



St. Paul's PARISH

INVESTMENT POLICY

Investment Policy and Objectives for the unrestricted endowment funds of St. Paul's Episcopal Church, Centreville, Maryland.

The purpose of this Investment Policy is to assist the Vestry and Finance Committee of St. Paul's in effectively supervising, monitoring and evaluating the investment of the various unrestricted endowments' assets. The endowment investment program is defined in the various sections of this Investment Policy Statement ("IPS") by:

- Stating the Vestry and the Finance Committee's expectations, objectives and guidelines with regard to the endowments;
- Encouraging effective communications between the Vestry, the Finance Committee and the endowment's service providers by stating the responsibilities of the Vestry, the Finance Committee, and the investment managers; and
- Establishing procedures for selecting, monitoring, and replacing investment managers.

EXECUTIVE SUMMARY

Type of Fund:	Endowment
IRS Tax Identification:	52-0645785
Assets (June 30, 2014)	\$475,000.00
Time Horizon:	Greater than 10 years
Return Objective:	6.5% (3.5% over the Consumer Price Index)
Modeled Loss:	-13% (Probability level of 5%) - for any one year period
Spending Policy:	4% annually, based on a 12 quarter rolling average

DUTIES AND RESPONSIBILITIES

Vestry

The Vestry is fiduciary, and is responsible for directing and monitoring the investment management of endowment assets.

The Vestry delegates to the Finance Committee the responsibility for ensuring that the assets of the endowments are invested and dispersed effectively and prudently, in full compliance with this Investment Policy and all applicable laws for the exclusive benefit of the Endowment. The Vestry also delegates (via the Finance Committee) certain responsibilities to professional experts in various fields. These include, but are not limited to:

1. Investment Consultant. The investment consultant may assist the Finance Committee in: Establishing investment policy, objectives, and guidelines; selecting investment options and managers; reviewing such options and managers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate.
2. Investment Manager(s). If selected, the investment manager(s) has discretion to purchase, sell, or hold the specific securities that will be used to meet the endowment's investment objectives.
3. Custodian. The custodian will physically (or through agreement with a sub-custodian) maintain possession of securities owned by the endowments, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movements of assets into and out of the endowment accounts.
4. Additional specialists such as attorneys, auditors, actuaries, and others may be employed by the Finance Committee to assist in meeting its responsibilities and obligations to administer endowment assets prudently.

The Vestry retains responsibility for determining under the Endowment Policy how distributed funds are spent.

The Vestry elects members of the Finance Committee upon the joint nomination of the Clergy and Finance Committee Chair. The Finance Committee shall consist of the following:

- a. Presiding Clergy
- b. Senior Warden of the Vestry
- c. Treasurer of St. Paul's
- d. Chair of Finance Committee
- e. Neither less than three nor more than six additional members who shall be active members of St. Paul's.
- f. Terms on the Finance Committee for the Senior Warden and Treasurer shall coincide with their tenure in said office.
- g. Terms for the Chair and other members shall be for three years, eligible for reelection.

- h. Elected members of the Finance Committee shall hold office until the end of their respective terms. Any vacancy occurring in the elected membership of the Finance Committee may be filled by the Vestry at any meeting, upon the joint nomination by the Clergy and the Chair of the Finance Committee.

Finance Committee

The responsibility for overseeing the assets resides with the Finance Committee, which has all the authority of the Vestry under the law to act in the investment and reinvestment of institutional funds or assets of St. Paul's Church.

The responsibilities of the Finance Committee include:

1. Recommending and reviewing investment policies and objectives;
2. Selecting or removing, from time to time, the investment managers (the "Investment Managers"), custodians and other advisors for the investment and reinvestment of the endowments subject to the consent of the Vestry;
3. Determining an asset allocation for the Endowment;
4. Reallocating the assets among Investment Managers if the overall asset allocation policy limits have been exceeded, within the guidelines stated herein;
5. Periodically evaluating, the performance of the Investment Managers;
6. Reviewing and modifying the IPS, when appropriate; and
7. Reporting the status of the endowments to the Vestry routinely.

