



LONG BEACH CITY COLLEGE  
**FOUNDATION**

# **INVESTMENT POLICY STATEMENT**

Approved: October 24, 2014  
Finance Committee  
Investment Subcommittee

Reviewed and Approved: April 28, 2016  
LBCC Foundation Strategic Plan Infrastructure Committee

This investment policy statement should be reviewed periodically



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## EXECUTIVE SUMMARY

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**Type of Plan:** Tax-exempt from income taxes under Section 501© (3) Internal Revenue Code and Section 23701(d) California Revenue and Taxation Code. Contributions to the Foundation are deductible for tax purposes under Section 170 © (2) of the Internal Revenue Code. The organization is involved in no activities that are subject to unrelated business tax. As a result, no provision for income taxes has been made.

**Foundation Assets:**

- (1) Unrestricted Reserves (Board Designated)
- (2) Temporarily Restricted
- (3) Permanently Restricted

**Investment Time Horizon:** 10 Years

**Expected Portfolio Return (10 year Assumptions):** 6.1%

**Expected Variability (10 year Assumptions) (Standard Deviation):** 11.1%

**Fiscal Year End:** June 30

**Investment Portfolio Asset Allocation**

	Lower Limit	Strategic Allocation	Upper Limit
US Stocks			
Large Company*	15	20	25
Small Company	1	6	11
Infrastructure	1	6	11
International Equity*	18	23	28
Multi-strategy	10	15	20
Intermediate-term Fixed Income	24	29	34
Cash Equivalent	0	1	6

\* Managers may utilize short term risk mitigation strategies to systematically allocate to cash and equivalents depending on market pricing conditions. Allocations to cash and equivalents will still be considered part of the asset class where they are made to allow for performance assessment.



## **PURPOSE**

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The purpose of this Investment Policy Statement (IPS) is to assist the Long Beach City College Foundation (Client) and the third-party Investment Advisor (Advisor) in effectively supervising, monitoring and evaluating the management of Client's assets. The investment program is defined in the various sections of the IPS by:

1. Stating in a written document the client's attitudes, expectations, objectives and guidelines for the investment of its assets.
2. Setting forth an investment structure plan for managing the Client's assets. This plan will adhere to an investment strategy of diversification and asset allocation expected to produce an appropriate level of investment return over a long-term period. The investment plan will "avoid speculation, looking instead to the permanent disposition of funds" in accordance with the California Corporations Code requirements for a nonprofit public benefit corporation.
3. Establishing formal criteria to select, monitor, evaluate and compare the performance results achieved by the money managers on a regular basis.
4. Encouraging effective communications among the Client, Advisor and interested parties.
5. Complying with all applicable fiduciary, prudence and due diligence requirements 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 the Client's assets.
6. Complying with the explicit directions from donors or the terms of agift instrument.

## **BACKGROUND**

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### ***Mission Statement***

*Long Beach City College Foundation was incorporated August 7, 1978. The Foundation's specific and primary purposes are to promote the general welfare of Long Beach City College by assisting and supporting the attainment of educational, athletic and cultural goals, and also by assisting it in fulfilling its role of service to its community by soliciting, raising and distributing money for programs, buildings, equipment and any other outlay, including but not limited to scholarships, loans and grants to students.*



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This IPS has been prepared for Long Beach City College Foundation, a tax-exempt organization under IRS Code 501(c) (3). There are three portfolios (Portfolios) and for purposes of management, the Client may combine the Unrestricted and Temporarily Restricted accounts or combine all three accounts (Unrestricted, Temporarily Restricted, and Permanently Restricted) into one investment account:

(1) An Unrestricted account

- a. The account typically receives sums from grants and private donors throughout the fiscal year. Pending re-employment, designated funds should be invested with a high degree of liquidity and low market volatility risk. All securities delivered in-kind will be liquidated as soon as reasonably possible. The fund is expected to be Board Designated.

