

Investment Policy Statement For The Holston Foundation

Introduction

The purpose of this Investment Policy Statement (IPS) is to establish a means for the Board of Directors of the Holston Conference of the United Methodist Church Foundation, Inc., to instruct its Investment Committee on appropriate investment and investment considerations for THE EQUITY GROWTH FUND, THE BALANCED GROWTH FUND, THE INTERMEDIATE INCOME FUND, THE SHORT-TERM INCOME FUND and THE MONEY MARKET FUND, as well as special investment funds established specifically to hold Charitable Trusts and Tennessee Gift Annuities. All our investment funds are custodied at Charles Schwab and Company.

This Investment Policy Statement will:

- ◆ Set forth an investment structure detailing permitted investments and the expected allocation among various asset classes.
- ◆ Establish reasonable expectations, objectives, time horizons, and guidelines for each portfolio.
- ◆ Create the framework for a broadly-diversified asset mix that can be expected to generate appropriate long-term returns at an acceptable level of risk.

Social Principles of The United Methodist Church

The Book of Discipline of The United Methodist Church (§717, Socially Responsible Investments) states that it shall be the policy of all local churches and institutions, including Foundations, to endeavor to avoid investments that appear likely, directly or indirectly, to support racial discrimination, violations of human rights, sweatshop or forced labor, gambling, or the production of nuclear armaments, alcoholic beverages, tobacco, or companies dealing with pornography. In accordance with *The Book of Discipline* (§1508.4) the Foundation Board of Directors shall endeavor to invest in funds that make a positive contribution toward the realization of the goals outlined in the Social Principles of our Church, however with primary consideration given to the soundness, safety, and potential returns of such investments.

Uniform Prudent Management of Institutional Funds Act (UPMIFA)

The Board and Investment Committee recognize their responsibility for the management and investment of institutional funds as defined in the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as adopted by Tennessee, Virginia, and Georgia and thus “*shall manage and invest funds in good faith and with the care an ordinary prudent person in a like position would exercise under similar circumstances*”. This Policy is intended to comply with this Act.

Permitted Investments

The Board recognizes their fiduciary duty to manage invested funds solely in the interests of unit holders while making a conscious effort to follow the Social Principles of the Church and UPMIFA. The Board and its Investment Committee will attempt to balance all those requirements in selecting permitted investments.

Acceptable investment instruments are:

- A. Obligations of the United States Government and agencies of the United States Government.
- B. Deposits in banking institutions, which are insured by agencies of the United States Government.
- C. Mutual funds (traditional and exchange-traded funds) that invest in publicly-traded equities.
- D. Mutual funds (traditional and exchange-traded funds) that invest in Government securities, international bonds and/or corporate bonds.

E. FDIC or SIPC protected money market funds.

BALANCED GROWTH FUND

A. OBJECTIVES

This fund is designed for investors seeking a return above that of a fixed income investment (bond or CD) and with less risk than being 100% in the equity or stock market.

B. TIME HORIZON/RISK TOLERANCE

For planning purposes, the time horizon for an investment in this pooled portfolio should be five years or longer. This portfolio will fluctuate in value over shorter time periods and the investor should recognize that the possibility of capital loss does exist. However, historical asset class return data suggest that the risk of principal loss over a holding period of five years or more can be minimized with the broad diversification and long-term asset allocation approach reflected in this investment policy statement.

C. ASSET ALLOCATION POLICY

Academic research suggests that the decision to allocate investments, among various asset classes will far outweigh security selection and other decisions such as market timing that impact portfolio performance. After reviewing the long-term performance of the risk characteristics of various asset classes and the possible need for redemptions, the following asset classes and target allocation ranges were selected to achieve the objectives of THE BALANCED GROWTH FUND:

<u>Asset Category</u>	<u>Current Target Allocation</u>	<u>Acceptable Range</u>
Cash/Cash Equivalents	0%	0% - 10%
Fixed Income Securities	40%	30% - 50%
Equity Securities	60%	50% - 70%
Large Cap U.S. Stocks	62%	50% - 70%
Small Cap U.S. Stocks	8%	6% - 10%
Mid Cap U.S. Stocks	8%	6% - 10%
Real Estate	2%	0% - 5%
Foreign Stocks – Developed	15%	10% - 20%
Foreign Stocks – Emerging	<u>5%</u>	0% - 10%
TOTAL	100%	

D. SPECIFIC INVESTMENTS

EQUITIES OR STOCKS

In order to invest in socially responsible companies, diversify our investments, and reduce our management fees, the Investment Committee has elected to use more than one large cap fund to help us meet our investment goals and the social responsibility criteria set forth by The Book of Discipline. Large cap assets will make up the core (50% - 70%) of the equity position.

