

STATEMENT OF INVESTMENT MANAGEMENT AND SPENDING POLICY

October 2017

Endowment & Investment Assets

Mission: The Endowment and Investment Assets of the Presbytery of Cincinnati are long-term assets of the Presbytery to be used to further the mission and ministry of the Presbytery. This mission guides this investment management and spending policy statement.

Purpose: The purpose of the Investment Management and Spending Policy for the Endowment & Investment Assets of the Presbytery of Cincinnati is to provide guidelines and objectives over the endowment and investment assets for use by both the Presbytery Board of Trustees, the Presbytery overall, and any third parties engaged in activities related to these assets.

I. Roles of the Board of Trustees

- A. The Presbytery of Cincinnati recognizes that the ultimate responsibility for prudent investment decisions and satisfactory investment performance of the Presbytery of Cincinnati endowment and investment assets resides with the Presbytery Board of Trustees.
- B. Specific roles and responsibilities of the Trustees related to the endowment and investment assets:
 - 1. Establish, review and update (as necessary) the Investment Management Policy and Objectives. Recommend any such changes to the Presbytery for its final approval.
 - 2. Establish, review and update (as necessary) the Spending Policy. Coordinate any changes to the Spending Policy with the Presbytery Council, given the Council's responsibility for the Presbytery's operating budget.
 - 3. Select qualified investment consultants, advisors, and/or investment managers.
 - 4. Monitor investment results in accordance with the Presbytery of Cincinnati Investment Management Policy and Objectives, reviewing results on at least a quarterly basis.
- C. Eligible Assets covered by this Investment Management and Spending Policy include any endowment funds of the Presbytery of Cincinnati that are under the full control and discretion of the Presbytery of Cincinnati Board of Trustees as to investment direction (whether or not such funds are restricted in usage by the terms of that Endowment). Eligible Assets covered by this policy also include non-Endowment Assets that are under the full control and discretion of the Presbytery of Cincinnati Board of Trustees as to investment direction.

II. GENERAL INVESTMENT OBJECTIVES

- A. All investment decisions must be in accordance with applicable laws and statutes and subject to the "prudent person" test.
- B. Investments should be diversified both across time for a given number of securities and across the number of securities for a given period to minimize the risk of loss.
- C. Cash is to be appropriately invested in cash equivalents at all times to provide a higher yield while maintaining liquidity. The Cash target allocation is 2-5% of the total investment.

- D. The Board of Trustees in concert with both the preparation of the annual budget and the periodic cash flow forecasts of the Presbytery of Cincinnati will monitor the budgeted draw in accordance with the Spending Policy to determine that the needs of the Presbytery of Cincinnati are being met. Any proposals to change the Spending Policy and the established draw rate will require approval by the Board of Trustees.

III. INVESTMENT OBJECTIVES AND SPENDING POLICY

- A. The primary objective of the Investment Management Policy is to preserve and enhance the real inflation adjusted purchasing power of the invested funds. The total return concept will be used and is defined as the sum of capital appreciation (or loss) and current income achieved in the form of dividends and interest.
- B. Investment of the Presbytery of Cincinnati assets may be in three general categories: (1) Cash Equivalents, (2) Fixed Income, and (3) Equities (including small cap and large cap U.S. equities, international equities, convertible bonds, and convertible preferred stock.)
- C. The overall spending policy is 4.5% of the previous twelve quarters trailing average of the investments’ market value for Fiscal Year 2018, and 4.0% beginning in Fiscal Year 2019.
- D. For 2018, the 4.5% annual distribution will be automatically scheduled quarterly in equal installments and for 2019, the 4% annual distribution will be automatically scheduled quarterly in equal installments.
- E. Certain Endowment Funds are restricted in terms of usage of principal, and in certain cases in terms of usage of income, for specific purposes by the original donors as requested. It is the responsibility of the Board of Trustees to ensure these restrictions are honored. Additionally, any usage of any Endowment Funds beyond the Spending Policy draw rate outlined in (C) above requires approval by the Board of Trustees.
- F. The investment ranges of the various assets classes are listed below.
 - 1. The target minimum/maximum overall equity/bond allocation parameters for the assets to be monitored include:

	Minimum	Maximum	Target
Cash	2%	5%	2%
Fixed Income Investments	30%	50%	38%
Diversified Equities	50%	70%	60%

- G. The long term “absolute” return goal is to produce an annualized return that approximates the spending policy of 4.00% (or as revised and approved) plus the Consumer Price Index, over a five year rolling average period of time

IV. INVESTMENT GRADE REQUIREMENTS

- A. Cash Equivalents - Investments in cash equivalents shall be of the highest quality and, if rated, shall be ranked no lower than A1/P1.
- B. Fixed Income - The quality of marketable fixed income investments shall be of generally high quality with an average S&P rating of an average of A rating or better in a core bond portfolio. Fixed income in the core bond portfolio can include high quality (rated investment grade by S&P or Moody’s) corporate bonds (including convertible bonds and preferred

stocks), treasury and government agency bonds. At the manager's discretion, high-yield bonds or bond mutual funds (i.e., non-investment grade), including global bond funds, are permitted up to a total of 15% of the core bond portfolio at the time of purchase.

