

# ALABAMA-WEST FLORIDA UNITED METHODIST FOUNDATION

## Statement of Investment Policy Goals and Guidelines

Revised: November 14, 2012

The Guidelines and objectives provided herein are designed to:

- 1) Provide the investment manager(s) a more accurate understanding of the Trustees' investment objectives.
- 2) Indicate the criteria by which the investment managers' performance will be evaluated.

The primary investment objective of the Alabama-West Florida United Methodist Foundation Fund (the Fund) is to provide income while preserving the purchasing power of the assets. As a result, the investment managers shall seek the highest possible return while maintaining a prudent regard for legal considerations, fiduciary responsibility, safety of capital and minimum volatility of returns.

To accomplish these objectives, the Investment Committee of the Fund has subdivided the Fund into three sub-funds, each to be managed with the following objectives:

- A) **Equity Fund:** The objective of the Equity Fund shall be long-term appreciation with minimal emphasis on income.
- B) **Income Fund:** The objective of the Income Fund is to produce maximum income commensurate with a high regard for safety of principal.
- C) **Balanced Fund:** The objective of the Balanced Fund shall be reasonable long-term appreciation as well as current income.

### GUIDELINES

The Foundation, responding to the Biblical challenge of responsible stewardship, calls for conscious investment decisions that further the principles of economic and social justice consistent with the goals outlines in the *Book of Discipline* and Social Principles of The United Methodist Church. In accordance with the Social Principles of The United Methodist Church, the investment objectives for the funds and portfolios must be pursued with consideration for the moral and social implications of investing. The Foundation encourages investment in those corporations that promote the common good and avoids investment in companies whose corporate activities are inconsistent with the *Book of Discipline* and the Social Principles of The United Methodist Church.

**Equity Fund:**

The Equity Fund shall be invested as follows:

- 1) All equity investments shall be limited to fully and easily negotiable equity securities.
- 2) All equity investments shall be limited to those issues that are traded on a major stock exchange.
- 3) The total of all investments in securities (stocks, convertibles, bonds and cash equivalents) issued by foreign governments or corporations domiciled outside of the United States shall not exceed 20% (at time of purchase) of the Equity Fund's total market value.
- 4) Money market funds, U.S. Treasury Bills and other high quality cash equivalents. It is expected that each of the managers of the Equity Fund will have at least 90% of the assets under their management invested in stocks or convertibles at all times. The Investment Committee, based on a request in writing from the investment manager(s), shall approve any deviation to this policy.
- 5) All convertible securities shall be shall be limited to 10% of the Equity Fund's total market value.
- 6) All convertible investments shall be limited to fully and easily negotiable convertible bonds and convertible preferred stock.
- 7) No more than 10% at market value of an investment manager's convertible portfolio may be invested in the shares of a single corporate issuer.
- 8) Investments in foreign convertibles are limited to 25% (at market) of the convertible manager's portfolio. The definition of a foreign security for purposes of this policy is any corporation not organized under the laws of the United States, any state or organized territory of the United States, or the District of Columbia.
- 9) This hybrid asset class will be deemed as equity and shall not be held to the rating standards of fixed income investments.
- 10) 144A securities are prohibited.

**Income Fund:**

The Income Fund shall be invested only in:

- 1) U.S. Government and U.S. Government Agency bonds.
- 2) U.S. Treasury Inflation-Protected Securities (TIPS).
- 3) Bonds issued by corporations that are rated "A" or better by Moody's or Standard & Poor's rating services at the time of purchase and no lower than one grade lower at any time. Any bond rated below "A" will be considered under review by the Investment Committee and will require a written explanation from the manager if the bond continues to be held.
- 4) Mortgage-backed securities rated "AAA" with controlled volatility characteristics.
- 5) Money market funds, U.S. Treasury Bills and other high quality cash equivalents.
- 6) Investments in Collateralized Mortgage Obligations (CMOs) shall be limited to 25% of the market value of the total fixed income portfolio and shall be restricted to:
  - a) Those issues backed by the full faith of the U.S. Government, an Agency thereof, or are rated AAA by a major rating service.
  - b) PAC (planned amortization class), NAC (non-accelerated securities) or VADM (very accurately defined maturity) securities.

