



Policy Title:	BMCC LOAN RESERVE ACCOUNT INVESTMENT POLICY		
Approval Authority:	BMCC Board of Regents	Date Effective:	April 28, 2017
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 Loan Reserve Account, which comply with USDA Rural Development loan requirements, and which provides direction and guidance to the Bay Mills Community College's investment managers.

2. ENTITIES AFFECTED BY THIS POLICY

Accounting and Office of the President.

3. WHO SHOULD READ THIS POLICY

President and Vice President for Business and Finance.

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: April 28, 2017

-Next Review Date: April 26, 2020

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

7. THE POLICY

BAY MILLS COMMUNITY COLLEGE LOAN RESERVE ACCOUNT INVESTMENT POLICY

- I. **Purpose.** 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 Loan Reserve Account, which comply with USDA Rural Development loan requirements, and which provides direction and guidance to the Bay Mills Community College's investment managers.
- II. **General Goal.** The investment goals of the Loan Reserve Account are:
- A. To maximize the long-term total return of financial assets consistent with the fiduciary standards of prudent investors. As a result, the maintenance and growth of the funds are the primary objectives of the Loan Reserve Account. The College's ability to achieve these returns will depend upon the ability to accept moderate risk, recognizing that a commensurate degree of volatility in market values is necessary to achieve long-term capital appreciation.
 - B. To comply with the USDA Rural Development loan requirements by setting aside and maintaining at least the minimum required reserve amount and earn a return on investment that may be held for reinvestment or used to support the operations of the College.
- III. **Investment Objectives**
- A. To invest the assets for the sole interest and benefit of Bay Mills Community College.
 - B. Investment objectives are primarily oriented toward long-term capital growth and appreciation.
 - 1. Achieve long-term investment results that meet or exceed an appropriate blended market index representative of the investment strategies utilized.
 - 2. Investment performance will be judged primarily on the 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 Loan Reserve Account 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 the primary factor in performance variability over time.

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

	<u>Target</u>	<u>Range</u>
Equity	50%	40 – 60%
Fixed Income	45%	35 – 55%
Cash Equivalents	5%	0 – 10%

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 these ranges must have prior approval by the Board of Regents, or their designated Agent.

A. Equity Guidelines

In recognition of the expected returns and volatility provided by different segments of the equity market, the equity assets will be invested in the following ranges (values shown as a percentage of overall assets held within the portfolio):

	<u>Target</u>	<u>Range</u>	<u>Benchmark</u>
Large Cap Domestic Equity	30.0%	20 – 40%	S&P 500 Index
Mid Cap Domestic Equity	5.0%	0 – 10%	Russell Mid Cap Index
Small Cap Domestic Equity	5.0%	0 – 10%	Russell 2000 Index
International Equity	10.0%	5 – 15%	MSCI EAFE Index

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

1. The equity investment in any single company should not exceed 7% of the total equity assets. Investment in mutual funds would not be subject to this limit.
2. The equity component of the portfolio may be comprised of individual equity selections. Additionally, the investment manager may invest in mutual funds, common trust funds or similar equity fund designated to achieve the long term goals stated herein.

B. Fixed Income Guidelines

To provide additional long-term performance and to help further diversify the overall portfolio, fixed income assets will be managed in accordance with the following:

	<u>Target</u>	<u>Range</u>	<u>Benchmark</u>
Core Fixed Income	45.0%	35 – 55%	Barclays Int. Govt/Credit
Cash & Equivalents	5.0%	0 – 10%	Citi 3-month Treasury Bill Index

1. Direct investment in 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 & Poor's to be BBB or better, or Moody's as Baa or better, or an equivalent rating by a nationally recognized rating agency.
2. 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 the holdings of any one issuer to exceed 5% of the assets under management.
3. The overall average weighted credit rating of the bond portfolio should be no less than AA.
4. The fixed income portfolio is to be managed in a manner consistent with the Barclays Capital US Aggregate Index. The duration of the portfolio should not deviate by more than 20% from the duration of the index.

5. Fixed Income mutual funds may be used to further enhance diversification, provide better coverage of the yield curve, and/or improve liquidity.

C. Prohibited Investments

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

1. Commodities
2. Private Placements
3. Letter Stock
4. Real Estate
5. Hedge Funds and/or Private Equity strategies
6. Short-sales or margin transactions

V. **Performance Measurement.** The following standard of performance shall be utilized to determine achievement of the Loan Reserve Account under this Policy.

Performance will be evaluated in comparison to a blended market index representative of the investment strategies employed by the Loan Reserve Account. In alignment with the allocation targets stated herein, the blended market index shall consist of the following market indexes to each its respective weight:

<u>Index</u>	<u>Weight</u>	<u>Representative of (Strategy):</u>
S&P 500 Index	30.0%	Large Cap Equity
Russell Mid Cap Index	5.0%	Mid Cap Equity
Russell 2000 Index	5.0%	Small Cap Equity
MSCI EAFE Index	10.0%	International Equity
Barclays Int. Govt./Credit Index	45.0%	Investment Grade Bonds
Citi 3-month Treasury Bill Index	5.0%	Cash and equivalents

VI. **Communications**

A. Investment Manager Communications with the Board of Regents and/or Agent.

1. The Board of Regents may designate itself, a committee, or individual(s) as an agent to receive specific communications.
 - a. The investment manager shall provide quarterly portfolio valuations, and investment returns.
2. In order to ensure that the guidelines established herein are being adequately met and to review the continued appropriateness of said 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 Loan Reserve Account that may warrant changes to this investment policy, asset allocation, and/or investment strategies utilized.

We do hereby certify that the foregoing Bay Mills Community College Loan Reserve Account Investment Policy was duly presented and adopted by a vote of **5** For, 0 Against, **1** Abstaining, **3** Absent; at a meeting of the Bay Mills Community College Board of Regents, on April 28, 2017.

BAY MILLS COMMUNITY COLLEGE
BOARD OF REGENTS

By: _____
Randy Touchtone
Secretary