(2) A Temporarily Restricted Account

- a. Assets are subject to donor-imposed stipulations that can be fulfilled by actions of the Foundation pursuant to those stipulations or that expire by the passage of time.

(3) A Permanently Restricted

- a. Assets are subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of such assets permit the Foundation to use the income earned on scholarships and other categories specified by the donor.

Long Beach City College Foundation has established an asset allocation strategy taking into account contemplated grants, operating expenses and future contributions.

Gifts and other funds received will be evaluated acknowledging donor restrictions.

***Key Information***

**Name of Organization:** Long Beach City College Foundation

**Key Contacts:** Executive Director  
President of the Foundation  
Finance Committee  
Investment Subcommittee

**IRS Tax ID:** 95-3297459

Additional key information, which is subject to change from time-to-time, is contained in Appendix A.



## **STATEMENT OF OBJECTIVES**

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The objectives of Client have been established in conjunction with a comprehensive review of current and projected financial requirements as well as the requirements of applicable law, including (if relevant) (a) general economic conditions, (b) the possible effect of inflation or deflation, (c) the expected tax consequences, if any, of investment decisions or strategies, (d) the role that each investment or course of action plays within the overall investment portfolio of the fund, (e) the expected total return from income and the appreciation of investments, (f) other resources of Client, (g) the needs of Client and the fund to make distributions and preserve capital, and (h) an asset's special relationship or special value, if any, to the charitable purposes of Client. The objectives are:

1. To avoid speculation, looking instead to the permanent disposition of funds, considering the probable income, as well as the probable safety of Client's capital.
2. Maintain the purchasing power of the current assets and all future contributions. The objective is to maintain the level of services and programs in relation to the average cost increases. This requires establishing an equilibrium-spending-rate of 3%, which offsets inflation and additional cost increases. The 3% equilibrium spending rate is subject to the following formula:

$$(\text{Return}) - (\text{inflation}) - (\text{cost increases}) = \text{equilibrium spending rate}$$

3. Maintain a constant funding-support-ratio. The funding support ratio (the fraction of the budget supported by the fund) is the key strategic variable used by experienced committees to track and manage contributions to an institution's or recipient's annual budget. The Client's objective is to maintain the level of programs and services currently provided. This can only be accomplished if sufficient total return is reinvested and new funds added to keep pace with cost increases and program expansions.

Although increasing the spending rate increases the fund's current contribution to the overall budget, more spending obviously means less reinvestment, a smaller growth rate and, all other things being equal, a lower funding support ratio in the future.

4. Apply a smoothing rule to mitigate the effects of short-term market volatility on spending. For purposes of management, the Client may combine the Unrestricted and Temporarily Restricted accounts or combine all three accounts (Unrestricted, Temporarily Restricted, and Permanently Restricted) into one account:

Investment Subcommittee and Staff will determine the prudent amount to be spent based on the uses, benefits, purposes and duration of the fund and donor restriction subject to the considerations noted in 5 below.



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5. In making these determinations relative to endowment funds within the Permanently Restricted Portfolio and the Temporarily Restricted Portfolio, Client may appropriate for expenditure or accumulate so much of these funds as the institution determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. In making a determination to appropriate or accumulate, Client shall act in good faith, in accordance with the Client's Endowment Policy, and with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and shall consider, if relevant, all of the following factors:
  - a. The duration and preservation of the endowment fund.
  - b. The purposes of the institution and the endowment fund.
  - c. General economic conditions.
  - d. The possible effect of inflation or deflation.
  - e. The expected total return from income and the appreciation of investments.
  - f. Other resources of the institution.
  - g. This investment policy.

In no event shall spending from either of these two portfolio's (or any one endowment fund) exceed 7% annually of the fair market value of the endowment fund calculated on the basis of market values determined at the fiscal year end and averaged over a period of not less than three years immediately preceding the year in which the appropriation for expenditure is made.

