

INVESTMENT POLICY STATEMENT
for
Endowment Fund of the Diocese of El Camino Real
May 17, 2017

I. PURPOSE OF THE INVESTMENT POLICY STATEMENT

This Investment Policy Statement is designed to:

- A. Establish investment objectives and overall standards for the management of the assets held in the Endowment Fund of the Diocese of El Camino Real.
- B. Provide an investment vehicle, which will generate stable and continuously growing principle and income.
- C. Define overall risk and return objectives of the portfolio.
- D. Establish a philosophy and policies that will guide the Finance Committee of Diocese of El Camino Real in decisions regarding the management of portfolio assets.
- E. Identify any restrictions that may exist regarding the investment of portfolio assets.
- F. Establish a methodology for monitoring and evaluating performance of the portfolio.

II. BACKGROUND INFORMATION

- A. The Endowment Fund is an asset of the Diocese of El Camino Real (referred to herein as “the Endowment Fund,”) P.O. Box 689, Salinas, CA. As such, it is part of a 501(c)(3), a non-profit public benefit organization with accumulated investment assets from earnings, donations and/or bequests. The Endowment Fund’s investment portfolio is administered by the Finance Committee at the direction of the Board of Trustees of the Diocese of El Camino Real.
- B. The Finance Committee is authorized by the Board of Trustees to establish objectives, policies, and guidelines and is charged with management responsibility of the portfolio. This includes responsibility for selecting/monitoring/making/ replacing investments and determining/adjusting asset allocation as needed.
- C. The Board of Trustees of Diocese of El Camino Real is also authorized to employ and retain outside investment management and other financial service providers as needed.
- D. The investment portfolio covered by this Investment Policy Statement currently consists of stocks, bonds, mutual funds, exchange traded funds and money market funds.
- E. In addition to the funds addressed in II-D, and outside of the publically traded securities in the managed portfolio, the Endowment Fund may also hold an equity ownership investment in the Bishop’s residence.
- F. The Endowment Fund is tax exempt and, therefore, exempt from all Federal and State income and capital gains taxes.

III. INVESTMENT PHILOPSOPHY

The investment philosophy is to create a management process with sufficient flexibility to capture investment opportunities as they may occur, yet maintain reasonable parameters to ensure prudence and care in the execution of the investment program.

IV. INVESTMENT GOAL

- A. The Endowment Fund will be managed in a manner consistent with The law of Endowments (Uniform Prudent Management of Institutional Funds Act as embodied in the California Probate Code (UPMIFA)), described as follows:

Uniform Prudent Management of Institutional Funds Act

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
 2. The purposes of the Organization and the donor-restricted endowment fund
 3. General economic conditions
 4. The possible effect of inflation and deflation
 5. The expected total return from income and the appreciation of investments
 6. Other resources of the Organization
 7. The investment policies of the Organization.
- B. The overall investment goal of the Endowment Fund is to preserve the purchasing power of these assets for future use as needed and to maximize the return of the portfolio within reasonable and prudent levels of risk.
- C. The investment horizon for the Endowment Fund is perpetual.
- D. Given the above assumptions and needs, the overall, long-term expected return will be 6-8% compounded annually and evaluated over a three- to five-year business cycle.
- E. This return objective will be reviewed annually and adjusted if objectives change.

V. INVESTMENT OBJECTIVES

In order of importance, the Fund's investment objectives will be:

- A. Safety of principal
- B. Long term growth of capital
- C. Income
- D. Prudent diversification
- E. Liquidity

VI. RISK

- A. Total investment risk refers to the volatility of the return of total the Endowment Fund assets. It is defined as the unpredictability of investment returns, the chance that actual returns of individual investments are different from expected returns and the possibility that overall portfolio performance does not meet target expectations.
- B. The Endowment Fund has a conservative to moderate tolerance for risk. As such, it is willing to accept some volatility in the portfolio in order to achieve its return objectives.
- C. The Finance Committee/Board of Trustees understands that the actual level of risk as well as returns may be higher or lower than the Endowment Fund's stated risk tolerance and return objective.

