



## POLICY

Title: District Financial Assets – Statement of Investment Policy, Objective and Guidelines	Code: B0106
Authority: Wis. Stats. § 66.04 (2); Investment Company Act of 1940; 15 USC 80a-1 through 80a-64; Board Minutes, 8/22/95; 11/26/96; 4/27/04; 11/26/13; 12/18/18	Original Adoption: 8/22/95 Revised/Reviewed: 10/26/18 <u>Effective:</u> 12/18/18

### LEGAL REQUIREMENTS

MATC finances its operations and long-term obligations through a number of different reserves and investment pools. MATC is subject to the laws that govern technical college school districts in the State of Wisconsin. Its investment policies and activities are governed and constrained in the State of Wisconsin under Wis. Stat. § 66.0603.

### PURPOSE

The purpose of this Statement of Investment Policy, Objectives and Guidelines (Policy) is to provide clear guidelines for the management of the investment assets of MATC (College). The Policy will guide and assist the Board of Directors and the Board Designee(s) in the discharge of their duties with respect to the maintenance and enhancement of the investment funds of the College.

The policy governs the financial assets of the district including, but not limited to, the General Fund, Special Revenue Fund, Capital Projects Fund, MPTV Capital Projects, Student Financial Assistance and Debt Service Funds.

### DEFINITIONS

1. “College” shall mean the MATC investable assets.
2. “Funds” or “Portfolios” are segregated assets within the College which for investment or other purposes may be invested with different time horizons, asset allocations and/or other restrictions.

“Board”, “Board of Directors” or “Directors” shall mean the Board of Directors of MATC which has final authority over and responsibility for the administration and management of the Funds.



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3. “Investment Manager” shall mean any individual, group of individuals or organization employed to manage investments of the College.
4. “Investment Consultant” shall mean any individual, group of individuals or organization employed to provide advisory services, including advice on investment objectives and/or asset allocation, research, manager search, and / or performance monitoring.
5. “Securities” shall refer to the marketable investment securities which are defined as acceptable in this statement.
6. “Investment Horizon” shall be the time period over which the investment objectives, as set forth in this statement, are expected to be met.
7. “Product”, in reference to an investment vehicle, shall mean an individual fund or style of account managed by an investment manager. Examples of a product include a mutual fund, publicly traded fund, unit investment trust (UIT), exchange traded fund (ETF), or separately managed account for a specific style/asset class. An Investment Manager may manage several different products, each one distinct for purposes of this Statement.

### **BOARD OF DIRECTORS**

1. The Board is responsible for the investment and administration of the College assets. Specifically, the Board is charged to perform the following responsibilities and functions as it relates to the funds: Periodically review investment objectives and policies appropriate to the College’s financial goals and policies, and approve changes.
2. Adopt appropriate benchmarks for the evaluation of managers, as well as determine the overall strategy, and report to the Directors on performance relative to the benchmarks at least annually.
3. Work with an Investment Consultant on overall policy and strategy issues.
4. Any removal and replacement of existing managers will be directed by the Board. Any changes in strategic allocation or asset class level strategy will be directed by the Board.
5. Report regularly on these matters.

### **DELEGATION OF AUTHORITY**

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The Vice President, Finance, is designated as investment officer of the district board and is responsible for cash management, investment decisions and activities. The Controller and/or Coordinator, Cash Management, are authorized to act in accordance with this policy at the direction of - or in the absence of the Vice President, Finance. The Committee may further delegate investment authority to a state, national bank or trust company for the purpose of hiring an investment manager.

### **INVESTMENT CONSULTANT(S)**

The Committee may work with an Investment Consultant, on an as needed basis, as an advisor to the Committee. Responsibilities of the Investment Consultant may include:

1. Provide investment advice concerning the investment management of College assets which is consistent with the investment objectives, policies, guidelines and constraints as established in this Policy.
2. Assist in the development and periodic review of investment policy.
3. Evaluate the adequacy of each Portfolio's current and target asset allocation to meet projected liabilities, and, if necessary, provide guidance on any changes in each Fund's asset allocation.
4. Recommend investment managers based upon target asset allocation.
5. On a quarterly basis, analyze the performance of the overall allocation relative to its benchmark for the same time period(s).
6. Monitor the performance of the Investment Manager(s) on a quarterly basis to provide the Board with the ability to determine the progress toward the investment objectives. Performance will be assessed on a gross and net of fee basis, relative to an appropriate peer group, index and investment policy benchmark returns.

### **INVESTMENT MANAGER(S)**

Each Investment Manager will have full discretion to make all investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this Policy. Specific responsibilities of the Investment Manager(s) shall include:

1. Discretionary investment management including decisions to buy, sell, or hold individual Securities within the guidelines established in this Statement.



