

CHURCH FOUNDATION, INC.
A Florida Not For Profit Corporation

Investment and Spending Policy for Endowment Fund(s)

I. Statement of Purpose. The Board of Trustees (the “Board”) of _____ Church Foundation, Inc., a Florida Not For Profit Corporation (the “Corporation”) has adopted this Investment and Spending Policy for Endowment Fund(s) (this “Policy”) as hereafter set forth to:

- Ensure good stewardship and prudent investment of its donors’ philanthropic contributions; Clearly articulate the Corporation’s policies governing the investment of its endowment fund(s) to ensure a consistent understanding and application of such policies by its Board, Finance Committee, members, investment managers and consultants;
- Address the fiduciary obligations and governance standards that apply to the Board, Finance Committee and investment managers;
- Reflect the adoption of a total return investment and spending policy (as hereinafter defined); Reflect the Board’s expectations for perpetuating the Corporation’s assets over the long-term; Establish an overall investment philosophy as well as specific investment goals and objectives;
- Set forth operational guidelines for investments as shown in Attachment A to this Policy; Provide specific investment guidelines and limitations to the Corporation’s investment managers and consultants;
- Provide objectives that are sufficiently specific to be meaningful but flexible enough to be practical in allowing for changes in the securities markets and economy;
- Set forth the standards to be used in evaluating the investment performance for the endowment portfolio(s); and
- Set forth the respective responsibilities of the Board, Finance Committee, investment managers and consultants in connection with the establishment and implementation of this Policy.

II. Scope of Policy. This Policy is intended to apply only to the assets of endowed funds (the “Portfolio”) and shall not be applicable to any other assets or types of funds of the Corporation.

III. General Investment Objective. The purpose of the Corporation is for the support and benefit of _____ Church (the “Church”) in order to insure the support, enhancement and continuation of the religious and charitable activities of the Church. Accordingly, the Corporation must take a long-term view of its investment goals and objectives. It seeks over the long-term to preserve capital and produce constant and stable growth in principal and income in order to build capital to support both current and future needs.

If a donor contributes to endowment funds and directs that those funds be used for a specific purpose (“Donor Restricted Funds”), those funds will be maintained in a separate account and may, if needed, have a separate investment objective that would be attached as an addendum to this Policy. Asset allocation goals, objectives, and rebalancing requirements, if different from the Portfolio, would be addressed in that addendum. Donor Restricted Funds must be \$25,000.00 or greater due to the

administrative costs associated with maintaining separate accounts. The Board may authorize exceptions to this amount.

IV. Investment Responsibilities

a. The Board. The Board is responsible for management of all of the Corporation's assets. It is responsible for establishing appropriate investment policies and, as it deems necessary or appropriate from time to time to modify such policies, and for seeing that those policies are effectively implemented.

The Board has delegated to the Finance Committee certain responsibilities related to the implementation of this Policy, as described below. It may, on the recommendation of the Finance Committee, engage qualified investment managers and place responsibility for investment of the Corporation's assets with those managers. The Board may also engage such investment consultants and other advisors as it deems necessary or appropriate.

b. The Finance Committee. The Board has delegated to the Finance Committee, pursuant to this Policy, the following responsibilities:

- (i) To make recommendations to the Board regarding the establishment and modification of this Policy;
- (ii) To implement this Policy as more specifically described below;
- (iii) To make recommendations to the Board regarding styles of investment management (i.e., passive versus active management);
- (iv) To make recommendations to the Board regarding the engagement of investment managers and consultants; and
- (v) To oversee and monitor the performance of any investment manager or consultant.

The Finance Committee will give a written report to the Board at least annually regarding the investment performance, strategy and value of the Portfolio as a whole.

c. Investment Managers. Any investment managers engaged by the Corporation will be responsible for the implementation of the investment strategy reflected in this Policy. In addition, they will be responsible for making specific investment decisions regarding selection of securities, timing and yield. Investment managers are charged with the responsibility to conduct the day-to-day management of the portion of the Corporation's assets under their management in accordance with this Policy and all applicable laws.

