

## STATEMENT OF INVESTMENT OBJECTIVES, POLICIES AND GUIDELINES.

### Statement of Investment Policy

#### Article I. Purpose

This Investment Policy Statement adopted by the Synod of the Covenant (a tax exempt 501(c) 3 corporation)) Finance Committee establishes a clear understanding of the values, philosophy and investment objectives to be applied to the Investment Portfolio (Portfolio(s)). The purpose of the Investment Policy statement is as follows:

- A. To document governance responsibilities and operational policies established for the management of the Portfolio's assets.
- B. To establish objectives and guidelines for the investment of the Portfolio assets that meet the overall goals of the Synod of the Covenant.
- C. To outline timing, criteria and procedures to assess on an ongoing basis the Portfolio's asset management.

#### Article II. Definition of Assets to Invest

- A. Restricted investments are defined as those funds commonly called:
  - 1. Ohio Campus ministry restricted funds. (Donor restricted)
  - 2. Michigan Campus ministry restricted funds. (Board restricted)
- B. Investments from the above named funds are combined for efficient investment management purposes and are further defined by the following percentages. **(We need to create and insert a table with these Synod Fund Percentages)**
- C. Donor-restricted investments are governed by the covenants as originally described by the donors and/or the Finance Committee based on the wishes of said donors. Board-restricted investments are governed by the actions of the trustees of the Synod of the Covenant.

#### Article III, Additional Unrestricted Investment Assets

- A. Surplus cash beyond operational needs in fund accounts is also available for investment.
- B. These general funds may be needed for the Synod of the Covenant funding requirements and therefore the investment style of these funds may differ from the other investment strategies in this policy to enable these operational requirements.
- C. The Investment Sub Committee of the Finance Committee (here forward "Investment Sub-Committee") is also encouraged to invest no more than the higher of \$500,000 or 10% of portfolio value directly into the Presbyterian Investment Loan Program (PILP).
- D. The Investment Sub-Committee may use consultants to assist in their work.

#### Article IV, Duties/Responsibilities: Finance Committee

- A. Under the bylaws of the Synod of the Covenant, "The Finance Committee shall hold, reinvest, and keep funds belonging to the Synod, including funds held in trust for the Synod...."

- B. The Finance Committee assigns this management duty to the Investment Sub-Committee. The Investment Sub Committee reports at minimum on a quarterly basis to the Finance Committee regarding performance of the investment funds. The Finance Committee shall report to the Synod Assembly the performance of the investment funds as part its report at each regularly scheduled Synod Assembly meeting.
- C. The Investment Sub Committee is composed of a minimum of three current Finance Committee members (of which at least two are Synod Commissioners) and the Synod of the Covenant Treasurer (ex officio).
- D. The Investment Sub Committee is empowered to employ the services of an Investment Manager to direct and conduct the daily investment activities as directed and governed by the policies and procedures listed below.
- E. The Investment Sub Committee shall conduct a review of the Investment Manager on an annual basis and at its discretion may choose to issue a Request for Proposal (RFP) for a new investment manager.
- F. The Investment Sub Committee shall review annually compliance with the covenants of the donors.

#### **Article V. Objectives**

*Investment Objective:* The objective of the investment policy is to maximize income (dividends and interest) while achieving a moderate level of growth above maintaining the purchasing power of the portfolio. This objective will be accomplished utilizing an investment strategy of equities, fixed income securities, REITS and money market investments and other approved instruments to participate in rising markets while allowing for adequate protection in falling markets.

#### **Article VI. Investment Guidelines**

- A. Management: Management of the asset mix among classes of investment is both necessary and desired. To the extent possible, allocation and diversification of investments among asset classes that are not subject to geopolitical events are desired to limit volatility. Therefore, the goal is to provide an appropriate return to enhance growth of the portfolio and enhance income production. In addition, concentration in single asset classifications and categories is to be avoided.
- B. Funds deposited in FDIC insured accounts may not exceed the current maximum standard insurance per depositor, per bank and for each account ownership category.
- C. All commercial paper investments are limited to A1/P1 rated paper.
- D. Fixed income securities held directly by the portfolio **must have** an investment grade credit rating assigned by Moody's and or Standard & Poor's rating services. Fixed income securities with a duration exceeding 5 years must be approved in writing by the Investment Sub Committee prior to purchase. Investment Managers should maintain a reasonable diversification in type and duration of fixed income securities.