VII. CONTRIBUTIONS (BEQUESTS AND GIFTS)

Contributions to the Endowment Fund will be accepted in accordance with the Gift Acceptance Policy Statement and assigned to one of the following funds:

- A. General Purpose
- B. Mission Activity Fund
- C. Seminarian Scholarships and Clergy Education
- D. Education (Clergy and General):
- E. Rehabilitation Ministry
- F. Diocesan Enhancement Fund

VIII. DISTRIBUTIONS (SPENDING RULES)

- A. Distributions from the portfolio will be made in accordance with the Spending Rules which currently require 4% of the asset value of the Endowment (averaged over the most recent 12 quarters) to be distributed on a pro-rata basis, at least annually, to each of the sub-endowment accounts.

IX. INVESTMENT VEHICLES/ASSET ALLOCATION

A. Fixed Income Securities (Bonds)

- 1. Fixed income securities may include the following: U.S. Treasury obligations, federal agency obligations, marketable corporate bonds, commercial bank certificates of deposit, preferred stocks and money market funds. Fixed income may also include global issues that meet the same investment criteria.
- 2. Bonds will be selected and managed so as to assure appropriate balance of quality, maturity and coupons consistent with current money market and economic conditions.
- 3. At time of purchase, all bonds will be investment grade (no rating lower than BBB) as rated by the bond services. The weighted average quality of the fixed income portfolios will be AA or better.

B. Equity Securities (Stocks)

- 1. Stocks are defined to include convertible issues as well as common stocks and/or stock mutual funds and Exchange Traded Funds (ETF), domestic and/or global.
- 2. Investments in any one security should not exceed 5% of the portfolio's equity investments based on market value at the time of purchase.

C. Prohibited Transactions

The following transactions are prohibited unless approved by the Finance Committee:

- 1. Investment in physical commodities, uncovered options, letter stock, limited partnerships, private placements, short sales and margin/loans. Securities lending is also prohibited.
- 2. Additional socially responsible criteria are listed in the Appendix to this Investment Policy Statement.

D. Asset Allocation

1. This Investment Policy Statement will define the asset allocation policy among various asset classes given the Endowment Fund's objectives, time horizon, constraints and risk tolerance.
2. Stocks may represent 50%-70% of the portfolio based on market value at time of purchase.
3. Bonds/money market funds will make up the remainder of the portfolio.
4. Assets may be temporarily invested in short-term U.S. treasury/agency obligations and/or money market funds. Cash balances will be kept at a minimum.

E. Sub-Asset Class Target Allocation

1. This Investment Policy Statement will define the strategic asset allocation among various asset classes given the Endowment Fund's objectives, time horizon, constraints and risk tolerance.
2. The asset allocation policy shall be expressed in terms of a percentage range of acceptable weights in the portfolio. The investment manager will have discretion to target the weight within the range.
3. Within the overall target allocation of stocks and bonds, the following sub-asset class target allocations are established, subject to change as market conditions dictate:

<u>Asset Class:</u>	<u>Allowable % Range of Total Portfolio</u>
U.S. Treasuries/Agencies Corporate Bonds/Pfd. Stocks TOTAL FIXED INCOME	30-50%
Large-Cap U.S. Equity Mid Cap U.S. Equity Small Cap U.S. Equity Total Domestic Equities	20-40%
Non-U.S. Equity (Developed/Emerging)	10-25%
Alternative Investments	0-10%
TOTAL EQUITY	50-70%

F. Rebalancing Policy

1. There will be periodic deviations in actual asset weights from the policy asset weight specified above due to market movements, cash flows and varying asset class performance.
2. The Endowment Fund authorizes the Investment Manager to rebalance the portfolio when necessary to ensure adherence to the Investment Policy.

X. TRANSACTIONS

The Investment manager will determine portfolio turnover rates, consistent with the Endowment Fund objectives.

