

Investment Policy Statement

August 2018

*“Our spirit of poverty challenges us to live as responsible stewards for the sake of all with whom we share the universe and its resources.”*

## **PHILOSOPHY**

As Sample Client, we are women who have been touched by God’s steadfast love. In response to that love, we are moved to commit ourselves to a vowed life of faithfulness to the Lord, faithfulness to one another in community and faithfulness to God’s people, especially the poor.

This covenant relationship is a freeing one, enabling us to risk responding to the pressing needs of our times according to our gifts and in keeping with our Mission.

We, the Sample Client, seek to observe the Gospel principles of justice and stewardship as we exercise the right of ownership and determine our investment policies.

As women of the Church, we are called to give strong public witness against oppression brought about by unjust political, social or economic structures.

As women religious who seek to demonstrate our commitment to Gospel values with our lives and in our practices, we intend that choices of how and with whom we invest our corporate funds be consistent with our desire to promote just, fair and life-giving enterprise and to discourage war, militarism and violence, exploitation of persons, and depletion of non-renewable natural resources. Our corporate investments, while earning a fair return, must also reflect our commitment to these values.

### **Section I: Purpose**

The following Investment Policy Statement has been adopted by the Sample Client and may be amended as necessary from time to time. This statement of investment policy reflects the investment policy of the Investment Portfolio (hereafter referred to as the “Portfolio”).

The Investment Policy Statement (hereafter referred to as the “Policy” or “IPS”) of the Portfolio has been established to facilitate a clear understanding of the investment policy, guidelines, and objectives. It is the intention of this Policy to be both sufficiently specific to provide clear meaning and flexible enough to be practical.

The IPS provides:

- A risk objective for the investment of the Portfolio's assets;
- Target asset allocation policy for those assets;
- Investment guidelines regarding the selection of investment manager(s), permissible securities and diversification of assets;
- Criteria for evaluating the performance of the Portfolio's investment manager(s) and of the Portfolio as a whole; and
- Authorities of the Board of Directors, Finance Committee, staff, the investment consultant, investment managers, and custodian.

The purpose of the IPS is to sustain and grow the long-term financial assets of the Portfolio in a manner which incorporates the mission and values of the Sample Client (cf. Appendix A) while at the same time assuring availability of adequate liquidity to meet the financial obligations of the congregation. The key tenets of the IPS include establishing an asset allocation policy that reflects the risk posture and seeking combinations of exceptional investment managers that will provide a consistent level of superior risk-adjusted performance at the total program level over full market cycles.

The investment philosophy of the Sample Client is to emphasize total return, i.e., to provide a total return through capital appreciation and investment income. This philosophy is implemented through investing in a diversified portfolio, which may reflect varying rates of return. The overall rate of return objective of the portfolio is a reasonable "real" rate, consistent with risk levels established by the Investment Committee (hereafter referred to as the "Committee"). The objective is a minimum acceptable rate of return over a full market cycle (3 to 5 years).

## **Section II: Responsibilities of the Portfolio Representatives**

### **Responsibilities of the Committee**

The Committee will be responsible for managing the Investment Portfolio in accordance with the general philosophy, objectives and process established for the Portfolio. The Committee's long-term goal is to provide for an acceptable rate of return on investment, while keeping to a prescribed level of risk and defraying reasonable expenses of administering the Portfolio. This is to be achieved in a way that reflects the values of the Sample Client. The primary responsibilities of the Committee are to:

1. Establish and review the appropriateness of the asset allocation in light of the Portfolio's objectives.
2. Monitor and approve Portfolio rebalancing criteria.
3. Review quarterly Portfolio performance reports.

4. Review, and update if necessary, the manager guidelines and Investment Policy Statement at least once every 2 years.
5. Monitor and evaluate investment performance, attending to compliance with both manager guidelines and the Investment Policy Statement.
6. Take appropriate action in regard to the objectives established in the Investment Policy Statement.
7. Select and monitor all associated investment professionals, i.e. Investment Consultant and Investment Managers.
8. Comply with all applicable laws, regulations and rulings.