- E. If a rating of any individual security held directly by the investment account is lowered after initial purchase, the Investment Manager will notify the Investment Sub Committee, with an explanation of the credit downgrade and recommended action.
- F. Guiding principles of our organization discourage investing directly in 1.) Tobacco and Liquor companies; 2.) Gambling enterprises; and 3.) Defense contractors.
- G. Turnover – There are no specific guidelines regarding turnover of the portfolio. The Investment Manager is given the flexibility to alter the asset mix and selection adjusting to changing market conditions. Notwithstanding the aforementioned, Churning is prohibited.
- H. Investment Managers should maintain a reasonable diversification within the equities pool across industry sectors relative to the appropriate benchmark. Within the individual equity portfolios, no more than 5% of the equity portfolio entrusted to them may be in any one company based on market value at the time of purchase. In addition, no more than 25% shall be invested in one industry sector. Preference should be given to US Large Cap Equities with a forward 12 month P/E below 22 at the time of purchase, low to moderately leveraged, above average pricing power in their sector, positive free cash flow to equity, and a dividend coverage ratio above 1.3.
- I. See Appendix II for definitions of financial terms.

### **Article VII. Asset Allocation**

The Investment Manager will allocate assets within the following ranges and in consideration of the following target positions:

#### Target Ranges

Equity Investments	40%-60%
Fixed Income Investments	40%-60%
REITS	0%-8%
Cash Equivalents	Annual Budgetary Draw - 15%

- A. Assets expressly **approved**:
  1. Money Market Mutual Funds
  2. Certificates of Deposit
  3. Commercial Paper
  4. U. S. Government Securities
  5. U.S. Agency Securities.
  6. Floating Rate Notes
  7. Real Estate Investment Trusts (REITS)
  8. Corporate Bonds
  9. Preferred Stock
  10. Zero Coupon Bonds
  11. Common stock
  12. International equity or fixed income securities
  13. U.S. dollar denominated issues of international agencies and foreign corporations

14. Foreign Securities or American Depository Receipts(ADR) listed on U. S. StockExchanges
15. Exchange Traded Funds (ETFs)
  
16. Common Trust Funds

B. Assets expressly **prohibited:**

1. Derivatives
2. Lending securities
3. Transactions on Margin
4. Non-Marketable securities
5. Private placements
6. Selling short or short against the Box
7. Venture Capital
  
8. Mortgage Backed Securities
  
9. Collateralized Debt Obligations
  
10. Mutual Funds (exception is made for various money market mutual funds)
  
11. Annuities
  
12. Securities brought to market by Manager, or any affiliate of the Manager, by performing investment banking functions for said securities
  
13. Convertible Securities
  
14. Direct Investment in: Commodities, Real Estate, Oil/Gas/Mineral Exploration and/or Development
  
15. Exchange Traded Notes

### **Article VIII: Draws**

- A. Draws from the Investment Portfolio are used to supplement the funding of the Synod of the Covenant Operating Budget. The Portfolio is to be considered permanent or perpetual - meaning - the original amounts are protected for future generations. Only the growth and income should be available for withdrawal. Nevertheless, the growth and income is intended to be spend in support of ministry, while allowing sufficient growth of the portfolio after draws to keep pace with inflation.
  
- B. Restricted Funds: Some draws are required by restricted funds to fund specified ministries. Draws from restricted funds will be made as directed by the donor or other restrictions.

