

**INVESTMENT GUIDELINES
FOR THE POOLED INVESTMENT FUND
OF THE
TRUSTEES OF THE DIOCESE OF MINNESOTA, INCORPORATED**

1. PURPOSE

1a) The primary purpose of The Episcopal Diocese of Minnesota (“the Diocese”) is to provide for, and therefore fund, an increasing level of Christian ministry and ministry formation in sacramental, evangelistic and pastoral activities of the “people of God” (lay and clergy alike) through parish, mission, and diocesan organizations under the Convention of the Diocese.

1b) The function of the Pooled Investment Fund of the Trustees of the Diocese of Minnesota, Incorporated (“the Trustees”) is to provide the Diocese, its parishes, missions and other incorporated organizations, a vehicle for pooling their various operating and endowment funds for investment.

2. INVESTMENT OBJECTIVES

2a) The primary investment objective of the Pooled Investment Fund is to provide a return on investment that allows investment growth and creates cash flow in support of the operating requirements of participating organizations. It is understood that the Trustees will use principal to meeting this objective in any year when the total return of the portfolio is less than the withdrawal rate adopted for that year.

- i) A recommended annual withdrawal rate for all participating organizations will be developed each year by the Trustees; that will not exceed five percent (5%). This recommended withdrawal rate will be reported to all participating organizations, and will be considered the norm for distribution rates.
- ii) Given that a requirement for withdrawals in excess of the recommended rate will likely diminish the Pooled Investment Fund, any entity requesting a rate more than that recommended, must do so by a formal, written resolution. Such resolution must include a statement that the requesting entity recognizes and accepts the risks and consequences of its request. Any such resolution must be sent to the Trustees no later than the December 1 prior to the year intended to be funded.

2b) The second objective of the Pooled Investment Fund is to maintain future purchasing power of the assets. Inherent in meeting this objective is the assumption of unavoidable and normal market risk, and with that the potential for a period of negative performance.

3. ASSET ALLOCATION AND GENERAL GUIDELINES

3a) The Trustees seek to balance financial risk with return by utilizing asset allocation, which goes beyond the practice of selecting many securities. The initial asset allocation shall be as follows:

<u>Asset Class</u>	<u>Target</u>	<u>Permitted Range</u>
Equities	60%	55% - 75%
US Large Capitalization	25%	20% - 40%
US Small / Mid	15%	10% - 20%
Non – US	20%	15% -25%
Fixed Income	30%	25% - 40%
Broadly diversified with emphasis on U.S. Investment Grade		
Other	10%	0% - 15%
Includes Absolute Return Strategies, Real Estate, Private Equity, Non-leveraged Commodities		

The Investment Committee of the Trustees (“Investment Committee”) can move funds between asset classes and among fund managers, investment managers, mutual fund managers etc. (“Investment Providers”) as long as the total funds within each asset class are within the permitted range.

3b) It is the intent of the Trustees to use this asset allocation as a long-term investment strategy. This excludes market timing as an overall investment strategy. The allocation guideline will be periodically reviewed and altered, if necessary, only in response to market valuation extremes.

3c) The Pooled Investment Fund is to be managed according to the Uniform Management of Institutional Funds Act as adopted in the State of Minnesota, and the Prudent Investor Rule as construed by the courts of Minnesota, and the Minnesota Non-profit Corporation Act. In addition, a copy of these guidelines will be provided to each Investment Provider. A statement of acceptance of these guidelines is required on an annual basis from each Investment Provider.

3d) Leverage is not permitted by an Investment Provider without the written permission of the Investment Committee.

3e) There shall be no specific guidelines with regard to portfolio activity. By not restricting turnover, the Investment Providers are given the flexibility to adjust their asset mix and security selection to changing market conditions.

3f) Deviations from these guidelines are not permitted without the written consent of the Investment Committee.

4. EQUITIES

4a) No more than 5% of an Investment Provider's equity portfolio at market value shall be invested in the securities of any one company.

