



## **Statement of Investment Policy, Objectives, & Guidelines**

### **A. GENERAL INFORMATION**

The *name of Church* Endowment Fund, *full address*, (hereafter Endowment Fund" or "Fund") hereby adopts this Statement of Investment Policy, Objectives, and Guidelines. The Fund operates as part of the committee structure of *name of Church, full address* (hereafter "the Church"). The Endowment Fund provides grants to not-for-profit causes and organizations which support the special needs of *name of Church* and the broader United Methodist community. Contributions to the Endowment Fund are in the form of gifts from individuals, families, and corporations.

### **B. PURPOSE OF THIS POLICY STATEMENT**

This statement of investment policy, objectives, and guidelines has been adopted by the Endowment Committee in order to:

1. Define and assign the responsibilities of all involved parties.
2. Establish a clear understanding for all involved parties of the investment goals and objectives of Endowment Fund assets.
3. Establish the relevant investment time horizon(s) for which the Endowment Fund assets will be managed.
4. Manage Endowment Fund assets according to prudent standards and socially responsible investment practices.
5. Establish a basis for evaluating investment results.

In general, the purpose of this statement is to outline a philosophy and attitude which will guide the investment of the assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

### **C. DELEGATION OF AUTHORITY**

The Endowment Committee is responsible for directing and monitoring the investment management of Fund assets. The Endowment Committee

is authorized to delegate certain responsibilities to professional experts in various fields (*Optional: or to a subcommittee.*) These include, but are not limited to:

1. Investment Fund. The investment fund will be responsible for all management decisions relating to assets placed with the fund for management. The fund may employ professional experts including investment consultants, investment managers and custodians.
2. Investment Consultant. The consultant may assist in establishing investment policy, objectives, and guidelines; selecting investment funds; measuring and evaluating investment performance; and other tasks as deemed appropriate.
3. Investment Manager. The investment manager has discretion to purchase, sell or hold the specific securities that will be used to meet investment objectives.
4. Custodian. The custodian will physically (or through agreement with a subcustodian) maintain possession of securities, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales.
5. (*Optional*) Investment Committee. A sub-committee of the Endowment Committee charged with responsibility to select asset allocations or to oversee the management of Endowment Fund assets.

The Endowment Committee is responsible for implementation of the investment policy, procedures and guidelines, and selection of investment funds or professionals.

#### **D. DEFINITIONS**

1. "Fiduciary" shall mean any individual or group of individuals that exercise discretionary authority or control over fund management or any authority or control over management, disposition or administration of the Endowment Fund assets.
2. "Investment Time Horizon" shall be the time period over which the investment objectives, as set forth in this statement, are expected to be met. The investment horizon for Endowment Fund assets is normally ten (10) years, or longer.
3. (*Optional*) "Investment Committee" shall hereafter refer to the Investment Committee, the sub-group elected by the Endowment

Committee, which has been delegated full authority to administer this investment policy.

## **E. GOAL OF THE ENDOWMENT FUND**

The Endowment Fund believes that grants and income distributions to be made in the future are as important as distributions made today. This is consistent with the philosophy that this Endowment Fund is to exist in perpetuity, and therefore, shall provide for grant making in perpetuity. To attain this goal, the overriding objective of this Endowment Fund is to maintain purchasing power of endowment accounts. That is, net of spending, the objective is to grow the aggregate portfolio value at the rate of inflation over the Endowment Fund's investment time horizon. Specific investment objectives will be established later in this document.

## **F. ATTITUDE TOWARD GIFTS**

Future donor giving to the Endowment Fund is expected to be inconsistent, and therefore, unpredictable. As a result, the Endowment Fund has an investment objective of maintaining purchasing power of Endowment Fund assets before consideration of new gifts. Future donor giving will serve to increase purchasing power.

## **G. SPENDING POLICY**

The Endowment Fund places high emphasis on meeting its support obligations and regards spending from year to year as relatively inflexible. Therefore, in order to achieve a relatively stable spending pattern while allowing for investing in securities providing relatively high total earnings, the Endowment Fund will base amounts available for spending on the total value of investment accounts. The Endowment Committee will determine annually amounts to be spent or granted from Endowment Fund assets. Spending is anticipated to be approximately 4.0% to 5.0% of the Fund. The Endowment Committee anticipates this level of spending will allow retained income to equal or exceed inflation and thereby maintain purchasing power.

