

COLLEGE OF MICRONESIA-FSM

BOARD POLICY No. 1490

Endowment Governance and Investment Policy

Date Adopted:

Date Revised:

Date Reviewed:

References: BP 1440 (Investment Policy), BP 1450 (Endowment Fund), BP 1460 (Fundraising); Investment Policy Statement, Public Law 7-79, Board Bylaws Article V, Strategic Financial Plan 2025–2030

I. Purpose and Scope

This policy consolidates and replaces Board Policies 1440 (Investment Policy), 1450 (Endowment Fund), and 1460 (Fundraising). It establishes a unified framework to govern the College of Micronesia-FSM's endowment fundraising, fund management, investment strategy, and spending policy.

The purpose of this policy is to support the College's long-term financial sustainability, reduce dependence on external contributions through prudent investing, and ensure alignment with donor intent and Public Law 7-79.

This policy reflects the fiduciary responsibility of the Board of Regents and provides for disciplined oversight, risk-informed investment, cost control, and transparent stewardship of endowment assets.

The Endowment Fund may include general, restricted, and special-purpose funds. Special-purpose funds may be established to support the strategic priorities of the College and the Federated States of Micronesia, including, but not limited to, workforce development, vocational and technical education, private-sector capacity building, and other areas aligned with national and institutional priorities. All such funds shall be governed by this policy and applicable donor or statutory requirements.

II. Governance and Fiduciary Oversight

The Board of Regents shall exercise fiduciary responsibility over the Endowment Fund and all related fundraising, investment, and expenditure activities solely in the long-term interests of the College of Micronesia-FSM, in accordance with Article V of the Board Bylaws, Public Law 7-79, and applicable institutional and ethical standards.

The Board shall establish a three-member Endowment Oversight Committee to oversee endowment policy implementation, fundraising performance, investment strategy, and fund utilization. The committee shall:

- Monitor and review endowment performance reports and make policy recommendations to the full Board.
- Recommend fund manager selection, asset allocation adjustments, and investment performance benchmarks in accordance with the Investment Policy Statement.
- Review annual fundraising, investment, and spending reports to ensure alignment with donor intent and Board-approved budgets.

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At least one member of the committee shall possess relevant experience in finance, investment, or nonprofit fund management.

The Board may delegate administrative responsibilities to the President or designated officers, provided that:

- Delegations are documented in writing and reviewed annually.
- Quarterly and annual reports are submitted to the Committee and the full Board.

All individuals involved in the management or oversight of the Endowment Fund shall comply with conflict-of-interest standards and disclosure requirements as outlined in the Board Bylaws and applicable laws. The Committee shall ensure regular review of fundraising, investment, and expenditure activity for transparency and accountability.

III. Fundraising Strategy

The College sets an annual fundraising target of \$100,000, aligned with long-term financial projections and investment return assumptions to achieve endowment sustainability.

The Executive Director of the Office of Institutional Advancement and External Affairs (IAEA) shall be responsible for leading and coordinating the College's fundraising activities. The Executive Director shall:

- Develop and implement a multi-year fundraising strategy approved by the President
- Prepare an annual fundraising calendar aligned with institutional events
- Convene and chair a Fundraising Steering Committee, composed of at least five members representing College leadership, alumni, and external stakeholders
- Ensure the Steering Committee meets at least quarterly to review campaign performance and adjust strategies
- Coordinate donor cultivation, stewardship, recognition, and compliance with donor conditions
- Submit an annual fundraising report to the President and Board, including metrics, sources, trends, and outcomes

IV. Investment Objectives and Asset Allocation

The College's Endowment Fund shall be managed with a long-term investment horizon of 20 years or more, allowing for interim volatility in pursuit of sustainable growth. The Fund's objectives are to:

- Achieve a long-term nominal return of at least 7.1% annually, net of all investment-related fees;
- Exceed earnings assumptions identified in the Investment Policy Statement (IPS);
- Maintain positive real returns, using the U.S. Consumer Price Index (CPI) as the inflation benchmark;
- Support institutional financial goals through a balanced approach of investment growth and disciplined contributions.

Given the Fund's current underfunded status relative to its \$20 million distribution threshold, the College acknowledges the need to assume prudent investment risk to meet its objectives.

Strategic asset allocation shall be:

- Defined in the IPS and reviewed at least every three years;
- Diversified across asset classes to mitigate risk;

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- Adjusted tactically by external investment managers within Board-approved parameters;
- Designed to ensure all investment securities offer competitive market returns consistent with the Fund's objectives.

