

# THE UNITED METHODIST FOUNDATION, INC.

Balanced Fund Investment Policy Statement

**United Methodist Foundation, Inc.  
Balanced Fund  
Investment Policy Statement**

**Table of Contents**

I. Introduction .....2

II. General Guidelines.....2

III. Roles and Responsibilities.....4

IV. Time Horizon .....5

V. Distribution Policy .....6

VI. Investment Objectives .....6

VII. Asset Allocation.....7

VIII. Operational Guidelines .....8

IX. Investment Adviser Evaluation ..... 11

X. Other Considerations..... 12

XI. Investment Policy Statement Review..... 12

XII. Accepted ..... 13

Appendix A: Roles and Responsibilities ..... 14

Appendix B: Allowable Investments & Prohibited Assets/Transactions ..... 18

Appendix C: Portfolio Asset Allocation and Benchmarks(TBD) .....20

Appendix D: Sustainable and Socially Responsible Investments .....21

# **United Methodist Foundation, Inc. Balanced Fund Investment Policy Statement**

## **I. Introduction**

The purpose of this Investment Policy Statement (“IPS”) is to establish guidelines for the ongoing oversight and management of the United Methodist Foundation (“UMF”) investment portfolio, focusing on the areas that most influence investment returns and risks. This IPS incorporates accountability standards that will be used for monitoring the progress of the investment program and for evaluating the contributions of the Investment Adviser(s) hired on behalf of the investment portfolio and its beneficiaries (Unitholders).

Though the UMF offers multiple investment alternatives for its unitholders, this document establishes the IPS for the Balanced Fund (Fund). Other Fund(s) operate under separate investment policy statements.

This IPS provides guidelines to enhance the probability of achieving the goals and objectives of the Fund in a manner consistent with the laws, regulations and policies that govern the prudent management of investment assets in a fiduciary setting. It is the formal document governing the investments of the Fund and serves as a communications link between the UMF’s Board of Directors (Board), the Investment Committee (Committee), and the Investment Adviser(s).

While the IPS is not intended to be modified frequently, or in response to short-term market fluctuations, it shall be reviewed periodically and amended, as appropriate, to reflect the goals and objectives of the UMF.

Specifically, this IPS establishes the following:

- Roles and responsibilities for all involved parties.
- The appropriate investment time horizon for management of Fund assets.
- The Fund’s investment objectives and distribution policy.
- Asset allocation guidelines and portfolio risk parameters.
- The basis for assessing performance of the Fund’s investments and of the Investment Adviser.
- Other guidelines to clarify and govern the day-to-day operations of the Fund.

## **II. General Guidelines**

The UMF is a non-profit religious corporation affiliated by faith to the North Carolina Conference of the United Methodist Church (the “Conference”). The Fund was created by the UMF to facilitate the management of investment funds for the Conference and local churches, institutions and ministries that are exempt from federal income tax under Section 501(c)(3) as a religious organization of the Internal Revenue Code.

Collectively, the organizations that have invested assets into the Fund are the Unitholders. Such Unitholder accounts are established as either “Revocable” or “Irrevocable” depending upon the intent of the owner or donor and the legal requirements related thereto.

# United Methodist Foundation, Inc.

## Balanced Fund

### Investment Policy Statement

The UMF acknowledges its responsibilities to the Unitholders to maximize return within reasonable and prudent levels of risk; to preserve inflation adjusted capital; and to control administrative costs.

It is the intent of the Committee to adhere to the provisions of UPMIFA in managing the Fund's investment assets. UPMIFA requires that "each person responsible for managing and investing an institutional fund shall manage and invest the fund in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances." The following factors are set out under UPMIFA and will be considered by the Committee in managing and investing the Fund:

- General economic conditions;
- The possible effect of inflation or deflation;
- The expected tax consequences, if any, of investment decisions or strategies;
- The role that each investment plays within the overall investment portfolio of the Fund;
- The expected total return from income and the appreciation of investments;
- Other resources available to the institution;
- ESG considerations, risks or manager capacity;
- The needs of the institution and the fund to make distributions and to preserve capital; and
- An asset's special relationship, if any, to the charitable purposes of the institution

Risk control is an important element in the investment of the Fund's assets. The Committee recognizes that risk and volatility are present to some degree with all types of investments. However, high levels of risk are to be avoided at the total portfolio level. This is to be accomplished through diversification by asset class, manager style, sector, and industry. The Fund's investment program will emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income. Sections VI, VII and VIII below specifically address investment objectives, target asset allocations, levels of risk assumed, and permitted ranges for diversification.

**Sustainable and Socially Responsible Investments** - In the investment of money, it shall be the policy of The United Methodist Church that all general boards and agencies, and all administrative agencies and institutions, including hospitals, homes, educational institutions, annual conferences, foundations, and local churches, make a conscious effort to invest in institutions, companies, corporations, or funds with policies and practices that are socially responsible, consistent with the goals outlined in the Social Principles. All United Methodist institutions shall endeavor to seek investments in institutions, companies, corporations, or funds that promote racial and gender justice, protect human rights, prevent the use of sweatshop or forced labor, avoid human suffering, and preserve the natural world, including mitigating the effects of climate change.

The Investment Adviser is to give careful consideration to environmental, social, and governance factors when making investment decisions and actively exercise their responsibility as owners of the companies in which they invest. This includes engaging with

# United Methodist Foundation, Inc.

## Balanced Fund

### Investment Policy Statement

companies to create positive change and hold them accountable for their actions, while also considering exclusion if companies fail to act responsibly.