XI. PERFORMANCE EVALUATION

- A. Investment returns will be measured on a total return basis, which includes income and both realized and unrealized gains/losses. Rates of return will be calculated based on a time-weighted rate of return formula as recommended by the CFA Institute's Global Investment Performance Standards (GIPS) and will be reported net of all fees and costs.
- B. Appropriate benchmarks for performance evaluation will be selected and reported.
- C. Performance of the portfolio will be measured daily, reported quarterly and evaluated over a three-five year time period.

XII. DISCRETIONARY INVESTMENT AUTHORITY

Subject to the guidelines of this policy statement, the investment manager retained by the Diocese will have full discretionary authority over the assets of the Endowment Fund and shall invest the assets in a manner that is consistent with generally accepted standards of fiduciary responsibility.

XIII. COMMUNICATIONS/REPORTS

D. The Finance Committee will review Endowment Fund results quarterly:

- 1. Portfolio valuation and performance.
- 2. Economic and market conditions affecting portfolio management.
- 3. Regular meetings, in person and/or by telephone with the investment Manager to review investment performance, evaluate the current investment outlook and discuss investment strategy.
- 4. Information regarding major changes in investment policy that may result in major investment strategy changes.
- 5. Review of any significant changes in management, research, or personnel within the investment management firms.
- 6. Other communications that managers feel necessary to facilitate achievement of objectives and goals.

E. The Finance Committee will report Annually to the Board of Trustees as follows:

- 1. Review investment performance, and portfolio status.
- 2. Review the current investment outlook and investment strategy.
- 3. Review any modifications to the Investment Policy Statement.
- 4. Review of any significant changes in management of the portfolio.
- 5. Other communication that the Finance Committee feels is necessary to facilitate achievement of the objectives and goals.

XIX. SUMMARY AND SIGNATORIES

This statement is intended as a guideline rather than a rigid statement of policy from which there can be no deviation. However, it is anticipated that the Finance Committee will bring any important changes to the attention of the Board of Trustees on a timely basis.

Approved:

Board of Trustees

Approved by the BOT 6/15/2017

Date

Appendix I: Resolution #6: Socially Responsible Investments

Submitted by the Diocesan Corporation of El Camino and Passed at the 1998 Convention

Statement of Principles and Guidelines

1. In its program of socially responsible investing, the Episcopal Diocese of El Camino Real is committed to assure both adequate financial returns and compliance with our social and religious principles. The records of several investment firms and advisors and the results monitored by the Domini Social Index demonstrate that this is possible.

2. The proposed program of Socially Responsible Investing is intended to evolve over the years, with adjustments being made in principles and screens over time. It is also anticipated that with experience better procedures and structure for the program will be devised.

3. The program of Socially Responsible Investing has two goals -- To do no harm and To do good. We will attempt to meet these goals in the following ways:

A. In order to avoid participation in harmful things, we will refuse to invest in companies whose products and/or policies are counter to the values expressed in our Baptismal Covenant (“Will you strive for justice and peace among all people, and respect the dignity of every human being? I will, with God’s help.” Book of Common Prayer, page 305). In that spirit, the Diocese will strictly avoid investment in such areas such as, but not limited to, the following:

- manufacturers of weapons, both conventional and nuclear,^[1]
- manufacturers of tobacco, alcohol, gambling products or pornography
- companies with an ongoing record of severe discrimination controversies, suits and/or fines based on gender, race, age or religion,
- companies whose operations are aligned with governments with human rights abuses or repressive regimes,
- companies whose business causes substantial environmental damage,
- companies with records of poor public citizenship, characterized by such things as recurring labor problems, insensitive public policies, and blatant disregard for community values.

B. In order to actively pursue good, we strongly encourage investment in corporations that are providing solutions to social and environmental problems and which support the moral and social values expressed in our Baptismal Covenant, specifically companies that:

- promote fair employment practices and promote diversity through innovative employee benefits and programs, family-friendly policies, and training and advancement programs for women and minorities.
- participate as concerned and involved citizens in their communities, through charitable giving, employee involvement, and direct investment in affordable housing and other initiatives in under served communities,
- have a direct positive effect on the environment through their products, services and/or actions to restore or enhance the environment.