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2. Reporting, on a timely basis, quarterly investment performance results.
3. Communicating any major changes to economic outlook, investment strategy, or any other factors which affect implementation of investment process, or the investment objective progress of the College's investment management.
4. Informing the Board regarding any qualitative change to investment management organization: Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.
5. Voting proxies on behalf of the College, and communicating such voting records to the Board upon request.

## **INVESTMENT MANAGEMENT POLICY**

The Investment Management Policy shall include the following principles:

1. Preservation of Capital - Consistent with their respective investment styles and philosophies, Investment Managers should make reasonable efforts to preserve capital, understanding that losses may occur in individual Securities.
2. Risk Aversion - Understanding that risk is present in all types of securities and investment styles, the Board recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Portfolio's objectives. However, the Investment Managers are to make reasonable efforts to control risk, and will be evaluated regularly to ensure that the risk assumed is commensurate with the given investment style and objectives.
3. Adherence to Investment Discipline - Investment Managers are expected to adhere to the Investment Management styles for which they were hired. Investment Managers will be evaluated regularly for adherence to investment discipline.

## **INVESTMENT OBJECTIVES**

The College's investment objectives, and its related performance in achieving those



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objectives, will be evaluated on at least an annual basis. In addition, progress towards meeting these goals shall be reported annually to the Board in a format deemed most appropriate by the Board..

The Funds will be managed with the intention of obtaining the highest possible total return, while maintaining a prudently acceptable level of risk and maximizing income to meet the operating needs of the College.

The College's financial goals are to:

1. Maintain sufficient liquidity and preserve capital to fund ongoing operational needs,
2. Maximize income.

### **SPECIFIC INVESTMENT GOALS**

It is expected that the aggregate College assets will meet or exceed these objectives:

1. Outperform blended benchmark on a risk-adjusted basis including target annual returns net of fees over a market cycle (three to five years).
2. Achieve competitive investment results. The goal of each Investment Manager is to meet or exceed the market index, or blended market index that most closely corresponds to the style of investment management for that Product.
3. Provide consistent investment returns. The compounding of positive returns on a year-by-year basis is a fundamental long-term goal of the College.
4. Risk tolerance: So long as there is sufficient liquidity to meet ongoing cash needs, the College may tolerate very modest fluctuations in portfolio value to realize higher income return. Risk factors will be reviewed at least once a year by the Board.

### **CONSTRAINTS**

While a certain investment strategy is employed to manage the financial assets of the College, this strategy is written within the context of specific investment constraints,



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namely: liquidity requirements, investment horizon, regulatory and legal constraints, tax considerations and, finally, unique circumstances.

### **LIQUIDITY REQUIREMENTS**

To minimize the possibility of a loss occasioned by the sale of a Security forced by the need to meet a required payment, the Vice President of Finance will periodically provide the Board an estimate of expected net cash flow, and invest in accordance with cash flow needs.

### **INVESTMENT HORIZON**

Under the going-concern assumption, the College's investment horizon is theoretically infinite. However, the majority of obligations is tied to the financing of ongoing operations of the College, and therefore has an investment horizon that ranges from very short to intermediate term, depending on the specific purpose and characteristics of the investment fund.

### **REGULATORY AND LEGAL CONSTRAINTS**

Wis. Stat. § 66.0603 governs investment activities for technical college school districts, with very specific constraints as noted throughout this policy.

### **TAX CONSIDERATIONS**

The MATC is a State of Wisconsin school district, and is not subject to federal or state income tax.

### **UNIQUE CIRCUMSTANCES**

None.

### **MARKETABILITY OF ASSETS**

The College shall invest in liquid Securities, defined as Securities that can be transacted quickly and efficiently for the Fund with minimal impact on market price.

### **INVESTMENT GUIDELINES**

These are generally limited to cash, cash equivalents, fixed income securities and mutual funds investing in fixed income securities. Those selected for the Funds should



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be well-diversified and must meet the specific requirements of Wis. Stat. § 66.0603. Investments selected for the College should be well diversified and should emphasize reasonable and stable returns.

#### Allowable Assets

1. Wisconsin School District Liquid Asset Fund.
2. Wisconsin Local Government Pooled-Investment Fund.
3. Wisconsin Cooperative Liquid Asset Security System (CLASS).
4. Time deposits in any financial institution authorized to conduct business in Wisconsin with maturities not to exceed three years.
5. Federal Government & Agency Bonds with maturities not to exceed seven years.
6. Wisconsin Municipal Bonds with maturities not to exceed seven years.
7. Other Fixed Income investments with maturities from the date of purchase not to exceed seven years, that carry a credit rating which is the highest or second highest according to Standard & Poor's or Moody's, or, if that security is senior to, or on a parity with, a security of the same issuer which has such a rating.
8. No-load Fixed Income Mutual Funds or Investment Trusts with underlying holdings limited to:
  - a. Bonds and securities issued by the federal government or a commission, board or other instrumentality of the federal government
  - b. Bonds that are guaranteed as to principal and interest by the federal government or a commission, board or other instrumentality of the federal government.
  - c. Repurchase agreements that are fully collateralized by bonds or securities.

