

Solon United Methodist Church – Long Term Endowment Committee

Definition of Purpose

Reviewed and Approved: 2/10/2017

The purpose of this document is to provide a clear understanding of the investment policy, guidelines, and objectives of the Long Term Endowment fund to the members of the United Methodist Church, the Long Term Endowment Committee, investment advisors, and others.

The following guidelines have been set forth to give the fund managers an overview of the general investment philosophy and orientation of the Long Term Endowment Committee members responsible for the fund, and to provide prospective donor information about the investment of funds in the committee's care. The intent is to give broad direction allowing for the flexibility necessary for the fund managers to successfully implement their investment strategy.

The Solon United Methodist Church Council has allocated to the Long Term Endowment Committee the responsibility for implementing these guidelines.

Principal goals of the Long Term Endowment Fund investment program shall be:

- Growth of asset value at a rate greater than inflation
- Generation of income to fulfill income expenses of the church
- Conscientious effort to invest in institutions, companies, corporations, or funds whose practices are consistent with goals outlined in the Social Principles; and to avoid investments that appear likely, either directly or indirectly, to support racial discrimination, violation of human rights, gambling, or the production of nuclear armaments, alcoholic beverages or tobacco, or companies dealing in pornography.¹

Achieving these objectives will require a moderate level of risk, a long term investment horizon, and diversification among asset classes. The funds will be invested to provide a total return (capital appreciation, interest, and dividend income) consistent with a moderate level of risk.

Funding of Withdrawals

The Solon Methodist Church Long Term Endowment Fund has requirement and expectation for periodic withdrawals for programs and expenses. Resultant periodic cash needs will fluctuate somewhat and the investment managers will be made aware of these requirements and will be responsible for employing a strategy to meet these needs. The Long Term Endowment Fund will retain a calculated percent $(\text{Producer Price Index} + \text{Consumer Price Index})/2$ ² to become principal for maintaining purchasing power, the remainder of return may be used for withdrawals. The Long Term endowment Committee anticipates that the funds needed could most often be provided from cash and cash equivalents and investment earnings.

Asset Allocations

¹ United Methodist Discipline, General Provisions, Paragraph 716, Policies Relative to Socially Responsible Investments.

² Solon United Methodist Church – Long Term Endowment Fund, Definition/Rules of Principal, Paragraph 3-c Inflation Factor.

The Long Term Endowment Committee has established the following asset allocation guidelines:

- Cash and Equivalents 0 – 10%

Cash instruments shall consist of the U.S. Government, U.S. Agencies and corporate issues rated “AA” or better by one rating agency with maturity up to 2 years. A laddered maturity schedule is permissible. Additionally, a money market fund or comparable investment vehicle with like investment may be used.

- Fixed Income 30 – 40%

The quality of the individual fixed income securities shall not be rated less than “AA” by Moody’s or Standard and Poor’s. Maximum ownership of any issue, exclusive of U.S. Government issues and FDIC insured banks, shall be 15% of the fixed income portfolio at cost. Cash positions should conform to investments described in “Cash and Equivalents” section above. Long-term Zero’s and FDIC insured CDs may be used for a portion of this investment. Mutual Funds using fixed income will be granted wider investment discretion and not to the above standards.

- Equities 60 – 70%

The portfolio may hold individual common stocks publicly traded on the U.S. exchanges, NASDAQ listed stocks, and securities convertible into stocks. Equity investments in any major sector classification shall not exceed 30% of the market value of the total equity portfolio at market value. Mutual funds with diverse management may be used for this allocation both foreign and domestic.

The above listed guidelines are to be used as “guidelines”. Market conditions and changes in investment climate and committee objectives may facilitate a move to a different allocation for a period of time.

Return Objectives

The Long Term Endowment Fund seeks a positive annual total return net, after all investment costs, management fees and expenses.

The target rate of return is 6%, which consists of:

Distribution	4%
Inflation	1%
Fees & Expenses	<u>1%</u>
Total	6%

This return should be measured on a rolling 3 year horizon, recognizing that any one or two year period may be below this target return.

Risk Tolerance:

Ability to take risk:

The account has a moderate to conservative ability to accept risk.

Constraints:

Liquidity Issues:

Liquidity required is minimal. This account represents funds that are not expected to be used in the current yearly cycle, but may be called upon if necessary.

Prohibited Transactions:

Investment activities in the following are prohibited for individual securities:

- Short sales
- Margin purchases
- Private placements or other restricted securities
- Commodities or futures transactions
- Put or Call options
- Illiquid investments

Communications and Review

Monthly:

- Monthly statements of activity are to be forwarded to the Solon United Methodist Church Treasurer and Long Term Endowment Committee Chairperson.

Annually:

- Investment managers should expect to provide annual portfolio presentations to the Long Term Endowment Committee that will include reports of portfolio status, time weighted returns in accordance with associations of investment management research performance measurement standards, performance comparisons to appropriate benchmarks, economic outlook, investment strategy and other related matters that should be of interest to the Committee

Ongoing:

- Ongoing communication by phone, letter, or personal consultation will be required as deemed necessary by investment advisor and/or the chairperson of the Long Term Endowment Committee.

The Long Term Endowment Committee places great emphasis on investment strategy employed by the fund's managers. Any material change to or deviations from a manager's approach needs to be communicated and justified to the Long Term Endowment Committee Chairperson and requires the managers to communicate any significant changes in management or investment personnel.

Plan Overview

The managers shall be responsible for reviewing these guidelines with the Long Term Endowment Committee on a regular basis to assure that they remain valid and relevant. Any recommendations as to changes should be submitted to the Long Term Endowment Committee Chairperson for appropriate action.