Investment managers are expected to outperform a customized benchmark index weighted to the strategic asset allocation of the Fund. Over a complete market cycle, total Fund performance shall be evaluated relative to this benchmark.

Cost control shall be a standing priority. The College shall monitor and limit management fees, advisory fees, transaction costs, and administrative expenses associated with portfolio management, and shall periodically evaluate investment managers and advisors based on both performance and cost efficiency.

The Endowment Fund shall be managed in a manner that preserves the corpus (principal) of the Fund. Investment earnings shall be retained and reinvested to support long-term growth of the Endowment, except as otherwise provided under the Board-approved spending policy.

V. Spending Policy

The College shall preserve the long-term value of the Endowment Fund while responsibly supporting institutional priorities. No spending shall occur from the Endowment Fund until its 3-year rolling average market value reaches at least \$20 million, as verified by audited financial statements. Once this spending threshold is met, annual withdrawals shall be limited to no more than 4% of the Fund's 3-year rolling average market value, unless otherwise authorized by a two-thirds vote of the Board of Regents through a written resolution with documented justification. Spending shall be derived from investment earnings and shall be managed in a manner that supports both current institutional needs and the continued growth of the Endowment Fund. A portion of annual earnings shall be retained and reinvested to preserve the long-term purchasing power of the Fund.

All proposed withdrawals shall:

- Be included in a Board-approved institutional budget;
- Comply with the purposes outlined in Public Law 7-79 and any donor-imposed restrictions;
- Be reviewed and endorsed by the Endowment Oversight Committee.

Emergency withdrawals may be authorized by the Board only under extraordinary circumstances that pose a significant risk to institutional operations or financial stability. Such actions require a two-thirds vote and a documented explanation of necessity, impact, and restoration plans.

Spending decisions shall be guided by long-term financial planning, investment performance, and sustainability considerations to ensure intergenerational equity.

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VI. Performance Monitoring and Reporting

The Endowment Oversight Committee shall ensure regular evaluation of investment and fundraising performance to uphold transparency, accountability, and alignment with policy objectives.

Investment performance shall be reviewed quarterly with the Investment Advisor, and reported to the Committee and Board. Reports shall include:

- Return relative to a customized benchmark index, based on the Fund's strategic asset allocation;
- Asset allocation compliance and any deviations;
- Portfolio risk metrics (e.g., standard deviation, Sharpe ratio, drawdown analysis);
- Cost summary, including management fees and transaction costs;
- Rebalancing recommendations, if strategic targets fall outside approved ranges.

An annual investment performance report shall be submitted by the President or designee to the Board of Regents and include:

- Cumulative and annualized returns compared to benchmarks;
- Historical and projected funding progress toward the \$20 million threshold;
- Any policy violations, exceptions, or reallocation decisions.

Fundraising performance shall be reported annually by the Executive Director of IAEA and shall include:

- Total funds raised by source (e.g., individuals, corporations, grants, events);
- Progress toward the annual fundraising target;
- Donor engagement and retention metrics;
- Summary of stewardship activities and donor recognition;
- Cost of fundraising activities, including staffing and operational expenses;

VII. Donor Stewardship and Ethical Considerations

The College of Micronesia-FSM affirms its commitment to donor trust, legal compliance, and transparency in all endowment-related activities. All donor contributions shall be managed in accordance with their stated intent and applicable conditions. Expenditures must comply with the purposes and limitations set forth in Public Law 7-79, this policy, and any specific gift agreements.

The Executive Director of the Office of Institutional Advancement and External Affairs (IAEA) shall oversee donor stewardship and ensure:

- Timely and transparent communication with donors regarding fund use and impact;
- Annual acknowledgment and reporting to major donors;
- Implementation of donor recognition programs;
- Coordination with Legal Counsel for reviewing major gifts and conditions.

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All naming opportunities for facilities or programs arising from endowment gifts shall be governed by Board Policy 5801: Naming Opportunity of Facilities and Programs.

To ensure consistent review, acceptance, and stewardship of philanthropic gifts, the College shall develop an Administrative Procedure on Donor Gift Acceptance. This procedure will define acceptable gift types, review thresholds, approval authorities, documentation requirements, and protocols to safeguard donor intent and institutional integrity.

VIII. Policy Review and Amendment

This policy shall be reviewed at least once every five (5) years, or earlier as needed in response to significant changes in market conditions, legal requirements, investment strategy, or institutional priorities. The Endowment Oversight Committee shall lead the review process and may recommend amendments to the Board of Regents.

All related administrative procedures, guidelines, and investment policies shall be updated to align with this Board Policy.