The Investment Managers

Investment managers are responsible for making all investment decisions on a discretionary basis regarding assets placed under their management, and will be accountable for achieving their investment objectives. Such discretion shall include decisions to buy, hold, and sell securities in amounts and proportions that are reflective of the stated investment strategy.

The Finance Committee requires the Investment Managers to have open communication on all significant matters pertaining to investment policies and the management of the endowment's assets entrusted to them. The duties and responsibilities of the Investment Managers shall be set forth in a written agreement between the parties and shall include, but are not limited to, the following:

1. Investing the endowment's assets with the care, skill, prudence, and diligence that a prudent professional investment manager, familiar with such matters and acting in like capacity, would use in the investment of such assets;
2. Adhering to the investment policies and guidelines prescribed by the Finance Committee;
3. Informing the Finance Committee regarding all significant matters pertaining to the investment of the Endowment's assets. These matters include:
 - a. Substantive changes in investment strategy or portfolio structure; and

- b. Significant changes in the ownership, affiliations, organizational structure, financial condition and professional staffing of the Investment Manager's organization;
4. Submitting reports, at least quarterly, describing its performance results (gross and net of management fees) of portfolio holdings; and
5. Meeting with the Finance Committee and Vestry as requested.

STATEMENT OF OBJECTIVES

In order to maintain the endowments in perpetuity and meet its needs, the investment strategy will emphasize a balanced return, relying on both current income and growth of principal (from capital appreciation, dividends, and interest income). The objective of the portfolio, to provide growth, should be pursued over a timeframe of at least 10 years through a program designed to maximize the returns without exposure to undue risk, as defined herein. In accordance with this Investment Policy, the total return expectation is 6.5% total return annualized over the above timeframe. On a quarter-to-quarter basis, the actual returns will fluctuate and can be expected to exceed the benchmark about half the time.

Understanding that a long-term positive correlation exists between performance volatility (risk) and expected returns in the securities markets, the following short-term objective has been established:

The portfolio should be invested to minimize the likelihood of low negative total returns, defined as a one-year return worse than -13%.

Spending Policy:

A smoothing rule will be applied to mitigate the effects of short-term market volatility when calculating the level of annual spending. This rule will be applied: A spending rate of 4% will be applied to a moving average of the portfolio's quarter-end market values for the past twelve quarters.

Performance Expectations

The desired investment objective is a long-term rate of return on assets that is at least 6.5%, which is 3.5% greater than the anticipated rate of inflation as measured by the Consumer Price Index (CPI). The target rate of return for the endowments has been based upon the assumption that future real returns will approximate forward looking asset class projections provided by the Consultant for each asset class in the IPS.

The Finance Committee realizes market performance varies and a 6.5% rate of return may not be meaningful during some periods. Over a complete business cycle, the endowments overall annualized total return, after deducting for advisory, money management, and custodial fees, as well as total transaction costs, should perform above a customized index comprised of market indices weighted by the strategic asset allocation of the endowments.

ASSET CLASS GUIDELINES

Equities

The equity asset classes should be maintained at risk levels appropriate for the risk/return expectations given herein, with the objective of exceeding a nationally recognized index measuring the performance of the designated sector over a full market cycle (generally three to five years) net of fees. Investment vehicles may include mutual funds and exchange-traded funds (ETF's). The following definitions shall apply for the purposes of this policy:

- U.S. Stocks: Stocks of U.S. based companies the primary shares of which are traded on a major U.S. exchange.
- International Stocks: Stocks of non-U.S. based companies, the primary shares of which are traded on exchanges outside the U.S. American Depository Receipts (ADRs) are considered International Stocks.
- Emerging Markets Stocks: Stocks of non-U.S. based companies that are expected to experience a lot of growth. Investing in these countries has lots of potential for big returns, but it also carry lots more risk than typical domestic investing.
- Sector Stocks: Stocks of companies usually found in one industry.

Fixed Income

Investments in fixed income securities will be managed actively to pursue opportunities presented by changes in interest rates, credit ratings, and maturity premiums. Investment vehicles may include mutual funds and exchange-traded funds (ETF's). The following definitions shall apply for the purposes of this policy:

- U.S. Government/Corporate Bonds: Fixed income securities denominated in U.S. dollars issued by the U.S. Government, U.S. Government Agencies or U.S. corporations
- High Yield Corporate Bonds: Bonds issued by U.S. corporations and the majority of the bonds are rated below BBB/Baa.
- International Bonds: Fixed income securities denominated in currencies other than U.S. dollars. Issuers may be both governments and corporations
- Mortgage-Backed Securities: A debt security backed by an underlying pool of mortgages.
- Municipal Bonds: Bonds issued by local governmental subdivisions such as cities, towns or counties.

