

The Episcopal Diocese of Western North Carolina

Investment Policy Statement

The Episcopal Diocese of Western North Carolina Investment Policy

Adopted: August 2013

BACKGROUND

The Board of Trustees (“the BOARD”) of the Diocese of Western North Carolina (“Diocese”) is responsible for the oversight of the Investment Funds (“Funds”) of the Diocese including receiving, managing and disbursing funds for the support of the Episcopate, churches and related

organizations, and for other purposes of the Diocese of Western North Carolina. Fiscal Ministries of the Diocese of Western North Carolina provides guidance and assistance to the BOARD.

PURPOSE OF INVESTMENT POLICY STATEMENT

The purpose of this Investment Policy Statement (“IPS”) is to set forth the objectives and policies of the BOARD, guidelines to be used for the selection, monitoring and evaluation of investment managers, and guidelines to investment managers for the prudent investment management of the Fund’s assets.

This IPS will further the BOARD’s objectives, defined in the various sections that follow, by:

1. Stating in written form Fiscal Ministries and the Trustees’ expectations, attitudes and guidelines for investment of the Fund’s assets.
2. Specifying an investment structure, including various asset classes, investment management styles, allocations and ranges expected to produce overall diversification and acceptable total investment return over the investment time horizon.
3. Establishing formal criteria to select, monitor, evaluate and compare performance results of investment managers on a regular basis.
4. Encouraging effective communication between the Fiscal Ministries, the Trustees, Investment Manager(s) and other interested parties.
5. Complying with all applicable duties of fiduciary prudence, due diligence, legal and regulatory compliance.

MANAGEMENT OBJECTIVES

The management objective for the BOARD of the Diocese is to preserve and enhance the Fund's real, inflation-adjusted, purchasing power while providing a steady and consistent spending stream in support of the respective missions of the Fund's Participants.

To support distributions and preserve purchasing power, BOARD'S objective is to maximize investment return within reasonable and prudent levels of risk. While it is understood that each Participant in the Fund has the right to withdraw its investments at any time according to current withdrawal policy, it is the express intent of the BOARD to invest the Fund for the long term and accept that level of portfolio risk consistent with achieving long term growth and preservation of capital.

Spending Rule Policy

In pursuit of this objective, the BOARD has set a current annual distribution rate policy of four percent (4%). The annual distribution, calculated using the current distribution rate, is based on a rolling 3 year market value average of the Fund utilizing the 12/31 valuation date. It is the job of the BOARD to ensure that this distribution rate is prudent based upon the investment returns to ensure that the fund is earning a greater return, on average, than the amount being distributed. Not only is the prudent, but it is required for permanent endowments under UPMIFA.

The distribution rate will be reviewed periodically for appropriateness in prevailing economic conditions. A Fund Participant may request a different payout percentage, subject to approval by Fiscal Ministries and Trustees.

Changes in overall fund distribution policy should be approved by the following: Fiscal Ministries; Executive Council; Trustees.

BOARD Liability

Members of the BOARD shall be liable for any acts or omissions committed by them (including losses which may be incurred upon the investments of the assets of the FUND) only to the extent that such acts or omissions were not in good faith or involved intentional misconduct. Each member shall be liable only for his/her own intentional misconduct or for his/her own acts or omissions not in good faith, and shall not be liable for the acts or omissions of any other

members. No member shall engage in any self-dealing or transactions with the FUND in which the member has direct or indirect financial interest and shall at all times refrain from any conduct in which his/her personal interests would conflict with the interests of the FUND.

The Diocese holds Director and Officers Liability Coverage which covers all members of committees and boards that are a part of the diocese. The full coverage documentation is available from the Office of the Controller.

All members of the BOARD will owe a fiduciary duty to the FUND and the Diocese and are required to acknowledge such duty in writing annually.

Measuring Costs

The BOARD will review at least annually all costs associated with the management of the FUND, including:

Expense ratios of each outside investment manager against the appropriate peer group.

Administrative fees and other FUND expenses; costs to administer the FUND, including record keeping, custody and trust services. This should also include all costs including bond costs, fees, commissions or any other fees received or incurred by the manager.

Replacement of Outside Investment Managers

It is important to recognize that fluctuating rates of return characterize the securities markets, particularly during short-term time periods. Recognizing that short-term fluctuations may cause variations in performance, the BOARD shall evaluate investment performance from a long-term perspective. The BOARD shall also place greater weight to the non-performance-related criteria described above when evaluating the FUND'S outside investment managers.

The decision to replace an outside investment manager will be made at the full discretion of the BOARD. Underperforming investment managers may be placed on a temporary "watch list" before the decision is made to permanently replace the outside investment manager.

