

INVESTMENT POLICY
GRAYSON COUNTY COLLEGE FOUNDATION
May 2012

PURPOSE

The purpose of this policy is to: (1) provide standards for the investment activities of the Grayson County College Foundation and (2) define the authority and responsibilities of each person or group of persons that have a role in those activities.

SCOPE

This policy is to govern all investable funds of the Grayson County College Foundation, except for a minimal amount for liquidity needs. Funds needed for liquidity will be managed by the Treasurer of the Foundation directly in the form of cash, cash equivalents or certificates of deposit.

DEFINITIONS

Advisors: Three or more stock brokers or investment advisors that have been given the responsibility to manage a portion of the Foundations portfolio by the Board of Directors.

Advisor Style: The type of investing approach selected by an individual advisor. Examples include purchasing securities directly, using mutual funds, using separately managed accounts (SMA), or using a combination of these approaches.

Benchmark: An index or average against which the performance of an advisor or a portfolio is measured.

Board or Board of Directors: The official governing body of the Grayson County College Foundation.

Cash or Cash Equivalents: Cash or short-term instruments that can be quickly converted into cash without penalty or loss of principal. This category includes commercial paper, repurchase agreements, Treasury Bills, money market mutual funds and other money market instruments.

Equity Securities: Common stock, exchange traded funds or mutual funds that deal primarily in common stock (equity funds). This category also includes any instrument that is convertible into an equity security.

Exchange Traded Funds (ETF): Hybrid investments that are part individual security and part mutual fund. Like mutual funds, a person can buy or sell shares in the collective performance of an entire portfolio of securities. Like individual investments, exchange traded funds trade throughout the day at a current market price that is shown on an exchange.

Finance Committee: Members of the Board of Directors that provide guidance to advisors and Foundation staff members on financial matters. The committee also reports on such matters to the entire Board as necessary.

Fixed Income Securities: A financial instrument that pays a stated rate of interest for a period of time. This includes corporate and government bonds and mutual funds that deal in them (bond funds). This category includes preferred stock that is not convertible into common stock. For purposes of this policy, certificates of deposit will be considered in the category, although they are deposits rather than securities.

Indexes and Averages: Calculations designed to track the day-to-day changes in stock, bond or other financial markets. Examples include the Dow Jones Industrial Average and the Standard & Poor's 500 Index.

Index Fund: Any mutual fund whose holdings are determined by the index that the fund tracks and which only changes when the securities in the underlying index change.

Mutual Fund: A type of investment where an investor owns shares in a fund which then buys a portfolio of underlying investments. Examples include stock funds, bond funds and index funds.

Rating Agency: A company that investigates the credit-worthiness of an organization that issues bonds. The agency then issues reports to investors and potential investors on that subject. Well known rating agencies include Standard & Poor's, Moody's Investor Services, and Fitch Ratings.

Separately Managed Accounts (SMA): An investment portfolio of stocks, bonds, and cash and other investment securities; managed by a professional money advisor, that can potentially be tailored to meet specific investment objectives. In a SMA an investor owns individual securities and has the flexibility to tailor the portfolio to address personal objectives.

Speculative Investments: Investments that potentially have high returns in exchange for a high level of risk. For purposes of this policy, this category includes but is not limited to derivatives, junk bonds, options, futures, commodities and hedge funds.

OBJECTIVE

The primary objective of this policy is to increase the market value of the investments of the Foundation within the bounds of this policy. An advisor's success in meeting that objective is to be measured in comparison with appropriate benchmarks and in comparison with the performance of other advisors.

A secondary objective of this policy is the generation of current income to be used for any legitimate purpose of the Foundation.

ADVISORS

Selection: The Board will select at least three advisors to manage portions of its portfolio. The selection will be from companies that hold the proper licenses from the Securities and Exchange Commission and any other relevant regulatory body. The Foundation acknowledges the support it receives from many companies that provide investment management services. It will therefore use the investment management services provided by supporting institutions to the best of its ability and within the bounds

of this policy. The Foundation will be guided by the principles of fairness and equity in its selection of firms.

Duties: It is the duty of each advisor to select the Advisor Style for his or her portfolio and to manage that portfolio faithfully in compliance with this policy.

