

# Investment Policy Statement For The Holston Conference Foundation

## **Introduction**

The purpose of this Investment Policy Statement (IPS) is to establish a means for the Board of Directors of the Holston Conference of the United Methodist Church Foundation, Inc., to instruct its Investment Committee on appropriate investment and investment considerations for THE EQUITY GROWTH FUND, THE BALANCED GROWTH FUND, THE INTERMEDIATE INCOME FUND, THE SHORT-TERM INCOME FUND and THE MONEY MARKET FUND. All our investment funds are custodied at Charles Schwab and Company.

This Investment Policy Statement will:

- ◆ Set forth an investment structure detailing permitted investments and the expected allocation among various asset classes.
- ◆ Establish reasonable expectations, objectives, time horizons, and guidelines for each portfolio.
- ◆ Create the framework for a broadly-diversified asset mix that can be expected to generate appropriate long-term returns at an acceptable level of risk.

## **Permitted Investments**

In accordance with Paragraph 716 of *The 2008 Book of Discipline* of the United Methodist Church, Foundations shall endeavor to avoid investments that appear likely, directly or indirectly, to support racial discrimination, violation of human rights, gambling, or the production of nuclear armaments, alcoholic beverages or tobacco, or companies dealing in pornography. As such, the Board of Directors shall endeavor to invest in socially responsible investments.

Acceptable investment instruments are:

- A. Obligations of the United States Government and agencies of the United States Government.
- B. Deposits in banking institutions, which are insured by agencies of the United States Government.
- C. Mutual funds (traditional and exchange-traded funds) with a stated objective of investing in socially conscious companies and approved indexed funds.
- D. Mutual funds (traditional and exchange-traded funds) with a stated objective of investing in U.S. Government securities and/or investment grade corporate bonds.
- E. Investment Grade Corporate bonds and equities that fit the socially conscious criteria set forth by *The Book of Discipline*.
- F. FDIC or SIPC protected money market funds.

## **BALANCED GROWTH FUND**

### **A. OBJECTIVES**

This fund is designed for investors seeking a return above that of a fixed income investment (bond or CD) and with less risk than being 100% in the equity or stock market.

### **B. TIME HORIZON/RISK TOLERANCE**

For planning purposes, the time horizon for an investment in the pooled portfolio should be five years or longer. This portfolio will fluctuate in value over shorter time periods and the investor should recognize that the possibility of capital loss does exist. However, historical asset class return data suggest that the risk of principal loss over a holding period of five years or more can be minimized with the broad diversification and long-term asset allocation approach reflected in this investment policy statement.

### **C. ASSET ALLOCATION POLICY**

Academic research suggests that the decision to allocate investments, among various asset classes will far outweigh security selection and other decisions such as market timing that impact portfolio performance. After reviewing the long-term performance of the risk characteristics of various asset classes and the possible need for redemptions, the following asset classes were selected to achieve the objectives of THE BALANCED GROWTH FUND:

<b><u>Asset Category</u></b>	<b><u>Current Target Allocation</u></b>	<b><u>Acceptable Range</u></b>
Cash/Cash Equivalents	0%	0% - 25%
Fixed Income Securities	40%	25% - 50%
Equity Securities	60%	50% - 70%
Large Cap U.S. Stocks	62%	50% - 70%
Small Cap U.S. Stocks	8%	6% - 10%
Mid Cap U.S. Stocks	8%	6% - 10%
Real Estate	2%	0% - 5%
Foreign Stocks – Developed	15%	15% - 20%
Foreign Stocks – Emerging	<u>5%</u>	0% - 5%
<b>TOTAL</b>	<b>100%</b>	

## **D. SPECIFIC INVESTMENTS**

### **EQUITIES OR STOCKS**

In order to invest in socially responsible companies, diversify our investments, and reduce our management fees, the Investment Committee has elected to use more than one large cap fund to help us meet our investment goals and the social responsibility criteria set forth by *The Book of Discipline*. Large cap assets will make up the core (50% - 70%) of the equity position. The Foundation's Investment Committee has selected the VANGUARD SOCIAL CHOICE EQUITY FUND and the TIAA-CREF INSTITUTIONAL SOCIAL CHOICE EQUITY FUND to each hold 25% of our large cap position. An exchange traded S&P 500 FUND makes up the other 50% of our large cap holdings.

Our equity allocation also includes 8% small capitalization stocks, 8% mid-capitalization stocks, 2% real estate investment trusts, and 20% international stocks. We currently use a mix of exchange traded index funds and mutual funds to round out this portion of the portfolio.