- C. Investments should consider Presbyterian Church (USA) recommended policies for socially responsible investing.

V. PROHIBITED TRANSACTIONS, INVESTMENTS, AND CONSTRAINTS

- A. The following types of transactions are prohibited:

1. Short sales;
2. Margin transactions:

- B. The following investment types are prohibited.

1. Direct investment in commodities (commodity or MLP exposure through mutual funds are permitted).
2. Private Equity
3. Direct investments in oil, gas, or other mineral exploration/development programs.
4. Direct investments in real estate (REIT investments are permitted).
5. Securities with restricted marketability.
6. The direct purchase of derivative securities is strictly prohibited. Derivatives are defined as an investment instrument whose value is derived or determined by another security. In general, these securities have a contractual requirement, which may entail further action at some future date, if certain conditions prevail. Securities that fall under this guideline include puts, calls, futures and forward contracts.

- C. Investment Constraints are as follows:

1. No more than 5% of the total fixed income portfolio entrusted to a fund manager will be in any one company based on market value at the time of purchase, but there will be no limitation on purchases of U.S. Government and Federal Agency issues.
2. Investment Managers should maintain a reasonable diversification within the equities pool across industry sectors relative to the appropriate benchmark. Within the individual equity portfolios, no more than 5% of the equity portfolio entrusted to them may be in any one company based on market value at the time of purchase. In addition, no more than 25% shall be invested in one industry sector. Convertible securities, U.S. large cap and small cap equities, and international equities are permitted.

VI. CRITERIA FOR SELECTION OF INVESTMENT MANAGERS

- A. The firm must have extensive experience in handling investment pools of similar size and goals to the Presbytery of Cincinnati.
- B. Investment advisor must be regulated by the U.S. Securities and Exchange Commission, FINRA, or the Office of the Comptroller of the Currency.

- C. The firm shall have at least a five-year performance track record.
- D. The firm must be willing to acknowledge its fiduciary status in writing.

VII. INVESTMENT MANAGER'S RESPONSIBILITIES

- A. Invest assets in accordance with the above stated objectives, goals and limitations.
- B. Exercise full discretionary authority as to all buy, hold and sell decisions for each security under management, subject to the guidelines defined herein.
- C. Adhere consistently to their investment philosophy as presented to the Presbytery of Cincinnati Board of Trustees at the time of their selection. The investment manager will review and monitor their current mix of assets against the stated target minimum/maximum ranges of stock, fixed income, and alternatives percentage on a consistent and timely basis. Reporting will be provided on actual results versus the Investment Management Policy and other appropriate benchmarks to the Board of Trustees on at least a quarterly basis.
- D. Periodically and proactively advise the Board of Trustees as to recommendations on any adjustments to the Investment Management Policy, and issues related to meeting the goals of such Policy.
- E. The investment manager is required to notify the Board of Trustees in writing or via telephone within 14 business days of any change in ownership, structure, or key personnel (including partners, principals, officers, strategists, portfolio managers) that directly impact the investment of the Presbytery of Cincinnati funds.
- F. The investment manager is delegated all authority to vote proxies related to the funds invested by the Presbytery of Cincinnati. The investment manager shall execute voting responsibility in the best interest of the Presbytery of Cincinnati.
- G. The President of the Presbytery of Cincinnati Board of Trustees, or another trustee designated by the Board of Trustees, will be the liaison between the full Board of Trustees and any investment manager.

VIII. REVIEW AND COMMUNICATION

- A. On a quarterly basis, or on a minimum of twice annually, as determined by the Board of Trustees, the investment managers will present their current asset allocation, compliance with Spending Policy and Investment Objectives, and performance relative to absolute and relative return and benchmarks. The agenda for these meetings will provide for the following:
 - 1. Review of the actual results in relation to the stated objectives, benchmark comparisons and general adherence to policy guidelines.
 - 2. Review of methodology utilized by the Investment Manager.
 - 3. Review of outlook on financial markets, proposed future strategies and any adjustments recommended given the past, present and future economic and financial climates.

IX. POLICY REVIEW AND AMENDMENTS

- A. The Investment Management and Spending Policy shall be reviewed annually by the Board of Trustees for any required amendments due to changes in economic conditions or the needs of the Presbytery of Cincinnati. The Board of Trustees will make recommendations to the Presbytery of Cincinnati for any changes in the Investment Management and Spending Policy.

- B. This Investment Management and Spending Policy may be amended by the Presbytery of Cincinnati at any time based on the needs of the Presbytery of Cincinnati and/or economic conditions. The Board of Trustees will make recommendations for changes, if any, and bring these recommendations to a vote of the Presbytery for final approval.

Prepared:

Approved:
