

**PROTESTANT EPISCOPAL CHURCH OF THE DIOCESE OF DELAWARE**  
**STATEMENT OF INVESTMENT OBJECTIVES, GUIDELINES AND POLICIES**

**General Provisions**

**Introduction**

This statement of investment objectives and policies governs the investment management of the endowment assets of the Protestant Episcopal Church of the Diocese of Delaware known as Master Fund “A” (the “Fund”). It should be reviewed annually and will be considered effective until modified by the Trustees of the Diocese.

**Investment Objective**

The absolute objective of the Fund is to maximize long-term total return through a combination of income and capital appreciation in a prudent manner consistent with sound investment practice. (“Total return” means return derived from dividends, interest, and realized and unrealized capital gains). Accordingly, the investment managers are required to exercise a high degree of professional care, skill, prudence and diligence in the management of the Fund’s assets. The relative investment objective of the Fund is to attain an average annual total return equaling or exceeding specified securities indices to be determined by the Investment Committee.

**Investment Management Structure**

The Fund investments are supervised by the Investment Committee. External investment managers selected by the Investment Committee with the approval of the Trustees manage the assets with complete discretion within the parameters of the investment style for which they were engaged. Managers are evaluated regularly by the Committee.

**Portfolio Composition and Asset Allocation**

Fund assets shall be diversified both by asset class and within each asset class so that no single security or class of securities shall have a disproportionate share of total assets. To achieve its investment objective, the Fund shall be divided into a Fixed Income Portion and an Equity Portion. Overall allocation between these two major asset allocations shall be reviewed regularly by the Investment Committee.

Current target ranges for Asset Allocation are as follows:

<u>Class</u>	<u>Percentage of Assets</u>
Equities	50%-75%
Fixed Income	25%-50%

Asset Allocation should be reviewed regularly by the Investment Committee, altered as the Committee feels market forces dictate, and rebalanced whenever an asset class exceeds the range of its percentage of total assets currently in place.

#### Guidelines for Investment Managers

Managers must remain consistent with the investment style for which they are engaged.

Dollar denominated non-US investments, such as American Depository Receipts (ADR's) and American Depository Shares (ADS's), are allowed in each manager's portfolio without limitation. The market value of securities transacted on a foreign exchange is limited to 10% of the value of each manager's portfolio. Likewise, no security of any individual issuer, except the U.S. Government, shall exceed 10% in market value of any manager's portfolio except on isolated occasions and for a limited period of time.

Investments shall be only in marketable securities; this precludes not only private placements and restricted securities, direct real estate investments, oil and gas investments, venture capital, rights or warrants, physical commodities or physical commodity contracts, but also public issues for which the market is severely restricted. Rule 144A securities are not considered private placements and are eligible for investment. All holdings, with the notable exception of Select Equity Group (SEG), must be sufficiently liquid so as to allow liquidation of the entire portfolio on no more than one month's notice.

Cash equivalents will be invested in high quality instruments. The ratings of commercial paper purchased individually shall be A-1/P-1 or comparable as measured by a standard rating service.

Transactions should be entered into on the basis of best execution, which is interpreted normally to mean a combination of best-realized price, commission and service.

With the exception of money market funds, the Investment Committee is to be notified before any assets are invested in pooled funds, and the fees shall be adjusted so there is no double charge.

With the exception of SEG, a long short hedge fund, the investment managers shall not purchase securities on margin, sell short, lend securities, trade in options or futures, or leverage the portfolio. SEG's total short position should not exceed 10% of the value of Master Fund A.

An equity investment manager is expected to maintain a diversified portfolio at all times. The portfolio is not considered diversified if it contains a large proportion of interest sensitive stocks (such as utility, bank, finance, insurance, construction or companies with unsound debt structures), or other groups subject to a single significant economic, social or political event, as, for example, a cut in defense spending.

No initial purchase of an equity security of any one company should exceed 5% of the equity portion of an investment manager's assets.

### **Fixed Income Portions**

The purpose of the Fixed Income Portion (bonds, income-oriented investments, and cash equivalents) is to achieve the highest total return consistent with the guidelines given herein and the relevant indices determined by the Investment Committee, while protecting principal and minimizing market risk and volatility. Ninety percent of fixed income securities must be of class "BBB/Baa" or better as rated by a standard service (for example Moody's, Fitch and/or Standard & Poor's) at the time of purchase. The remaining 10% may be invested in bonds rated below investment grade. Overall, the portfolio should generally be of class "A" or better.

The average duration of the portfolio will be at the discretion of the investment manager.

### **Equity Portions**

The purpose of the Equity Portion (stocks, equity-oriented investments, and cash equivalents) held by equity managers is to provide a total return from a combination of growth in principal and current income to prudently increase the value of the Fund's assets over time. The Equity Portion may be invested in all classes of securities as conditions dictate and will be managed with a primary objective of achieving a rate of return sufficiently above the inflation rate to preserve the value of the assets in real terms. The expectation is that most of the Equity Portion will be invested in equities most of the time.

The absolute investment objective is to earn at least a 5% cumulative annual real return, after adjustment by the Consumer Price Index (CPI), over rolling five (5) year periods.

In addition, although much depends on market conditions, the investment manager is to try to avoid a portfolio composition, which might lead to a negative five percent (-5%) total rate of return in any fiscal year.

Relative performance should be better than the median performance in stocks when judged against a suitable index of other equity portfolios over rolling (3) year periods.

## Monitoring of Objectives and Results

Individual managers shall report the results of their portfolios each calendar quarter, and their performance will be measured against the market indices chosen by the Committee. During each meeting the investment manager's investments will be compared with this document to ensure compliance with the objectives and guidelines. It is understood that manager performance is generally measured more effectively over longer periods of time. However, managers may be hired, terminated, or the amount invested with them reduced **upon the proper notice** ~~.30 days notice at any time~~. If a manager believes that any policy guidelines inhibits performance, it is that manager's responsibility to communicate this view to the Investment Committee.

All material to be covered during each meeting should be mailed to each Investment Committee member for distribution prior to the meeting. A written quarterly review is required which should include the following information:

- Investment environment and strategy employed for the most recent past period and departures from the prior outlook.
- A look forward at the economic and market situation and the portfolio's posture given the probable outlook, together with the results likely in the event that the future does not accord with the assumptions.
- Statement of assets in the investment manager's current format.
- In the case of an equity manager, a listing of the ten largest equity securities holdings showing market value and percent of total market value for each and for all ten.
- Statement of transactions in the investment manager's current format including a separate listing of new securities acquired and those disposed of during the period including the cost basis and market value for each.
- Annually, a listing of commissions generated and brokers used.
- Other items of importance which may occur, such as changes in the working relationship necessary to comply with pertinent legislation; material changes in the investment manager's organization, including client service representatives or portfolio managers working directly with the account, investment philosophy or outlook; recommendations concerning any change in policy which the investment manager believes should be considered.
- A report on any regulatory actions, or pending actions or investigations instituted against an investment manager.

This statement is not immutable, but changes or exceptions to it are to be in writing and delivered to the investment manager.

As approved by the Trustees of the Diocese of Delaware

October 18, 2001

Amended May 15, 2003

Amended February 8, 2008

Amended December 17, 2009

Amended May 11, 2011