

 <b>Prescott College</b>	<b>Policy Number:</b> 105	
	<b>Policy Category:</b> Governance	
	<b>Investment</b>	
	<b>Approval Date:</b> 8/26/23	<b>Effective Date:</b> 8/26/23
<b>Policy Owner:</b>  Board of Trustees	<b>Scheduled for Review:</b>  Annually	

## I. INTRODUCTION, PURPOSE, AND INVESTMENT POOL

- A. The Board of Trustees of Prescott College (the “Board”) has the authority to restrict, invest, and allocate funds of Prescott College, Inc. (the “College”) that are resources of the College and the fiduciary responsibility to manage the investment and distribution of donations to the College which are subject to restrictions set by donors. The purpose of this policy is to establish the policies, procedures, standards, and objectives for the investment of these funds by the College, to ensure a consistent framework for investing, and to describe the responsibilities of and limitations on those with investment responsibilities.
- B. The funds subject to this investment policy are collectively referred to as the Investment Pool. Although the Investment Pool is primarily composed of endowment funds, it may include non-endowment funds invested for long-term growth by the College.
1. *Endowment Funds* – Donor restricted funds that are to be managed and allocated in accordance with requirements of each endowment memorandum as agreed by a donor and the College. College created endowments are also included. Typically, the corpus, or principal, of these funds is held in perpetuity and the income, or a portion thereof, used for the purpose specified in the endowment memorandum.
  2. *Unrestricted Investment Assets* – Funds with no donor specified or other authorized restrictions that are allocated by the Board for investment on recommendation from the administration. When added to the Investment Pool, these funds are deemed to be held for long term-investments under this policy, and as such may be invested the same as other funds in the Investment Pool. Although invested in the same pool as endowments, these funds are not endowments.
  3. The Board may include other funds in the Investment Pool as it determines appropriate.

## **II. DELEGATION OF RESPONSIBILITIES**

### **A. Investment Committee**

Pursuant to the written statement of purpose and primary responsibilities (Charter) for the Investment Committee (“Committee”) approved by the Board, the Committee is responsible for overseeing the management of the College’s Investment Pool in a manner consistent with this Investment Policy and applicable law.

As fiduciaries, each member of the Committee is subject to the “prudent expert rule,” stating that Committee members are “to act with the care, skill, prudence and diligence under the prevailing circumstances that a prudent person acting in a like capacity and familiar with such matters would use.” The Committee members shall discharge their duties solely in the interest of and for the exclusive purpose of meeting the financial needs of the endowment funds and the College.

The Committee, acting by and through the Committee chair, is authorized to engage the services of one or more qualified registered investment advisors and/or investment managers to meet the investment objectives and guidelines of this policy. Such advisors and/or managers shall adhere to all applicable policies adopted by the Committee.

The Committee’s responsibilities specifically include:

1. Retain the services and annually review the performance of investment advisors.
2. Annually review and approve the specified asset allocation strategy within the guidelines established in this Investment Policy and ensure that the actual allocation does not materially deviate from any other guidelines established by the Board.
3. Review investment results and rebalancing the portfolio as appropriate on a semi-annual basis.
4. Annually review and approve performance measurement standards and goals for the Investment Pool.
5. By March 1 of each year, determine the distribution rate from endowment funds for the following fiscal year.
6. Evaluate requests from the administration regarding distributions of unrestricted investment assets and make recommendations to the Board consistent with this Investment Policy.

7. Annually review the Committee's Charter and this Investment Policy and recommend any appropriate changes to the Board.

**B. Vice President, Finance and Administration (CFO)**

The Committee hereby recognizes the following responsibilities of the CFO (the “**Officer**”) of the College:

1. Communicate to the Committee, the Board, and to any other interested party the investment policies, objectives, and guidelines of this policy.
2. Execute the distribution provisions of this policy as described in Section III.C and recommend any appropriate changes to that provision to the Committee for consideration.
3. Monitor the asset allocation of the Investment Pool no less frequently than quarterly and promptly notifying the Committee of any material deviation from the asset allocation strategy.
4. Suggest reallocations as deemed necessary to maintain the targeted asset allocation.
5. If requested by the Committee, seek out qualified investment advisors to recommend to the Committee.
6. Provide the Committee with performance reports of the Investment Pool on a quarterly basis.
7. Review and negotiate contracts and fees for current and proposed investment advisors and provide an annual analysis of such advisors' cost structures including commissions, investment management, administration, and custodial fees.
8. Communicate investment policies and objectives to investment advisors, monitor adherence to such policies, and report all significant deviations to the Committee promptly.
9. Place the review of this Investment Policy on the agenda of the Committee annually, as required under Section III.G. of this document.