### **FIXED INCOME OR BONDS**

Bond investments are made in individual securities and/or in one or more exchange traded bond index funds and may include any sector in the Barclay's Aggregate Bond index, high-yield bonds, and international/foreign bonds from both developed and emerging markets, with specific allocations targeted and maintained by the investment committee. The fixed income portfolio will target a modified duration of 5 years and a target duration range of 80% - 120% of the Barclays Aggregate U.S. Bond Index.

### **CASH**

All cash investments are in a money market account called the Schwab Value Advantage.

## **E. REBALANCING PROCEDURES**

From time to time, market conditions may cause the Portfolio's investment in various asset classes to vary from the targeted allocation. To remain consistent with the targeted allocation, the investment committee and the executive director will review the portfolio on at least on a quarterly basis. If the actual weighting varies by 10% or more from the targeted weighting, the portfolio will be rebalanced back to the recommended allocation.

## **F. ADJUSTMENT IN TARGET ALLOCATION**

The Board of Directors must approve changes in the target allocation.

## **INTERMEDIATE INCOME FUND**

### **A. OBJECTIVES**

This fund is designed for intermediate-term investors seeking a return above that of a short term CD or a money market account.

### **B. TIME HORIZON/RISK TOLERANCE**

For planning purposes, the time horizon for an investment in THE INTERMEDIATE INCOME FUND should be two years or longer. This fund could fluctuate in value over shorter time periods and the investor should recognize that the possibility of capital loss does exist. However, historical asset class return data suggest that the risk of principal loss over a holding period of two years or more can be minimized with the broad diversification and long-term asset allocation approach reflected in this investment policy statement.

### **C. ASSET ALLOCATION POLICY**

After reviewing the long-term performance of the risk characteristics of various asset classes and the possible need for redemptions, the following asset classes were selected to achieve the objectives of THE INTERMEDIATE INCOME FUND:

<b><u>Asset Category</u></b>	<b><u>Target Allocation</u></b>	<b><u>Acceptable Range</u></b>
Cash/Cash Equivalents	5%	0% - 20%
Fixed Income Securities	<u>95%</u>	80% - 100%
<b>TOTAL</b>	<b>100%</b>	

### **D. SPECIFIC INVESTMENTS**

#### **FIXED INCOME OR BONDS**

Bond investments are made in individual securities and/or in one or more exchange traded bond index funds and may include any sector in the Barclay's Aggregate Bond index, high-yield bonds, and international/foreign bonds from both developed and emerging markets, with specific allocations targeted and maintained by the investment committee. The fixed income portfolio will target a modified duration of 5 years and a target duration range of 80% - 120% of the Barclays Aggregate U.S. Bond Index.

#### **CASH**

All cash investments are in a money market account called the Schwab Value Advantage.

### **E. REBALANCING PROCEDURES**

From time to time, market conditions may cause the Portfolio's investment in various asset classes to vary from the targeted allocation. To remain consistent with the targeted allocation, the investment committee and the executive director will review the portfolio on at least a quarterly basis. If the actual weighting varies by 10% or more from the targeted weighting, the portfolio will be rebalanced back to the recommended allocation.

### **F. ADJUSTMENT IN TARGET ALLOCATION**

The Board of Directors must approve changes in the target allocation.

## **MONEY MARKET FUND**

### **A. OBJECTIVES**

This fund is designed to provide short-term investors seeking safety of principal plus a competitive short-term yield at or above the 30-day Treasury bill.

### **B. TIME HORIZON/RISK TOLERANCE**

For planning purposes, the time horizon for an investment in THE MONEY MARKET FUND should be one year or less. This fund should not fluctuate in value over shorter time periods, although the investor should recognize that the possibility of capital loss does exist.

### **C. SPECIFIC INVESTMENTS**

Currently, all cash investments are in a money market account at Charles Schwab & Company. We utilize a higher yielding money market account called the Schwab Value Advantage Institutional Money Market Fund. Money Market Funds are in fact mutual fund companies that invest in short-term securities. While these investments are considered cash equivalents and generally offer stable asset values, they can, under certain circumstances, fluctuate in value.

### **D. ADJUSTMENT IN TARGET ALLOCATION**

The Board of Directors must approve any changes in the targeted investments.

## **SHORT-TERM INCOME FUND**

### **A. OBJECTIVES**

This fund is designed to provide short-term investors seeking income, a return above that of a short-term CD or Money Market Fund.

