

# **The Diocesan Investment Fund**

## Statement of Investment Policy, Objectives, and Guidelines

### I. Introduction

This statement governs the investment of the Diocesan Investment Fund (Fund) held by The Diocese of Oregon (Diocese).

This statement is set forth in order that the Trustees, the Investment Committee, Staff, the investment consultant, the investment managers, and others entitled to such information may be made aware of the policy of the Fund with regard to the investment of its assets, the Statement of Investment Policy, Guidelines and Objectives established by the Trustees, and the expectations and requirements of the Investment Committee with respect to the ongoing management of the investments. The purpose of this document is to establish the investment policies, standards of prudence and performance expectations for the investments.

### II. The Fund

The Fund is expected to be available in perpetuity as a vehicle for the Diocese. Participants may, from time to time, withdraw their funds according to the guidelines described in Section 11. The fund will be invested with a long-term perspective. It is important to follow coordinated policies regarding spending and investments that will protect the principal and produce reasonable total returns and support participating entities' operations to at least the extent of an approved annual spending policy.

### III. Objective

The Diocese of Oregon Trustees seek the preservation of the assets, growth of the assets, and consistency of investment returns through both capital appreciation and current income.

The long-term objective for the Fund is to earn a total rate of return from investment assets which shall exceed demands placed on the portfolio to support the Diocesan Investment Fund's participating entities' spending policies plus the rate of inflation, as measured by the national Consumer Price Index. The total rate of return shall be based on a process that utilizes market value for all marketable investments, such as equity and fixed income securities. The total rate of return shall be calculated to include dividends and interest accrued or received during the period. Calculations should also show realized and unrealized gains and losses. The rate of return should be net of all fees and expenses.

### IV. The Trustees' Responsibilities

The Trustees of The Diocese of Oregon are responsible for broad fiduciary oversight of the investments and has chosen these policies as its statement of intent for achieving the investment objectives. The Trustees delegate to an Investment Committee the oversight of the investment of the Fund.

V. The Fund's Investment Committee Responsibilities

The Investment Committee of the Trustees is a standing committee and will be composed of members as designated by the Trustees. The primary responsibility of the Investment Committee is to oversee and provide guidance for the investment of the Diocesan Investment Fund's assets. Its major responsibilities are:

- Recommend investment goals and objectives for approval by the Trustees.
- When deemed necessary, recommend modifications to the Investment Policy.
- Determine appropriate asset allocation and investment performance expectations, making changes to Schedule I and Exhibit A of this policy as necessary.
- Select and terminate professional investment managers as appropriate.
- Negotiate and/or monitoring Fund investment expenses.
- Monitor and evaluate investment performance on a quarterly and ongoing basis.
- Assure proper custody of the investments.
- Report to the Board of Trustees, at least annually, regarding the Fund's investment results, its composition and other information the Trustees may request.
- To assist in this process, the Investment Committee may retain an investment consultant.

VI. Investment Policy Guidelines

Recognizing the objectives of the Fund that are identified in Section III, the Trustees do not expect the Investment Committee to be reactive to short-term investment developments. Those stated objectives recognize that the investment horizon is long-term and that investment competence must be measured through out a meaningful period of time. While the quantitative assessment of managerial competence will be measured over a complete market cycle (or three years, whichever is shorter), the Trustees anticipate that the Investment Committee will make interim qualitative judgments. Specific qualitative factors, which will be reviewed by the Investment Committee on an ongoing basis, include manager performance relative to their peers, fundamental changes in the manager's investment philosophy, changes in the manager's organizational structure, financial condition, personnel, and any change relative to their peers in the manager's fee structure.

A. Asset Allocation

The most important component of an investment strategy is the asset mix, or the resource allocation, among the various classes of securities available to the Fund investments. The Investment Committee will be responsible for target and actual asset allocation for the investments that will best meet the needs of the Fund.

The Fund shall be broadly diversified, with no disproportionate or extreme positions that might cause significant diminution of value given adverse developments.

The risk/return profile shall be maintained by describing a long-term “target” strategic asset allocation that is set forth in Schedule I of this Policy. The Investment Committee will periodically review the asset allocation to deem that it is appropriate for the Fund objectives.

Within each asset class, the Investment Committee shall adopt portfolio implementation strategies and investment styles to meet the overall investment objective of each asset class.