In addition, the Investment Adviser shall endeavor to exclude from investment the securities of companies that produce products and/or provide services that are not aligned with United Methodist values as described in **Appendix D**.

**Diversity, Equity, and Inclusion (DEI)** – The UMF Board of Directors has incorporated DEI in its current strategic plan and embraces DEI goals in the context of the UMF’s learning community. Where practical and achievable, the Committee may consider directing the Investment Adviser to incorporate DEI goals in its selection of investment managers and funds.

### III. Roles and Responsibilities

Clear definition of responsibility, authority and accountability is critical to effective fiduciary oversight. Accordingly, this IPS defines the following roles and responsibilities of the parties responsible for the design, execution, and monitoring of the Fund. More detailed descriptions of the duties of the parties are provided in **Appendix A**.

- A. **Board of Directors** (the “Board”) – The Board retains fiduciary responsibility for the prudent management and oversight of the Fund. It may, at its sole discretion, delegate various responsibilities for planning, directing, implementing, monitoring, safekeeping, and accounting for investment of the Fund to the Investment Committee and/or other qualified parties where it believes such delegation is in the best interests of the UMF. The Board will retain responsibility for the appointment of Investment Committee members; distribution of funds; review and approval of the Investment Policy Statement; approval of Committee-recommended Investment Advisory Agreements and Custodian Agreements; and receipt and review of periodic reports from the Committee on the status of the Fund.
- B. **Investment Committee** (the “Committee”) – The Committee is responsible for the broad design, oversight, and implementation of the UMF’s investment activities. To that end, the Committee has responsibility for the creation and maintenance of the IPS, including establishment of investment objectives, time horizon, Policy Asset Allocation, and other requirements and restrictions as it deems appropriate. Further, the Committee will select and engage a qualified Investment Adviser to provide discretionary management of the Fund, and a Custodian, consistent with this IPS. Engagement of the Investment Adviser and Custodian are subject to review and approval by the Board of Directors.
- C. **Investment Adviser** – The Investment Adviser shall recommend for Committee approval the establishment and maintenance of a detailed Portfolio Asset Allocation (consistent with the Policy Asset Allocation and broad guidelines provided herein). The Investment Adviser will have discretion regarding the day-to-day implementation of this Portfolio Asset Allocation and management of the Fund portfolio as authorized by the Committee.<sup>1</sup> The

---

<sup>1</sup> The Committee reserves the authority to review certain private and/or illiquid investments in advance of their implementation.

# United Methodist Foundation, Inc.

## Balanced Fund

### Investment Policy Statement

Investment Adviser will also perform other tasks as deemed appropriate and consistent with this IPS or as otherwise directed by the Committee.

- D. **Investment Managers/Funds** – Investment Manager selection is the responsibility of the Investment Adviser as defined in this IPS. The Investment Managers (including mutual funds and commingled investment pools and/or vehicles) selected by the Investment Adviser have discretion to purchase, sell, or hold the specific securities that will be used to meet the investment objectives of their designated portfolios within the boundaries of the restrictions outlined in this Policy and, if applicable, their Investment Adviser-approved mandate. While it is understood that implementation through the purchase of a mutual or commingled fund may not allow the Committee to place restrictions on specific aspects of such management, it is expected that such investments employed by the Investment Adviser on behalf of the Fund will generally comply with the intent of this IPS.
- E. **Custodian** – The Custodian (or through agreement, one or more sub-custodians) will maintain custody of securities and separately managed accounts, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales by the Committee, the Investment Adviser, or the investment managers. The Custodian will also perform regular accountings of all assets owned, purchased, sold, or transferred, as well as movement of assets into and out of the Fund and will cooperate on year-end reconciliation of holdings. (The Committee may, at its discretion, appoint the Investment Adviser firm to serve as Custodian if it believes that so doing would be prudent and in the best interests of the management of the Fund.)
- F. **Chief Executive Officer (CEO) and Chief Financial Officer (CFO)** – The UMF’s CEO and CFO (“the Officers”) will provide support to the Committee in fulfilling its responsibilities as described in this IPS. The Officers will coordinate with the Committee and the Investment Adviser to ensure that sufficient assets are available to provide cash as needed by the UMF. The Officers will accept responsibility for the timely and accurate recording and reporting of all Fund activities in compliance with applicable laws, regulations, and financial accounting and reporting standards as required to ensure the UMF’s ongoing status as a qualifying 501(c) (3) organization.

Additional specialists such as attorneys, auditors, or consultants may be employed by the Committee to assist in meeting the fiduciary responsibilities and obligations to prudently administer the Fund. Reasonable and customary expenses for such experts may be borne by the Fund as deemed appropriate and necessary and as directed by the Committee.

#### IV. Time Horizon

While the Funds investment time horizon is generally viewed as perpetual, its investments will be managed with a stated long-term time horizon of 5 to 10 years. Investment results will also be measured over shorter periods of time, as defined herein, to ensure that the Policy is being implemented in a manner that is appropriate for accomplishing the Fund’s investment objectives.

# United Methodist Foundation, Inc.

## Balanced Fund

### Investment Policy Statement

The Committee does not expect that all investment objectives will be attained each year and recognizes that over various time periods, the Fund may produce significant over or under performance relative to the broad markets. For this reason, investment returns will be measured over rolling time-periods.

