The Episcopal Diocese of Ohio

Statement of Spending and Investment Policy

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Purpose

This Statement of Spending and Investment Policy (“Statement”) details the policies, procedures, asset allocation and guidelines for investment of the Joint Investment Fund (“Fund” or “JIF”) of the Episcopal Diocese of Ohio (“Diocese”). It defines and assigns the responsibilities of all involved parties. The policy is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

Investment Objectives

The investment objective is both income and growth to support various current and future programs and activities. The overall long-term investment objective is a rate of return greater than the rate of inflation, as measured by the Consumer Price Index, plus the spending policy. The Trustees recognize that market performance varies and that a CPI plus the spending policy objective may not be achieved during some periods. The Trustees also recognize that historical performance is no guarantee of future performance.

The investment policies and restrictions presented in this Statement serve as a framework to achieve the investment objectives at a level of risk deemed acceptable. These policies and restrictions are designed to minimize interference with efforts to attain overall objectives and to minimize the potential of excluding any appropriate investment opportunities.

Spending Policy

The annual spending target shall be 4.5% of the rolling 12 quarter average market value based upon the June 30th valuation.

Terms and Definitions

For purposes of this Statement, the following definitions apply:

1. “Fiduciary” shall mean any individual or group of individuals that exercise discretionary authority or control over fund management or any authority or control over management, disposition or administration of the Fund’s assets.

2. “Investment Manager” shall mean any individual, or group of individuals, employed to manage the investment of all or part of the Fund’s assets. An investment manager shall be responsible for determining investment strategy, implementing selection of investments and the timing of purchases and sales of investments within the policy guidelines set forth in this Statement and as otherwise provided by the Trustees.
3. “Investment Consultant” shall mean any individual or organization employed to provide advisory services, including advice on investment objectives and/or asset allocation, manager search, and performance monitoring.

4. “Securities” shall refer to the marketable investment securities that are defined as acceptable in this Statement.

5. “Investment Horizon” shall be the time period over which the investment objectives, as set forth in this Statement, are expected to be met.

**General Investment Principles**

1. The Fund shall be invested with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the investment of funds of like character and with like aims.

2. Investment of the Fund shall be diversified so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.

3. The Trustees may employ one or more investment managers of varying styles and philosophies to attain the Fund’s objectives.

4. Cash is to be employed productively at all times, by investment in short-term cash equivalents to provide safety, liquidity, and return.

**Duties and Responsibilities**

The Trustees (“Trustees”) have responsibility for ensuring that the investment process is managed in a prudent manner, resulting in the preservation of principal while achieving reasonable investment returns.

In accordance with the State of Ohio’s adoption of the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the Trustees will take the following into consideration when making both investment decisions and setting spending policy but not limited to:

- Purpose of the assets
- Duration and preservation of the assets
- Need of the assets to make distributions and preserve capital
- Expected total return from income and appreciation
- The role that each investment plays within the overall portfolio
- General economic conditions
- The possible effect of inflation or deflation
- Other resources of the organization
- Assets of special relationship or special value to the charitable purpose

The Trustees have authority to select, retain and replace the investment managers; to control the asset allocation; and to determine the investment policies for the Fund with the support of an investment consultant. This includes, but is not limited to, selection of
acceptable asset classes, allowable ranges of holdings by asset class and individual investment classes as a percent of total assets, the definition of acceptable securities within each asset class, and investment performance expectations. The Trustees do not reserve direct control over investment decisions, with the exception of specific limitations described in this statement.

The Trustees with the assistance of non-trustees investment advisors invited to serve by the Trustees will review investments and allocation on a quarterly basis.

**Investment Consultant**

The investment consultant is responsible for providing information and analysis to assist the Trustees with the following:

- reviewing asset allocation and investment strategy on a quarterly basis to determine if the current strategy meets the needs of the Trustees and is maximizing the long-term total return of the Fund;
- reviewing all separately managed accounts to ensure that each investment manager is adhering to the issued policy guidelines;
- communicating with all investment managers on a quarterly basis to determine portfolio composition and ascertain information concerning organizational change. (Each portfolio to be reviewed for style drift through portfolio holdings and returns-based style analysis. Additionally, each portfolio to be reviewed for prohibited investments);
- providing a quarterly performance evaluation report and assessment of the Fund;
- reviewing asset allocation on a quarterly basis to determine if the current levels are consistent with the asset allocation policy stated in this document;
- providing information for the investment manager selection process;
- monitoring the performance of each investment manager retained by the Diocese to determine how the investment product is performing relative to the appropriate benchmark over a specific quarter and rolling 1-, 3-, 5-, 7-, and 10-year time periods; and
- monitoring the performance of the total portfolio to determine if the collective investment strategy is outperforming the appropriate benchmarks over rolling 3-, 5-, 7- and 10-year time periods;
- preparing a periodic review of fund fees and expenses.