**C. Investment Advisors**

1. Investment advisors engaged on behalf of the College to oversee investment of the Investment Pool should pursue their investment strategy in accordance with all guidelines established by the Committee, this policy, and applicable law.

Investment advisor responsibilities include, but are not limited to:

- a. Invest the assets of the Investment Pool under their management in accordance with the guidelines and restrictions approved by the Committee, this policy and any other applicable legal document.
  - b. Exercise discretionary authority over the assets entrusted to them, subject to this Policy and applicable guidelines and restrictions.
  - c. Provide monthly reports with detailed investment holdings and account transactions as reported on custodian statements. Reports should include: (i) assets on hand; (ii) contributions received; (iii) sales, redemptions and principal payments occurring; (iv) distributions; (v) purchases; (vi) income earned; and (vii) expenses and fees paid.
  - d. Provide quarterly written documentation of portfolio activity, portfolio valuations, performance data, and portfolio characteristics on a quarterly and year-to-date basis in addition to other information requested by the Officer.
  - e. Communicate with the Officer not less than quarterly and attend meetings with representatives of the Committee as requested.
  - f. Assist in the preparation of additional accounting reports as requested by the Officer.
  - g. Annually provide a copy of the investment advisors' form ADV Part II.
  - h. Ensure availability of all normal custodial functions including, but not limited to, security safekeeping, collection of income, settlement of trades, collection of proceeds of maturing securities, daily investment of uninvested cash.
  - i. Immediately notify the Officer of any litigation or violation of securities regulations in which an investment manager is involved.
  - j. Immediately notify the Officer of any changes in portfolio managers, key personnel or ownership of the investment management firm.
  - k. Notify the Officer of any intent to depart from the stated investment discipline or philosophy of the portfolio manager or investment management firm.
2. Annual Performance Review: the Committee will annually review the performance of investment advisors and discuss that review with each advisor

before continuing to engage that advisor's services. The criteria for assessing performance of the investment advisor may include, but are not limited to:

- a. Portfolio performance for the past four quarters relative to appropriate benchmarks or indices.
- b. Three- and five-year comparisons of portfolio performance in comparison to appropriate benchmarks.
- c. Style consistency or purity drift from the mandate.
- d. Investment process change, including varying the index or benchmark.
- e. Adherence to the College's Investment Policy, execution of the investment advisor's responsibilities set out in the preceding section, and any other compliance matters.
- f. Fees charged by the investment advisor and the extent to which those are competitive with the market and otherwise appropriate.
- g. Issues related to the investment advisors' firm(s) including: (i) any Securities and Exchange Commission (SEC) investigations; (ii) significant asset flows into or out of the firm; (iii) mergers with or sale of the firm to other entities; (iv) turnover of senior management; and (v) continuity of key personnel servicing the Investment Pool.

Nothing in this section shall in any way limit or diminish the Committee's right to terminate an investment advisor at any time for any reason.

### **III. PERFORMANCE OBJECTIVES, DISTRIBUTIONS, ASSET ALLOCATION AND SECURITIES SELECTION**

#### **A. Performance Objectives**

The Investment Pool supports the educational mission of the College by providing a sustainable flow of funds to the operating budget and endowments necessary for the long-term viability of the College. The investment goal of this policy is the long-term preservation of capital and the achievement of conservative growth with income in line with appropriate investment industry benchmarks. The target annual return of the Investment Pool over a ten-year period is at least inflation plus 3.00%.

#### **B. Other Objectives**

The Committee will utilize risk-based investing to determine the appropriate allocation. The Committee recognizes that fluctuating rates of return are a characteristic of investment markets and that future performance cycles cannot be accurately predicted. The Committee further recognizes that the capital markets can be volatile and that from time-to-time declines in the value of the Investment Pool, and the inability of the investment advisor(s) to achieve this policy's target return, can be expected. Historical data suggest, however, that the risk of decline can be minimized if a properly diverse group of investments is selected and maintained for significant periods. Therefore, in the absence of specific circumstances requiring immediate action, patience and a long-term perspective will be employed in evaluating investment performance. Given these realities, the Committee shall make their asset allocation decisions based on a careful consideration of the purpose and need for the funds, the inconsistency of returns provided by different assets over shorter term time frames and the historical correlation over longer time frames of the various asset allocations.