#### v. Distribution Policy

The UMF will use a total return Distribution policy (Policy), meaning that it will fund withdrawals from both income and appreciation of the Fund's assets. The Committee will review its Policy annually for the purpose of deciding whether circumstances require any amendment to the Fund's Policy, target asset allocation, or both.

The distribution requirements of the Fund are largely dependent upon the direction of the Unitholders. Revocable Unitholders may disburse or liquidate a portion of all their investments in the Fund at their discretion. Grantors of Irrevocable Trusts are required to establish distribution requirements at initiation of the unitholder accounts in the Fund. Such distribution requirements may be in the form of specific instructions, or they may be designated to comply with the UMF's board-approved Policy.

The distribution rate will be applied to the average of the Fund's balance as of the end of the prior three years for applicable Unitholder accounts unless otherwise stipulated and required by related donor/ Unitholder gift agreements.<sup>2</sup> This "smoothing methodology" is intended to minimize the impact of short-term market swings on the withdrawal amount. All portfolio gains in excess of distributions will be reinvested in the Fund.

At the discretion of the Committee, certain sub-accounts may be excluded from the market value of the Fund in implementing the Distribution calculation.

#### vi. Investment Objectives

The Fund is to be invested with the objective of preserving the long-term, real purchasing power of assets while providing a relatively predictable and growing stream of annual distributions in support of the UMFs' Unitholders as guided by the Sustainable and Socially Responsible Investment guidelines for investments noted in **Appendix D** and this Investment Policy Statement. The following Investment Objectives are established to guide this pursuit.

- A. Organizational Objective – The objective of the Fund is to preserve and enhance its real (inflation adjusted) purchasing power while providing a steady and consistent spending stream for the support of the UMF. Accordingly, the Fund's Organizational Objective is to attain an average annualized nominal return (measured over rolling ten-year periods, net of investment fees) of not less than the sum of inflation (CPI) plus an assumed 4.5% average distribution rate for underlying Unitholder accounts.

---

<sup>2</sup> While the UMF Board has adopted a recommended spending rate of 4%, the actual spending rate of the Unitholder accounts included in the Balanced Fund varies based on related gift instruments.

# United Methodist Foundation, Inc.

## Balanced Fund

### Investment Policy Statement

- B. Policy Objective –A secondary objective of the Fund is to attain an average annual return (as measured over rolling five-year periods, net of investment fees) equal to or greater than a broad market “Policy Benchmark” of 70% Global Equities / 30% Global Fixed Income with the MSCI ACWI NR Index being the benchmark for the Equities component, the Bloomberg Barclays Aggregate Bond Index being the benchmark for the Fixed Income component of this Policy Benchmark. The Committee recognizes that this objective may not be attained in every rolling five-year period but anticipates that it should be attainable over a series of rolling five-year periods.
- C. Portfolio Objective – On an interim basis (rolling periods of three years and less), the Fund’s portfolio will be expected to generate average annual returns (net of investment fees) equal to or exceeding the “Portfolio Benchmark,” defined as the weighted target allocations of the portfolio to various asset and sub-asset classes times (x) an appropriate and approved benchmark reflecting the market-level returns of such asset and sub-asset classes. The Committee recognizes that this objective may not be attained in every rolling three-year period but anticipates that it should be attainable over a series of rolling three-year periods. The “Portfolio Benchmark” will be proposed by the Investment Adviser and approved by the Committee in a form substantially similar to that presented in **Appendix C**.

#### ***Peer Comparisons***

The Committee will additionally assess the performance of the total Fund portfolio versus performance of comparable institutional portfolios (gross and/or net of fees, as available). Such peer comparisons will focus on portfolios of similar size and similar asset allocation over rolling one, three- and five-year periods.

## **VII. Asset Allocation**

The Committee recognizes the importance of clearly reflecting the Fund’s short-term and long-term return objectives and risk tolerances in an asset allocation framework that provides for both “strategic intent” and “effective implementation.” To that end, the Committee has established the following asset allocation framework and guidelines to direct the prudent design and implementation of the Fund portfolio. This framework is intended to assign responsibility and authority for “strategic intent” to the Committee while delegating responsibility and authority for “effective implementation” to the Investment Adviser within the guidelines established in this IPS.

The Committee recognizes that the strategic allocation of Fund assets across broadly defined asset and sub-asset categories with varying degrees of risk, return and return correlation will be the most significant determinant of long-term investment returns. The Committee expects that actual returns and volatility may vary widely from expectation over short periods of time. While the Committee wishes to retain flexibility regarding changes to the Fund’s Policy Asset Allocation, it expects to make changes only in the event of material changes to the Fund, the assumptions underlying Fund spending policies, and/or significant changes in the capital markets or asset classes in which the Fund invests.

**United Methodist Foundation, Inc.  
Balanced Fund  
Investment Policy Statement**

- A. **Policy Asset Allocation** – The “Policy Asset Allocation” referenced in this IPS is defined as the Committee-established broad asset allocation guideline, intended to reflect the strategic return objectives and risk tolerances deemed by the Committee to provide for the prudent pursuit of the Fund’s Organizational Objective. The Committee has approved the following Policy Asset Allocation for the Fund.

