes, as well as a Growth & Income Allocation Reference Point. These benchmarks are described below.

Domestic and Global Stock/Bond Mixes:

The domestic and global stock/bond mixes are comprised of the same ratio of equity to fixed income as that of the Pooled Investment Fund's long term targets (65% equity and 35% fixed income)¹. These mixes are derived from the indices described below. Monthly rebalancing is assumed. The performance of the equity/fixed income mixes is presented net of the average annual ETF and index fund expense ratio, prorated monthly.

65/35 Domestic Stock Domestic Taxable Bond Mix

- 65% Wilshire 5000 Total Market Index
- 35% Barclays Capital Aggregate Bond Index

65/35 Global Stock Global Taxable Bond Mix

- 65% S&P Global Broad Market Index
- 35% Barclays Capital Global Aggregate Index

The Wilshire 5000 Total Market Index represents all U.S. equity securities that have readily available prices.

The Barclays Capital Aggregate Bond Index represents the performance of the U.S. investment grade fixed-rate bond market, including both government and corporate bonds.

The S&P Global Broad Market Index (BMI) is a top-down, float capitalization-weighted index which measures the performance of the entire universe of institutionally investable equity securities.

¹ The Pooled Investment Fund has a long term target allocation of 65% equities and commodities and 35% bonds and cash. For purposes of structuring these equity/bond blends we use a 65% equity allocation equal to the combined equity/commodity allocation of the fund.

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The Barclays Capital Global Aggregate Bond Index provides a broad-based measure of the global investment-grade fixed income market, including government, credit and collateralized securities.

The Pooled Investment Fund, which contains both domestic and global investments that are not intended to match the domestic and global weightings of these stock/bond mixes, may achieve returns that are greater or less than these mixes, depending upon the relative performance of the domestic and global investments performance of small versus large cap stocks among other factors.

Growth & Income Allocation Reference Point:

This reference point is an asset-weighted average of the following Morningstar Prospectus Objective averages.

Multi-Asset Global: Mutual funds that seek total returns by investing in varying combinations of equities, fixed-income securities, and other asset classes. These managers may invest a significant portion of assets in securities of foreign issuers.

Balanced: Mutual funds that seek both income and capital appreciation by investing in a generally fixed combination of stocks and bonds. These funds generally hold a minimum of 25% of their assets in fixed-income securities at all times.

Asset Allocation: Income and capital appreciation are dual goals for Mutual Funds in this objective. Mutual funds often use a flexible combination of stocks, bonds, and cash; some, but not all shift assets frequently based on analysis of business-cycle trends.

The Committee agrees that this is a reference point. The performance of the Pooled Investment Fund may be greater or less, depending upon how aggressive the asset allocation strategy is relative to that of the managers included in the reference point.

Benchmarks for Managers

To measure the success of the managers used to implement the allocation, each manager will be measured against its specific peer group, using a category average of mutual funds with the same asset class focus. Fund families whose performance has, in aggregate, tended to be superior when compared to relative performance of other fund families will be deemed acceptable and thus generally used.

Other Considerations

Although short term underperformance will be tolerated and closely monitored by the Consultant, managers are normally expected to perform at or above their peer group averages over time. Both qualitative and quantitative measures have been developed to determine when a manager termination is appropriate.

VIII. Short Term Reserve Management Policy

From time to time the Foundation may maintain large cash balances in reserve for future needs and contingencies. The Consultant is authorized to manage these reserves for enhanced yields consistent with a conservative cash management policy. To manage credit risk, instruments used for cash management will be limited to the following:

- Money Market Mutual Funds or cash alternatives such as bank deposit accounts and "ultrashort bond funds"
- Government issues (known as "Treasuries")
- Government-Sponsored Enterprise Securities (known as "Agencies"), such as Farm Credit System, Federal Home Loan Bank System, Federal National Mortgage Association, some of which are not explicitly backed by the full faith and credit of the U.S. Government.
- FDIC insured Certificates of Deposit, to be bought in increments up to the maximum insured limit per bank to assure insurance coverage and only at banks rated 165 ("Excellent") or higher, as rated by the *Bank Financial Quarterly*, issued by IDC Financial Publishing, Inc.

With the possible exception of the "ultra short bond funds", no instrument will have a maturity at issue, or remaining maturity at purchase, of greater than twelve months. Generally, and depending upon the specific liquidity needs of the Foundation, a ladder strategy may be employed to further manage interest rate risk.

IX. Delegation of Authority and Responsibilities

Investment Committee

The Investment Committee is responsible for the development and implementation of the investment policy. This responsibility includes determining investment strategy, selecting the Consultant, establishing the scope and terms of the delegation of the investment management of the Pooled Investment Fund, and monitoring the Consultant's performance and compliance with the scope and terms of the delegation.

Board of Directors

The Board shall have final responsibility for ensuring the prudent investment and management of assets comprising the Pooled Investment Fund. The Board shall have the authority to approve or reject the Investment Policy Statement developed by the Committee. Once the Investment Policy Statement has been approved by the Board, the Board shall authorize the Committee to implement the Investment Policy Statement. At least annually, the Committee, possibly with the help of the Consultant, shall present to the Board a performance report and review of the Investment Policy.

President, Chairman, Treasurer, or Secretary of the Foundation

Sign all appropriate contracts, open accounts, and give any other authorizations needed by the Consultant to affect the terms of this Policy Statement.

Investment Consultant

The Consultant is the primary source of investment education and investment manager information. On an ongoing basis the consultant will:

1. Provide the Committee with quarterly performance reports. This report will measure performance of the Pooled Investment Fund and each manager within the Pooled Investment Fund, with comparisons to benchmarks and reference points as described in the Due Diligence Policy section (Section VI). Also, this report will illustrate actual asset allocations as compared to the targets set by this Policy Statement;

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2. Report to the Committee quarterly, or as requested;
3. Monitor the activities of each investment manager or investment fund;
4. Provide the Committee with an annual review of this Policy Statement, including an assessment of the Foundation's current asset allocation, spending policy, and investment objectives; and
5. Supply the Committee with other reports or information as reasonably requested.

The Consultant shall supervise and direct the investment of the Pooled Investment Fund as specified in this Policy Statement. Supervision is continuous, with limited discretion. Limited discretion means that the Consultant is responsible for assessing the appropriateness of asset allocation strategies but does not have discretion to change the strategy without the Committee's approval. The Consultant has discretion and is required to rebalance the Pooled Investment Fund to maintain the asset allocation using the methodology approved by the Consultant's Investment Committee. The Consultant also has discretion to change managers as required by the Due Diligence Policy described in this Policy Statement.

Custodian

Custodians are responsible for the safekeeping of the Foundation's assets. The specific duties and responsibilities of the custodian are:

1. Value the holdings.
2. Collect all income and dividends owed to the portfolio.
3. Settle all transactions (buy-sell orders).

X. Definitions

Returns Based Style Analysis (RBSA): RBSA is a quantitative approach to determining a manager's investment style and evaluating its consistency. The effective asset mix can be determined by comparing actual portfolio returns to the returns of indices (given a sufficient length of portfolio history and a robust mathematical technique).

Holdings Based Style Analysis: Holdings-based style analysis is a "bottom-up" approach in which the characteristics of a portfolio over a period of time are derived from the characteristics of the securities it contains at various points in time over the period. The choice of characteristics depends on the purpose of the analysis. For example, if the purpose is to describe a portfolio in terms of a set of quantitative style characteristics such as size and value/growth orientation, the prescribed characteristics of each security need to be calculated and then aggregated to the portfolio level.

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