B. Statement of Derivatives Policy

A derivative is defined as a contract or security whose value is based on the performance of an underlying financial asset, index, or other investment. When portfolios are separately managed for the Fund, use of derivatives, in any form, will be prohibited.

The Investment Committee recognizes that selected financial derivatives may be used in commingled funds and mutual funds. In these circumstances, investment managers will not materially alter their portfolio risk profile beyond that which is implied by their investment style. The use of derivatives in pursuit of strategies to achieve “above market” performance is speculative and is strictly forbidden. Under no circumstances should leverage be employed in the purchase of securities, with a possible exception for alternative investment portfolios.

VII. Prudence, Responsibilities, and Controls

A. Prudence

All participants in the investment process shall act responsibly. The standard of prudence to be applied by the Trustees, the Investment Committee, and external service providers shall be the “prudent investor” rule, which states: “Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.”

B. Ethics and Conflicts of Interest

The Trustees, Investment Committee, staff, investment managers, custodian, and advisors involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the

investment program, or that could impair their ability to make impartial decisions. These parties are required to reveal all relationships that could create or appear to create a conflict of interest in their unbiased involvement in the investment process.

C. Social Responsibility

Operational guidelines for social responsibility will be patterned on the standards set by the Executive Council of the Protestant Episcopal Church of the United States of America. Investments in pooled funds containing stocks in foreign companies that may not subscribe to such standards shall be permitted.

VIII. Investment Management Guidelines

The Diocesan Investment Fund may be invested in separately managed accounts, commingled funds, or mutual funds. In such cases, the manager(s) of these funds will have full discretion over the portfolio management decisions with the following guidelines and those established by respective prospectuses.

A. Equity Investments

The overall investment objective of the equity portion is to provide above average long-term total returns relative to the broad equity market and to the returns of other funds with similar objectives and investment styles. The equity portion shall be invested under the following guidelines:

- Allowed investments include publicly traded common stocks, preferred stocks, stock warrants and rights, convertible bonds, securities issued by non-U.S. companies traded on U. S. exchanges, as well as REITs (real estate investment trusts) and any other investments as allowed by respective prospectuses.
- Equity securities shall be diversified in number so that no one commitment to any company shall exceed 5% of the value of the Fund's equity portfolio based on cost at the time of acquisition.
- The Fund shall not hold more than 5% of the equity securities, or those securities convertible into equity securities, of a single issuer.
- Cash should not exceed 10% of the total equity portfolio.

B. Fixed Income Investments

The overall investment objective of the fixed portion is to provide above average long-term total return relative to the fixed income market and to the returns of other

fixed income funds through traditional fixed income management techniques. The fixed income portion shall be invested under the following guidelines:

- Allowed investments include corporate and government bonds, asset-backed securities and any other investments as allowed by respective prospectuses.
- Average credit quality shall be A or better (Standard & Poor's or Moody's)
- With the exception of U. S. Government and Agency issues, no more than 5% of the portfolio will be invested in the securities of a single issuer.
- There shall be a maximum limitation on below-investment-grade bonds of 10% of the bond portfolio.
- There shall be a maximum limitation on non-U.S. bonds of 20% of the bond portfolio.

#### C. Absolute Return Strategies

During 2002, the Trustees authorized the investment in absolute return strategies through a fund-of-funds approach. Investment managers selected for these strategies may invest in all forms of hedge funds as long as the investments are consistent with each investment manager's placement or offering memorandum. These investment vehicles represent a diversified group of hedge fund strategies and are invested with a wide variety of different investment managers. This risk reducing diversification is critical to achieving low volatility and low correlation with other publicly traded equities and securities which is a key objective of absolute return strategies.

#### D. Real Estate Investments

The investment criteria for real estate investment managers and all other investment managers utilizing a mutual fund or commingled fund will be subject to the prospectus, offering circular, or other offering documents prepared by the investment manager. These vehicles invest in high quality, income producing properties. The portfolio is diversified by property type including office, apartments, industrial & retail. The investments are also diversified geographically across the U.S. Use of leverage is relatively low (<30%) and has low correlation with the equity and bond markets.

