

INVESTMENT MANAGEMENT POLICY

The Investment Management Committee, under the authority of The Foundation's Board of Directors, is responsible for overseeing the management of The Foundation's funds. The Investment Management Committee has the authority to appoint and discharge Investment Advisors and to appoint and discharge a Custodian for the safekeeping, receipt and delivery of cash and securities.

The following Investment Management Policy is for all the Funds offered by The Foundation including The Foundation's gift annuity program and any other individual investment management fund(s) (hereafter referred to as the "Fund"). The objective of the gift annuity program is to be managed so that it complies with the rates set from time to time by the American Council on Gift Annuities or The Stewardship Foundation's Board of Directors and that approximately 50% of the annuity's value, on average, is eventually distributed to the designated United Methodist ministries or any other charitable entity, i.e. Section 501(C) (3) organization. This Policy is to be adhered to by the Investment Advisors.

INVESTMENT OBJECTIVES

General Objective

The primary goal of the Equity Fund is to provide long-term growth and income with preservation of principal. The Income Fund's primary goals are to achieve a competitive rate of return while preserving capital. The Funds' assets must be invested with the care, skill and diligence that a prudent person acting in this capacity would use. There is also a Liquidity Fund available (invested in a money-market fund) for investing funds for short-term periods.

Investment Objectives

The minimum acceptable rates of return of each Fund are:

- ❖ Total assets of each Fund over an economic or market cycle of 3-5 years, should earn a total rate of return over inflation of 1% for fixed income and 4% for equity managers as measured by the Consumer Price Index ("CPI").
- ❖ The total time-weighted rate of return on equity investments should equal or exceed the appropriate equity index established by The Foundation's Board of Directors.
- ❖ The total time-weighted rate of return on fixed income investments should equal or exceed the appropriate fixed income index established by The Foundation's Board of Directors.
- ❖ The total time-weighted rate of return on alternative asset classes should equal or exceed the appropriate benchmark for the specific alternative asset classes used.
- ❖ The total rate of return on cash equivalent investments should be at least the thirty-day Treasury Bill interest rate.

Performance Objective

Performance of each Fund will be measured by the time-weighted return of market value.

INVESTMENT FUNDS

Listed below are the three funds offered by The Stewardship Foundation.

EQUITY FUND – An all-stock fund which includes large-cap, mid-cap and small-cap value and growth stocks plus international equities.

FIXED INCOME FUND – All income assets including government and corporate bonds, treasury bills and similar investments.

LIQUIDITY FUND – A money market fund for short-term investing and for clients' investment income before being paid out.

Unless a client requests otherwise, all funds will be invested 60% in the Equity Fund and 40% in the Fixed Income Fund. (a balanced approach)

DIVERSIFICATION

The following guidelines pertaining to diversification have been established to further reduce the overall risk and to limit the exposure of the respective portfolios of each Fund to any one investment and any one type of investment:

- ❖ No individual equity investment shall exceed 10% of the portfolio based on the market value of the stock and the portfolio.
- ❖ No individual fixed income investment shall exceed 10% of the total fixed income value of the portfolio at cost, with the exception of government obligations and obligations issued by the Central Pennsylvania Conference Loan Fund* There shall be no fixed income security in the portfolio below the level of single "A" rating by Moody and Standard & Poor.
- ❖ There shall be no excessive concentration in any one "sub-industry" group. Excessive equity concentration shall be defined as 25% or more of the total market value of the portfolio.
- ❖ In the case of cash equivalent holdings, excluding obligations issued or guaranteed by the U. S. Government or any agency thereof and obligations issued by the Central Pennsylvania Conference Loan Fund* or the bank / trustee / custodian short-term reserve fund, the securities of a single issue or issues may not exceed 10% of the market value of the portfolio.

* The Central Pennsylvania Annual Conference of the United Methodist Church

ADDITIONAL GUIDELINES

The Investment Management Committee of The Foundation shall be notified of a 10% drop of any Investment Advisor portfolio during any calendar quarter.