### **Responsibilities of Staff**

Staff, herein defined specifically as the Treasurer/CFO role, will be responsible for overseeing the implementation of the directives of the IPS and the Stewardship committee. Staff will handle many of the day to day operational elements of the management of the Portfolio on behalf of the Sample Client based on the directives of the IPS and Committee. Specific duties include:

1. Coordinate with the Investment Consultant on day to day administrative operation of the fund.
2. Facilitate distributions to support operational functioning of organization.
3. Help coordinate communication between interested parties (Investment Consultant, Investment Managers, Custodians) and Investment Committee as appropriate.
4. Review the selection and termination of investment managers, investment consultants, and custodians.
5. Review investment performance against industry benchmarks.
6. Make recommendations to the Investment Committee for discussion and action, annually review the investment policies and asset allocation, and periodically review compliance with social responsibility policies.

### **Responsibilities of the Investment Consultant**

The Committee retains an Investment Consultant to assist with investment portfolio structure and oversight. The Investment Consultant will be responsible for guiding the Trust through a disciplined and rigorous investment process. The primary responsibilities of the Investment Consultant are to:

1. Obtain relevant information in order to quantify the Portfolio's investment objectives and risk tolerance.
2. Facilitate the portfolio design (asset allocation) and implementation process.
3. In consultation with the Sample Client, review, recommend and update the Investment Policy Statement.
4. Conduct the search for Investment Managers as needed.
5. Monitor the asset allocation of the overall portfolio relative to this Investment Policy Statement.
6. Perform ongoing due diligence of the chosen Managers or Investment Funds and recommend changes as warranted.
7. Assist the Committee in reviewing all major assumptions to ensure the Portfolio has the proper asset allocation.
8. Employ a rebalancing process to monitor the degree to which the Portfolio's expected return and risk drifts from the target portfolio and rebalance the Portfolio as needed.
9. Prepare quarterly investment performance reports and discuss with the Committee. Meet quarterly with the Committee with at least one meeting being in person annually.
10. Prepare a "Flash Memo" as soon as reasonably possible, to inform the Committee of any significant change in an Investment Manager's firm ownership, organizational structures, professional personnel, accounts under management, fundamental investment philosophy or potential or actual deterioration of assets.
11. Other professional support as noted in the Consulting Agreement.

### **Responsibilities of Investment Custodian**

The responsibilities of the Custodian are:

1. Safekeeping of the Investment Portfolio's assets.
2. Monthly valuation of the holdings
3. Collect all income and dividends owed to the Investment Portfolio in its custody.
4. Settle all transactions initiated by the investment manager
5. Compliance with the IPS
6. Provide monthly reports that detail transactions, cash flows, securities held and their current value, and change in value of each security and the overall portfolio since the last report.

### **Responsibilities of Investment Managers**

In selecting Investment Managers, the Committee will examine the following:

A. Firm Quality and Depth. Investment companies should have a history of reliability and a sound financial background.

B. History of Adherence to Investment Objective and/or Approach. Portfolio Managers should consistently invest according to the investment objectives stated in the prospectus and Investment Policy Statement.

C. Performance Measured Against an Appropriate Benchmark. Based on the investment objective, holdings, investment style, and market capitalization; an appropriate benchmark should be used for relative investment performance evaluation.

D. Diversification. Portfolio Managers will employ investment strategies that show sufficient diversification within each portfolio.

E. Performance and Risk. Investment performance should be competitive on a long-term basis and on a risk-adjusted basis within each appropriate asset class.

F. Socially Responsible Investing. Portfolio Managers will employ the SRI and ESG guidelines as written in their individual IPS.

G. Fees. Selected Investment Managers should have fees competitive with those of similar offerings.

### ***Monitoring of Managers***

With the assistance of the Investment Consultant, the Committee will review the following items on a quarterly (except where noted) basis:

A. Each Fund or Manager's investment performance and risk levels over various time periods in light of the stated policies and objectives.

B. Reasonable adherence to stated strategy and style.

C. Any organizational or Portfolio Manager changes.

D. Views on important developments within the economy and the securities markets, and their potential effect on investment strategy, asset allocation, and fund performance.

E. Adherence (reviewed annually) to SRI and ESG Guiding Principles.

All guidelines and objectives shall be in force until modified in writing. If, at any time, Investment Managers believe that a specific guideline or restriction is impeding the ability to implement their process or meet the performance objective, they should present this fact to the Investment Consultant who will communicate this to the Committee.

Investment Managers will meet with the Investment Consultant periodically. Each quarter, Investment Managers will report portfolio holdings and performance. The Investment Consultant will prepare a "Flash Memo" and inform the Investment Committee as soon as reasonably possible of any significant change in an Investment Manager's firm ownership, organizational structure, professional personnel, accounts under management, or fundamental investment philosophy.