4b) Holdings Permitted:

- i) Common Stocks, preferred stocks or American Depository Receipts ("ADRS") listed on US exchanges or international exchanges.
- ii) Common stocks or preferred stocks traded through NASDAQ.
- iii) Securities convertible into publicly traded common stocks.
- iv) Open or closed end mutual funds, which have been in operation for more than three years. The three-year requirement may be waived in appropriate circumstances by the written permission of the Investment Committee.

4c) Holdings **NOT PERMITTED** without the prior written approval of the Investment Committee:

- i) Short sales.
- ii) Options, futures, forward contracts or other derivatives except where used to hedge market value of non-dollar denominated securities into US dollars or replicate a major market benchmark.
- iii) Margin purchases, borrowing funds or securities lending.
- iv) Letter stock, private or direct placements.
- v) Leveraged Commodities.
- vi) Securities of the Investment Provider/Custodian, its parents or subsidiaries (excluding the short-term investment funds of the Custodian or money market mutual funds).

- vii) Any other securities not specifically defined herein as Holdings Permitted.

5. FIXED INCOME ASSETS

5a) No more than 10% of any Investment Provider's bond portfolio at market shall be invested in the securities of one issuer. There shall, however, be no such limit on United States government securities, securities of United States government sponsored entities or agencies or GNMA securities.

No more than 50% in total of an Investment Provider's bond portfolio at market shall be invested in securities issued by the Federal National Mortgage Association ("FNMA"), Federal Home Loan Mortgage Endowment ("FHLMC"), Federal Farm Credit Agency and other securities not fully guaranteed by the United States government but issued by United States government sponsored entities or agencies.

5b) The average quality of the fixed income portfolio shall be "A" or higher. Seventy-five percent of the securities of an Investment Provider's portfolio must be rated BBB-/Baa3 or higher by a nationally recognized rating agency at time of purchase. For split-rated securities, the higher rating will be used in determining compliance with these guidelines.

5c) An Investment Provider's bond portfolio Market value weighted average effective duration, adjusted for expected life and call provisions, cannot be more than two years greater than the benchmark's effective duration.

5d) Holding Permitted

- i) Debt securities issued or guaranteed by the United States, or United States government sponsored entities or agencies (including United States government sponsored agency mortgage backed securities).
- ii) Corporate bonds, debentures and other form of corporate debt obligations.
- iii) Certificates of deposit and other money market instruments from banks also issuing banker acceptances and with current commercial paper ratings of at least A-1 by Standard and Poor's or P-1 by Moody's Investor's Service.
- iv) Global bond mutual funds which have been in operation for more than three years.

5e) Holdings not listed above are **NOT PERMITTED** without the prior written approval of the Investment Committee.

6. CASH AND EQUIVALENTS

The cash portion of the Pooled Investment Fund shall be invested in a Short Term Investment Fund administered by the Custodian, if one is appointed. Safety of principal is the emphasis. If there is no Custodian, an Investment Provider will use a money market fund, which is understood to be essentially risk less.

7. OTHER ASSET CLASSES

The Trustees may establish guidelines for investments in other asset classes in the future.

8. PERFORMANCE STANDARDS

8a) The objective is to achieve consistently superior results in balancing risk and total return. Progress of the Pooled Investment Fund, its asset classes and the Investment Providers will be measured over a full market cycle.

8b) The following benchmark indices will be used to measure performance of the various asset classes:

<u>Asset Class</u>	<u>Benchmark Index</u>
Large Capitalization – US Equities	S&P 500
Mid Capitalization – US Equities	S&P 400 Mid Cap.
Small Capitalization – US Equities	Russell 2000
International Equities	MSCI EAFE – Net Div
Bonds	Lipper Intermediate Investment Grade
Reits	NARIET Equity Index
Absolute Return Strategies	CPI + 4%
Asset Allocation Funds	Lipper Moderate Balanced
Non-Leveraged Commodity Indexes	Dow Jones AIG Commodity Index

The total fund or portfolio of investments is expected to outperform the appropriate benchmark.