**Investment Managers**

Each investment manager has discretion to purchase, sell, or hold the specific securities that will be used to meet the Fund’s investment objectives. Each investment manager will be held responsible and accountable to achieve the objectives herein stated. While it is not believed that the limitations will hamper any investment manager, the investment manager should request modifications that it deems appropriate.
Each investment manager is to be bound by the following broad asset class guidelines.

**Equity Securities**

- Stocks included in the portfolio should emphasize companies with total market capitalizations normally exceeding $100 million. Investments may include a prudent participation in smaller and newer companies of outstanding investment attraction.
- Cash equivalents may be included in the equity portfolios at each manager’s discretion.
- Assets under each manager’s direction may include the use of equity commingled funds.
- In a separately managed equity account, an individual common stock commitment at the time of purchase will not represent more than 7% of the market value of the manager’s portfolio responsibility.
- Security trading is to emphasize best execution, i.e., the highest proceeds and lowest costs, net of all transaction expenses.

**Fixed Income Securities**

- The fixed income investments should emphasize high-quality (on average, the portfolio should have an A rating or better) and reasonable diversification with no inherent preference for government issues or corporate issues.
- Fixed-income investments shall be made primarily in those rated “BAA” (investment grade) or better by Moody’s and BBB (investment grade) or better by Standard & Poor’s with emphasis toward “A” or better issues. However, up to 20% of the fixed income investments can be made in below investment grade debt (high yield).
- Fixed income investments may include U.S. and Non-U.S. issues, including high yield, global fixed income and emerging market debt instruments.
- Diversification must be maintained and, with the exception of securities guaranteed by the U.S. Government, the securities of single issuer should not exceed 10% of the market value of the manager’s portfolio responsibility.
- There are no restrictions on the use of convertible securities, beyond those implied by the emphasis on quality and a low degree of investment risk.
- Maturity scheduling will be periodically reviewed with liquidity needs, cash flow projections, and prudent investment standards in mind.

**Cash Equivalents**

- All cash and equivalent investments should be made with concern for quality and liquidity. High return is desirable, but the highest possible investment return should be sacrificed where quality is considered questionable.
• Diversification must be maintained and, with the exception of securities guaranteed by the U.S. Government, the securities of single issuer should not exceed 10% of the market value of the manager’s portfolio responsibility.

Alternative Investments

The objective of the alternative investment allocation is to provide diversification, risk reduction, as well as enhance the performance of the asset pool.

• The alternative investment strategies may include any one or more of the following investments in funds or fund-of-funds that invest in private market investments, buyouts, venture capital, distressed debt, mezzanine debt, real estate, and or a combination of some or all strategies.

• Alternative investment strategies may also include any one or more of the following investments in hedge funds or fund-of-funds that invest in public market investments in market-neutral, long/short, risk arbitrage, convertible arbitrage hedge funds, commodities, currency or a combination of some or all strategies.

• Alternative investment strategies may also include public real estate securities, also know as REITs.

Custodian

The custodian will physically (or through agreement with sub-custodian) maintain possession of securities owned by the Fund, collect dividend and interest payments, redeem maturing securities, and affect receipt and delivery following purchases and sales. The custodian shall also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Fund accounts.

Additional Providers

Additional specialists such as attorneys, auditors, and others may be employed by the Trustees to assist in meeting its responsibilities and obligations to administer the Fund prudently.

If such experts employed are deemed to be fiduciaries, they must acknowledge such in writing. All expenses for such experts must be customary and reasonable, and will be borne by the Fund as deemed appropriate and necessary.

Diversification

Investments shall be diversified with the intent to minimize the risk of large losses to the Fund. Consequently, the total portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in individual issues, corporations or industries.
**Liquidity**

The investment managers may be expected to provide funds for distribution. In the event investment income is insufficient to meet any withdrawal requirements, the investment managers will be instructed to sell securities and remit required funds. In the case of a mutual fund, the custodian will be contacted to sell shares. Within the alternative investment allocation, there may be investments that are less liquid than a typical stock. However, any such liquidity constraints will be addressed in detail with the Trustees before its inclusion in the Fund.