#### E. Real Return Strategies

Real return is considered to be investment strategies that target a return that exceeds inflation by a premium (e.g. CPI + 5%). Real return managers typically invest in a core of "real" return assets, such as TIPS, commodities, and real estate, as well as traditional asset classes such as equity and fixed income. Additionally, managers attempt to add value by tactically allocating to asset classes they perceive to be

undervalued, thus contributing to the “real” return orientation. Real return investments shall be well diversified by asset class, and maintain a core portfolio position in real assets, or assets that generally exhibit a positive correlation with inflation. Leverage shall not be employed within real return portfolios.

F. Cash Equivalent Investments

Short term investments will be invested in the short term investment fund (STIF) of the custodian bank, commercial paper rated A1 (Standard & Poor’s), P1 (Moody’s) or better, and short term GICs or BICs with a rating of A (Standard & Poor’s) or better.

IX. Manager(s)’ Responsibilities

- A. Legal Compliance - The investment manager(s) is responsible for strict compliance with the provisions of the prudent investor rule as it pertains to their duties and responsibilities as fiduciaries.
- B. Evaluation Timetable - The manager(s) will be expected to provide to the Investment Committee and their investment consultant, on a timely basis each quarter, such data as is required for proper monitoring.
- C. Authority of Investment Manager(s) in the Managed Accounts  
Subject to the terms and conditions of this Policy, manager(s) shall have full discretionary authority to direct investment, exchange, and liquidation of the assets of the managed accounts.

The Investment Committee expects that the investment manager(s) will recommend changes to this Policy when the manager(s) views any part of this Policy to be at variance with overall market, economic conditions, and relevant investment policies. Each investment manager’s compliance with these guidelines shall be monitored periodically; however, the investment manager(s) shall be expected to continually assess its own compliance.

Each manager is aware of, and agrees to honor, the Fund’s policy regarding socially responsible investing. Inherent in each separately managed investment are the rights, privileges, and responsibilities of ownership. Such rights shall be exercised by the Trustees including but not limited to the voting of proxies, and/or the exclusion of industries or entities from the portfolio, if appropriate.

To the extent that commingled funds and mutual funds are used, ownership rights, such as proxy voting, shall be exercisable by the investment manager with respect to such investment. The investment manager shall keep accurate written records as to the exercise of such ownership.

The investment manager of each separately managed portfolio is requested to meet with the Investment Committee at least annually to review the following items:

- The investment forecast for the following year.
- The effect of that outlook on the attainment of the Fund's objectives.
- The manager's actual results for the preceding forecast period compared to the previously established return goal for the reporting period including agreed upon benchmarks and peer results.
- The Investment Policy, Guidelines, and Objectives of the Fund. If the investment manager believes the Policy is too restrictive or should be amended in any way, written notification must be communicated immediately.

#### X. Investment Advisor/Consultant Responsibilities

Investment results may be monitored by an independent consulting organization on a regular basis and reported to the Investment Committee as soon as practicable after each calendar quarter. A representative of the investment consultant, if there is one, shall meet with the Investment Committee to review for each manager: (i) its past performance; (ii) compliance with the Investment Policy, Guidelines, and Objectives of the Fund, including but not limited to asset allocation, actual return, and comparative return in relation to applicable index (indices), and to a universe of comparable funds; (iii) risk profile; (iv) ability of manager to fulfill the stated objectives of the funds; and (v) any other material matter. Any noncompliance with the Investment Policy, Guidelines, and Objectives of the Fund or other section of this statement discovered by the investment consultant will be reported to the Investment Committee immediately.

#### XI. Administrative Guidelines

- A. All funds are under the jurisdiction and control of the Trustees of The Diocese of Oregon. The Trustees shall have the authority to appoint an investment committee to supervise those investments and further shall have the authority to engage professional managers to invest the assets of the Fund. Such managers shall be accountable to the Investment Committee, which shall report regularly to the Trustees.
- B. Assets turned over to the Trustees for investment will generally be sold and the proceeds reinvested. The specific assets will thereby lose their identity as such and participants will share in the Fund.
- C. A participant's share shall be valued and an account of the trustee's activities, with regard to the Fund, shall be supplied to participants annually as of December 31. A quarterly accounting may be provided to a participant upon its written request