Alternative Investments

Investment vehicles and strategies not typically included in the asset classes described above. Alternative investments may include, but are not limited to: hedge funds, managed futures products, commodities, and commodity contracts. Investment vehicles may also include mutual funds and exchange-traded funds (ETF's).

Cash and Cash Equivalents

Cash reserves shall be invested in short term (less than one year) fixed income instruments. Appropriate instruments include direct and general obligations of the U.S. Government and U.S. Government Agencies, interest-bearing demand or time deposits, certificates of deposit, money market portfolios of FDIC member agencies, commercial paper, and repurchase agreements. Investment vehicles may include mutual funds and exchange-traded funds (ETF's).

Stock Exchanges

To ensure marketability and liquidity, investment managers will purchase equities listed on the following exchanges: New York Stock Exchange; American Stock Exchange; and NASDAQ over-the-counter market. In the event that an investment manager determines that there is a benefit or a need to purchase securities listed on exchanges other than those listed in this statement, written approval is required from the Finance Committee.

Prohibited Assets and Restricted Transactions

Prohibited investments include:

1. Private Placements
2. Options
3. Short Selling
4. Margin Transactions

INVESTMENT GUIDELINES

The Finance Committee will ensure that investment management of the assets of the endowments shall be in accordance with the following asset allocation guidelines:

Asset Class	Minimum Weight	Maximum Weight	Target Weight
Equities	60%	70%	65%
Fixed Income	27%	33%	30%
Alternatives	3%	7%	5%
Cash & Equivalents	1%	3%	2%

Rebalancing

The Finance Committee and Consultant are expected to monitor the portfolio mix. Neither the upper nor the lower limits of the asset allocations are intended to require portfolio activity for the sole purpose of complying with the guidelines; however, deviation from these guidelines will be treated as discussion topics at the quarterly meetings with rebalancing considered at least annually. It is recommended that the target allocation be maintained so that the endowments will be able to achieve desired long-term goals.

INVESTMENT MANAGER SELECTION

The Finance Committee selection of investment manager(s) must be based on prudent due diligence procedures. A qualifying investment manager must be a registered investment advisor under the Investment Advisors Act of 1940, or a bank or insurance company. The Finance Committee requires that each investment manager provide, in writing, acknowledgment of fiduciary responsibility to the endowment, where practicable.

Investment Manager Performance Review and Evaluation

Performance reports generated by the investment adviser shall be compiled at least quarterly and communicated to the Finance Committee for review. The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The Finance Committee intends to evaluate the portfolio(s) over at least a three-year period, but reserves the right to terminate a manager for any reason.

Investment managers shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results. An Investment Manager may be placed on Watch and a thorough review and analysis of the investment manager will be conducted.

The Finance Committee has determined it is in the best interest of the endowments that performance objectives be established for each investment manager. Investment Manager performance will be evaluated in terms of an appropriate market index (e.g. the S&P 500 stock index for large-cap domestic equity manager) and the relevant peer group (e.g. the large-cap growth mutual fund universe for a large-cap growth mutual fund).

The decision to retain or terminate an investment manager cannot be made by a formula. It is the Finance Committee's confidence in the investment manager's ability to perform in the future that ultimately determines the retention of a manager.

Measuring Costs

The Finance Committee will review at least annually all costs associated with the management of the endowments' investment program.

INVESTMENT POLICY REVIEW

The Finance Committee, will review this IPS at least annually to determine whether stated investment objectives are still relevant and the continued feasibility of achieving the same. It is not expected that the IPS will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the IPS.

The Vestry and Finance Committee adopt this statement of investment policy on August 27, 2014, whose signatures appear below.

Approved:

Title: Senior Warden

Date

Title: Priest-in-Charge

Date

Title: Finance Committee Chair

Date

Title: Treasurer

Date