**Marketability of Assets**

The Trustees require that Fund assets be primarily invested in liquid securities, defined as securities that can be transacted quickly and efficiently for the Fund with minimal impact on market price. Any illiquid assets received into the Fund through gifts shall be sold and the proceeds invested in accordance with the asset allocation guidelines in place for the Fund. An exception for this guideline will be made for any manager hired to execute a Private Equity Strategy or Hedge Funds as detailed in Section 5 and 6 of the Permissible Investments.

**Voting of Proxies**

The Trustees shall vote the proxies for separately managed accounts. When mutual funds are used, the Diocese will have no control over proxy voting.

**Execution of Security Trades**

The Trustees expect the purchase and sale of its securities to be made in a manner designed to receive the combination of best price and execution.

**Asset Allocation Guidelines**

The targeted broad allocation of assets (at market value) is:

<table>
<thead>
<tr>
<th>Equity</th>
<th>Target</th>
<th>Tolerance Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large-cap</td>
<td>24%</td>
<td>19% - 29%</td>
</tr>
<tr>
<td>Small /Mid-cap</td>
<td>11%</td>
<td>6% - 16%</td>
</tr>
<tr>
<td>Asset Class</td>
<td>35%</td>
<td>25%</td>
</tr>
<tr>
<td>------------------------------</td>
<td>-----</td>
<td>-----</td>
</tr>
<tr>
<td>Total Domestic Equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>International Equity</td>
<td>20%</td>
<td>15%</td>
</tr>
<tr>
<td>Total Equity</td>
<td>55%</td>
<td>45%</td>
</tr>
<tr>
<td>Alternatives</td>
<td>20%</td>
<td>0%</td>
</tr>
<tr>
<td>Cash &amp; Fixed Income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash &amp; Cash Equivalents</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>25%</td>
<td>15%</td>
</tr>
<tr>
<td>Total Cash &amp; Fixed Income</td>
<td>25%</td>
<td>15%</td>
</tr>
</tbody>
</table>

Sub asset allocation decisions will be determined by the Trustees at least annually.

In the event that the above aggregate asset allocation guidelines are violated, for reasons including but not limited to market price fluctuations, the Trustees will instruct the investment manager or custodian to bring the portfolio(s) into compliance with these guidelines as promptly and prudently as possible. In the event that any individual Fund’s portfolio is in violation with its specific guidelines, for reasons including but not limited to market price fluctuations, the Trustees expect that the investment manager will bring the portfolio into compliance with these guidelines as promptly and prudently as possible without instruction from the Trustees.

**Policy Benchmark**

The Fund will be measured against a blended benchmark that mirrors the agreed upon asset allocation. The policy benchmark will be constructed as follows:

- 35% Russell 3000 Index
- 20% MSCI ACWI ex. US
- 25% Barclays Capital Aggregate Bond Index
- 4% FTSE EPRA NAREIT Developed Real Estate Index
- 16% HFRI Fund-of-Funds Index

**Permissible Investments**

Fund assets may be invested in the following types of investments:

1. **Cash Equivalents**
   - Treasury Bills
   - Money Market Funds
   - Commercial Paper
   - Banker’s Acceptances
   - Repurchase Agreements
   - Certificates of Deposit

2. **Fixed Income Securities**
   - U.S. Government and Agency Securities
b. Corporate Notes and Bonds  
c. Convertible Notes and Bonds  
d. Mortgage Backed Bonds  
e. Preferred Stock  
f. Fixed Income Securities of Foreign Governments and Corporations  

3. Equity Securities  
a. Common Stocks  
b. Convertible Preferred Stocks  
c. American Depository Receipts (ADRs) of Non-U.S. Companies  
d. Stocks of Non-U.S. Companies (Ordinary Shares)  
e. Real Estate Investment Trusts (REITs)  

4. Mutual Funds  
a. Mutual Funds which invest in securities as allowed in this Statement  

5. Hedge Funds  

6. Private Equity  
a. Private Placements  
b. Venture Capital Investments  
c. Real Estate Investments  

Prohibited Investments  
Prohibited investments include, but are not limited to the following:  

1. Individual Futures and Commodities Contracts (commodity positions held within mutual fund investments are permissible)  
2. Interest-Only (IO), Principal-Only (PO), and Residual Tranche Collateralized Mortgage Obligations (CMOs)  
3. Letter Stock  

Socially Responsible Investing  
Socially Responsible Investing (SRI) is at the heart of our Christian beliefs. The Episcopal Church teaches and practices an incarnational faith seeing the face of Christ in the other, knowing that the fullest expression of God is in Jesus Christ. As such, our investments must honor the embodied realities of humankind and creation, doing no harm to either human communities or our physical environment.  