6. Maximize return within reasonable and prudent levels of risk.
7. Maintain an appropriate asset allocation based on a total return policy that is compatible with a flexible spending policy, while still having the potential to produce positive real returns.
8. In managing and investing the assets, Client shall: (a) incur only costs that are appropriate and reasonable in relation to the assets, the purposes of Client, and the skills available to Client and (b) make a reasonable effort to verify facts relevant to the management and investment of the assets.

### ***Time Horizon***

The investment guidelines are based upon an investment horizon of greater than ten years. Therefore, interim fluctuations should be viewed with appropriate perspective. Short-term liquidity requirements are anticipated to be met with Unrestricted assets. Investment Subcommittee and Staff will determine the amount to be spent based on the needs of the recipient entities and recognizing donor restrictions.



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### ***Risk Tolerances***

Client recognizes and acknowledges some risk must be assumed in order to achieve the long-term investment objectives of the investment portfolio, and there are uncertainties and complexities associated with contemporary investment markets.

In establishing the risk tolerances for this IPS, Client's need to avoid speculation and ability to withstand short- and intermediate-term variability were considered. Client's prospects for the future, current financial condition and level of funding in the Unrestricted account suggest collectively some interim fluctuations in market value and rates of return may be tolerated with the investment portfolio in order to achieve longer-term objectives.

### ***Performance Expectations***

In general, Client expects the investment account to earn 6% over a market cycle.

It is understood an average return as described above will require superior manager performance to: (1) retain principal value; and, (2) purchasing power.

## **ASSET CLASS GUIDELINES**

Client believes long-term investment performance, in large part, is primarily a function of asset class mix. Client has and will review the long-term performance characteristics of the broad asset classes, focusing on balancing the risks and rewards.

History shows that while interest-generating investments, such as bond portfolios, have the advantage of relative stability of principal value, they provide little opportunity for real long-term capital growth due to their susceptibility to inflation. On the other hand, equity investments, such as common stocks, clearly have a significantly higher expected return but have the disadvantage of much greater year-by-year variability of return. From an investment decision-making point of view, this year-by-year variability may be worth accepting, provided the time horizon for the equity portion of the portfolio is sufficiently long (five years or greater).

The performance expectations (both risk and return) of each asset class are contained in Appendix A.



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### ***Rebalancing of Strategic Allocation***

The percentage allocation to each asset class may vary as much as plus or minus 5% depending upon market conditions. When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation of the Portfolio. If there are no cash flows, the allocation of the Portfolio will be reviewed no less than quarterly.

If the Investment Advisor judges cash flows to be insufficient to bring the Portfolio within the strategic allocation ranges, the Advisor shall decide whether to effect transactions to bring the strategic allocation within the threshold ranges (Strategic Allocation).

## **DUTIES AND RESPONSIBILITIES**

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### ***Board of Governors***

The Board of Governors delegates portfolio responsibility to the Executive Committee which delegates to the Finance Committee and they in-turn delegate portfolio responsibility to the Investment Subcommittee with input from staff. Following the Uniform Fiduciary Standards of Care and the spirit of the Uniform Prudent Management of Institutional Funds Act, it is the intention of the Board to delegate and retain “prudent experts” including an objective, third-party Advisor to assist in the management of the overall investment process.

### ***Investment Subcommittee and Staff***

As a fiduciary, the primary responsibilities of the Investment Subcommittee and Staff are:

1. Prepare and update, as necessary, this investment policy statement.
2. Ensure that Client is in compliance with all donor restrictions and applicable laws and regulations with respect to its investments.
3. Prudently diversify the Portfolio’s assets to meet an agreed upon risk/return profile.
4. Prudently select investment options.
5. Use “prudent experts” (money managers) and document due diligence.
6. Control and account for all investment, record keeping and administrative expenses associated with the Portfolio.



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7. Monitor and supervise all service vendors and investment options.
8. Avoid prohibited transactions and conflicts of interest.

The Investment Subcommittee and Staff shall make recommendations to the Finance Committee which in turn reports to the Executive Committee.