- therefore received by the Trustees at least thirty days prior to the end of the applicable quarter. Accounting will also be provided upon a participant's withdrawal from the Fund.
- D. The value of a participant's assets, which are turned over to the Trustees for investment, shall be fixed as of the date the same are put into transferable form, less any cost or expenses in connection with or delivery to or disposition of the assets by the Trustees.
  - E. The Diocese of Oregon incurs certain costs in the administration of these funds. The Trustees consider the cost of administration a service and function of the Diocese and as such is not charged to the participants.
  - F. The investment managers charge certain fees to manage the assets of the Fund. The fees are a percentage of the value of the Fund. The investment managers' fees are charged to participants on a prorated basis. The fees are reviewed annually by the Trustees. Participants will be notified of any change in fees. The current fee schedule may be obtained by any participant by contacting the Finance Office of the Diocese.
  - G. The custodian bank charges certain fees for its services. The custodian bank's fees are charged to participants on a prorated basis. The fee is a percentage of the Fund's annual income. The fees are reviewed annually by the Trustees. Participants will be notified of any change in fees. The current fee schedule may be obtained by any participant by contacting the Finance Office of the Diocese.
  - H. The Auditors charge certain fees for their services in auditing the Fund. The Auditor's fees are charged to participants on a prorated basis.
  - I. The Fund subscribes to performance measurement and consulting services. The consultant charges certain fees for its services. Some of the fees are offset by commission recapture. The balance is charged to participants on a prorated basis.

## XII. General

- 1. All investments shall comply with this Policy.
- 2. All securities transactions shall be executed at a best price and best execution basis by reputable dealers/brokers or banks, including any institution that may be acting in the capacity of any investment manager and/or custodian. The investment manager may direct trades to pay for supplemental investment services and materials received which benefit the Fund directly or indirectly.
- 3. Investments shall possess value and quality corroborated by accepted techniques and standards of fundamental, economic, financial, and security analysis.

4. The Fund's asset allocation will not include private equity investments such as venture capital, distressed securities (other than approved high yield bonds), or buyout funds.

*Investment Policy Approved by the Trustees on February 6, 2007 (Further Revised 2/2008 and 8/2009)*

## SCHEDULE I

### Allocation of Assets

The target asset allocation for the Fund is determined by the Investment Committee to facilitate the achievement of the Fund’s long-term investment objectives within the established risk parameters. Due to the fact that the allocation of funds between asset classes may be the single most important determinant of the investment performance through out time, the Fund assets shall be tentatively divided into the following asset classes:

Asset Class	Minimum Percent	Target Allocation	Maximum Percent
Large Cap US Equity	<del>26</del> 31%	<del>39</del> 34%	<del>42</del> 47%
Small Cap US Equity	8%	10%	12%
Non-US Equity	<del>12</del> 15%	<del>15</del> 20%	<del>18</del> 25%
Fixed Income (Bonds)	13%	16%	19%
Absolute Return	5%	7.5%	10%
Real Estate	5%	7%	10%
Real Return	3%	5%	7%
Cash	0%	0.5%	2%

Formal asset allocation studies may be conducted at least every three years, with annual evaluations of the validity of the adopted asset allocation.

### **Rebalancing**

The asset allocation ranges established above represent the long-term perspective. As such, rapid unanticipated market shifts may cause the asset mix to fall outside the policy range. Any divergence should be of a short-term nature.

The Investment Committee shall review the allocation status of the Fund at least quarterly. Should an investment fund balance fall above the maximum or below the minimum range specified in the tables above, then the Investment Committee shall re-balance the assets of the fund to bring the asset levels to within the stated guidelines (usually to the target level).

The goal in implementing the rebalancing policy is to minimize the transactions costs, market impact, and opportunity costs. To meet this goal, the Investment Committee will consider multiple strategies including, but not limited to, using available cash, using public securities, using the most liquid public securities, using large portfolio vehicles, combining rebalancing with manager terminations or new manager hires, and/or funding regular cash needs above short-term cash holdings from asset classes at the upper limit of their ranges. The Investment Committee will prioritize the rebalancing strategies based on the circumstances at the time.

## EXHIBIT A

### **Performance Expectations**

Performance measurement shall be based on total rate of return and shall be monitored over a sufficient time period to reflect the investment expertise of the investment manager(s) over one full market cycle (approximated by the most recent five-year period for which data is available).