Responsible stewardship is a core value which runs through Scripture, from Genesis to Revelation. This means that we are accountable for the ways in which we protect, use, and maintain all manner of assets: environmental, human, material, financial. In addition, fulfilling the two great commandments to love God and to love one's neighbor as one's self demands our tangible engagement in the complex interplay of fiscal action and faithful values.  

While no investing practice is completely without negative consequences with regard to social responsibility, these Biblical principles call us to mitigate those choices and contribute significantly to forward-looking, responsible, and just enterprises in our investment strategies and decisions.
As such, JIF investment strategy will be aligned with core Episcopal Church values in two ways, excluding some industries while actively seeking to include others:

- We will do our best to comply promptly with all General Convention resolutions concerning market investments. Currently, this means a moratorium on direct investment in tobacco and gaming, although we acknowledge that mutual funds may have relatively insignificant holdings in these categories. Direct investment in companies with more than 10% of their revenue in one of the aforementioned industries should be excluded from investment. The Trustees will review overall portfolio exposures including commingled funds in an annual SRI audit.

- Certain non-financial environmental, social, and governance factors (ESG) are part of a holistic investment process and can have a material effect on financial returns. Accordingly, the Fund seeks investments, consistent with our fiduciary duty, which have a positive impact (globally and locally) and promote sustainability in their corporate practices, policies, and culture. To this end, the Fund will consider investment managers who actively incorporate ESG factors into their investment decision-making processes.

**Selections of Investments and Managers**

Set forth below are the considerations and guidelines employed in fulfilling this fiduciary responsibility.

The Trustees intend to retain investment managers with some or all of the following attributes to manage the asset pool:

- The institution should be a bank, insurance company or investment management company or an investment adviser under the Registered Investment Advisers Act of 1940.

- The institution should be operating in good standing with regulators and clients, with no material pending or concluded legal actions.

- The institution should provide detailed additional information on the history of the firm, its investment philosophy and approach, and its principals, clients, locations, fee schedules and other relevant information.

Assuming the minimum criteria are met, the particular investment manager under consideration should meet the following standards for selection:

- Performance should be equal to or greater than the median return for an appropriate, style-specific benchmark and peer group over a specified time period.

- Performance reporting should be in compliance with the CFA Institute’s Global Investment Performance Standards (GIPS).

- Specific risk and risk–adjusted return measures should be established and agreed to by the Trustees and the investment consultant and be within a reasonable range relative to an appropriate, style-specific benchmark and peer group.
• The investment manager should demonstrate adherence to the stated investment objective.
• Fees should be competitive compared to similar investments.
• The investment manager should be able to provide all performance, holdings, and other relevant information on a quarterly basis.

**Investment Manager Review**

The investment manager performance will be reviewed on a monthly and quarterly basis and a report will be provided by the investment consultant. The manager will be welcomed to provide any suggestions regarding appropriate adjustments in this statement or the manner in which investment performance is reviewed. Investment manager results will be reviewed quarterly with an emphasis on longer term performance and also measured over rolling three and five year periods.

Each investment manager must advise the Trustees and the investment consultant concerning any changes in their investment philosophy and of changes in ownership, personnel or any other matter that may impact the performance of the portfolio.

**Removal of an Investment Manager**

There may be circumstances which provide the Trustees through consultation with an investment consultant reason to consider the removal of an investment manager. Following are the general guidelines which may give reason to remove an investment manager:

• Failure to comply with this Statement.
• Failure to meet any of the investment return benchmarks, as established by the investment consultant and the Trustees.
• Failure to comply with investment restrictions as defined for the manager by the Trustees.
• Significant qualitative changes to the investment management organization.

Each investment manager shall be reviewed at a minimum annually regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact its ability to achieve the desired investment results.

If the investment manager has consistently failed to adhere to one or more of the above conditions, it is reasonable to presume a lack of adherence going forward. Failure to remedy the circumstances of unsatisfactory performance by the investment manager, within a reasonable time, shall be grounds for removal.

Any recommendation to remove an investment manager will be treated on an individual basis, and will not be made solely based on quantitative data. In addition to those above, other factors may include professional or client turnover, or material change to
investment processes. Considerable judgment must be exercised in the removal decision process.

A manager shall be removed using one of the following approaches:

- Remove and replace with an alternative manager.
- Freeze the assets managed by the manager and direct new assets to a replacement manager.
- Phase out the manager over a specific time period.
- Continue with the manager but add a complementary manager.
- Remove the manager and do not provide a replacement manager.

**Statement of Investment Policy Review**

To assure the continued relevance of the guidelines, objectives, financial status and capital markets expectations as established in this Statement of Spending and Investment Policy, the Trustees plan to review this statement periodically as deemed necessary.