***Proxy Voting***

The Sample Client consider the voting of proxies as an essential component of good stewardship. In keeping with fiduciary duties assumed, individual Managers are charged with the responsibility of voting proxies in a manner that best serves the interests of the Investment Portfolio including not only risk and return but also SRI principles.

We understand that many Managers utilize proxy voting services. We require each Manager not only to name the service employed but also to annually provide us with a list of proxy resolutions voted.

Securities held within separately managed accounts will be voted by the Investment Manager in accordance with the procedures established in their respective Investment Policy Statements for all proxies where the Sample Client are not filers or co-filers of shareholder resolutions. When voting proxies for companies for which the Sample Client are co-filers, the proxies are to be voted as directed by the owner of the shares. Securities held within mutual fund accounts will be voted by the mutual fund Manager in accordance with established procedures in place at their respective mutual fund families.

**Section III. Risk and Return Objectives**

***Risk Objectives***

The risk objective for the Portfolio is the target standard deviation chosen from Asset Allocation Modeling as measured by volatility (standard

deviation), and is similar to the volatility level of the policy index when measured over three- to five-year rolling periods and a full market cycle. A moderate risk level balances portfolio stability and portfolio appreciation and includes a moderate level of volatility and risk of principal loss. The portfolio will include a balance of fixed income, equities and alternatives.

**Return Objectives**

The primary objective of the Portfolio assets is to grow the value of assets over the long-term, to fund all disbursements, as they are due, and to earn returns in excess of a passive set of market indexes representative of the Portfolio’s asset allocation. The target return is 5-7% annually. The Portfolio is expected to outpace the policy index return measured on a compound average annual return basis after the deduction of investment management fees and annualized over a three- to five-year rolling period and a full market cycle.

**Primary Benchmark:** The Portfolio should produce a level of return in excess of the market, as represented by a benchmark index or mix of indexes reflective of the Portfolio’s return objectives and risk tolerance. This benchmark or policy index is based on the Strategic Asset Modeling dated March 2018. Policy allocation targets are to be constructed as follows:

<b>POLICY BENCHMARK COMPOSITION</b>		
US Equity	Russell 3000 Index	20.0%
International Equity	MSCI All Country World	20.0%
Emerging Markets Equity	MSCI Emerging Markets Index	6.0%
Fixed Income	Barclays Capital US Aggregate Bond Index	44.0%
Private Real Estate	NCREIF ODCE Index	5.0%
Real Assets	To be determined based on implementation	5.0%
Total		100.0%

**Section IV: Asset Allocation**

The asset allocation is determined by the Committee to facilitate the achievement of the long-term investment objectives within the established

risk parameters, while observing this document’s SRI/ESG guidelines. Due to the fact that the allocation of funds between asset classes may be the single most important determinant of the investment performance over the long run, assets shall be diversified among common stocks, bonds, cash equivalents, and other investments, which may reflect varying rates of return.

The actual asset allocation, which will fluctuate with market conditions, will receive the regular scrutiny of the Committee. The Committee bears the responsibility for making adjustments in congregation to maintain the target asset allocation and for any changes to this policy. In line with the Investment Portfolio’s return objectives and risk parameters, the mix of assets should be maintained as follows (percentages are of the market value of the Investment Portfolio.)

<b>Asset Class</b>	<b>Minimum</b>	<b>Target</b>	<b>Maximum</b>	<b>Benchmark</b>
US Large Cap	5.0%	13.0%	20.0%	Russell 1000
US Small and Mid Cap	0.0%	7.0%	10.0%	Russell 2500
International & Global	10.0%	20.0%	25.0%	MSCI ACWI
Emerging Markets	0.0%	6.0%	9.0%	MSCI EM
Core Fixed Income	30.0%	44.0%	55.0%	Barclays Aggregate
Private Real Estate	0.0%	5.0%	7.5%	NFI ODCE
Private Equity	0.0%	5.0%	10.0%	TBD

<b>Asset Class Totals</b>	<b>Minimum</b>	<b>Target</b>	<b>Maximum</b>
Total Equity	30.0%	46.0%	55.0%
Total Fixed Income	30.0%	44.0%	55.0%
Total Alternative Investments	0.0%	10.0%	15.0%

*When an asset class nears the minimum/maximum range, the committee will discuss a potential rebalance to bring the Portfolio back to target allocations. Deviations from this asset mix guideline may be authorized by the Committee, which may determine if the aggregate deviation constitutes a material departure from the spirit of the target allocation.*

## **Section V: Investment Strategy**

### ***Diversification Requirements***

The primary method to reduce risk for the Portfolio is diversification through asset allocation. By allocating assets in different asset classes, the portfolio can reduce risk by avoiding concentration as well as reduce risk through the low-correlation between different asset classes.