### **C. Distributions from Investment Pool**

1. Endowment Funds – Unless otherwise provided in the memorandum for a particular endowment, which shall govern in the case of inconsistency with this investment policy, distributions from endowment funds are targeted to be 3% to 6% of the market value of the endowment's corpus as calculated over the 12 prior rolling quarters as of December 31 of each year, with the distributions to be made during the following fiscal year. The reason for establishing a target distribution rate is to achieve the stability necessary for planning and budgeting activities funded by the endowments. To assist in preparation of the budget for the following fiscal year, the Committee shall make the actual distribution determination no later than March 1 of each year.

Factors for the Committee to consider in determining the appropriate amount for the annual distribution include expected total return on investment (income and appreciation); general economic conditions; possible effects of inflation or deflation; duration and preservation of the College; purpose of the College; other resources of the College; and this investment policy.

When investment performance is nominal or negative, the Committee may lower or waive the distribution for a particular year. The Committee also has the right to make distributions from the corpus of the endowment where prudent, necessary, and appropriate. This authority is to ensure that current recipients of endowment distributions are not adversely impacted by short term market trends by withholding funds for the benefit of future recipients.

Annual income on endowment funds not included in the distribution for the relevant fiscal year and distributions not utilized during the fiscal year for which the distribution was allocated will be added to the corpus of an endowment if so required by the memorandum for that particular endowment. Otherwise, such income and unused distributions will be available for distribution in future years as determined appropriate by the Committee

consistent with this subsection III.C.1.

2. Unrestricted Investment Assets – Principal or income from these funds may be distributed from time to time as determined necessary by the Board considering such factors as the Board, in the exercise of its fiduciary duty to the College, determines appropriate. These factors may include those listed in subparagraph (1) above or such other factors relevant under the circumstances existing at the time of the decision.

#### **D. Investment Pool Asset Allocation**

The single most important decision made by an investment committee is the asset allocation decision. Investment research has determined that a significant portion of a fund's investment return can be attributed to (1) the asset classes/styles which are employed by the fund, and (2) the weighting of each asset class/style. It is the responsibility of the Committee to determine the asset allocation that offers the highest probability of achieving the investment objectives, based upon historical capital market assumptions. The Committee, in consultation with the investment advisors, should review the asset mix on a periodic basis and make revisions as necessary; however, changes in the investment allocation strategy should not be made in reaction to short-term market conditions or results. Consistency in maintaining the targeted overall asset allocation strategy is therefore recommended.

Specifically, the asset allocation may not deviate outside the allocation boundaries established below:

- 0% - 20% cash and cash equivalents (defined as obligations maturing within one year)
- 0% - 50% fixed income (including that component of common trust funds or mutual funds invested in fixed income)
- 0% - 75% equities (inclusive of all types of equity investments, as well as that component of common trust funds or mutual funds invested in equities)

#### **E. Related Party Transactions**

The College will not give or loan funds to related parties defined as an officer, Board member, employee, Committee member, donor either current or prospective, or any other College-affiliated party. The Committee is prohibited from authorizing such transactions.

#### **F. Securities Selection – SRI and ESG Constraints**

The selection of individual securities should take into consideration that the College is committed to principles of social and environmental responsibility. Specifically, investment advisors, when selecting securities for the Investment Pool should:

1. to the extent practicable, avoid investing in individual securities of companies whose income is derived from the production, sale, or distribution of tobacco, fossil fuels, firearms, land mines, or chemical agents used as weapons of war;

2. to the extent practicable, avoid investing in individual securities whose underlying business involves the ownership or management of private prison or detention facilities;
3. to the extent practicable, give preference to individual securities whose underlying business has demonstrated a progressive approach to environmental issues including, but not limited to, waste disposal, recycling, climate change, and wise resource management; and
4. to the extent practicable, give preference investing in individual securities whose underlying business has demonstrated a progressive approach to social issues.

In carrying out its responsibilities under this policy, should the Committee determine that it is in the best interest of Prescott College to deviate from these security selection criteria, it shall first inform the Board of the reasons for such deviations and obtain Board approval for that deviation.

The Committee has no specific guidelines on security selection as to common trust funds or mutual funds owned by the Investment Pool, other than those above and to advocate either individually or as part of an investor group action for divestment of companies delivering their primary revenues from fossil fuels. The Committee expresses a desire to invest in common trust funds or mutual funds that are comprised primarily of individual securities of companies that are focused on social, environmental, and responsible governance issues. Nothing in this section relieves the Committee from exercising its fiduciary obligation of placing the interests of the College and its Investment Pool first as the primary consideration for investments.

#### **IV. Procedure for Revising Guidelines**

This policy will be reviewed on an annual basis by the Committee, which will recommend any appropriate changes to the Board for approval