<b>Major Asset Class</b>	<b>Minimum (%)</b>	<b>Target (%)</b>	<b>Maximum (%)</b>
<b>Equities</b>	50%	<b>65%</b>	75%
<b>Fixed Income (Incl. ST)</b>	15%	<b>25%</b>	50%
<b>Diversifying Assets<sup>[3]</sup></b>	0%	<b>10%</b>	15%
<b>Total</b>		<b>100%</b>	

- B. **Portfolio Asset Allocation** – As defined in this document, the “Portfolio Asset Allocation” shall be the Adviser-recommended, Committee-approved detailed asset allocation employed for the purpose of implementing the Fund’s investment program and will define target, minimum and maximum allocations to approved sub-asset classes within each of the major asset classes defined in the Policy Asset Allocation. The Portfolio Asset Allocation will be presented to the Committee for approval at least annually in a form substantially similar to the sample presented in “**Appendix C – Portfolio Asset Allocation.**”

In all instances, the Portfolio Asset Allocation established, maintained, and implemented by the Adviser will remain in compliance with the Policy Asset Allocation guidelines established in this IPS.

Allowable investments within each of the major asset classes included in the Policy Asset Allocation above are defined in **Appendix B** and **Appendix D** of this IPS.

**VIII. Operational Guidelines**

**A. Liquidity**

Recognizing that the majority of the Fund assets represent “revocable” relationships that may be liquidated at the Unitholder’s discretion, the Committee and the Investment Adviser will attempt to balance the Fund’s short-term grant making obligations with its goal to provide capital appreciation sufficient to allow for grants in perpetuity, and therefore

---

<sup>3</sup> The Investment Adviser will propose Diversifying Assets for inclusion in the portfolio. Subject to review and approval by the Committee, such assets may include private equity, real assets, private credit, hedge funds, or other diversifying assets as defined in Appendix B.

# United Methodist Foundation, Inc.

## Balanced Fund

### Investment Policy Statement

encourage distribution policies that are flexible. To the extent possible, distribution policies for endowments and other donor Irrevocable accounts will be specified and agreed with the donor in the instrument that establishes the Unitholder account with the Fund. In considering such investments, the Committee and the Investment Adviser will exercise care to balance anticipated distribution needs with the potential for enhanced investment performance.

To that end, the maximum exposure to illiquid investments will be the maximum exposure for the Diversifying Assets.

#### **B. Diversification/Risk Management**

Thoughtful diversification across and within asset classes is the primary means by which the Committee expects the Fund to attain the stated return objectives and avoid undue risk of large losses over long periods of time. To protect the Fund against unfavorable outcomes within an asset class due to the assumption of large risks, the Investment Adviser will manage risk through appropriate asset allocation, diversification, and rebalancing in accordance with prudent fiduciary practices.

Short-term volatility (absolute and relative to Policy and Portfolio Objectives) will generally be expected, though extended periods of negative absolute returns or greater-than-market volatility in periods of negative market returns will be cause for specific review. Investments in individual securities (other than diversified funds or commingled investment vehicles) will be limited to a maximum of 10% of the Fund's total equity securities market value. Additionally, no single industry shall represent more than 25% of the Funds total equity securities market value.

For purposes of monitoring risks, the Investment Adviser will provide to the Committee a quarterly analysis of portfolio risk metrics for relevant trailing performance periods including, but not limited to:

- Portfolio standard deviation relative to the Policy and Portfolio Benchmarks;
- Portfolio up/down capture relative to the Policy and Portfolio Benchmarks; and
- Other standard and customary "risk metrics" as may be requested by the Committee.

#### **C. Rebalancing**

Formal rebalancing policies are an important component of the management of the Fund, ensuring that it adheres to the established long-term Policy Asset Allocation policy, even as the capital markets demonstrate volatile patterns of performance. The Investment Adviser is responsible for ensuring the continued compliance of the Fund's portfolio within the minimum and maximum ranges established in the Policy Asset Allocation.

Because different asset classes will perform at different levels in various time periods, the Investment Adviser will monitor the asset allocation shifts of the Fund created by such

# United Methodist Foundation, Inc.

## Balanced Fund

### Investment Policy Statement

differing performance across asset classes. When allocations are below minimum or above maximum levels specified in the Portfolio Asset Allocation, rebalancing will be the responsibility of the Investment Adviser and will be accomplished no less frequently than annually. The Investment Adviser may, during periods of extreme market volatility, determine that rebalancing to comply with the limits of the Portfolio Asset Allocation should be temporarily suspended so long as the Fund remains in compliance with the established Policy Asset Allocation guidelines. In such instances, the Investment Adviser will promptly inform the Committee of this decision.

#### **D. Selection of Investment Managers / Products / Funds**

The Committee has delegated responsibility for the selection of Investment Managers / Funds, investment products and investment vehicles to the Investment Adviser. The quantitative and qualitative factors to be considered by the Investment Adviser in selecting such providers or products should include, but are not necessarily limited to:

- Total firm assets under management and assets specific to the product of interest
- Stability and quality of the investment firm and its personnel
- Manager's tenure with the specific product of interest
- Historic performance of the Investment Manager's specific product
- Risk adjusted performance of the product as measured by industry standard metrics
- Consistency and correlation of the product's investment style
- Overlap of investment style and/or fund holdings with other Investment Managers
- Expense ratios and fees

Specific guidance on allowable and exclusionary investments are provided in **Appendix B and Appendix D**. Portfolio performance for all Investment Managers/Funds will be compared to an appropriate benchmark index and a relevant peer group on a quarterly basis.

#### **E. Communication and Reporting**

The Committee and the Investment Adviser will agree on explicit reporting and meeting requirements, which will generally include monthly custodial and/or "flash reports" (showing portfolio positions and market values), together with quarterly reporting on portfolio performance, market values, attribution analysis, portfolio movements, and market commentary. The Committee will meet formally with the Investment Adviser not less than semi-annually and will be available for more frequent meetings or discussions upon request. More detailed information on Communication and Reporting is provided under Roles and Responsibilities for the Investment Adviser in **Appendix A**.