Each investment manager has discretion with regard to security selection and allocation within its respective portfolio. Unless otherwise noted below, under normal market conditions, each investment manager is expected to be invested consistent with its investment style as described in its relevant documentation. During an initial three month period after being retained, the investment manager may hold cash and cash equivalents in larger proportions in congregation to invest their portfolio in an orderly basis.

To minimize the risk of large losses, each investment manager shall maintain adequate diversification in their portfolio subject to the constraints outlined in IPS, and in the investment management agreement.

### ***Derivatives and Structured Products***

Derivatives and structured products can be used efficiently to reduce the risk of the Portfolio and to expand the return opportunities. However, when used improperly, they can also increase the risk of the Portfolio. Before an investment manager uses any security other than standard securities (such as exchange traded common stock; interest bearing bonds, and cash equivalents), the security, derivative, or structured product must be explained to and approved by staff and the Committee. Following such approval, derivatives are allowed to hedge an underlying position and may be used to take a long position in anticipation of a cash inflow. Once the cash is used to open a position in the underlying security, the derivative position should be closed out. No derivative or structured product is allowed that will increase the potential for loss greater than that of a long position in the underlying security.

### ***Alternative Investments***

Alternative investments represent investments in vehicles that seek to provide diversification through innovative and flexible strategies (such as the ability to short, add leverage and hedge). Investments in such vehicles are expected to provide diversification and the opportunity for capital appreciation. Diversification standards within each investment vehicle shall be according to the prospectus. Investments in these investment vehicles carry special risks. Before an investment manager uses any alternative investment the product must be explained to and approved by staff and the Committee. Following such approval, the fund(s) may utilize speculative investment strategies, trade in volatile securities, and use leverage in an attempt to generate superior investment returns. The fund(s) may invest in

illiquid securities for which there is no ready market and place restrictions on investors as to when funds may be withdrawn. Permitted alternative investments are hedge funds, commodities, private equity, and private real estate.

### ***Cash Flows/Rebalancing***

As a general rule, new cash will first be used to rebalance the total Portfolio in accordance with target asset allocation policy. Operational distributions will also serve as a general opportunity to rebalance to target. The Investment Consultant's rebalancing process shall be employed, at least annually or more frequently as needed, to monitor the degree to which the portfolios expected return and risk drifts from the target portfolio. It is the responsibility of the Investment Committee to monitor, adjust, and approve the rebalancing criteria. The purpose of rebalancing is to maintain the risk/reward relationship implied by the stated long-term asset allocation targets. This policy may necessitate the purchase and/or sale of securities, which may create transaction costs to the account and the recognition of capital losses.

### ***Exclusions***

The Portfolio's assets will not be invested in the following unless agreed to by the Committee:

- Purchases of restricted stock or direct payments;
- Private placement or restricted securities, other than Rule 144A securities;
- Commodities transactions unless by managers approved for that strategy;
- Investments by the investment manager in their own securities or of their affiliates, or subsidiaries (excluding money market or other commingled funds as authorized at the recommendation of the Investment Subcommittee); and

Any other security transaction not specifically authorized in this IPS. Requests by investment managers to execute transactions that are not currently authorized in this policy should be made prior to executing such transactions.

## **Section VI: Performance Evaluation**

The Portfolio's (and investment managers') performance should be reported in terms of rate of return (time-weighted and dollar-weighted) and changes in dollar value. At the time of retention, management and investment manager (s) will agree to appropriate benchmark(s). The returns should be compared to these appropriate market indexes for the most recent quarter and for annual and cumulative prior periods. The Portfolio's asset allocation should also be reported on a quarterly basis.

Risk as measured by volatility, or standard deviation, should be evaluated after twelve months of performance history have accumulated. The policy index will be used as the performance benchmark for evaluating both the returns achieved and the level of risk taken for the Portfolio and the individual investment managers.

- There are certain circumstances that require a serious review of a relationship with an investment manager. These circumstances are clearly communicated to managers at the commencement of their engagement, so the manager is aware, when hired, under what circumstances they might be terminated.
- These circumstances could include:
  - Failure to meet investment objectives and performance standards,
  - Violating constraints specified in this IPS,
  - Failure to communicate or otherwise service the account, and
  - Significant changes in investment style, personnel, ownership or other areas that would lead to the conclusion the investment manager is no longer the firm originally hired.