***Investment Advisor***

Client will retain an objective, third-party Advisor to assist the Client in managing the overall investment process. The Advisor will be responsible for guiding Client through a disciplined and rigorous investment process consistent with this investment policy statement to enable Client to meet the fiduciary responsibilities outlined above.

***Investment Managers (money managers)***

As distinguished from Client and Advisor, who are responsible for managing the investment process, investment managers are responsible for making investment decisions (security selection and price decisions). The specific duties and responsibilities of each investment manager are:

1. Manage the assets under their supervision in accordance with the guidelines and objectives outlined in their respective Service Agreements, Prospectus or Trust Agreement.
2. Exercise full investment discretion with regards to buying, managing, and selling assets held in the Portfolios, subject to the parameters of this investment policy statement.
3. If managing a separate account (as opposed to a mutual fund or a commingled account), seeking Client approval prior to purchasing and/or implementing the following securities and transactions:
  - Letter stock and other unregistered securities; commodities or other commodity contracts and short sales or margin transactions.
  - Securities lending; pledging or hypothecating securities.
  - Investments in the equity securities of any company with a record of less than three years continuous operation, including the operation of any predecessor.
  - Investments for the purpose of exercising control of management.



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4. Vote promptly all proxies and related actions in a manner consistent with the long-term interest and objectives of the Portfolios as described in this IPS. Each investment manager shall keep detailed records of the voting of proxies and related actions and will comply with all applicable regulatory obligations.
5. Communicate to the Client and Investment Advisor all significant changes pertaining to the fund it manages or the firm itself. Changes in ownership, organizational structure, financial condition, and professional staff are examples of changes to the firm in which Client is interested.
6. Effect all transactions for the Portfolio subject "to best price and execution." If a manager utilizes brokerage from the Portfolio assets to effect "soft dollar" transactions, detailed records will be kept and communicated to Client.
7. Use the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like portfolios with like aims in accordance and compliance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and all applicable laws, rules, and regulations. It is the intention of the Client to delegate and retain "prudent experts" including an objective, third-party Advisor to assist in the management of the overall investment process.
8. If managing a separate account (as opposed to a mutual fund or a commingled account), acknowledge co-fiduciary investment responsibility by signing and returning a copy of this IPS.

***Custodian***

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

1. Maintain separate accounts by legal registration.
2. Value the holdings.
3. Collect all income and dividends owed to the Portfolio.
4. Settle all transactions (buy-sell orders) initiated by the Investment Manager.
5. Provide monthly reports that detail transactions, cash flows, current values of securities held, change in value of each security and the overall Portfolio since the previous report.



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## **INVESTMENT MANAGER SELECTION**

Client will apply the following due diligence criteria in selecting each money manager or mutual fund and expects a retained Investment Advisor to apply as a minimum the following:

1. *Regulatory oversight:* Each investment manager should be a regulated bank, an insurance company, a mutual fund organization, or a Registered Investment Advisor. (RIA)
2. *Correlation to style or peer group:* The product should be highly correlated to the asset class of the investment option. This is one of the most critical parts of the analysis since most of the remaining due diligence involves comparisons of the manager to the appropriate peer group.
3. *Performance relative to a peer group:* The product's performance should be evaluated against the peer group's median manager return, for 1-, 3- and 5-year cumulative periods.
4. *Performance relative to assumed risk:* The product's risk-adjusted performance (Alpha and/or Sharpe Ratio) should be evaluated against the peer group's median manager's risk-adjusted performance.
5. *Minimum track record:* The product's inception date should be greater than three years.
6. *Assets under management:* The product should have at least \$75 million under management.
7. *Holdings consistent with style:* The screened product should have no more than 20% of the portfolio invested in "unrelated" asset class securities. For example, a Large-Cap Growth product should not hold more than 20% in cash, fixed income and/or international securities.
8. *Expense ratios/fees:* The product's fees should not be in the bottom quartile (most expensive) of their peer group.
9. *Stability of the organization:* There should be no perceived organizational problems – the same portfolio management team should be in place for at least two years.