Reporting

The BOARD shall review financial results of the FUND on a quarterly basis. The report shall reflect compliance with the objectives, policies and guidelines set forth herein.

Review of Investment Managers

The BOARD will annually review the performance of the Investment Managers. This review should also include growth and performance of the portfolio and the need for additional/new Investment Managers.

Investment Portfolio:

Endowment – Pooled investment fund is inclusive of Unrestricted, Temporarily Restricted, Permanently Restricted and Funds Held for Others. Sub-funds within the Fund may be established for specific purposes.

- a. Restricted: The donor has identified a specific purpose(s) to which the funds should be directed. The BOARD will guarantee that the use(s) to which those funds are applied is faithful to the donor's wishes. The funds may be directed to their designated purpose(s) either as an endowment, in which case they normally would become a designated fund within the Endowment Fund, or by direct expenditure of the funds through the Controller of the Diocese.
- b. Unrestricted: The expectation is that such a bequest will be transferred to the Endowment Fund and allocated by Fiscal Ministries to a specific designated fund or funds within the Endowment Fund. Such transfers are intended to be held in perpetuity. This policy specifically acknowledges that from time to time truly extraordinary needs of the Diocese may arise to necessitate an exception to this policy.

The Bishop and Controller of the Diocese will assess the particular circumstances giving rise to a perceived need to make an exception to the policy. Such circumstances should be judged to be truly extraordinary and that no other financial resources of the Diocese are available or are expected to become available in time to fulfill the urgent need. If an exception is deemed appropriate, the Bishop and Controller will make a recommendation. Final authority for granting such an exception to the policy will rest with the BOARD.

Bequests designating the Endowment Fund as beneficiary are automatically transferred to the Endowment Fund upon receipt. If the bequest was given for a designated purpose, then the value of the assets will be applied to establish a designated fund of the Endowment Fund, as provided for in a separate policy. If the bequest to the Endowment Fund is otherwise undesignated, the assets will be directed to that portion of the corpus of the Endowment Fund where earnings are unrestricted.

Four percent (4%) is the current distribution rate for individual funds within the Endowment. The distribution rate must be approved by the BOARD.

Income Recognition

Income, realized gains or losses, and unrealized gains or losses are allocated quarterly to each fund based on its market value relative to the total market value of the FUND at the end of the previous quarter. New gifts are then added and withdrawals are subtracted to arrive at the new value of the designated fund on the last day of the quarter. Expenditures are limited to the purposes specified in the designation and are governed by the FUND's Spending Rule.

Signed:

Trustees Representative: _____

Fiscal Ministries Representative: _____

Agreement with Investment Manager

Statement of Purpose

The purpose of this statement is to establish a clear understanding between the Episcopal Diocese of Western North Carolina (The Diocese) and the investment manager(s) (The

Manager). This policy statement is intended to provide meaningful guidance in the management of assets and not be overly restrictive given the changing economic, business, and securities market conditions.

This document is established in accordance with fiduciary requirements and will be reviewed on an annual basis by the Fiscal Ministries to determine if any modifications are needed.

Investment Objectives

The primary objective of the investment manager shall be protection and preservation of the Diocese's assets. In addition, the investment manager shall seek the highest possible return consistent with prudent regard for safety of capital, liquidity and fiduciary responsibility. The investment manager has discretion to purchase, sell or hold the specific securities that will be used to meet the Diocese's investment objectives.

Fiscal Ministries recognizes that some risk is necessary to produce long-term investment objectives and that interim fluctuations will be viewed within an appropriate long-term perspective. Our long-term strategy emphasizes total return, i.e., the aggregate return from capital appreciation as well as interest and dividend income. Over a complete market cycle, the annualized total return, after deducting all fees, is expected to perform above the median return of a representative universe of investment managers managing similar portfolios.

Portfolio Guidelines

- A) Cash With respect to cash equivalent short-term investments, overall quality and minimal risk criteria apply. Cash allocation is expected to be no more than 10% with emphasis given to maintaining a cash reserve sufficient to pay expenses and distributions to the Diocese.
- B) Equity The overall objective of the equity allocation is to provide growth of capital. The equity risk is to be measured in terms of volatility relative to the S&P 500 Composite Index.
- C) Fixed Income The overall objective of the fixed income portion is to add stability, income, and safety to the total portfolio. The primary focus should be on high quality issues holding an investment grade rating or better by at least one of the major rating agencies (Moody's, S&P or Fitch) at the time of purchase.

Aggregate Investment Account Asset Allocation Guidelines (at market value)

MINIMUM	GUIDELINE	MAXIMUM
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U.S. EQUITIES	35%	60%	75%
FIXED INCOME	10%	35%	50%
CASH	1%	5%	10%

International investments cannot exceed 25% of the total portfolio.