## **H. RESPONSIBILITY OF THE ENDOWMENT COMMITTEE**

### ***Option A***

The Endowment Committee is charged with the responsibility for the management of the assets of the Endowment Fund. The Committee shall discharge its duties solely in the interest of the Endowment Fund, with the care, skill, prudence and diligence under the circumstances then

prevailing, that a prudent investor, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims. The specific responsibilities of the Committee relating to the investment management of Endowment Fund assets include:

1. Determining the Endowment Fund's risk tolerance and investment horizon.
2. Establishing reasonable and consistent investment objectives, policies and guidelines which will direct the investment of the Endowment Fund's assets.

**Option B** -- (**NOTE:** Choose this option if selecting D.3. above.)

The Investment Committee is charged with the responsibility for the management of the assets of the Endowment Fund. The Investment Committee shall discharge its duties solely in the interest of the Endowment Fund, with the care, skill, prudence and diligence under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims. The specific responsibilities of the Investment Committee relating to the investment management of Endowment Fund assets include:

1. Determining the Endowment Fund's risk tolerance and investment horizon.
2. Establishing reasonable and consistent investment objectives, policies and guidelines which will direct the investment of the Endowment Fund's assets.

## **I. INVESTMENT OF FUNDS**

As a matter of good Christian and corporate stewardship, the principal of gifts, devises, and bequests received by the Endowment Fund shall be invested through the United Methodist Foundation of Michigan to be held in trust for management and investment purposes. The assets of the Endowment Fund shall only be invested through entities that allow continued ownership of the assets by the Endowment Fund.

## **J. GENERAL INVESTMENT PRINCIPALS**

1. Investments shall be made solely in the interest of the Endowment Fund.

2. The assets shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent investor acting in like capacity and familiar with such matters would use in the investment of a fund of like character and with like aims.
3. Investments of the Endowment Fund shall be diversified to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.
4. Cash is to be employed productively at all times, by investment in short term cash equivalents to provide safety, liquidity, and return.

#### **K. INVESTMENT MANAGEMENT POLICY**

1. Preservation of Capital - Investment funds or managers shall be selected to make reasonable efforts to preserve capital, understanding that losses may occur.
2. Risk Aversion - Understanding that risk is present in all types of securities and investment styles, the Endowment Fund recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Endowment Fund's objectives. However, the investment funds or managers are expected to make reasonable efforts to control risk and will be evaluated regularly to ensure that the risk assumed is commensurate with the given investment style and objectives.

#### **L. INVESTMENT OBJECTIVES**

In order to meet its needs, the investment strategy of the Endowment Fund is to emphasize total return; that is, the aggregate return from capital appreciation, dividend and interest income.

Specifically, the primary objective in investment management for Endowment Fund assets shall be:

- **Preservation of Purchasing Power** - To achieve returns in excess of the rate of inflation over the investment horizon in order to preserve purchasing power of Endowment Fund assets.

The secondary objective on the investment management of Endowment Fund assets shall be:

- **Income and Growth** - To achieve a reasonable total return of current income and growth. Returns from "high risk" portfolios are

not predictable and will likely be unnecessarily volatile. Alternatively, returns from “very conservative” portfolios will likely result in low earnings. Therefore, the Endowment Fund shall tend toward a more “moderate” investment strategy balancing the need for total income with the need to preserve principal.

The Endowment Committee understands that in order to achieve its objectives for Fund assets, the Fund may experience volatility of returns and fluctuations of market value.

Recognizing that the Endowment Fund may manage various accounts which may have different investment needs, it is anticipated the Endowment Fund may utilize different investment funds to achieve the needs of the various accounts. The Endowment Fund will invest through one or more of the funds available through the United Methodist Foundation of Michigan.

#### **M. SOCIAL RESPONSIBILITY**

All assets of the Endowment Fund shall be invested either directly, or through funds, in institutions, companies, corporations, or funds which are not detrimental to, or that make a positive contribution toward the realization of the goals outlined in the Social Principles of The United Methodist Church and in accordance with *The Book of Discipline of The United Methodist Church*.

#### **N. MARKETABILITY OF ASSETS**

All Endowment Fund assets are to be invested in liquid securities, defined as securities that can be transacted quickly and efficiently for the Endowment Fund, with minimal impact on market price.

#### **O. INVESTMENT GUIDELINES**

Endowment Fund assets are invested through funds which, in general, adhere to the guidelines listed below.

