

**Fairhope United Methodist Church
Endowment Fund
Investment Policy Statement**

Matthew 25:14-30

This statement is issued by the Trustees of the Endowment Fund and sets forth the objectives and guidelines to be used in the management of endowment assets. In a broad sense, the assets of the Endowment Fund will be managed in a manner in keeping with its fiduciary nature and within the standard of the Prudent Man Rule. Further, all investments shall be made in accordance with the Book of Discipline of the United Methodist Church and the policies of the Alabama West Florida Conference.

I. Investment Objectives

- a. The primary investment objective shall be the preservation of capital with emphasis on long-term capital appreciation and total return on investment.
- b. This portfolio shall be managed in a manner to achieve a total return based primarily on the spending policy, as defined in the Endowment Fund Resolution, as adopted. The primary objective shall provide a maximum total return (within the investment guidelines described below) from the portfolio without distinction between income and capital gain. Therefore, this objective would yield an annual rate of growth including interest, dividends and capital appreciation to preserve the endowment from inflation and to provide for the spending policy. The minimum long-term total return should exceed the rate of spending (5%) and the inflation rate, known as the Consumers Price Index (CPI). With inflation averaging 2% in recent years the **MINIMUM** long-term total return needed on the fund, to avoid consuming principal is **7%, AFTER FEES AND EXPENSES.**

II. Performance Measurement

For comparative purposes, the equity portion of the portfolio will be reviewed relative to the results achieved by the Standard & Poor's 500 Index. The bond portion of the portfolio will be measured against the Bloomberg Barclays Capital Aggregate Bond Index. The cash portion of the portfolio will be measured against ninety-one (91) day Treasury bill interest rates.

The total fund performance goal shall be to outperform the above indices, net of fees and expenses, on an annualized basis and measured over a five-year market cycle.

The primary measurement of the investment manager's, or mutual funds success will be the consistency with which the manager meets the stated investment objectives and performance goals.

III. General Investment Guidelines

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- a. The Investment Manager will give frequent and active attention to the Fund in both developing strategy and making decisions to implement it.
- b. The Investment Manager is authorized to make investment changes as deemed necessary in accordance with the objectives and guidelines set forth in this document subject to limitations described in this document.
- c. The Investment Manager shall provide adequate and competitive investment returns at a reasonable cost.

IV. Asset Allocation and Diversification

- a. **Equities:** The Equity portion is expected to range between 55-75% of the total portfolio.
- b. **Fixed Income:** The Fixed Income portion of the portfolio is expected to range between 25-45 % of the total portfolio. Cash and Cash equivalents are to be considered and included within the Fixed Income portion of the Portfolio.
- c. The fund's investments shall be diversified both by asset classes and by sectors within asset classes. The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have a disproportionate impact on the Fund's aggregate results. Except for government securities, no concentration of a single security in excess of ten (10) percent of the total portfolio shall be held in the portfolio without the written consent, and an explanation of the rationale of the Endowment Fund Trustees.

V. Specific Investment Guidelines

- a. Speculative securities are not appropriate investments in the portfolio.
- b. Loans from assets of the Endowment Fund, and lending of any type is strictly prohibited.
- c. No Real Estate assets shall be purchased with assets from the endowment Fund. The exception to this is that Real Estate Assets, Income Producing Property, etc gifted to the Endowment Fund, may be retained, at the discretion of the Endowment Fund Trustees.
- d. Investment quality of bonds is to be investment grade with ratings at least "Baa" by a recognized rating service, such as Moody's, Fitch or equivalent.
- e. Common stocks and convertible security investments must be traded on U.S. security exchanges or publicly available in the U.S. over-the-counter market.

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- f. Short-term cash equivalents can be invested in commercial paper, U.S. Treasury Bills, Bank CDs and other comparable securities that are rated A-1 or P-1 by a recognized rating service. Bank CDs shall not exceed the FDIC insured amount at any one institution.
- g. No direct investment shall be made in foreign currency denominated securities, including American Depository Receipts, except as follows:
 - i. Investments may be made in common stocks, bonds and American Depository Receipts of those foreign securities listed on the New York, American, NASDAQ or other major US exchanges.
 - ii. Investment in a foreign securities pooled fund or mutual fund operated by a U.S.-based money manager is also permitted provided that all NAV transactions are in US dollars.
- h. Transactions on margin or short sales are not permitted, without written unanimous approval in advance from the Endowment Fund Trustees.
- i. Investments shall not be made in the securities of an issuer, which, together with any predecessor, has been in operation for less than three years.
- j. Investment shall not be made in securities for which market quotations are not readily available.
- k. Investments shall not be made in securities for the purpose of exercising control of management.
- l. Investments shall not knowingly be made in securities of companies that derive 5% or more of revenue from the following activities: alcoholic beverages, tobacco or gambling.
- m. Investments shall not knowingly be made in voting securities of companies that derive more than 15% of revenue from military contracts including both domestic and foreign customers. In the case of non-voting securities, the limit shall be 5% of revenue.
- n. Investments shall not knowingly be made in companies that derive more than 3% of revenue from nuclear weapons contracts.
- o. Investments shall not be made if such investments will result in income that would require the filing of federal, state or local tax returns.
- p. The use of derivative securities or financial futures generally is prohibited unless specifically approved by the Endowment Fund Trustees, in writing.