In order to avoid even the appearance of a conflict of interest, no Board member, or Finance Committee member, or any member of their immediate family may personally act as an investment manager of the Portfolio, unless a passive investment strategy is used.

d. Standard of Care. The members of the Board and the Finance Committee and the investment managers engaged to manage assets of the Corporation are fiduciaries of the Corporation. They are expected to adhere to the following standards in fulfilling their responsibilities under this Policy, at all times acting:

- (i) Solely in the interest of the Corporation; and
- (ii) In good faith and with the care, skill and diligence that an ordinary, prudent person acting in like capacity under similar circumstances and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

e. Confidentiality and Conflicts of Interest. All members of the Board and the Finance Committee, and all investment managers and consultants engaged by the Corporation may be required to sign an agreement to be bound by and to abide by the Corporation’s policies on confidentiality of information and conflicts of interest.

V. Asset Allocation.

a. Goal. The focus for the investment of the assets of the Portfolio will be on consistent long- term capital appreciation, with income generation as a secondary consideration. More specifically, the Corporation seeks returns during a full market cycle that are large enough to preserve and enhance the real, inflation-adjusted purchasing power of the Portfolio, while also considering current spending requirements. In pursuing this goal, the Corporation endeavors to achieve total returns that, over time, are equal to or better than the relevant market averages. It does not expect that in every year this investment objective will necessarily be achieved.

b. Objectives. In the allocation of assets, diversification among asset classes that are not similarly affected by economic, political or social developments is a desirable objective. The diversification does not necessarily depend on the number of industries or companies in a portfolio but rather upon the broad nature of the investments and the factors that may influence them.

The Corporation’s asset allocation objectives are intended to result in the creation and perpetuation of a well-diversified and balanced portfolio that reflects a targeted mixture of high quality equity securities, fixed-income securities and cash and/or cash equivalents. The majority of the assets of the Portfolio will be invested in equity, equity-based, or equity-like securities to provide the potential for long-term growth of principal and income. Fixed- income securities will be used to lower the short-term volatility of the Portfolio and to provide income stability and moderate long-term growth. Cash and/or cash equivalents will be a residual of the investment process and will be used to meet short-term (within 12 months) liquidity needs.

To ensure broad diversification among the major categories of investments, the Board has set the following target percentages and ranges as its asset allocation objectives:

<u>Asset Class</u>	<u>Target</u>	<u>Acceptable Range</u>
Equities	65%	55% to 75%
Fixed Income	35%	25% to 45%
Cash equivalents	0	0 to 10 %
Other Assets*	0	0 to 10%

c. Rebalancing. Meeting the Corporation’s asset allocation objectives requires a deliberate management and careful monitoring of the asset mix among the classes of investments. In making asset allocation judgments, the Finance Committee is not expected to seek to “time” subtle changes in the financial markets or need to make frequent or minor adjustments. Instead, the Finance Committee is expected to develop and implement objectives and guidelines for broad allocations on a long-term basis, in light of current and projected investment environments.

The Finance Committee will review the Asset Allocation Targets at least semi-annually and will reallocate funds or will direct the investment manager(s) to bring all asset allocations to within 10% + or - of the target. Cash flows into and out of the Portfolio may be used to rebalance back to the asset allocation targets. Additional rebalancing requirements will be met by shifting assets among various investment categories, taking into account the liquidity constraints posed by a particular investment

*with prior approval of the Board

vehicle and management style, and liquidity requirements needed to meet the needs and objectives of the Foundation.

d. Donor-restricted funds. Refer to Section III, second paragraph.

VI. Investment Performance Objectives.

a. Goal. In general, the Board intends that all investments made under this Policy be made with an emphasis on the protection and growth of principal, taking inflation into account, and with an emphasis on consistency of returns on an annual basis. It expects to achieve competitive rates of return on its investments. It seeks diversified investments in order to avoid undue exposure to any single economic sector, industry group or individual security.

b. Objectives. The Board has established measurable performance objectives and benchmarks to enable it to evaluate the investment performance of the Portfolio and the investment managers (if applicable), consistent with the achievement of the Corporation's longer-term goals.