# **United Methodist Foundation, Inc.**

## **Balanced Fund**

### **Investment Policy Statement**

#### **F. Fees and Expenses**

The Investment Adviser will be expected to manage the Fund portfolio with sensitivity to the fees incurred. Decisions to employ “active” separate account managers or funds should be made with a focus on the likelihood of the risk adjusted returns justifying the cost of such strategies. All fees and expenses incurred in the management and oversight of the Fund should be limited to those deemed by the Investment Adviser to be reasonable and necessary to accomplish the successful, prudent management of the portfolio.

The Investment Adviser will provide annually to the Committee a detailed analysis of all fees and expenses incurred in the oversight and implementation of the portfolio. This fee analysis will include all direct and indirect fees including Investment Adviser Fees, Investment Manager/Fund Fees, Custodian Fees and any other fees and expenses incurred on behalf of the Fund. The analysis will express such fees in annualized basis points.

#### **IX. Investment Adviser Evaluation**

The Committee acknowledges that fluctuation in return characterizes the capital markets, particularly over short time periods. Recognizing that short-term fluctuations may cause variations in performance, the Committee intends to evaluate the Investment Adviser’s performance with a focus on rolling three-year and five-year periods. The Committee may engage the services of an independent third-party service to facilitate this review and to provide relevant performance and asset allocation peer comparisons.

Not less frequently than every five years, the Committee will conduct a comprehensive review of the Investment Adviser relationship. This review will be both quantitative and qualitative in nature and may include the following factors:

##### **A. Areas of quantitative assessment**

- Overall portfolio performance relative to the Fund’s investment objectives
- Relative performance from tactical asset shifts within the portfolio
- Relative performance of strategies directed by the Investment Adviser
- Overall ability of the Investment Adviser to monitor existing managers and process to identify new managers/strategies
- Overall risk and return of the portfolio relative to Organizational, Policy, and Fund Objectives and peers
- Full disclosure of all fees paid to the Investment Adviser as well as those paid to Investment Managers and those implicit in investment products and vehicles employed in the management of the Fund
- Annual Reporting of Sustainable and Socially Responsible Investments as defined in this IPS.

# United Methodist Foundation, Inc.

## Balanced Fund

### Investment Policy Statement

#### B. Areas of qualitative assessment

- No conflicts in portfolio implementation, e.g., use of in-house investment products in the portfolio
- Strong compliance and litigation history
- Clear and consistent communication with the Committee regarding portfolio implementation and investment process and any changes in the firm, e.g., firm ownership or significant personnel changes
- Overall service level
- Access to the firm's senior management as needed or requested by the Committee
- Responsiveness to Committee requests and needs
- Overall value of the Advisory services.

At its discretion, the Committee may pursue a comprehensive Request for Proposal process toward the objective of replacing the Investment Adviser. The Committee will exercise appropriate due diligence in overseeing this process.

#### X. Other Considerations

- A. **Proxy Voting** - The Committee or Investment Adviser will engage a third-party vendor to vote proxies of the UMF's common stocks in separately managed accounts. These proxies will be voted in a manner consistent with maximizing sustainable, long-term returns. The UMF understands that ESG risks and opportunities may be material for individual businesses and are relevant for building a healthy, thriving economy that offers broad, lasting benefits to the companies in our portfolios. The UMF recognizes it has limited ability to mandate UMF-specific criteria to investments in pooled accounts and that if its custodian has chosen to lend its securities, the UMF temporarily loses its ability to vote these shares. A summary of proxy votes will be provided to the Committee upon request.
- B. **Conflicts of Interest** - The Committee will take reasonable measures to assess the independence of the Investment Adviser. Any actual or potential conflicts of interest possessed by a member of the Committee or any other trustee of the Fund with respect to the Investment Adviser must be disclosed and resolved pursuant to the Fund's Conflict of Interest Policy.

#### XI. Investment Policy Statement Review

To ensure continued relevance of the guidelines, objectives, and expectations established in this IPS, the Committee will review the IPS every three years, or more frequently as it deems appropriate, and will make revisions as necessary. It is not expected that the IPS will change frequently, and it is not anticipated that short-term movements in the financial markets will require adjustments to the IPS.

**United Methodist Foundation, Inc.  
Balanced Fund  
Investment Policy Statement**

**XII. Accepted**

The above Investment Policy Statement is agreed to and accepted by:

---

Kathryn Hart  
Chair, Board of Directors  
United Methodist Foundation, Inc.

---

Date

# United Methodist Foundation, Inc.

## Balanced Fund

### Investment Policy Statement

## Appendix A: Roles and Responsibilities

### **Investment Committee**

The Committee shall have responsibility for reviewing, revising, and recommending investment policies to the Board for ultimate approval. The Board has delegated to the Investment Committee the responsibility for the broad design, oversight, and implementation of the Fund's investment activities. To that end, specific responsibilities include:

- Development and maintenance of a comprehensive IPS. In developing the IPS, the Committee will establish the Fund's investment objectives, risk tolerances, time horizon, Policy Asset Allocation, and other requirements and restrictions as deemed appropriate.
- Selection, engagement, and ongoing monitoring of a qualified Investment Adviser to provide management of the Fund consistent with the IPS.<sup>4</sup>
- Definition of specific investment authorities to be granted to the Investment Adviser.
- Selection and engagement of a Custodian for safekeeping of Fund investments.<sup>5</sup>
- Review of activities performed by the Investment Adviser to hire or terminate Investment Managers (including allocations of the Fund's assets to mutual funds or other commingled vehicles) and to allocate the Fund assets (within permitted ranges) for tactical reasons.
- Evaluation of the Investment Adviser on an ongoing basis as established in this IPS including a detailed review not less than every three years (or more frequently if needed) to benchmark the Investment Adviser's services, portfolio results and fees.
- Periodic reporting to the Board on matters related to Fund investments and the overall investment program related thereto.
- Offering guidance to the Board and Investment Adviser with respect to Sustainable and Socially Responsible Investment guidelines and developing standards and investment practices designed to promote and strengthen our values
- The Committee will evaluate and approve the Investment Advisers ethical screening guidelines annually to ensure consistency with 2016 Book of Disciplines.

### **Investment Adviser**

The Investment Adviser owes a duty of loyalty to UMF to exercise reasonable care to comply with the scope and terms of the delegation of certain investment duties as defined in this IPS, including:

- Advise the Committee regarding issues pertaining to maintenance of the IPS. Such advice shall reflect the current state of the economy, the capital markets, the implications of expected risk and return assumptions, and the potential impact on the UMF's portfolio.
- Provide an annual analysis utilizing various spending and capital market scenarios to derive information that can be utilized by the Committee in establishing a spending rate for the year.
- Recommend for Committee approval a Portfolio Asset Allocation that seeks to accomplish the goals stated in this IPS with an emphasis on understanding and managing the investment risks inherent in the Fund while complying with the Policy Asset Allocation.

---

<sup>4</sup> Engagement of the Investment Adviser is subject to final review and approval by the Board of Directors.

<sup>5</sup> Engagement of the Custodian is subject to final review and approval by the Board of Directors.

# United Methodist Foundation, Inc.

## Balanced Fund

### Investment Policy Statement

- Provide investment management services (as a “fiduciary”) within the guidelines established in this IPS, including the exercise of discretionary authorities as defined herein.
- As appropriate, present to the Committee for its review and approval recommendations regarding investment in “private” or “illiquid” investment vehicles.
- Monitor individual Investment Managers/Funds to ascertain (1) compliance with their stated philosophies and styles, (2) any significant changes in ownership, organizational structure, financial condition or senior personnel staffing of the investment management organizations, (3) adherence to the investment guidelines set forth herein, (4) that this information and its relevance to the Fund is reported to the Committee, and (5) anticipated changes to the portfolio in response to the foregoing information.
- Inform the Committee of any material changes in the Investment Advisers recommended investment strategy and any changes in ownership.
- Meet not less than semi-annually with the Committee to review and explain the Fund’s investment results and related information.
- Annual reporting of proxy votes to the Committee.
- Facilitate UMF’s service provider relationships as directed by UMF.
- Annual reporting to the Committee and UMF with respect to Sustainable and Socially Responsible Investment guidelines for investments noted in **Appendix D**.
- Actively participating in the advancement of UMF’s mission.
- Provide the following quarterly reporting:
  - Economic and capital market analysis and commentary;
  - Investment performance for the total Fund versus Policy and Portfolio benchmarks for the most recent quarter, the fiscal year-to-date, and the most recent one-year, three-year, five-year, ten-year and since inception periods;
  - Investment performance for the Investment Managers/Funds versus approved benchmarks and relevant peers for the most recent quarter, the fiscal year-to-date, and the most recent one, three, and five-year periods;
  - Total Fund performance attribution for the trailing quarter, one-year, three-year, five-year, ten-year, and since inception periods reflecting the relative performance attributed to asset allocation and investment selection;
  - Summary of all activity that took place during the period and the rationale for any changes to the individual Investment Manager/Fund allocations, Portfolio Asset Allocation, and any qualitative changes to the investment management organization -- examples include changes in portfolio management personnel, ownership structure and investment philosophy;
  - Asset allocation analysis of quarter-end portfolio positioning relative to Policy Asset Allocation and Portfolio Asset Allocation targets and ranges;
  - Portfolio liquidity analysis reflecting the impact of Private Funds and other Illiquid Funds;
  - Performance and asset allocation data to a Committee-designated third-party performance review service provider in the form and in compliance with the schedule required by such provider;
  - Detailed analysis of total Fund fees including the Investment Adviser fee and all fees incurred in the management of the portfolio; and
  - Affirmation that all investment restrictions set forth in this IPS, that are not included herein, are complied with.

# **United Methodist Foundation, Inc.**

## **Balanced Fund**

### **Investment Policy Statement**

#### **Investment Managers**

Investment Manager selection is the responsibility of the Investment Adviser as defined in this IPS. Investment Managers are expected to invest the Fund's assets with 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 similar aims. The Investment Managers are expected to exercise complete investment discretion within the boundaries of the restrictions outlined in this Policy and, if applicable, their specific Investment Adviser-approved mandate.