Investments in interest only or principal only CMOs, futures contracts, options contracts, trading on margin and short selling are prohibited.

When a bond is downgraded or "under review", the investment manager will contact the Chairman of the Investment Committee and the Executive Director.

### **Balanced Fund:**

The Balanced Fund shall be invested in a combination of:

- 1) Equities (in accordance with the guidelines of the Equity Fund) and;
- 2) Convertibles (in accordance with the guidelines of the Equity Fund) and;
- 3) Bonds (in accordance with the guidelines of the Income Fund) and;
- 4) Money market funds, U.S. Treasury Bills and other high quality cash equivalents.

As the objective of the Balanced Fund is to provide growth and income, it is expected that the Fund will maintain a minimum of 30% and a maximum of 75% of the fund's assets in equity and convertible securities. It is understood that this Fund may employ multiple investment managers to manage the assets and, in such case, the asset allocation will be reviewed by the Investment Committee.

## **GOALS**

### **Equity Fund:**

As the primary objective of the Equity Fund is long-term capital appreciation, the Equity Fund's goal shall be to achieve a return over the long term (3 to 5 years) in excess of that achieved by a Policy Index. The Policy Index is defined as a 65% investment in the Russell 1000 Stock Index, a 10% investment in the Russell 2000 Stock Index, a 10% investment in the Merrill Lynch All U.S. Convertible Index (ex 144A securities), and a 15% investment in the MSCI Europe, Australasia and Far East Stock Index. In addition, it should be a goal of the Equity Fund to have returns over the long term (3 to 5 years) that rank in the top 50% of a representative universe of similarly managed equity portfolios.

### **Income Fund:**

The primary objectives of the Income Fund are safety and income. As a result, it should be a goal of the Fund to achieve a return in excess of the Policy Index, while maintaining a positive rate of return in any fiscal year period. The Income Fund Policy Index is defined as an 85% investment in Merrill Lynch Domestic Master Bond Index and a 15% investment in the Barclays Capital U.S. Treasury Inflation-Protected Securities 0-5 Year Index. It should be a secondary goal of the Income Fund to have returns over the long term (3 to 5 years) that rank in the TOP 50% of a representative universe of similarly managed bond portfolios.

## **Balanced Fund:**

As the objectives of the Balanced Fund are to provide reasonable long-term growth and moderate current income, it should be a goal of the Balanced Fund to achieve a return in excess of a Policy Index. The Policy Index for the Balanced Fund shall be defined as a 45% investment in the Russell 1000 Stock Index, a 7.5% investment in the Russell 2000 Stock Index, a 7.5% investment in the Merrill Lynch All U.S. Convertible Index (ex 144A securities), a 10% investment in the MSCI Europe, Australasia and Far East Stock Index, a 25% investment in the Merrill Lynch Domestic Master Bond Index and a 5% investment in the Barclays U.S. Treasury Inflation-Protected Securities 0-5 Year Index. In addition, it should be a goal of the Balanced Fund to have returns over the long term (3 to 5 years) that rank in the TOP 50% of a representative universe of similarly managed balanced portfolios.

## **REPORTING AND PERFORMANCE MEASUREMENT**

The investment managers for the Alabama-West Florida United Methodist Foundation shall provide quarterly reports for management purposes. The reports shall include data on investments held, returns earned and any other information necessary for clarification of the investment managers' results.

Upon reasonable notice, the investment managers shall provide any information relevant to each Fund as requested by the Investment Committee.

The performance of the investment managers shall be evaluated on a quarterly basis in terms of achieving the goals as outlined in this statement. In addition, both the equity and fixed income portfolios will be evaluated for risk on a quarterly basis.

In all equity investments, risk evaluation will include variability of returns, security diversification, portfolio price/earnings, portfolio dividend yield, average market capitalization and average debt/capital.

In all fixed income investments, consideration will be given to variability of returns along with average quality, duration and maturity of the portfolio.

## **POLICY REVIEW**

It is the intention of the Investment Committee of the Alabama-West Florida United Methodist Foundation Fund to review this Statement of Investment Policy periodically and to amend it to reflect any changes in philosophy or objectives. However, if at any time the investment managers believe that the specific objectives defined herein cannot be met or that these guidelines unnecessarily constrict performance, the Board shall be so notified in writing.

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Chairman, Investment Committee