Our equity allocation also includes 8% small capitalization stocks, 8% mid-capitalization stocks, 2% real estate investment trusts, and 20% international stocks. We currently use a mix of exchange traded index funds and mutual funds to round out this portion of the portfolio.

FIXED INCOME OR BONDS

Bond investments are made in individual securities and/or in one or more exchange traded bond index funds and may include any sector in the Barclay's Aggregate Bond index, high-yield bonds, and international/foreign bonds from both developed and emerging markets, with specific allocations targeted and maintained by the investment committee. The fixed income portfolio will have a target duration range of 80% - 120% of the Barclays Aggregate U.S. Bond Index.

CASH

All cash investments will be in a non-floating Money Market Fund.

E. REBALANCING PROCEDURES

From time to time, market conditions, as well as additions and distributions, may cause the portfolio's investment in various asset classes to vary from the targeted allocation. To remain consistent with the targeted allocation, the Investment Committee and the Executive Director will review the portfolio on at least on a quarterly basis. If the actual weighting varies by 10% or more from the targeted weighting, the portfolio will be rebalanced back to the recommended allocation. Furthermore, cash flow (both positive and negative) will also be used as an ongoing re-allocation tool.

F. ADJUSTMENT IN TARGET ALLOCATION

The Board of Directors must approve changes in the target allocation.

INTERMEDIATE INCOME FUND

A. OBJECTIVES

This fund is designed for intermediate-term investors seeking a return above that of a short term CD or a money market account.

B. TIME HORIZON/RISK TOLERANCE

For planning purposes, the time horizon for an investment in THE INTERMEDIATE INCOME FUND should be two years or longer. This fund could fluctuate in value over shorter time periods and the investor should recognize that the possibility of capital loss does exist. However, historical asset class return data suggest that the risk of principal loss over a holding period of two years or more can be minimized with the broad diversification and long-term asset allocation approach reflected in this investment policy statement.

C. ASSET ALLOCATION POLICY

After reviewing the long-term performance of the risk characteristics of various asset classes and the possible need for redemptions, the following asset classes and target allocation ranges were selected to achieve the objectives of THE INTERMEDIATE INCOME FUND:

<u>Asset Category</u>	<u>Target Allocation</u>	<u>Acceptable Range</u>
Cash/Cash Equivalents	5%	0% - 10%
Fixed Income Securities	<u>95%</u>	90% - 100%
TOTAL	100%	

D. SPECIFIC INVESTMENTS

FIXED INCOME OR BONDS

Bond investments are made in individual securities and/or in one or more exchange traded bond index funds and may include any sector in the Barclay's Aggregate Bond index, high-yield bonds, and international/foreign bonds from both developed and emerging markets, with specific allocations targeted and maintained by the Investment Committee. The fixed income portfolio will have a target duration range of 80% - 120% of the Barclays Aggregate U.S. Bond Index.

CASH

All cash investments will be in a non-floating Money Market Fund.

E. REBALANCING PROCEDURES

From time to time, market conditions, as well as additions and distributions, may cause the portfolio's investment in various asset classes to vary from the targeted allocation. To remain consistent with the targeted allocation, the Investment Committee and the Executive Director will review the portfolio on at least a quarterly basis. If the actual weighting varies by 10% or more from the targeted weighting, the portfolio will be rebalanced back to the recommended allocation. Furthermore, cash flow (both positive and negative) will also be used as an ongoing re-allocation tool.

F. ADJUSTMENT IN TARGET ALLOCATION

The Board of Directors must approve changes in the target allocation.

MONEY MARKET FUND

A. OBJECTIVES

This fund is designed to provide short-term investors seeking safety of principal plus a competitive short-term yield at or above the 30-day Treasury bill.

B. TIME HORIZON/RISK TOLERANCE

For planning purposes, the time horizon for an investment in THE MONEY MARKET FUND should be one year or less. This fund should not fluctuate in value over shorter time periods, although the investor should recognize that the possibility of capital loss does exist.

C. SPECIFIC INVESTMENTS

Investments will be in a non-floating Money Market Fund.

D. ADJUSTMENT IN TARGET ALLOCATION

The Board of Directors must approve any changes in the targeted investments.

SHORT-TERM INCOME FUND

A. OBJECTIVES

This fund is designed to provide short-term investors seeking income, a return above that of a short-term CD or Money Market Fund.