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## **CONTROL PROCEDURES**

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### ***Performance Objectives***

Client acknowledges fluctuating rates of return characterize the securities markets, particularly during short-term time periods. Recognizing short-term fluctuations may cause variations in performance, Client intends to evaluate manager performance from a long-term perspective (more than five years rolling forward).

The Investment Subcommittee is aware the ongoing review and analysis of the investment manager is just as important as the due diligence implemented during the manager selection process. The performance of the investment manager will be monitored on an ongoing basis and it is at Client's discretion to take corrective action by replacing a manager if deemed it appropriate at any time.

On a timely basis, but not less than quarterly, the Investment Subcommittee will meet to review whether each manager continues to conform to the search criteria outlined in the previous section, specifically:

1. The manager's adherence to the portfolio's investment guidelines;
2. Material changes in the manager's organization, investment philosophy and/or personnel; and,
3. Any legal, SEC and/or other regulatory agency proceedings affecting the manager.

### ***Benchmarks***

Client has determined it is in the best interest of the Portfolios that performance objectives be established for each investment manager. Manager performance will be evaluated in terms of an appropriate market index (e.g. the S&P 500 stock index for large-cap domestic equity manager) and the relevant peer group (e.g. the large-cap growth mutual fund universe for a large-cap growth mutual fund).



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<b>Asset Class</b>	<b>Index Proxy</b>
U.S. large company stock	Russell 1000 ® Index. S&P 500 ® Index
U.S. small company stock	Russell 2000® Index
Non-U.S. stocks - developed markets	MSCI EAFE Index
Non-U.S. stocks - emerging markets	MSCI Emerging Markets Index
Infrastructure	FTSE EPRA/NAREIT Developed Net Return Index
Multi-strategy	HFRI Fund of Funds Comp. Index
Multistrategy - Commodities	Bloomberg Commodity Index
Fixed Income	Barclays Aggregate Bond Index
Cash equivalents	Bank of America / Merrill Lynch US T-Bill 3 Month

A manager may be placed on a Watchlist and a thorough review and analysis of the investment manager may be conducted, when:

1. A manager performs below median for their peer group over a 1-, 3- and/or 5-year cumulative period.
2. A manager's 3-year risk adjusted return (Alpha and/or Sharpe) falls below the peer group's median risk adjusted return.
3. There is a change in the professionals managing the portfolio.
4. There is a significant decrease in the product's assets.
5. There is an indication the manager is deviating from his/her stated style and/or strategy.
6. There is a significant increase in the product's fees and expenses.
7. Any extraordinary event occurs that may interfere with the manager's ability to fulfill their role in the future.

The Investment Subcommittee acknowledges an Advisor may utilize the resources of an investment manager oversight provider to perform intensive ongoing review and analysis.



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A manager evaluation may include the following steps:

1. A letter to the manager asking for an analysis of their underperformance.
2. An analysis of recent transactions, holdings and portfolio characteristics to determine the cause for underperformance or to check for a change in style.
3. A meeting with the manager, which may be conducted on-site, to gain insight into organizational changes and any changes in strategy or discipline.

The decision to retain or terminate a manager cannot be made by a formula. It is Client's confidence in the manager's ability to perform in the future that ultimately determines the retention or termination of a manager.

***Measuring Costs***

Client will review at least annually all costs associated with the management of the Portfolio's investment program, including:

1. Expense ratios of each investment option against the appropriate peer group.
2. Costs and expenses: Are they appropriate and reasonable in relation to the assets, the purposes of Client and the skills available to the institution?
3. Custody fees: the holding of the assets, collection of the income and disbursement of payments.
4. Whether the manager is demonstrating attention to "best execution" in trading securities.
5. Verification of facts relevant to the management and investment of the funds.



## INVESTMENT POLICY REVIEW

Client's Investment Subcommittee will review this IPS at least annually to determine whether stated investment objectives are still relevant and the continued feasibility of achieving the same. It is not expected that the IPS will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the IPS.

Prepared:

\_\_\_\_\_  
Investment Advisor  
Halberstam, J. R. W. E. L.  
Date:

Approved:

\_\_\_\_\_  
Foundation President  
Date: 10/24/2014

\_\_\_\_\_  
Finance Committee Chair  
Date: 10-24-14

C.-  
\_\_\_\_\_  
Investment Subcommittee Chair  
Date: 10-24-14

\_\_\_\_\_  
Executive Director  
Date: 10/24/14



## APPENDIX A

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### Summary of Capital Markets Inputs

Asset Class	Modeled Return	Modeled Standard Deviation	Index Proxy
U.S. Stock – Large and Small	7.1	17.5	Russell 1000® Index S&P 500® Index Russell 2000® Index
Non-U.S. stocks	7.4	19.5	MSCI EAFE Index
Infrastructure	6.8	20.5	FTSE EPRA/NAREIT Developed Net Return Index
Multi-strategy	6.9	6.8	HFRI Fund of Funds Comp. Index
Multistrategy - Commodities	6.4	16.2	Bloomberg Commodity Index
Fixed Income	3.2	2.4	Barclays Aggregate Bond Index
Cash equivalents	3.0	3.7	Bank of America / Merrill Lynch US T-Bill 3 Month



## APPENDIX B

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### Glossary

#### **ADV**

Disclosure document required to be filed (and updated annually) by a Registered Investment Advisor with the Securities and Exchange Commission. This form details the advisor's practices, operations, fees, and individuals associated with the advisor, if registered as a firm.

#### **Alpha**

The statistical measure of a portfolio's return in excess of the market return adjusted for risk. It is a measure of the manager's contribution to performance with reference to security selection.

#### **American Depository Receipts (ADRs)**

Financial assets issued by U.S. banks that represent indirect ownership of a certain number of equity shares in a foreign firm. ADRs are held on deposit in a bank in the firm's home country.

#### **Basis Point**

1.00% = 100 Basis Points

#### **Beta**

The statistical measure of the volatility, or sensitivity, of rates of return on a portfolio or security in comparison to a market index. The beta value measures the expected change in return per one percent change in the return on the market. Thus, a portfolio with a beta of 1.1 would move 10% more than the market.

#### **Board Room Risk**

The risk that the Board of Governors will not ride out short-term volatility (and therefore alter a sound long-term strategy) due to pressure put on them in their role as fiduciaries.

#### **Broad Fixed Income**

Funds that diversify their assets among several fixed income sectors - usually government, corporate and high yield domestic obligations.

#### **Correlation Coefficient**

Correlation measures the degree to which two variables are associated. Correlation is a commonly used tool for constructing a well-diversified portfolio. Traditionally, equities and fixed-income asset returns have not moved closely together. The asset returns are not strongly correlated. A balanced fund with equities and fixed-income assets represents a diversified portfolio that attempts to take advantage of the low correlation between the two asset classes.

#### **Dollar-weighted Rate of Return**

Method of performance measurement that calculates returns based on the cash flows of a security or portfolio. This return is also referred to as the internal rate of return (IRR).

#### **Duration**

A measure of the average maturity of the stream of interest payments of a bond. The value of a given bond is more sensitive to interest rate changes as duration increases, i.e. longer duration bonds have greater interest rate volatility than shorter duration bonds. Duration is always shorter than **maturity** except for zero coupon bonds.

#### **Emerging Markets**

Managers who primarily concentrate on investments in newly emerging second and third world countries in the regions of the Far East, Africa, Europe, and Central and South America. These



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portfolios are characterized by aggressive risk/return profiles that generate high volatility in search of high returns.

**End Point Sensitivity**

The performance of a manager/fund may vary depending on which ending time periods are used to analyze performance. Therefore it is important to look at performance for a number of market cycles or time periods to gain an accurate assessment of the manager/fund's performance.