- C. Unrestricted Funds: Draws from the remaining aggregated, unrestricted funds in the Portfolio will be determined on a 20 quarter rolling basis. 4.0% of the 20 quarter rolling average value of this unrestricted portion of the Portfolio will be available annually for the Synod of the Covenant's operational expenses that are not funded by restricted draws. 4.0% of the 20 quarter rolling average value of the unrestricted portion of the Portfolio at the end of the 2nd quarter (as of June 30th) of each year will serve as the monetary number available for Synod Operations in the following calendar year, and will guide the Finance Committee and Synod Assembly at its October Synod Assembly where the Synod budget is typically approved.
- D. Timing: Draws from restricted funds will be taken at the time(s) of year as directed by the donor or other restrictions. Draws from unrestricted funds should be taken on a quarterly basis at the end of each quarter (March 31, June 30, September 30, December 31) in the amount of 1.0% of the 20 quarter rolling average value of the unrestricted portion of the Investment Portfolio at that time.
- E. Proper Investment Management for Draws: Draws from restricted and unrestricted funds should be anticipated by the Investment Sub Committee and any Investment Manager. Sufficient funds shall be in cash equivalent investments from which each draw will be taken.

#### **Article IX: Portfolio Performance & Measurement**

A. Time Horizon: The Investment Sub Committee seeks to achieve the objectives stated above over a full market cycle. To that end, investment objectives may be achieved each year. The committee recognizes that the portfolio may significantly over or under perform relative to broad market measures. Consequently, long term investment returns will be measured annually, over a 3 year moving period, a 5 year moving period, and a 10 year moving period.

B. Benchmarks:

1. Composite: Core CPI + 5%
2. Equities: Russell 3000 Index, MSCI ACWI (ETF benchmark)
3. REITS: FTSE NAREIT Index
4. Fixed income: Barclay's Aggregate.

C. Risk Parameters: A Beta (as a measure of volatility) no greater than 1.3 as a general guideline for the overall performance of the portfolio.

#### **Article X: Duties/Responsibilities: Investment Manager**

The Investment Manager is responsible for all aspects of managing and overseeing the Investment Portfolio. On an ongoing basis the Investment Manager shall:

- A. Implement the overall investment strategy, including the selection/termination of securities and/or investment managers within these investment policy guidelines:
- B. Monitor the asset mix and allocate assets as of each investment strategy within these investment policy guidelines:
- C. Distribute draws from the cash equivalent investments of the Portfolio according to the schedule set by the Synod Finance Committee.
- D. Provide the Investment Sub Committee with quarterly performance reports:

- E. Assist the Investment Sub Committee at its discretion, with a review of the Investment Policy Statement, including an assessment of the current investment objectives and current asset allocation: and
- F. Supply the Investment Sub Committee with reports and information as reasonably requested.

**Article XI: Reporting/Guidelines/Restrictions**

**The Investment Manager shall:**

- A. Have full investment responsibility commensurate with the above policy.
- B. Immediately notify the Investment Sub Committee members via email and in writing of material changes in the economic / financial outlook, portfolio structure, ownership of the investment firm, or senior personnel.
- C. Vote proxies and share tenders in a manner that is in the best interest of the Investment portfolio and consistent with the investment objectives contained herein.
- D. Advise the Investment Sub Committee on the payment of investment fees. Investment fees shall be paid out of the cash equivalent investments of the Portfolio as directed by the Investment Sub Committee.
- E. Report at a minimum on a quarterly basis to the Investment Sub Committee the following:
  - F. Market value of funds under management.
  - G. Percent return: quarterly, 1 year, 3 year and 5 year annualized: Total and by asset type.
  - H. Asset allocation by market relative to ranges specified in the policy
  - I. Draws taken by Synod of the Covenant
  - J. Fees: YTD directly invoiced, and % of total assets.

**ACKNOWLEDGEMENT of the POLICY by the INVESTMENT MANAGER**

As the Investment Manager, we recognize the importance of adhering to the Synod of the Covenant's investment policy outlined in this document. The Investment Manager agrees to work to fulfill the objectives and follow the policies stated herein, to the best of our ability. Clear and timely communication between the parties is essential to fulfilling this mission between the parties and is essential to achieving these investment goals.

Therefore, as Investment Manager we acknowledge the Investment Policy of the Synod of the Covenant, the process for adjustment of the policies, and the reporting requirements of this statement.

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Authorized Signature

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Date

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Investment Manager

\_\_\_\_\_  
Date