B. TIME HORIZON/RISK TOLERANCE

For planning purposes, the time horizon for an investment in THE SHORT-TERM INCOME FUND should be one year or longer. This fund could fluctuate in value over shorter time periods and the investor should recognize that the possibility of capital loss does exist. However, historical asset class return data suggest that the risk of principal loss over a holding period of one to three years can be minimized with the broad diversification and long-term asset allocation approach reflected in this investment policy statement.

C. ASSET ALLOCATION POLICY

After reviewing the long-term performance of the risk characteristics of various asset classes and the possible need for redemptions, the following asset classes and target allocation ranges were selected to achieve the objectives of THE SHORT-TERM INCOME FUND:

<u>Asset Category</u>	<u>Target Allocation</u>	<u>Acceptable Range</u>
Cash/Cash Equivalents	5%	0% - 10%
Fixed Income Securities	<u>95%</u>	90% - 100%
TOTAL	100%	

D. SPECIFIC INVESTMENTS

All cash investments will be in a non-floating Money Market Fund. All bond investments are made through a mix of exchange traded short-term index funds, such that the overall duration of the SHORT-TERM INCOME FUND does not exceed three years.

E. REBALANCING PROCEDURES

From time to time, market conditions, as well as additions and distributions, may cause the portfolio's investment in various asset classes to vary from the targeted allocation. To remain consistent with the targeted allocation, the Investment Committee and the Executive Director will review the portfolio on a quarterly basis. If the actual weighting varies by 5% or more from the targeted weighting, the portfolio will be rebalanced back to the recommended allocation. Furthermore, cash flow (both positive and negative) will also be used as an ongoing re-allocation tool.

F. ADJUSTMENT IN TARGET ALLOCATION

The Board of Directors must approve changes in the target allocation.

EQUITY GROWTH FUND

A. OBJECTIVES

The EQUITY GROWTH FUND is designed to add flexibility to the Foundation's investment options. It can be used as a stand-alone fund for investors desiring a 100% equity allocation, or it can be combined with The INTERMEDIATE INCOME FUND to build a balanced fund with a customized asset allocation strategy. As a stand-alone option The EQUITY GROWTH FUND has both the highest risk and the highest return potential. When paired with The INTERMEDIATE INCOME FUND, The EQUITY GROWTH FUND can be used to produce a targeted risk portfolio for conservative, moderate, or aggressive growth objectives.

B. TIME HORIZON/RISK TOLERANCE

For planning purposes, the time horizon for an investment in this pooled portfolio should be five years or longer. The portfolio will fluctuate in value over shorter time periods and investors should recognize that the possibility of capital loss does exist. However, historical asset class return data suggest that the risk of principal loss over a holding period of five years or more can be minimized with the broad diversification and long-term asset allocation approach reflected in this investment policy statement.

C. ASSET ALLOCATION POLICY

Academic research suggests that asset allocation is the most important decision investors make and should be the first priority in setting up an investment plan. The decision to allocate investments among various asset classes will far outweigh security selection and other decisions such as market timing that impact portfolio performance. After reviewing the long-term performance of various classifications of stocks, the following asset classes and target allocation ranges were selected to achieve the objectives of THE EQUITY GROWTH FUND:

<u>Asset Category</u>	<u>Target Allocation</u>	<u>Acceptable Range</u>
Cash/Cash Equivalents	0%	0% - 10%
Equity Securities	100%	90% - 100%
Large Cap U.S. Stocks	62%	50% - 70%
Small Cap U.S. Stocks	8%	6% - 10%
Mid Cap U.S. Stocks	8%	6% - 10%
Real Estate	2%	0% - 5%
Foreign Stocks – Developed	15%	10% - 20%
Foreign Stocks – Emerging	<u>5%</u>	0% - 10%
TOTAL	100%	

D. SPECIFIC INVESTMENTS

EQUITIES OR STOCKS

In order to invest in socially responsible companies, diversify our investments, and reduce our management fees, the Investment Committee has elected to use more than one large cap fund to help us meet our investment goals and the social responsibility criteria set forth by *The Book of Discipline*. Large cap assets will make up the core (50% - 70%) of the equity position.

Our equity allocation also includes 8% small capitalization stocks, 8% mid-capitalization stocks, 2% real estate investment trusts, and 20% international stocks. We currently use a mix of exchange traded index funds and mutual funds to round out this portion of the portfolio.

CASH

All cash investments will be in a non-floating Money Market Fund.

E. REBALANCING PROCEDURES

From time to time, market conditions, as well as additions and distributions, may cause the portfolio's investment in various asset classes to vary from the targeted allocation. To remain consistent with the targeted allocation, the Investment Committee and the Executive Director will review the portfolio on at least on a quarterly basis. If the actual weighting varies by 10% or more from the targeted weighting, the portfolio will be rebalanced back to the recommended allocation. Furthermore, cash flow (both positive and negative) will also be used as an ongoing re-allocation tool.