The BOARD understands that these asset allocation guidelines may be exceeded for short periods for valid reasons. However, the portfolio should be rebalanced as soon as practical. Expectations are that the allocation guidelines will not be exceeded for any extended length of time.

DUTIES AND RESPONSIBILITIES

BOARD: As stewards of the Fund, fiduciary duties include:

- 1) Preparing and periodically reviewing the Investment Policy Statement.
- 2) Prudently selecting and reviewing asset allocations
- 3) Prudently diversifying the Fund's assets to meet the Policy's risk/return profile.
- 4) Avoiding prohibited transactions and conflicts of interest.

Fiscal Ministries and Diocesan Staff:

Fiscal Ministries and the Diocesan staff are responsible for controlling and accounting for all expenses of investment, record-keeping and administration associated with the Fund.

Custodian: The BOARD may elect to delegate record-keeping, custody and administrative duties to an institutional Custodian. The duties of the Custodian include:

- 1) Maintaining separate accounts
- 2) Valuing the Fund's holdings
- 3) Collecting all income and dividends owed to the Fund
- 4) Disbursing all distributions from the Fund
- 5) Settling all transactions initiated by the Investment Managers
- 6) Providing monthly reports that detail transactions, cash flows, securities held and their values and change in value since the previous report.

MONITORING OF PERFORMANCE, PARTIES AND POLICY

Investment Managers: The BOARD acknowledges that the securities markets are characterized by fluctuating rates of return, particularly during short-term periods. With such fluctuations in mind, The BOARD intend to evaluate Manager performance from a long-term perspective.

The ongoing review and analysis of Managers is equally important as is the original due diligence during the Manger selection process. Mangers' performance will be monitored regularly, and it is at The BOARD' discretion to take corrective action by replacing a Manager if they deem it appropriate at any time.

On a timely basis, but not less than semi-annually, The BOARD will meet to review each Manager with criteria including:

- 1) Investment results as compared with the appropriate index and their peer group.
- 2) Adherence to a style of investment discipline consistent with this Policy.
- 3) Material changes in Manager personnel, organization or philosophy.
- 4) Any regulatory or legal matters affecting the Manager

Marketability of Assets

The entire portfolio will be invested in liquid securities, defined as securities that can be transacted quickly and efficiently for the fund with minimal impact on market price

Guideline for Investments and Diversification of Securities

1. The securities of any one company should not exceed 10% of the total market value.
2. No more than 20% of the total should be invested in one industry.
3. Fixed income maturity restrictions are as follows:
Maximum maturity for any single security is 30 years.
No more than 20% of the aggregate portfolio may be invested in securities with maturities greater than 10 years.
4. Money market funds selected shall contain securities whose credit rating at the absolute minimum would be rated investment grade by one of the major rating agencies.
5. Foreign denominated securities are limited to 25% of the market value of portfolio.

Absolute Restrictions

There shall be no investment activity in the following:

- Short sales, margin purchases or borrowing
- Private placements or other restricted securities (not freely marketable)

- Commodities
- Derivatives
 - Puts, calls or other options
- Warrants except as part of the purchase of another security
- Venture capital

Reporting and Performance Measurement

The investment manager shall generate quarterly reports for the Investment Committee. The reports shall include data on investments held and returns earned. Performance data shall include comparisons with the S&P 500 Composite Index and an appropriate bond index, such as the Barclay's Capital Government/Credit Index

Socially Responsible Investments

The Diocese will attempt to follow the guidelines as set by The Episcopal Church for socially responsible investing.

- Companies that derive 20% or more of their revenue from alcohol, tobacco, weapons, or gambling are excluded from the portfolio.
- Companies that contribute to repressive policies in developing countries, and companies with a history of substantial damage to the environment are also excluded from the portfolio.
- The Diocese also attempts to select companies that have family friendly policies, promote energy conservation, use environmentally sound means of production, train and advance physically or socially-disadvantaged people, and support charitable giving.

Conclusions

The Committee hereby affirms that the information contained in this Investment Policy Statement accurately reflects the investment objectives and goals of the portfolio.

It is understood that the guidelines set forth in this statement are meant to serve as a general framework for prudent management of the assets of the portfolio. Changing market conditions, economic trends or the financial needs of The Diocese may necessitate the need to modify the Investment Policy Statement. Until that time, this document will provide the investment guidelines for the portfolio.

Adopted this _____ day of _____, 2013.

Fiscal Ministries

(DATE)

Trustees

(DATE)

Accepted:

David L. Kelly, III

Bowen, Hanes & Company

(DATE)