Equities listed on the New York Stock Exchange, American Stock Exchange, or NASDAQ are acceptable. Common stocks of foreign companies trading on foreign exchanges for international managers and common stocks of foreign companies listed on the U. S. Securities Exchanges for Domestic Managers are acceptable.

Large investments in cash equivalents should be made only during transitional periods, or when in the Investment Advisor's opinion and with the Investment Management Committee's permission it is the best available investment.

Commercial paper should be rated no less than "A-1" by Standard & Poor and "P-1" by Moody.

Investment returns will be judged relative to numerous indices such as the Russell Indices, Standard & Poor's Index, the Lehman Brothers Bond Index, and MSCI EAFE. Management of the Funds will be compared against other comparable fund managers.

The Investment Advisor's rank should consistently be in the top half of their peer group for three-year periods and longer.

The Investment Advisor shall be aware of the current United Methodist Church's Statement of Social Principles and should endeavor to manage all Funds' investments in accordance with this Statement. The Investment Management Consultant and the Executive Director of The Foundation shall review the investment portfolios periodically to monitor compliance.

In keeping with the investment guidelines of the United Methodist Church, the Investment Management Committee of The United Methodist Stewardship Foundation of Central Pennsylvania seeks to be socially responsible in the way in which it invests the funds it oversees, reflecting the ethical standards of the Church.

The Investment Management Committee does not invest in securities in which the corporate entity has a significant involvement (defined as more than 15% of revenues) in any of the following:

Alcohol	Tobacco
Gambling	Adult Entertainment

The General United Methodist Church Foundation policy on social responsibility states, "*Indirect investments in such companies are not to be precluded by this policy, particularly in instances when the holdings of such company stocks or bonds are difficult, if not impossible to determine. Indirect investments include ownership of hedge funds, mutual funds, bond funds, or any financial instrument consisting of multiple securities designed to diversify risk. When possible, the exposure to avoidance securities should be limited to a maximum of 2% of the total portfolio. It is not the intent of this policy to preclude the purchase of such financial instruments when continuing verification of ownership in such companies is difficult or impossible.*"

RESTRICTIONS

The following categories of domestic investments are unacceptable:

- ❖ Short sales
- ❖ Puts, calls, or straddles (option trading)
- ❖ Margin purchases or lending or borrowing of money or securities
- ❖ Letter stock, private placements, or direct payments
- ❖ Real estate or individual mortgages except REIT Mutual Funds or vehicles managed by separate account managers
- ❖ Securities of the asset manager, the custodian, their parent or subsidiary companies (excluding money market funds)
- ❖ Commodities
- ❖ No pledging of assets for any investments
- ❖ Hedge Funds



RESPONSIBILITIES OF INVESTMENT MANAGERS

The assets of each Fund are to be managed prudently and in accordance with the guidelines and objectives set forth in this Policy.

The Investment Managers are expected to exercise complete investment discretion. Such discretion includes decisions to buy, hold, or sell securities (including cash equivalents) in amounts and proportions reflective of each Fund's current investment strategy and in compliance with the Investment Management Policy guidelines.

The Investment Managers are responsible for frequent and open communication with the Investment Management Committee and the staff person responsible for investment matters on all significant matters pertaining to investment policies and the management of each Fund including, but not necessarily limited to:

- ❖ Major changes in the Managers' investment outlook, investment strategy and portfolio structure
- ❖ Any significant changes in the ownership organization structure, financial conditions, or senior personnel staffing of the Managers' investment management
- ❖ Notices of transaction activity
- ❖ Quarterly performance and valuation report
- ❖ Any change to this Policy and its objectives
- ❖ An annual meeting at the invitation of the Investment Management Committee to discuss the performance of each Fund for the prior year

POLICY REVIEW AND AMENDMENT

The Foundation's Investment Management Committee shall review this Investment Management Policy annually. Any amendments to this Policy are subject to the approval of The Foundation's Board of Directors.

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