- q. None of the aforementioned restrictions shall preclude the acceptance of gifts involving assets which such restrictions otherwise prohibit from direct investment. Assets of such a nature will be divested in a reasonable and timely manner, at the full and complete discretion of the Endowment Fund Trustees.

- r. **Mutual Fund and Pooled Investment Funds** - The use of such funds alters the interpretation of the investment policies and restrictions as follows: The rules covering weighting limits on the securities of a single issuer are waived; the rules governing liquidity and quality are not waived; the rules governing social issues are not waived and will be applied to the holdings of each fund as though each holding was a separate company, and relative in size to the holdings respective total Stock or Fixed Fund.

VI. Standards of Care

- a. **Prudence** - The standard of prudence to be used by investment officials shall be the "prudent man" standard and shall be applied in the context of managing an overall portfolio. 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 return to be derived.

- b. **Ethics and Conflicts of Interest** - Endowment Fund Trustees and Investment Managers involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the Endowment Fund, or that could impair their ability to make impartial decisions. Endowment Fund Trustees, Employees and investment officials shall disclose any material interests, or Employment in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio.

VII. Reports and Reviews

Written reports will be provided at the end of each fiscal quarter and at the end of the fiscal year. These reports will include the following:

- a. A list of the assets held with shares, market and the inventory values

- b. A summary of all activity in the portfolio, including a list of all additions and withdrawals from the portfolio.

- c. A comparison of the portfolios performance for the quarter, one-year, three-year and five-year periods against the S&P 500 Index, the Bloomberg Barclays Capital Aggregate Bond Index and the Consumer Price Index. (CPI).

- d. The Endowment Fund Trustees and the Investment Manager shall meet periodically, but at least annually, to review fund performance, investment guidelines and strategies.

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Performance will be evaluated based upon the criteria as set forth in these guidelines. If at any time, the investment manager believes that any policy guidelines included in this document inhibits investment performance, it is the manager's responsibility to communicate this view to the Endowment Fund Trustees.

- e. The Investment Manager is required to inform the Endowment Fund Trustees of any change in professional personnel, account or organizational structure, or fundamental investment philosophy.

Appendix Glossary of Terms

Asset Allocation - Apportioning of investment funds among categories of assets, such as cash and cash equivalents, stocks, bonds, and within the subcategories of these asset classes, such as government bonds. Asset allocation affects both risk and return and is a central concept in the process of investment management.

Bloomberg Barclays Capital Aggregate Bond Index - A common benchmark index for fixed income managers, and fixed income mutual funds maintained by Bloomberg/Barclays.

Capital Gain - The difference between an assets purchase price and selling price, when the difference is positive.

Consumer Price Index (CPI) - A measure of change in consumer prices, as determined by a monthly survey of the U.S. Bureau of Labor Statistics, also known as the cost-of-living index, and is commonly known as inflation.

Diversification - The spreading of risk by putting assets in several categories of investments, stocks, bonds, cash and cash equivalents, or in a mutual fund which owns a broad range of stocks in one portfolio.

Endowment Fund Trustees - Fiduciaries appointed by the charge conference of Fairhope UMC charged with the supervision and management of the assets of the endowment fund.

Equities - Ownership interest possessed by shareholders of a corporation, stock as opposed to bonds. Common stock.

ETF-

Fiduciary - A person, company, or association legally appointed and authorized to hold assets in trust for another person and manage those assets for the benefit of that person and not his/her own profits. The fiduciary is charged with the responsibility of investing the money wisely strictly for the beneficiary's benefit.

Fixed Income - A security that pays a fixed rate of return. This usually refers to government, corporate, or municipal bonds which pay a fixed rate of interest until the bonds mature, and to preferred stock, which pays a fixed dividend. Such investments are advantageous during times of low inflation, but do not protect holders against erosion of buying power in a time of rising inflation.

Income - Interest and dividends.

Inflation - See Consumers Price Index (CPI)

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Investment Manager - Service providing investment advice and/or investment management for a fee. Also called Investment Advisors, Investment Counsel, or Portfolio Managers. See Portfolio Manager.

Investment Policy Statement (IPS) - A written plan outlining the investment parameters for the Endowment Fund, to clearly communicate the investment goals and objectives of the Endowment Fund. Among other things the IPS outlines the long-term asset allocation targets for the portfolio.

Mutual Fund - A fund operated by an investment manager that raises money from shareholders and invests it in stocks, bonds, or money market securities. The funds offer investors the advantages of diversification and professional management. For these services they charge a management fee, typically around 1% of assets per year.

Pooled Investment - Most commonly a mutual fund, as described above.

Portfolio Manager - The person responsible for the investment of a mutual fund's assets, implementing its investment strategy and management in day-to-day portfolio trading.

S&P 500 - A market capitalization index of 500 of the largest stocks in the United States. Widely accepted to be a broad measure of the performance of the stock market, and as such, a useful benchmark to measure the performance of Investment Managers.

Speculative - An action that requires the assumption of risk in anticipation of gain but recognizing a higher than average possibility of loss. Examples: Options trading, selling short, futures contracts among others.

Total Return - Annual return on an investment including appreciation and dividends or interest.

This glossary is by no means complete or exhaustive. When in doubt, a useful reference for the Endowment Fund Trustees, or Investment Managers is Barron's Finance and Investment Handbook, which was the basis for the glossary as presented.