#### Prohibited Assets

1. Common and preferred stock



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2. Equity mutual funds
3. Real Assets (commodities, real estate)
4. Limited Partnerships and Limited Liability Companies treated as partnerships for income tax purposes
  - a. Private Equity
  - b. Hedge Funds
5. International Investments (equity, fixed income, currency, developed, emerging, frontier)
6. Derivative investments (options, futures, forwards, swaps, etc.)
7. Rights or royalty contracts

#### Prohibited Transactions

Prohibited transactions include the following:

1. Short Selling
2. Margin Transactions
3. Derivative Investments

#### **ASSET ALLOCATION GUIDELINES**

Investment management of the assets shall be in accordance with the following asset allocation guidelines:

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<u>Asset Class</u>	<u>Criteria</u>	<u>Benchmark</u>
Core Fixed Income	Cash needs less than 3 years	Barclays 1-5 Year Gov/Credit
Short Term Fixed Income	Cash needs less than 1 year	Barclays 1-3 Year Gov/Credit
Ultra-Short Fixed Income	Cash needs less than 6 months	Citigroup Treasury 1 Year

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Cash and Cash Equivalents    Cash needs less than 30 days	Citigroup 3 Month T-bill

## **PORTFOLIO DIVERSIFICATION**

### Guidelines for Product Diversification

Securities held in the Fund need not represent a cross section of the U.S. capital markets. However, in order to achieve a prudent level of portfolio diversification, the Securities of any one company or government agency should not exceed 10% (at cost) of a manager’s total Product. Individual U.S. Treasury Securities may represent 100% of the total Product, and treasury bonds and notes may represent up to 100% of the Fund’s aggregate bond position.

### Guidelines for Fixed Income Investments and Cash Equivalents

1. Fund assets may be invested only in marketable fixed income instruments rated AA (or equivalent) or better by at least one rating agency at the time of purchase.
2. Fund assets may be invested in highly liquid short-term investments.
3. Fund assets may also be invested in mutual or investment trust funds which comply with these restrictions, and those noted above under Allowable Investments.

## **INVESTMENT MANAGER PERFORMANCE SELECTION, REVIEW AND EVALUATION**

Managers will be selected by the Board, and reviewed on a quarterly basis,. A qualifying Investment Manager must be a state, national bank or trust company. Managers shall be selected on the basis of prudent due diligence procedures. Investment performance reviews of all Investment Managers will be conducted quarterly to ascertain progress of each manager versus the return objectives. The quarterly reports will cover four basic areas: (1) returns, (2) comparisons of returns to benchmarks and a statistical universe of similar portfolios, (3) diagnostic risk analyses, and (4) compliance with relevant policies and objectives. Additionally:

1. The Manager must provide historical quarterly performance data compliant with Global Investment Performance Standards (GIPS®), Securities & Exchange Commission (“SEC”), and Financial Industry Regulatory Agency (“FINRA”) rules, as appropriate.



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2. The Manager must provide detailed information on the history of the firm, key personnel, support personnel, key clients, and fee schedule (including most favored nation clauses).
3. The Manager must clearly articulate the investment strategy that will be followed and document that the strategy has been successfully adhered to over time.
4. The Manager must confirm receipt, understanding and adherence to this Policy Statement and any investment specific policies by signing a consent form provided to the Manager prior to the investment of assets.

The Board reserves the unilateral right to terminate an Investment Manager at any time for any reason. Certain circumstances or events, a non-exhaustive list of which is outlined below, may trigger termination or other action by the Board.

1. Disappointing manager performance
  - a. Investment performance which is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results
  - b. A trend analysis that indicates that the downside risk of the portfolio has increased. The analysis will rely heavily on analyzing the manager's historical trend in performance relative to its benchmark, then comparing the historical trend to recent performance in order to determine the factors that are hindering performance.
2. Failure to adhere to any aspect of this Statement, including communication and reporting requirements
3. Qualitative Changes in Investment Manager
  - a. Turnover of portfolio manager or other personnel significant to the portfolio management process.
  - b. Ownership change.
  - c. Involvement in relevant regulatory investigation or litigation.
4. Deviation from Investment Methods relative to Historical Record



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- a. Aggregate assets in product are insufficient to ensure broad diversification, efficient trading and economies of scale.
- b. Assets in product grow too large to be managed in manner similar to methods that built historical record.
- c. Portfolio characteristics do not match stylistic expectations.
- d. Increase in fees