

Investment Policy

Adopted by the Board on October 22, 1997, Revised 5-15-2024

MISSION:

The mission of the California-Nevada United Methodist Foundation is to support the California-Nevada United Methodist Conference Mission by providing Development Services and socially responsible investing.

To that end, the Foundation works with individuals, local congregations and conference agencies by:

- Actively promoting giving through current donations, wills, and trusts, with a special emphasis on local church endowments;
- Managing endowment and other restricted funds benefiting local churches and church agencies;
- Acting as trustee for trusts, including charitable remainder trusts where the ultimate beneficiaries are United Methodist and related causes.

SECTION ONE: General Policies

1.1 Responsibility

- A. The collective religious convictions of United Methodists affirm
- The sanctity of creation
 - The equality of all individuals
 - A calling to promote peace and justice

In recognition of these convictions, investments under this policy shall be made with consideration of the compatibility between the activities such investments support and these basic precepts. To this end, investments will be evaluated for their potential to make positive contributions toward the realization of the goals outlined in the Social Principles of The United Methodist Church Book of Discipline paragraph 717.

- B. Primary fiduciary and social responsibility shall be to the individuals, institutions, and causes for whose expressed purposes funds are administered. Fiduciary responsibility shall be exercised in reference to the applicable State Probate Code and including the Uniform Prudent Investor Act (UPIA, revised statute effective January 1, 1996) and the Uniform Prudent Management of Institutional Funds Act (UPMIFA, revised effective July 13, 2006, formerly known as the UMIFA) and passed in California SB 1329 August 2008 as from time to time revised.
- C. In financial responsibility, safety is important, but it must be balanced with appropriate risk to provide for the ultimate purposes of the fund. For funds with long time frames, e.g. exceeding five years, financial responsibilities include investment to produce current income, as well as long-term growth to protect future purchasing power. For funds with short time frames, e.g. less than two years, safety and avoidance of fluctuation in value are of greater priority.

1.2 Standard of Care:

The Standard of Care applied in all investment activities of the Foundation shall be consistent with the current standards of the California Probate Code, including the Uniform Prudent Investor Act (UPIA, revised statute effective January 1, 1996) and the Uniform Prudent Management of Institutional Funds Act (UPMIFA, revised effective July 13, 2006, formerly known as the UMIFA) and passed in California as SB 1329 August 2008. These acts provide:

- A. When investing, managing and delegating investment management, the governing board shall act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims to accomplish the purposes of the individuals, institutions, and causes. In the course of administering the fund pursuant to this standard, individual investments shall be considered as part of an overall investment strategy.

The Foundation believes it is consistent with this standard that a prudent person, in managing United Methodist funds, would consider both financial criteria and social impacts.

- B. In exercising judgment, the members of the governing board shall consider long and short term needs, general economic conditions, income and long-term growth, the appropriateness of a reasonable portion of higher risk investments, as well as the probable safety of funds.

- C. The Standard of Care may be expanded by express provisions in trust instruments.

1.3 Standards of Investment Quality and Maturity

A. Fixed-Income

- Domestic and non-U.S. corporate bonds shall be investment grade (generally, rated BBB or above by S&P). Unrated corporate debt instruments may not be held
- Convertibles may be held, as long as they meet the same quality criteria
- Any debt obligations issued by the U.S. Government may be held
- Debt obligations of international agencies, such as the World Bank, may be held
- Debt obligations of major foreign governments are eligible
- The aggregate of fixed-income investments in accounts will be of intermediate term, and average maturity will generally not exceed eight years and duration not exceed five years. A limited inclusion of final maturities out to 30 years is allowed to permit securities, like mortgage issues, without violating this policy

B. Equities

- Common Stock that is listed on major stock exchanges or the NASDAQ whether with or without dividend, may be held
- Real Estate Investment Trusts (REITs) and American Depository (ADRs) may be held if they meet the same criteria as that of common stock.
- Preferred Stock and convertible preferred are of low priority, but issues listed on major exchanges may be held

C. Mutual Funds

- Mutual Funds shall be limited to no load issues

D. Specifically Excluded Investments

- Direct investment in real estate, except for property held for sale with the purpose of funding a gift
- Bonds rated below BBB ("Junk Bonds")
- Commodities futures
- All other options (derivatives)
- Limited partnerships that produce material **Unrelated Business Taxable Income**

1.4 Diversification

A. General Criteria

When deemed practical in the interpretation by Foundation staff, individual accounts of less than \$200,000 should not hold more than 25% of the account in any given investment. The following criteria shall apply for the overall Foundation assets and for individual accounts with assets over \$200,000:

- **Fixed Income:** The maximum holding in any local, state, or federal government issue may not exceed 12% of the total market value of a portfolio. Holdings in the debt obligations of any one corporation or United Methodist institution may not exceed 10% of the total market value of a portfolio.

The total holdings in convertibles shall be less than 20% of total market value.

- **Equities:** For Common Stock and Preferred Stock holdings, the weighting of an individual active equity position in any one company is limited to 5% of the market value of all active equity positions in the portfolio unless specifically authorized by the Investment Committee. Should a holding in a company exceed the 5% weighting due to market price increases, the position should be trimmed to 5% or below within three months.

Holdings in individual Real Estate Investment Trusts (REITs) are not to exceed 3% of total market value. Total REITs are not to exceed 8%.

- **Global Diversification:** In recognition of the fact that U.S. capital markets currently represent only about one-third of the world market, investing in the international market is an important element of diversification. Inclusion of securities that are primarily traded on non-U.S. exchanges and are denominated in currencies other than U.S. Dollars may reduce fluctuation in portfolio value.

International mutual funds and American Depositary Receipts (ADRs) may be used for global diversification and these holdings may not exceed 30% (Rev. 05-19-11) of total market value.