**Equilibrium Spending Rate**

Specific to foundations and endowments, the "spending rate" which offsets inflation and additional cost increases.

$$\begin{matrix} 6.0\% & - & 2.0\% & - & 1.0\% & = & 3\% \\ \text{(Return)} & & \text{(Inflation)} & & \text{(Cost increases)} & & \text{(Equilibrium Spending Rate)} \end{matrix}$$

**ERISA**

The Employee Retirement Income Security Act is a 1974 law governing the operation of most private pension and benefit plans. The law eased pension eligibility rules, set up the **Pension Benefit Guaranty Corporation**, and established guidelines for the management of pension funds.

**Fiduciary**

Indicates the relationship of trust and confidence where one person (the fiduciary) holds or controls property for the benefit of another person. For example, the relationship between a trustee and the beneficiaries of the trust.

Any person who (1) exercises any discretionary authority or control over the management of a plan or the management or disposition of its assets, (2) renders investment advice for a fee or other compensation with respect to the funds or property of a plan, or has the authority to do so, or (3) has any discretionary authority or responsibility in the administration of a plan.

**Geometric Return**

A method of calculating returns which links portfolio results on a quarterly or monthly basis. Suppose a \$100 portfolio returned +25% in the first quarter (ending value is \$125) but lost 20% in the second quarter (ending value is \$100). Over the two quarters the return was 0% - this is the geometric return. However, the **Arithmetic Return** calculation would simply average the two returns:  $(+25\%)(.5) + (-20\%)(.5) = +2.5\%$ .

**Global Bond**

Funds that invest in fixed income securities, primarily from developed countries around the world, including the U.S..

**Guaranteed Investment Contracts (GICs)**

Contract between an insurance company and a corporate profit sharing or pension plan that guarantees a specific rate of return on the invested capital over the life of the contract. Although the insurance company takes all market, credit, and interest rate risks on the investment portfolio, it can profit if its returns exceed the guaranteed amount. For pension and profit-sharing plans, guaranteed income contracts are a conservative way of assuring beneficiaries that their money will achieve a certain rate of return.

**Infrastructure**

Funds that invest primarily in equities of companies who derive their revenues from the development or operation of facilities, equipment and installations. This includes but is not limited to toll roads, bridges, electricity transmission, hospitals and education facilities. Infrastructure will also include Real Estate Investment Trust (REIT) equity instruments.



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**Intermediate Bond**

Fixed income funds of investment grade securities that have a duration of more than 3.5 but less than 6.0 years or an average effective maturity of more than 4.5 but less than 7.0 years.

**International Equity**

Funds that invest in non-U.S. stocks, primarily in developed countries around the world. Although, most international funds include an allocation to emerging markets as well.

**Large-Cap Blend**

Equity funds that invest in stocks that represent the largest 5% of the top 5,000 U.S. stocks and where the P/E and P/B is comparable to that of the S&P 500.

**Large-Cap Growth**

Equity funds that invest in stocks that represent the largest 5% of the top 5,000 U.S. stocks and where the P/E and P/B is greater than that of the S&P 500.

**Large-Cap Value**

Equity funds that invest in stocks that represent the largest 5% of the top 5,000 U.S. stocks and where the P/E and P/B is less than that of the S&P 500.

**Market Capitalization**

A common stock's current price multiplied by the number of shares outstanding. It is the measure of a company's total value on a stock exchange.

**Market Timing**

A form of **Active Management** that moves funds between asset classes based on short-term expectations of movements in the capital markets. (Not recommended as a prudent process.) It is very difficult to improve investment performance by attempting to forecast market peaks and troughs.

**Mid-Cap Equities**

Equity funds that invest in stocks that represent those firms between 5% and 20% according to size of the top 5,000 U.S. stocks.

**Modern Portfolio Theory (MPT)**

Essential to portfolio theory is the relationship between risk and return and the assumption that investors must be compensated for assuming risk. This portfolio approach shifts emphasis from analyzing the characteristics of individual investments to determining the statistical relationships among the individual securities that comprise the overall portfolio.