Diversification: The Foundation will assign no more than fifty percent (50%) of its portfolio to any single advisor. Each advisor will be governed by this policy on the types and limits of securities to be maintained.

Advisor Style: Each advisor will be responsible for the selection and implementation of the Advisor Style that he or she thinks is in the best interest of the Foundation. Any selected style must conform to the provisions of this policy.

Standard of Care: Each advisor must use the care, skill, and diligence that a prudent person acting in this capacity would use in investing funds in accordance with this policy.

Communications: Each advisor will provide monthly statements of balances and activity to the Foundation's Treasurer.

In addition, each advisor will meet with the Foundation's Finance Committee on a quarterly basis. Those meetings will include the presentation of a report on at least the following items:

- The total market value of the advisor's portfolio and the change in that value from the prior quarter and the prior year.
- The advisor's adherence to this policy.
- Any significant changes in the Advisor Style or any significant purchases or sales within the portfolio.
- The portfolio's performance as measured against its benchmark(s). The Finance Committee and the advisor will agree upon appropriate benchmarks. In the absence of such an agreement, the equity section of each portfolio will be compared to the Standard & Poor's 500 Index and the fixed income section of each portfolio will be compared to the Lehman Aggregate Bond Index.
- The advisor's plans for the upcoming periods within the context of anticipated changes in the economy and the securities markets.

Term of Selection: Annually the Finance Committee will review the performance of each advisor with the Board of Directors. The Committee will recommend the continued use of an advisor or, in the alternative; it will recommend a change to a different advisor that meets the criteria of this policy.

INVESTMENT QUALITY AND ALLOCATION

Investment Allocation: The portfolio of each advisor must fall within the following limits:

- Equity Securities must comprise no less than 33% of a portfolio and no more than 75%;
- Fixed Income Securities must comprise no less than 25% of a portfolio and no more than 60%;
- Cash and Cash Equivalents may compose up to 25% of a portfolio.

These limits are in addition to any funds that the Foundation Treasurer manages for liquidity purposes.

Equity Securities: Advisors are expected to maintain the risk level of their equity portfolio approximately equal to the equity market as a whole as measured by the Standard & Poor's 500 Index.

Advisors may use their professional judgment to purchase equity securities that are listed on the New York Stock Exchange, the American Stock Exchange or that are included in the NASDAQ stock market, exclusively. Advisors are prohibited from investing in companies with a total market capitalization of less than \$250 million or any private placement no matter the size or listing of the company.

No more than ten percent (10%) of an advisor's equity portfolio may be with any single issuer. No more than twenty percent (20%) of an advisor's equity portfolio may be within any particular industry group. Each advisor is required to make any adjustments that may prove necessary to stay within these limits.

Fixed Income Securities: Maturities on any fixed rate security should not exceed ten years.

No limit is placed on the percentage of a fixed rate portfolio that may be placed in debt instruments of the United States government or its agencies.

No more than ten percent (10%) of an advisor's debt portfolio may be in corporate bonds from any single issuer. No more than twenty percent (20%) of an advisor's debt portfolio may be in corporate bonds from any particular industry group. Each advisor is required to make any adjustments that may prove necessary to stay within these limits.

Any corporate bond that is rated as less than investment grade by any national rating service is prohibited. Advisors are also prohibited from investing in private placements.

Any certificate of deposit must mature within two years and must be either fully covered by the Federal Deposit Insurance Corporation (FDIC) or secured by collateral that is acceptable to the Foundation's Treasurer.

Cash or Cash Equivalents: An advisor may invest in commercial paper, repurchase agreements, Treasury Bills, money market mutual funds and money market funds. Commercial paper must be rated A-1 or P-1 by Standard & Poor's or Moody's Investors Services respectively.

Prohibited Investments: Advisors are prohibited from investing in any instrument that is not authorized by this policy. Advisors are prohibited from investing in any speculative investment vehicle.

POLICY EXCEPTIONS AND MODIFICATIONS

The Board of Directors or the Executive Committee of the Board of Directors by affirmative vote may make an exception to any provision of this policy. The entire Board may also modify the policy as it sees fit.

ANNUAL REVIEW

Annually the Board of Directors will approve an investment policy upon recommendation from the Finance Committee.