##### **Allowable Assets**

1. Cash Equivalents
  - Treasury Bills
  - Money Market Funds
  - STIF Funds
  - Commercial Paper
  - Banker's Acceptances
  - Repurchase Agreements

- Certificates of Deposit
- 2. Fixed Income Securities
  - Government and Agency Securities
  - Corporate Notes and Bonds
  - Mortgage Backed Bonds
  - Preferred Stock
  - Fixed Income Securities of Foreign Governments and Corporations
  - Collateralized Mortgage Obligations
  - Collateralized Bond Obligations
- 3. Equity Securities
  - Common Stocks
  - Convertible Notes and Bonds
  - Convertible Preferred Stocks
  - American Depository Receipts (ADRs) of Non-U.S. Companies
  - Stocks of Non-U.S. Companies (Ordinary Shares)
- 4. Mutual Funds
  - Mutual Funds which invest in securities as allowed in this statement.
- 5. Other Assets
  - GIC's
  - Real Estate Investments
  - Options - Covered Puts and Covered Calls

### **Prohibited Assets**

Prohibited investments include, but are not limited to the following:

- Commodities and Futures Contracts
- Private Placements
- Limited Partnerships
- Venture Capital Investments

### **Prohibited Transactions**

Prohibited transactions include, but are not limited to the following:

- Short Selling
- Margin Transactions

### **Diversification**

The Endowment Fund does not believe it is necessary or desirable that securities held represent a cross section of the economy. However, in order to achieve a prudent level of total portfolio diversification, the securities of any one company or government agency should not exceed 10% of Endowment Fund investments, and no more than 25% should be invested in any one industry.

**P. INVESTMENT MANAGER PERFORMANCE REVIEW AND EVALUATION**

Performance reports shall be reviewed regularly. The performance will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The Endowment Committee (*Option, Investment Committee if point D.3. is chosen*) intends to evaluate the portfolio(s) over at least a three year period, or longer.

**Q. CAPITAL MARKETS (Optional)**

The historical returns from the capital markets 1926-2010:

<b><u>Asset Class</u></b>	<b><u>Historical Return</u></b>
Large Stocks	9.9%
Small Stocks	12.1%
Government Bonds	5.5%
Treasury Bills	3.6%
Inflation	3.0%

The asset class forward assumptions as of 2011:

<b><u>Asset Class</u></b>	<b><u>Forward Estimate</u></b>
Large Stocks	8.0%
Small Stocks	10.6%
Government Bonds	5.0%
Treasury Bills	3.0%
Inflation	2.5%

**R. SPECIFIC GOALS & MONITORING GUIDELINES (Include if choosing option Q. above)**

The Endowment Committee hereby establishes the following specific investment goals and monitoring guidelines for each separate account/fund for which we are responsible:

<u>Account Name</u>	<u>Investment Time Horizon (1)</u>	<u>Return Goal (2)</u>	<u>Monitoring Guideline (3)</u>
_____	_____	_____	_____yr rolling av. return

_____	_____	_____	_____ yr rolling av. return
_____	_____	_____	_____ yr rolling av. return
_____	_____	_____	_____ yr rolling av. return
_____	_____	_____	_____ yr rolling av. return
_____	_____	_____	_____ yr rolling av. return
_____	_____	_____	_____ yr rolling av. return

(1) Typically the length of time the assets will remain invested. For example - from now until when you expect to spend the asset.

(2) Suggestions – State as a % of return

<u>If time horizon is</u>	<u>Return goal</u>
1 year	Inflation + .5%
2 years	Inflation + .75%
3 years	Inflation + 1.0%
4 years	Inflation + 1.5%
5 years	Inflation + 2%
10 years	Inflation + 4%
15 years or more	Inflation + 4-5%

(3) The return goal based on \_\_\_\_\_ years rolling average return. This guideline will be used to determine whether we have met our return goal. This will also indicate whether changes are needed in the investment policy for an account. For example, if the time horizon is 5 years, monitoring guideline would be 5 year rolling average return. If time horizon is 10 years or more, monitoring guideline could be 5 yr, 7 yr, 10 yr or some longer rolling average.

## S. INVESTMENT POLICY, OBJECTIVES & GUIDELINES REVIEW

To assure continued relevance of the policies, objectives, guidelines, as established in this Statement of Investment Policy, Objectives, and Guidelines, the Endowment Fund plans to review this investment statement at least every five (5) years.

**Adopted by** \_\_\_\_\_ **United Methodist**

**Church Endowment Committee on** \_\_\_\_\_, \_\_\_\_\_.

**Note:** This sample document was prepared by the United Methodist Foundation of Michigan and is to be used only as a guide for local churches in developing their own statement of policy.

This sample document can be supplied as a Word document. Click [here](#) to contact us or call 888.451.1929

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