**Multi-Strategy**

Funds that globally invest in both traditional equities and fixed income securities. These funds may be able to go short in certain markets and hedge downside risks. Doing so may involve the use of derivatives and/or futures contracts. Diversified commodities would also be classified under this broad category of investment style.

**Quality Rating**

The rank assigned a security by rating services such as Moody's and Standard & Poor's. The rating may be determined by such factors as: (1) the likelihood of fulfillment of dividend, income, and principal payment obligations, (2) the nature and provisions of the issue, and (3) the security's relative position in the event of liquidation of the company. Bonds assigned the top four grades (AAA, AA, A, and BBB) are considered "**Investment Grade**" because they are eligible bank investments as determined by the Comptroller of the Currency.



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**Real Estate**

Funds that invest primarily in Real Estate Investment Trust (REIT) equity instruments. The characteristics of these funds are more representative of small-cap stocks than direct investment in a diversified portfolio of real estate comprised of farm, residential, and commercial properties.

**Risk-Free Rate of Return**

The return on a 90-day Treasury bills. This is used as a proxy for no risk due to its U.S. Government issuance and short-term maturity. The term is really a misnomer since nothing is free of risk. It is utilized since certain economic models require a "risk-free" point of departure. See **Sharpe Ratio**.

**R-squared (R<sup>2</sup>)**

Formally called the coefficient of determination, this statistic measures the overall strength or "explanatory power" of a statistical relationship. In general, a higher R<sup>2</sup> means a stronger statistical relationship between the variables that have been estimated, and therefore more confidence in using the estimation for decision-making.

**Sharpe Ratio**

Statistical measure of risk-adjusted return. It is calculated by subtracting the **Risk-Free Return** (usually 3 Month Treasury Bill) from the portfolio return, then dividing the resulting "excess return" by the portfolio's total risk level (standard deviation). The result is a measure of return gained per unit of total risk taken. The Sharpe Ratio can be used to compare the relative performance of managers. If two managers have the same level of risk but different levels of excess return, the manager with the higher Sharpe Ratio would be preferable.

**Short-Term Fixed Income**

Fixed income funds of investment grade securities that have a duration of more than 1.0 but less than 3.5 years or an average effective maturity of more than 1.0 but less than 4.0 years. Also, used as a proxy for GICs, Stable Value Funds and Money Markets.

**Small-Cap Equities**

Equity funds that invest in stocks that represent the smallest 80% of the top 5,000 U.S. stocks.

**Soft Dollars**

The portion of a plan's commissions expense incurred in the buying and selling of securities that is allocated through a **Directed Brokerage** arrangement for the purpose of acquiring goods or services for the benefit of the plan.

**Standard Deviation**

Statistical measure of portfolio risk. It reflects the average deviation of the observations from their sample mean. Standard Deviation is used as an estimate of risk since it measures the width of the range of returns. The wider the typical range of returns, the higher the standard deviation of returns, and the higher the portfolio's risk. If returns are normally distributed (i.e. have a bell-shaped curve distribution), then approximately 2/3 of the returns would occur within plus or minus one Standard Deviation from the sample mean.

**Systematic Risk**

Attributable to common macroeconomic factors and sometimes referred to as market risk. Systematic Risk is the part of a security's total risk that is related to movements in the market portfolio and therefore cannot be diversified away.

**Time-Weighted Rate of Return**

Method of performance measurement that strips the effect of cash flows on investment performance by calculating sub period returns before and after a cash flow and averaging these sub period returns. Time-weighted performance removes the impact of cash flows and as a



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result is widely accepted as the appropriate method of comparison for investment managers and market index returns.

**Unsystematic Risk**

A risk pertaining to one element in a large environment or system. The risk of one stock is unsystematic, while the risk of the entire market of which it is an element is systematic. See **Systematic Risk**.

**Uniform Prudent Management of Institutional Funds Act (UPMIFA)**

Legislation approved in California during October 2008 and effective January 1, 2009.