

## **NPCA EDUCATIONAL FOUNDATION INC.**

### **INVESTMENT POLICY**

The NPCA Educational Foundation takes seriously its stewardship responsibility as a manager of donor funds. It recognizes that all donations reflect an implicit trust in the Foundation's ability to invest resources wisely and use the income produced to fund the scholarships for deserving recipients.

Responsibility for managing the NPCA Educational Foundation's investment portfolio is vested in the Foundation's Board of Directors through its Finance and Investment Committee. This committee works closely with the NPCA staff and its investment adviser to set policy, establish performance benchmarks and monitor the performance of the Educational Foundation's portfolio against these policies and benchmarks.

The Foundation's investment philosophy reflects the following fiscal objectives:

- Preserve capital
- Earn competitive returns within the risk tolerances established by the Foundation
- Preserve purchasing power by striving for long-term returns, which either match or exceed the annual funding requirements, fees and inflation.

The first stage to the investment policy is the segregation of the investment funds into categories or levels of investment as shown below:

1. **Current Operating Funds/Short Term Reserves:** Defined as the amount needed to fund current scholarship obligations. These funds can be placed only in federally insured interest bearing accounts or money market accounts funded exclusively by U.S. Treasury obligations that are completely liquid. The objectives of these funds are preservation of principal with money market returns.
2. **Endowment Funds:** Defined as funds set aside as the corpus of the foundation. These funds are available for long-term investment at the discretion of the Board of Directors of the Foundation. These funds will not be used as operating funds. The objectives of these funds are to provide a reasonable level of income, the opportunity for growth and protection of principal against inflationary risks.

### **INVESTMENT STRATEGIES**

Using the investment instruments outlined below, the following investment guidelines should be followed for each category of funds.

#### **1. Current Operating Funds 0% to 100% Cash and Equivalents**

Cash should be defined as the Association's checking accounts and money market funds. The Association's checking account should be used for current operating funds. This account is insured for \$100,000. If possible, any balance above \$100,000 should be placed in a money market fund composed entirely of U.S. Treasury obligations.

## **2. Endowment Funds**

**Category I:** CDs, U.S. Treasuries, Interest Bearing Checking 10-100%

**Category II:** Income Producing Stocks, Stock Funds and Balanced Funds 0-80%

**Category III:** Non-income Producing Stocks and Stock Funds 0-40%

### **Category I: CDs, U.S. Treasuries, Interest Bearing Checking**

The aim of this category of the portfolio above all else is to protect the principal. Acceptable investments within this category include: Federally insured CDs, U.S. Treasuries, interest bearing checking accounts and liquid money market accounts. Additionally, if other debt instruments become available that offer security to the principal, the Educational Foundation will consider them for inclusion within the portfolio. Federally insured certificates of deposit are not to exceed \$100,000 (both principal and interest) at FDIC insured banking institutions. Maturity dates will be staggered to meet cash flow requirements.

### **Category II: Income Producing Stocks/Stock Funds/Balanced Funds**

The aim of this category is to provide current income along with the possibility of long-term growth of capital. It is understood that the value of this portion of the portfolio will fluctuate and will consequently involve risk. This category can also include bonds, international stocks and international bonds within a fund. The resources allocated to this category can be invested with a professional money manager either directly or via a mutual fund. At the point of investment, the portfolio will be associated with a closely correlated index and monitored relative to its performance on an ongoing basis. If the portfolio underperforms its benchmark by 10% or more for three consecutive quarters, it will be considered for replacement, unless additional analysis is presented.

### **Category III: Non-income Producing Stocks/ Stock Funds**

The aim of this category is long-term growth of capital with no consideration given to current income. This category is the most aggressive component of the portfolio and will experience more volatility and possibility of capital losses than the other components. This category can include large capitalization, mid-capitalization, small capitalization and international stocks. The category can include assets that are income producing. The resources allocated to this category can be invested with a professional money manager either directly or via a mutual fund. At the point of investment, the portfolio will be associated with a closely correlated index and monitored relative to its performance on an ongoing basis. If the portfolio underperforms its benchmark by 10% or more for three consecutive quarters, it will be considered for replacement, unless additional analysis is presented.

## **GENERAL GUIDELINES AND RESTRICTIONS**

In order to accomplish the balanced diversified strategy, the allocation of the funds should be reviewed annually with the Foundation. This evaluation will include performance relative to the pre-determined benchmarks, a summary of perceived risks and suggested rebalancing opportunities. This evaluation will be delivered in writing annually to the Board of Directors.

The allocation of the portfolio will be adjusted in a timely manner throughout the year with the approval of the Treasurer. These adjustments will be documented in the annual review.

Additionally, the Association may not:

- Purchase securities on margin
- Make short sales of securities
- Invest in non-publicly traded real estate, commodities or commodities contracts
- Directly invest in options, futures or derivative securities
- Investing in Private Placements
- Provide venture capital
- Make individual foreign equity purchases

### **INVESTMENT FILES**

The Association will maintain files containing current information on each investment vehicle.

### **REVIEW POLICY**

It shall be the responsibility of the officers of the Association to review these policies periodically but not less frequently than annually.

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NPCA Educational Foundation, Inc.

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Date Approved by Board of Directors