### **B. TIME HORIZON/RISK TOLERANCE**

For planning purposes, the time horizon for an investment in THE SHORT-TERM INCOME FUND should be one year or longer. This fund could fluctuate in value over shorter time periods and the investor should recognize that the possibility of capital loss does exist. However, historical asset class return data suggest that the risk of principal loss over a holding period of one to two years can be minimized with the broad diversification and long-term asset allocation approach reflected in this investment policy statement.

### **C. ASSET ALLOCATION POLICY**

After reviewing the long-term performance of the risk characteristics of various asset classes and the possible need for redemptions, the following asset classes were selected to achieve the objectives of THE SHORT-TERM INCOME FUND:

<b><u>Asset Category</u></b>	<b><u>Target Allocation</u></b>	<b><u>Acceptable Range</u></b>
Cash/Cash Equivalents	10%	0% - 100%
Fixed Income Securities - Three Year Maximum Maturity	<u>90%</u>	0% - 100%
<b>TOTAL</b>	<b>100%</b>	

### **D. SPECIFIC INVESTMENTS**

All cash investments are in a money market account called the Schwab Value Advantage. All bond investments are made through a mix of exchange traded short-term index funds with maturities of not more than three years.

### **E. REBALANCING PROCEDURES**

From time to time, market conditions may cause the Portfolio's investment in various asset classes to vary from the targeted allocation. To remain consistent with the targeted allocation, the investment committee and the executive director will review the portfolio on a quarterly basis. If the actual weighting varies by 5% or more from the targeted weighting, the portfolio will be rebalanced back to the recommended allocation.

### **F. ADJUSTMENT IN TARGET ALLOCATION**

The Board of Directors must approve changes in the target allocation.

## **EQUITY GROWTH FUND**

### **A. OBJECTIVES**

The EQUITY GROWTH FUND is designed to add flexibility to the Foundation's investment options. It can be used as a stand-alone fund for investors desiring a 100% equity allocation, or it can be combined with the INTERMEDIATE INCOME FUND to build a balanced fund with a customized asset allocation strategy. As a stand-alone option the EQUITY GROWTH FUND has both the highest risk and the highest return potential. When paired with the INTERMEDIATE INCOME FUND, the EQUITY GROWTH FUND can be used to produce a targeted risk portfolio for conservative, moderate, or aggressive growth objectives.

### **B. TIME HORIZON/RISK TOLERANCE**

For planning purposes, the time horizon for an investment in the pooled portfolio should be five years or longer. The portfolio will fluctuate in value over shorter time periods and investors should recognize that the possibility of capital loss does exist. However, historical asset class return data suggest that the risk of principal loss over a holding period of five years or more can be minimized with the broad diversification and long-term asset allocation approach reflected in this investment policy statement.

### **C. ASSET ALLOCATION POLICY**

Academic research suggests that asset allocation is the most important decision investors make and should be the first priority in setting up an investment plan. The decision to allocate investments among various asset classes will far outweigh security selection and other decisions such as market timing that impact portfolio performance. After reviewing the long-term performance of various classifications of stocks, the following target allocations have been selected to achieve the objectives of THE EQUITY GROWTH FUND:

<b><u>Asset Category</u></b>	<b><u>Target Allocation</u></b>	<b><u>Acceptable Range</u></b>
Cash/Cash Equivalents	0%	0% - 25%
Equity Securities	100%	75% - 100%
Large Cap U.S. Stocks	62%	50% - 70%
Small Cap U.S. Stocks	8%	6% - 10%
Mid Cap U.S. Stocks	8%	6% - 10%
Real Estate	2%	0% - 5%
Foreign Stocks – Developed	18%	15% - 20%
Foreign Stocks – Emerging	<u>2%</u>	0% - 5%
<b>TOTAL</b>	<b>100%</b>	

## **D. SPECIFIC INVESTMENTS**

### **EQUITIES OR STOCKS**

In order to invest in socially responsible companies, simplify our investment process, and reduce our management fees, the Investment Committee has elected to use a large cap fund which meets the social responsibility criteria set forth by *The Book of Discipline*. This will make up the core (50% - 70%) of the equity position. The Foundation's Investment Committee has selected the VANGARD SOCIAL CHOICE EQUITY FUND (16%), the TIAA-CREF INSTITUTIONAL CHOICE EQUITY FUND (16%), and an EXCHANGE TRADED S&P 500 INDEX FUND (30%) to anchor the portfolio.