8c) The total returns of each asset class and the Pooled Investment Fund will be compared to the distribution of returns represented by an appropriate and statistically valid universe of separately managed funds that are not subject to capital gains or income taxes. Over a market cycle, each asset class and Investment Provider employed by the Trustees is expected to rank in the top 50% of the appropriate universe.

8d) In addition to evaluating performances by using benchmark indices and comparisons to other funds, each Investment Provider will give to the Trustees an analysis of results in a risk-adjusted context using statistical measures of risk such as the Sharpe Ratio, the Treynor Ratio or Standard Deviation using volatility to measure risk. Over a market cycle, the statistical risk measurement used is expected to show less volatility for the Pooled Investment Fund and each asset class than the volatility shown by their respective benchmark indices.

8e) Turnover in the portfolio managed by an Investment Provider is not to exceed the average turnover level of representative managers for each asset class.

8f) Investment performance reviews of the Pooled Investment Fund and each asset class and Investment Provider will be conducted at least semi-annually to ascertain progress as compared to the performance standards.

8g) A quarterly report will be prepared and distributed to participants that will measure performance versus benchmark indices and asset allocations versus specific asset allocation targets.

The Trustees reserve the right to make changes in Investment Providers as determined appropriate. Circumstances, which may warrant such a change include, but are not limited to, disappointing relative performance against benchmarks or peer group, disappointing risk-adjusted performance and changes in personnel.

9. ACCOUNTABILITIES

9a) Trustees

- i) Establish investment “guidelines”, which shall be reviewed at least annually.
- ii) Approve permitted ranges and targeted investment levels for a diversified group of asset classes.
- iii) Approve the selection of Investment Providers
- iv) Meet annually with the Investment Providers.

- v) Ensure the completion, by an outside auditing firm, of an annual audit, which includes the Pooled Investment Fund.

9b) Investment Committee

- i) Establish the procedures for the deposit and withdrawal of funds.
- ii) Recommend permitted ranges and targeted investment levels for a diversified group of asset classes.
- iii) Recommend Investment Providers. All Investment providers must be managed by professional organizations.
- iv) Establish objectives for each Investment Provider.
- v) Monitor the performance of each Investment Provider against the established objectives.
- vi) Track and review management fees and administrative expenses to ensure that they are within expectations and customary tolerances for the particular investment activity.
- vii) Meet quarterly with the Investment Providers.

9c) Investment Custodian

- i) Accept possession of securities for safekeeping
- ii) Collect and disperse income.
- iii) Collect principal of sold, matured or called securities.
- iv) Provide accounting statements to the Secretary of the Trustees at least monthly.
- v) Sweep excess cash into an interest-bearing accounting compliance with the guidelines in Section 6 above.

9d) Secretary of the Trustees

- i) Inform the participants and Trustees, through quarterly mailings, of the performance of the Pooled Investment fund, including the performance of the various Investment Providers.

- ii) In-between quarterly mailings, inform the Investment Committee of any performance issues regarding the Pooled Investment Fund of Investment Provider
- iii) Coordinate, with the assistance of the Audit Committee, and annual audit of the Pooled Investment Fund by an outside auditing firm. This can be done as part of the annual audit of the Trustees.

9e) Treasurer of the Diocese

- i) Periodically attend meetings of the Trustees and the Investment Committee as a liaison between the Diocesan Council and the Trustees, particularly on issues concerning the sustainability of the annual withdrawal rate versus anticipated financial market rates of growth.

9f) Investment Providers / Portfolio Consultants

- i) Communicate with the Investment Committee on any significant matter pertaining to the investment policies. When an Investment Provider believes a change in the policies or objectives is necessary, a written recommendation regarding such change shall be provided to the Investment Committee.
- ii) Inform the Investment Committee of any important changes in its personnel or operating procedures.
- iii) Provide quarterly reports to the Investment Committee which shall include the information outlined in section 8f) above.

9g) Audit Committee

- i) Negotiate audit engagement letter and review and accept completed audit of the Pooled Investment Fund.