F. ADJUSTMENT IN TARGET ALLOCATION

The Board of Directors must approve changes in the target allocation.

TENNESSEE CHARITABLE GIFT ANNUITIES

A. OBJECTIVES

In order to comply with State of Tennessee law that became effective in 2009, all charitable gift annuities (CGA) from donors who reside in Tennessee are to be invested in a separate account until each individual annuity matures at which time the funds may be removed to pooled funds or distributed as required by each individual agreement. The purpose of this policy is to establish a means for the Board of Directors of the Holston Conference of the United Methodist Church Foundation, Inc., to instruct its investment committee and staff on appropriate investment and investment considerations for Tennessee Charitable Gift Annuities.

- B.** A separate account has been established to comply with this requirement. Since we are no longer able to pool these funds with our other investment accounts, the Foundation has adopted a separate investment policy for this account, which provides diversification of equities and fixed income at a reasonable cost. The following asset classes and target allocation ranges were selected to achieve the objectives of the CGA Fund:

<u>Asset Category</u>	<u>Target Allocation</u>	<u>Acceptable Range</u>
Cash/Cash Equivalents	0%	0% - 25%
Fixed Income Securities	50%	25% - 75%
Equity Securities	50%	25% - 75%

C. SPECIFIC INVESTMENTS

In order to diversify our investments and reduce our management fees the Investment Committee has elected to use a Total Stock Market Exchange Traded Fund and a Total Market Exchange Traded Bond Fund.

D. REBALANCING PROCEDURES

From time to time, market conditions, as well as additions and distributions, may cause the portfolio's investment in various asset classes to vary from the targeted allocation. To remain consistent with the targeted allocation, the Investment Committee and the Executive Director will review the portfolio on at least a quarterly basis. If the actual weighting varies by 10% or more from the targeted weighting, the portfolio will be rebalanced back to the recommended allocation. Furthermore, cash flow (both positive and negative) will also be used as an ongoing re-allocation tool.

E. ADJUSTMENT IN TARGET ALLOCATION

The Board of Directors must approve changes in the target allocation.

CHARITABLE TRUST INVESTMENT FUND

A. OBJECTIVES

This fund holds pooled investments of Charitable Remainder Trusts that distribute earnings to income recipients and K-1's are issued. Its objectives are very similar to our BALANCED GROWTH FUND, but restricted to hold only assets of donor-created charitable remainder trusts

B. TIME HORIZON/RISK TOLERANCE

For planning purposes, the time horizon for most investments in this pooled portfolio should be five years or longer. This portfolio will fluctuate in value over shorter time periods and the investor should recognize that the possibility of capital loss does exist. However, historical asset class return data suggest that the risk of principal loss over a holding period of five years or more can be minimized with the broad diversification and long-term asset allocation approach reflected in this investment policy statement.

C. ASSET ALLOCATION POLICY

Academic research suggests that the decision to allocate investments, among various asset classes will far outweigh security selection and other decisions such as market timing that impact portfolio performance. After reviewing the long-term performance of the risk characteristics of various asset classes and the possible need for redemptions, the following asset classes and target allocation ranges were selected to achieve the objectives of THE CHARITABLE TRUST INVESTMENT FUND:

<u>Asset Category</u>	<u>Current Target Allocation</u>	<u>Acceptable Range</u>
Cash/Cash Equivalents	0%	0% - 10%
Fixed Income Securities	40%	30% - 50%
Equity Securities	60%	50% - 70%
Large Cap U.S. Stocks	62%	50% - 70%
Small Cap U.S. Stocks	8%	6% - 10%
Mid Cap U.S. Stocks	8%	6% - 10%
Real Estate	2%	0% - 5%
Foreign Stocks – Developed	15%	10% - 20%
Foreign Stocks – Emerging	<u>5%</u>	0% - 10%
TOTAL	100%	

D. REBALANCING PROCEDURES

From time to time, market conditions, as well as additions and distributions, may cause the portfolio's investment in various asset classes to vary from the targeted allocation. To remain consistent with the targeted allocation, the Investment Committee and the Executive Director will review the portfolio on at least a quarterly basis. If the actual weighting varies by 10% or more from the targeted weighting, the portfolio will be rebalanced back to the recommended allocation. Furthermore, cash flow (both positive and negative) will also be used as an ongoing re-allocation tool.

E. ADJUSTMENT IN TARGET ALLOCATION

The Board of Directors must approve changes in the target allocation.