Specific duties and responsibilities of the Investment Managers include:

- Managing designated assets on a discretionary basis.
- Reporting, on a timely basis, investment performance results for the most recent quarter, the fiscal year-to-date, and the most recent one, three- and five-year periods.
- Communicating any major changes in economic outlook, investment strategy, or any other factors that affect the portion of the portfolio over which the manager has discretion.
- Informing the Investment Adviser regarding any qualitative changes to the investment management organization -- examples include changes in portfolio management personnel, ownership structure and investment philosophy.
- Unless the Committee has otherwise delegated, promptly voting all proxies and taking all related corporate actions in a manner consistent with the long-term interests and objectives of the Fund and the Sustainable and Socially Responsible Investment Guidelines as described in this Investment Policy Statement. Each investment manager shall document his or her voting of proxies and related corporate actions and will comply with all regulatory obligations related thereto.
- For Investment Managers that directly purchase securities on behalf of the Fund, the Committee may require disclosure of brokerage commissions including those under any soft dollar or commission sharing arrangement. Broker selection is the responsibility of the individual investment managers and the Committee expects the purchase and sale of securities to be directed through brokerage firms offering the best price and best total execution (commission plus market impact).

If implementation is through the purchase of mutual or commingled funds, the Investment Adviser will ensure that the selection of such funds is generally in compliance with the intent of this IPS.

#### **Chief Executive and Chief Financial Officers**

The Chief Executive and Chief Financial Officers ("the Officers") recognize their responsibility to monitor Investment Adviser activities toward ensuring that the Fund is managed in compliance with this IPS and that sufficient assets are available to provide cash as needed. Specific responsibilities of the Officers include:

- Forecasting spending needs and, with Board and Committee approval, communicating such needs to the Investment Adviser on a timely basis.
- Monitoring the services rendered by all service providers and reporting material issues to the Committee.

**United Methodist Foundation, Inc.**  
**Balanced Fund**  
**Investment Policy Statement**

- Keeping the Committee adequately informed as to the Fund's investment balances.
- Maintaining all documentation and materials related to the Investment Adviser and the Fund investments on behalf of the Committee.
- Facilitating the audit process by preparing financial statements and acting as an interface between the auditors and various service providers.
- Coordinating meetings, Investment Adviser presentations and discussions, and other investment related activities as needed.
- Preparing the Committee's meeting agenda and related materials.
- Such other matters as are directed by the Committee from time to time.

**United Methodist Foundation, Inc.  
Balanced Fund  
Investment Policy Statement**

**Appendix B: Allowable Investments & Prohibited  
Assets/Transactions**

**Allowable Investments**

It is the policy of UMF to invest the Fund's assets based on the stated objectives in this IPS. To the extent practical, all investments are to be made in accordance with the guidelines for investments as found in the 2016 Book of Discipline – Paragraph 717, the Statement of Investment Guidelines of The Investment Committee of the General Council on Finance and Administration of the United Methodist Church (November 2000), the Socially Responsible Investment Guidelines & List of Failed/Ineligible Companies of the General Board of Pension and Health Benefits, and this Statement of Investment Policy, Objectives and Guidelines.

The continuous implementation of this policy will be based on cash-flow targets, risk tolerance, time frames, liquidity issues and an assessment of other relevant factors. Subject to the guidelines listed herein and consistent with the investment objectives of the Fund, the Investment Adviser shall have full discretion regarding implementation of the Committee approved Portfolio Asset Allocation including selection of Investment Managers/Funds, except as limited regarding investments in "Private Funds" or "Illiquid Investments" as defined herein. The following Allowable Investments are hereby approved for inclusion in the Fund portfolio:

- I. **Equities** – "Equities" are broadly defined within this IPS as representing publicly traded common stock, ordinary shares and/or American Depository Receipts (ADRs) in the form of individual securities, exchange traded funds, mutual funds or separately managed accounts of US, developed international or emerging market companies. The equity allocation has an investment objective of delivering net-of-fees returns equal to or exceeding the returns of an appropriate blended benchmark index. The equity allocation's purpose is to produce a proportionately greater contribution to total return than the fixed income portion of the portfolio, although it is recognized that this involves the assumption of greater risk and return variability. The equity allocation will be broadly diversified regarding geography, economic sector, industry, number of holdings, and other investment characteristics.
  
- II. **Fixed Income** – "Fixed Income" is broadly defined within this IPS as individual securities, exchange traded funds, mutual funds or separately managed accounts of U.S. Treasury, agency and corporate debt securities as well as securitized debt securities (such as mortgage-backed, asset-backed, and bank-loan secured, and middle market direct lending secured instruments). Fixed Income may also include developed and emerging markets, high yield bonds, leveraged loans in the form of exchange traded funds, mutual funds and/or separately managed accounts. The fixed income allocation has an investment objective of outperforming an appropriate benchmark, although performance will be monitored quarterly. The purposes of the fixed income allocation are 1) to contribute to overall return (including current income and potential capital appreciation), 2) to control overall portfolio risk, and 3) to provide a hedge against prolonged economic contraction. Money market instruments or other short-term fixed income securities may also be held in the Fixed Income allocation.

# United Methodist Foundation, Inc.

## Balanced Fund

### Investment Policy Statement

**III. Diversifying Assets** – In aggregate, the objective of these investments will be to avail the Fund of opportunities to dampen short-term volatility and/or enhance total return while pursuing the Organizational Objective. “Diversifying Assets” are defined as “any asset which, in substance and/or construction, is NOT itself traditionally recognized as: (i) cash or cash equivalent, (ii) a mutual fund, exchange traded fund, separately managed account or commingled fund intended to represent allocations to equities, fixed income, or cash or (iii) an individual stock, depository receipt, or bond listed on a nationally recognized domestic or international securities exchange.”