#### **Total Portfolio**

The total account will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:

1. Rank (at a minimum) above median performance in a universe of other investment plans.

#### **U.S. Equities - Large Capitalization (Target Allocation 34.39%)**

Large capitalization equity accounts will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:

1. Exceed the return of the S&P 500 Stock Index by one percentage point (after fees) over the most recent five year period.
2. Exceed the return of the appropriate style benchmark by one percentage point (after fees) over the most recent five year period.
3. Rank in the top (40)<sup>th</sup> percentile of a nationally recognized universe of equity managers possessing a similar style.

#### **U.S. Equities - Small Capitalization (Target Allocation 10%)**

Small capitalization equity accounts will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:

1. Exceed the return of the Russell 2000 Index by one percentage point (after fees) over the most recent five year period.
2. Exceed the return of the appropriate style benchmark by one percentage point (after fees) over the most recent five year period.
3. Rank in the top (40)<sup>th</sup> percentile of a nationally recognized universe of equity managers possessing a similar style.

#### **Non-U.S. Equities (Target Allocation 20.15%)**

Non-U.S. equity accounts will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:

1. Exceed the return of the MSCI EAFE Index by one percentage point (after fees) over the most recent five year period.
2. Rank in the (40)<sup>th</sup> percentile of a nationally recognized universe of international equity managers possessing a similar style.

**Fixed Income (Target Allocation 16%)**

Fixed income accounts will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:

1. Exceed the return of the Lehman Aggregate Bond Index by (1/2) of a percentage point (after fees) over the most recent five year period.
2. Rank in the (40)<sup>th</sup> percentile of a nationally recognized universe of fixed income managers possessing a similar style.

**Absolute Return Strategies (Target Allocation 7.5%)**

Absolute return manager(s) will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:

1. Exceed the return of the 90-Day T-Bills Rate by at least five percent (after fees - including fund-of-funds manager and underlying hedge fund manager fees) over the most recent five year period.
2. Exceed the return of the HFN Fund of Funds Multi-Strategy Average Index (after fees - including fund-of-funds manager and underlying hedge fund manager fees) over the most recent five year period.
3. Volatility, as measured by standard deviation, to be comparable to half (50%) to the volatility of the broad equity market, represented by the S&P 500 Index.

**Core Real Estate (Target Allocation 7%)**

Core real estate manager(s) will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:

1. Exceed the return of the NCREIF Fund Index – Open End Diversified Core Equity “NFI-ODCE” (after fees) over the most recent five year period.
2. Exceed the increase in the CPI by at least three percent (after fees) over the most recent five year period.

**Real Return Strategies (Target Allocation 5%)**

Real Return manager(s) will be evaluated quarterly. Specific performance objectives include, but may not be limited to, the following:

1. Exceed the return of inflation, represented by the Consumer Price Index (CPI), by at least five percent (after fees) over the most recent five year period.

### **Performance Monitoring**

The objectives outlined above recognize that the investment horizon is long-term and that investment competence must be measured throughout a meaningful period of time. While the quantitative assessment of managerial competence will be measured over a complete market cycle (approximated by the most recent five-year period for which data is available), the Committee anticipates that its investment consultant will make interim qualitative judgments. Specific factors, which will be reported to the Committee by its investment consultant and reviewed by the Committee on an ongoing basis, include:

- Fundamental changes in investment philosophy or process
- Changes in organizational structure or financial condition (including significant changes in total assets under management)
- Changes in key personnel
- Changes in fee structure
- Any regulatory activity or litigation brought against the manager
- Significant deterioration in shorter-term performance relative to benchmark and/or peers
- Significant increase in volatility or tracking error relative to benchmark and/or peers

### **Watch List**

If an investment manager is not meeting the long-term performance expectations outlined above, or if qualitative issues such as the factors detailed above arise, the manager will be placed on a “watch list”. After the manager has been placed on the “watch list”, the Investment Committee and the investment consultant should interview the manager via phone conversation or in person. If the manager’s performance fails to improve relative to the standards detailed above and/or qualitative factor changes remain unresolved, the manager may be considered for termination and a replacement investment manager search will be initiated. If, after completion of the search, it remains clear that the investment manager should be replaced, the process of termination should commence, coinciding with the retention of the replacement manager.

The above Policy is meant to be only a guideline to the investment manager(s), and as such, the investment manager(s) should feel free to make suggested changes and recommendations to the Investment Committee on a continuous basis in order to maximize the total fund rate of return.

*Schedule I and Exhibit A Approved by the Investment Committee on August 4, 2009*