(i) Total Portfolio. The Board has set the following objectives for investment of the Portfolio:

(1) The Portfolio is intended to earn a long-term rate of return, net of all fees, which will equal or exceed a rate equal to the Consumer Price Index plus 5%.

(2) The total return, net of expenses, for the Portfolio is expected to meet or exceed the return on a target index mirroring the Asset Allocation Targets. The target indices for the asset classes will be:

- The Standard & Poor's 500 Stock Index for large-capitalization stocks
- The Standard & Poor's 400 Stock Index for mid-capitalization stocks
- The Russell 2000 Stock Index for small-capitalization stocks
- The MSCI EAFE Index for international stocks
- The Merrill Lynch A Rated 1-5 Year Gov't/Corp Index for shorter-term fixed Income securities
- The Lehman Brothers Aggregate Bond Index for mid- to longer-term fixed income securities

(3) The total return, net of expenses, for the Portfolio is expected to place it in the 50th percentile or higher when compared to other portfolios of similar style or strategy.

ii) Equities. The Board has set the objective for the investment performance of equity securities to meet or exceed, net of fees, the total rate of return of the target indices stated above. If utilizing an active investment strategy, the Board has set the following additional objectives:

(1) Annual total return of each manager will be expected to rank above the median return (in top 50%) of a peer group of managers with comparable objectives and similar style.

(2) Risk adjusted performance in equities is expected to be positive as measured by the Sharpe Ratio. The Sharpe Ratio is a measure of risk-adjusted return that is often used to rank the risk-adjusted performance of various portfolios over the same time period.

(iii) Fixed Income. The Board expects the maturities of the fixed income instruments to be controlled so that the portfolio does not experience wide fluctuations relative to the benchmark index. The Finance Committee may consider utilizing individual fixed-income securities and staggering of maturities to minimize interest rate risk and to provide for current spending needs, as necessary. The Board has set the objective for the investment performance of fixed income securities to meet or exceed, net of fees, the total rate of return of the target indices stated above.

(iv) Time Horizon. The Board recognizes the necessity of using a long-term outlook when formalizing investment policies and strategies. However, shorter-term goals may be appropriate in setting the benchmarks for measuring and evaluating risk and return on the Portfolio. Due to the

inevitability of short-term market fluctuations, it is intended that the specific performance objectives will be achieved over a three (3) - to five (5)-year moving period.

c. Donor-restricted funds. Refer to Section III, second paragraph.

VII. Finance Committee.

The Foundation President shall appoint the members of the Finance Committee pursuant to the Board policies. The Finance Committee shall meet as necessary to carry out its responsibilities under this Policy but not less than four (4) times per year, if utilizing an active investment strategy. If utilizing a passive investment strategy, the Committee shall meet not less than two (2) times per year. Members may attend meetings in person or by other appropriate means, as decided by the Committee.

The Finance Committee shall be responsible for:

- (i) reviewing and, if necessary, adjusting the Asset Allocation Targets;
- (ii) monitoring investment performance of the entire Portfolio;
- (iii) investing and reinvesting assets of the Portfolio through mutual funds or exchange-traded funds or separately managed accounts with or without assistance of outside investment professionals;
- (iv) reporting regularly to the Board on investment performance, including comparisons to benchmarks;
- (v) recommending spending policy;
- (vi) recommending to the Board investment performance objectives and guidelines;
- (vii) reviewing this Policy at least annually and recommending to the Board such changes as the Finance Committee deems necessary or appropriate; and
- (viii) performing such other activities related to the investment of the Portfolio or implementation of this Policy as the Board may from time to time request.