These circumstances and others may indicate the investment manager may no longer be an appropriate manager for the Portfolio and may not be able to add value to the overall investment performance. Whenever issues of concern are identified either directly, or brought forward by the consultant, these will be thoroughly reviewed and any corrective action pursued on a timely basis.

## **VII. Guidelines for Corrective Action**

The Committee and staff, will not, as a rule, terminate an investment manager based on short-term performance. If the investment manager is sound and is adhering to its investment style and approach, the Committee and staff will allow a sufficient interval of time over which to evaluate performance. Staff expects the consultant to provide guidance to help it determine an appropriate length of time. The investment manager's performance will be viewed in light of the firm's particular investment style

and approach, keeping in mind at all times the Portfolio's diversification strategy, as well as the overall quality of the relationship. Staff, however, may require an extra level of scrutiny, or consider termination, of an investment manager based on factors such as:

- Any material event that affects the ownership or capital structure of the investment management firm, or the management of this account;
- Any legal or regulatory action taken against the manager;
- Any material servicing deficiencies, including a failure to communicate in a timely fashion significant changes as outlined in Section II of this IPS;
- Violation of the terms of the contract or changes to agreed upon services without prior written approval of the Board of Directors;
- Significant style drift from the intended investment style the manager was engaged to implement; and
- Lack of diversification.

The Investment manager may be replaced, at any time, as part of an overall restructuring of the Portfolio. The Committee reserves the right to terminate an investment manager at any time and for any other reason in accordance with any applicable investment management agreements.

**VIII. Approval**

This Investment Policy Statement has been prepared for the review and approval of the Committee and staff.

By: \_\_\_\_\_ Date \_\_\_\_\_  
President

\_\_\_\_\_  
Treasurer Date \_\_\_\_\_

## APPENDIX A SRI and ESG Guiding Principles

The Sample Client appreciate the developing understanding of socially responsible investing (**SRI**) practices. In keeping with our values of respect for human rights, use of resources for the common good of both humans and planet, and to promote justice, equity and peace, we choose to invest our funds in a manner which reflects a commitment to a sustainable economy, i.e. an economy in which companies, agencies, etc. make decisions that look beyond the immediate, short-term return to long-term responsible and beneficial interests of all stakeholders. These decisions include factors such as environmental, social, and governance (**ESG**) principles which support a sustainable economy; justice and equity in the treatment of persons, and advancement of the United Nations Sustainable Development Goals (**SDGs**).

We support

- Efforts that use fewer non-renewable resources while creating alternative solutions.
- Efforts that promote and lead to the creation of living wage jobs in environments that respect the worker at each task level.
- Corporate governance practices that invite and are receptive to ideas and concerns expressed by stakeholders.

It is our intent to work with our Investment Consultant and Investment Managers in the choice of investments which reflect the above values for our Investment Portfolio. When choosing among new investment opportunities, current Managers are to consider not only risk and return but the impact on sustainability. We will continue our practice of avoidance investing, refraining from investments which derive more than 50% of revenue from the manufacture, sales or promotion of tobacco, pornography weapons or gambling. We also refrain from investments in the companies that constitute the Carbon Underground 200. Based on these criteria the Sample Client, in collaboration with their Investment Consultant, will provide each investment manager with a restricted list of securities that are prohibited within the Investment Portfolio on a quarterly basis.

Specific standards and/or restrictions within asset classes are set forth in separate Investment Policy Statements for each Investment Manager but the following general principles will be considered for investments in our Investment Portfolio:

- **Environment –**

Rate a company's management of its environmental challenges, including its effort to reduce or offset any deleterious impacts of its products and operations. We seek to minimize Portfolio investments in entities which irrevocably harm non-renewable natural resources or which involve a significant risk for environmental harm.

- **Community and Society –**

Measure how well a company manages its impact on the communities where it operates, including its treatment of local population, its handling of human rights issues and its commitment to philanthropic activities.

- **Employees and Supply Chain –**

Assess a company's record of managing employees, contractors and suppliers. Issues of particular interest include labor-management relations, anti-discrimination policies and practices, employee safety, and the labor rights of workers throughout the company's supply chain.

- **Customers –**

Measure the quality and safety record of a company's products, its marketing practices, and any involvement in regulatory or anti-competitive controversies.

- **Governance and Ethics –**

Address a company's investor relations and management practices, including company sustainability reporting, board accountability and business ethics policies and practices.