1.5 Social Considerations

The Social Principles of The United Methodist Church shall be considered as guidelines for directing investment decisions. In putting this into practice, the process of communicating with management on issues will be a priority strategy for the Investment Committee. This shall include whenever possible, communicating approval of positive steps taken by companies, as well as raising concern and offering input about issues that need further attention.

Ethical conduct by the management and governing bodies of business organizations and public agencies is considered of utmost social importance.

1.6 Custodial Arrangements

Investment assets are to be held in custody by major trust companies evidencing appropriate levels of capital and insurance including protection through the Securities Investor Protection Corporation (SIPC).

1.7 Investment Performance Objectives

The Foundation's Investment Committee is authorized to define applicable indices from time to time as benchmarks for performance before fees. Indices may be selected as benchmarks for objective portfolios and for the fixed-income and equity portions of Charitable Remainder Trusts. Indices that include social criteria will be included along with other general indices, when available.

1.8 Common Objective Portfolios

To achieve efficiency in management, the Investment Committee may establish Common Objective Portfolios. These portfolios are to be managed as single entities but to hold funds of numerous Foundation accounts. Foundation accounts participating in each portfolio are to hold a specified number of units in the portfolio proportional to its ownership. Each month, the Foundation's accounting process then calculates the value of portfolio units in accordance with accrual accounting practices to calculate the market price. These unit values allow the calculation of the market value of the portion held by each account. Such portfolios may include but are not limited to:

- Short-Horizon Portfolio (SP)
- Intermediate-Horizon Portfolio (IP)
- Asset Allocation (AA)
- Equity Portfolio (EP)

SECTION TWO: Special Provisions Relating to Specific Groups of Funds

2.1 Provisions relating to Endowments and Restricted Gifts under the discretionary control of the Foundation Board.

These funds have long time frames. It is the Foundation's policy to invest these funds prudently to produce current income and long-term growth to protect future purchasing power. In determining prudent practice regarding investment and expenditure from funds, the Investment Committee will consider provisions of the Uniform Prudent Management of Institutional Funds Act (UPMIFA of July 13, 2006) and information on common investment practice for permanent funds in other not-for-profit institutions.

2.2 Provisions relating to Endowment Funds of local Congregations and Church Agencies.

It is the Foundation's policy to encourage the governing boards of related endowment funds to take a long-term perspective for these funds. The examples of the Foundation's own endowment funds and those of church agencies can be used to illustrate the outcome of managing for both current income and long-term growth. The risk tolerance of governing boards will be taken into consideration in arriving at the proportion of equities in each fund.

2.3 Provisions relating to Building and other special purpose, short and intermediate funds.

The Short Horizon Portfolio (those with terms of less than 3 years) will be invested in the money market fund of a major Investment Manager, with attention to minimizing expenses to the extent possible. For terms between 5 and 10 years, equities may be held with reference to the tolerance of the trustor for volatility.

2.4 Provisions relating to Charitable Remainder Trusts.

Portfolios will be individually managed for charitable remainder trusts to allow consideration of the special circumstances of the trust and its current and remainder beneficiaries. A significant factor is the estimated term of the trust, in cases where termination is defined by donor or beneficiary lifetimes.

SECTION THREE: Governance

3.1 Investment Committee

The Foundation shall maintain a standing Investment Committee with the responsibilities of:

- A. Developing and revising investment policy for approval by the Board, and
- B. Overseeing implementation of the investment policy, including actions by the committee itself, the Foundation staff, and outside Investment Managers. Pursuant to the By-Laws (Article III, Section 16), the committee shall be made up of two or more directors, in addition to ex officio members. The Board may appoint to the committee additional persons who are not Board directors. The Board of Directors shall select a Chairperson who is a member of the Board of Directors from among the Investment Committee members. The chair holds responsibility for convening committee meetings and directing communications with the committee membership.

3.2 Investment Management

- A. **Investment Committee Directed Funds and Allocations:** Under the oversight of the Investment Committee, the Foundation's designated staff member shall have authority to carry out the investment activities within the general investment policies of the Foundation. The policy for the allocation of investments (see Addendum) provides criteria for decisions relating to individual funds. The Investment Committee shall review guidelines for allocation among fixed-income and equities at least annually. Between committee meetings, the Foundation's designated staff member may consult with the Chair of the Investment Committee, who shall have authority to act on behalf of the Committee when timely action precludes a called meeting, provided such action is reported to the committee at its next meeting.
- B. **Investment Manager Managed Funds:** Agreements with outside Investment Managers may be recommended by the Investment Committee, for approval by the Board. Investment Managers under such agreements shall communicate with the Foundation's designated staff member, who generally serves as liaison to the Committee chair and Committee members. The committee shall review the investment portfolio holdings and performance on managed funds on a quarterly basis. During the first year of such agreements, the Investment Manager is requested to meet personally with the committee for these reviews.

ADDENDUM TO THE INVESTMENT POLICY

Policy on Allocation of Purchased Investments

Decisions on purchase and sale of investments are made under the direct or delegated authority of the Investment Committee. Authority to allocate such sales and purchases to the individual fund accounts is granted to the Foundation's designated staff member with the understanding that the following factors be taken into consideration in hierarchical order (i.e., those higher on the list take precedence over those lower on the list):

1. Any individual restrictions on types of investments
2. Individual objectives, i.e., income versus growth
3. Need to adjust existing asset allocation among cash, fixed-income, and equities to conform to current recommendations of the Investment Committee
4. Amount of cash available for investment
5. Maintain or enhance diversification
6. In the case of equities (when appropriate in terms of recommendations and diversification) make additional purchases of issues already held with the objective of dollar cost averaging.