VIII. Investment Consultants.

The Board may engage one or more independent investment consultants to assist the Board and Finance Committee in:

- (i) developing and implementing appropriate investment policies;
- (ii) monitoring and analyzing investment performance of the Portfolio; and (iii) conducting such other activities associated with compliance with this Policy and applicable laws.

IX. Spending Policy.

The maximum amount that may be withdrawn from the Portfolio each year shall be limited to 5% of the Portfolio's total value as of the first day of the Corporation's tax year. This 5% limitation shall not include expenses of administration, such as fees for accounting, legal services and investment management. These withdrawals will be used for the support and benefit of _____ Church in order to insure the support, enhancement and continuation of the religious and charitable activities of the Church.

Donor-restricted funds. Refer to Section III, second paragraph.

I, _____, Secretary of the Corporation, hereby certify that the foregoing Investment and Spending Policy for Endowment Fund(s) was adopted by the Board of Trustees of the Corporation on _____.

_____ **CHURCH FOUNDATION, INC.**

(Name), Secretary

**Attachment A
to Investment and Spending Policy for Endowment Funds**

Operational Guidelines for Investments

Donation to Endowed Funds

Donations may be made in cash or in readily marketable securities. Any marketable securities will be sold immediately upon receipt. Donations of real estate or other asset will be considered on a case-by-case basis.

Minimum Quality Standard

<u>Equities</u>	<u>Fixed Income</u>
Must be actively traded on a major stock exchange or on NASDAQ	Individual corporate and municipal bonds must be rated “A” or better by Moody’s or Standard & Poor’s
	A. Bond funds defined as “short” or “intermediate
	B. Bond funds defined as “High Yield” by Morningstar must have an average credit Rating of at least “B”

Minimum Diversification Standards

<u>Equities</u>	<u>Fixed Income</u>
A. The market value of holding in one company shall not exceed 10% of the total market value of the equities held in the portfolio (unless the company represents more than 10% of the total benchmark index weight).	A. The market value of anyone issuer shall not exceed 10% of the total market value of the bonds held in the portfolio (except for securities issued by the US Government or its agencies).
B. The equity portion of the portfolio must be diversified amongst large-, mid-, small-cap and international sectors.	B. Prudent diversification by industry is expected but no guideline is specified.
C. Not more than 20% of die portfolio may be invested in international investments.	C. Not more than 15% of the portfolio maybe invested in “high-yield” bonds.
D). Not more than 20%ofthe portfolio may - be invested in any one sector.	D. Not more than 20% of the portfolio maybe invested in any one sector (except US government securities).

Other Investment Guidelines

<u>Equities</u>	<u>Fixed Income</u>
A. No investments in non-U.S. dollar denominated securities	A. CMO's: limited to 15% of market value of the total portfolio and restricted to issues (i) backed by securities issued by GNMA, FHLMC or FNMA and (ii) which pass the FFIEC High Risk security Test annually.
B. No purchase that would cause a position to exceed 5% of the voting shares of a company and no investment with the intent of controlling management.	B. May invest in "conservative" structured notes that are principal guaranteed, unleveraged, and of short to intermediate maturity.

Prohibited Categories

Non-marketable securities
Precious metals (note: equity or debt investment in precious metal companies is permitted)
Interest only or principal only CMO's
Issues traded flat (not accruing interest)

Special Categories (Permitted only with written approval of the Board)

Venture capital funds, private placements, real estate or timberland, limited partnerships of any kind, and hedge funds.
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Proxy Voting

A. The Finance Committee is solely responsible for voting proxies of shares of companies in the portfolio in a manner consistent with the best interests of the Corporation and the Corporation's Investment and Spending Policy for Endowed Funds.
B. The Finance Committee is required to vote proxies on every issue that could reasonably be expected to have a significant impact on the value of the securities.
C. The Finance Committee is required to keep a record of all proxy votes.

EXCEPTIONS TO THESE INVESTMENT GUIDELINES

The Finance Committee will consider exceptions to the constraints of this Policy (including the investment guidelines) within the overall context of the materiality of the exception, the context of its occurrence and the expected longevity of the exception condition.