Our equity allocation also includes 8% small capitalization stocks, 8% mid-capitalization stocks, 2% real estate investment trusts, and 20% international stocks. We currently use a mix of exchange traded index funds and mutual funds to round out this portion of the portfolio. Investments may be made in other funds or with other investment managers as long as our overall equity portfolio meets the social responsibility criteria set forth by *The Book of Discipline*.

### **CASH**

All cash investments are in a money market account called the Schwab Value Advantage.

## **E. REBALANCING PROCEDURES**

From time to time, market conditions may cause the Portfolio's investment in various equity classes to vary from the targeted allocation. To remain consistent with the targeted allocation, the investment committee and the executive director will review the portfolio on at least on a quarterly basis. If the actual weighting varies by 10% or more from the targeted weighting, the portfolio will be rebalanced back to the recommended allocation.

## **F. ADJUSTMENT IN TARGET ALLOCATION**

The Board of Directors must approve changes in the target allocation.



## **TENNESSEE CHARITABLE GIFT ANNUITIES**

### **A. OBJECTIVES**

In order to comply with State of Tennessee law that became effective in 2009, all charitable gift annuities (CGA) from donors who reside in Tennessee are to be invested in a separate account until each individual annuity matures at which time the funds may be removed to pooled funds or distributed as required by each individual agreement. The purpose of this policy is to establish a means for the Board of Directors of the Holston Conference of the United Methodist Church Foundation, Inc., to instruct its investment committee and staff on appropriate investment and investment considerations for Tennessee Charitable Gift Annuities.

- B.** A separate account has been established to comply with this requirement. Since we are no longer able to pool these funds with our other investment accounts, the Foundation has adopted a separate investment policy for this account, which provides diversification of equities and fixed income at a reasonable cost. The following asset classes were selected to achieve the objectives of the CGA Fund:

<b><u>Asset Category</u></b>	<b><u>Target Allocation</u></b>	<b><u>Acceptable Range</u></b>
Cash/Cash Equivalents	0%	0% - 25%
Fixed Income Securities	50%	25% - 75%
Equity Securities	50%	25% - 75%

### **C. SPECIFIC INVESTMENTS**

In order to diversify our investments and reduce our management fees the Investment Committee has elected to use a Total Stock Market Exchange Traded Fund and a Total Market Exchange Traded Bond Fund.

### **D. REBALANCING PROCEDURES**

From time to time, market conditions may cause the Portfolio's investment in various asset classes to vary from the targeted allocation. To remain consistent with the targeted allocation, the investment committee and the executive director will review the portfolio on at least a quarterly basis. If the actual weighting varies by 10% or more from the targeted weighting, the portfolio will be rebalanced back to the recommended allocation.

### **E. ADJUSTMENT IN TARGET ALLOCATION**

The Board of Directors must approve changes in the target allocation.

## **CHARITABLE TRUST INVESTMENT FUND**

### **A. OBJECTIVES**

This fund holds pooled investments of Charitable Remainder Trusts that distribute earnings to income recipients and K-1's are issued. Its objectives are very similar to our BALANCED GROWTH FUND, but restricted to hold only assets of donor-created charitable remainder trusts

### **B. TIME HORIZON/RISK TOLERANCE**

For planning purposes, the time horizon for most investments in this pooled portfolio should be five years or longer. This portfolio will fluctuate in value over shorter time periods and the investor should recognize that the possibility of capital loss does exist. However, historical asset class return data suggest that the risk of principal loss over a holding period of five years or more can be minimized with the broad diversification and long-term asset allocation approach reflected in this investment policy statement.

### **C. ASSET ALLOCATION POLICY**

Academic research suggests that the decision to allocate investments, among various asset classes will far outweigh security selection and other decisions such as market timing that impact portfolio performance. After reviewing the long-term performance of the risk characteristics of various asset classes and the possible need for redemptions, the following asset classes were selected to achieve the objectives of THE BALANCED GROWTH FUND:

<b><u>Asset Category</u></b>	<b><u>Current Target Allocation</u></b>	<b><u>Acceptable Range</u></b>
Cash/Cash Equivalents	0%	0% - 25%
Fixed Income Securities	40%	25% - 50%
Equity Securities	60%	50% - 70%
Large Cap U.S. Stocks	62%	50% - 70%
Small Cap U.S. Stocks	8%	6% - 10%
Mid Cap U.S. Stocks	8%	6% - 10%
Real Estate	2%	0% - 5%
Foreign Stocks – Developed	15%	15% - 20%
Foreign Stocks – Emerging	<u>5%</u>	0% - 5%
<b>TOTAL</b>	<b>100%</b>	