**Private Funds and Illiquid Funds** – To the extent that the Investment Adviser believes the use of Private Funds and Illiquid Funds [Defined as investments with full liquidity exceeding 30 days] are appropriate and prudent components of the portfolio, such investments will require prior education of and approval by the Committee. The Committee will consider recommendation of the appropriateness of each Private Fund or Illiquid Fund on a case-by-case basis, taking into consideration the costs, risks, expected returns, liquidity and structure of the investment, in addition to the overall allocation to Diversifying Assets investments and the anticipated benefit that such Private Fund or Illiquid Fund will provide to the portfolio relative to the pursuit of the Organizational Objective and the Policy Objective established herein.

#### **Prohibited Assets/Transactions**

The provisions of this IPS establish prudent fiduciary standards regarding the management of the Funds by a qualified Investment Adviser. The Investment Adviser will agree, in writing and as a “fiduciary,” to conduct all matters related to the investments of the Funds’ in compliance with this IPS, applicable laws and regulations, and generally accepted practices and standards of prudent portfolio management.

In all respects, the Investment Adviser will be responsible for ensuring that the investments of the Fund are managed to these standards and for defining, documenting (for Committee approval) and enforcing a list of any securities, assets and transactions that are expressly prohibited in the management of the Fund. The Investment Adviser will further accept responsibility for ensuring that separately managed accounts, funds, products, or investment vehicles employed are in continuous compliance with this list or that specific exceptions are approved, in advance of purchase, by the Committee.

Unless otherwise approved by the Committee, the following investments and activities are expressly prohibited except as included in mutual funds, commingled funds, or approved Private Funds or Illiquid Funds: short-selling, margin trading or direct leverage, securities lending, private placements, direct investments in commodities (other than mutual funds and exchange traded funds), avoid investments in companies whose products and/or services are not aligned with the Social Principles of The United Methodist Church (**Appendix D**), direct investment in futures contracts, and any securities or financial instruments in which the Investment Adviser or the underlying fund/account manager is an issuer or otherwise deemed to have a financial interest or receive direct or indirect financial or other benefit.

**United Methodist Foundation, Inc.  
Balanced Fund  
Investment Policy Statement**

**Appendix C: Portfolio Asset Allocation and Benchmarks(TBD)**  
(Illustrative Only\*)

<b>Asset Class</b>	<b>Target</b>	<b>Range</b>	<b>Benchmarks (TBD)</b>
<b>Equities</b>	<b>65%</b>	<b>50%-75%</b>	
Domestic	35%		
International	30%		
<b>Fixed Income</b>	<b>25%</b>	<b>15%-50%</b>	
Domestic	20%		
Other <sup>(6)</sup>	5%		
<b>Diversifying Assets</b>	<b>10%</b>	<b>0%-15%</b>	
Private Equity	5%		
Hedge Funds	2%		
Multi-Asset Real Return	3%		

\*This allocation represents a hypothetical portfolio and will look different during the transition period. Once the transition is complete, this Appendix will be finalized.

<sup>6</sup> Other Includes emerging market bonds, high yield bonds or other liquid credit assets

# United Methodist Foundation, Inc.

## Balanced Fund

### Investment Policy Statement

#### **Appendix D: Sustainable and Socially Responsible Investments**

The Investment Adviser shall use widely practiced sustainable and socially responsible investment strategies to fulfill its investment policy goals that are consistent with the goals outlined in the Sustainable and Socially Responsible Investment guidelines for investments as found in the then-currently adopted Book of Discipline, the Statement of Investment Guidelines of The Investment Committee of the General Council on Finance and Administration of the United Methodist Church, and this Statement of Investment Policy, Objectives and Guidelines. The United Methodist 2016 Book of Resolutions (Resolution 4017) provides the following additional aspirational guidance:

"The United Methodist Church aspires to have members of its investment community pursue the following investment policy goals, reflecting Church values and financial responsibilities:

- avoid investments in companies whose products and/or services are not aligned with the Social Principles of The United Methodist Church (**See Exclusionary Screening**);
- seek investments in corporations, companies, institutions, funds, or ventures making a positive contribution to the realization of the goals outlined in the Social Principles and the *Book of Resolutions*;
- promote sustainable and socially responsible investment practices by integrating environmental, social, and governance (ESG) factors into the investment decision-making process;
- influence corporations to manage ESG issues in their operations and to be transparent in monitoring and documenting these practices in public reports;
- seek investments in corporations, companies, institutions, funds, or ventures whose policies and practices help protect the natural world by, among other things, recycling, eliminating toxic chemicals and materials, and reducing green-house gas emissions; and pursue investments in companies that provide products, technology, and services that seek to increase energy efficiency and mitigate and/or adapt to climate change;
- pursue investments in corporations, companies, institutions, funds, or ventures with positive records in hiring and promoting women and persons of color and/or that are owned by women, racial and ethnic persons, or other underrepresented segments of society;
- pursue investments in financial institutions, non-gambling- related economic enterprises and development projects that support and/or are owned by Native American and indigenous communities;
- pursue investments in underserved communities through affordable housing and community development projects;
- seek investments in corporations, companies, institutions, funds, or ventures that respect international human rights and labor standards by avoiding the manufacture, or purchase through subcontracting, of products made with sweat-shop, forced, or child labor and adhering to business practices detailed in the Universal Declaration of Human Rights, the United Nations Global Compact, the United Nations Guiding Principles on Business and Human Rights (also known as the Ruggie Principles), and the International Labour Organization's core labor standards; and encourage companies that have not adopted the foregoing standards to do so;

# United Methodist Foundation, Inc.

## Balanced Fund

### Investment Policy Statement

- encourage companies to promote the responsible use of their products and encourage them to raise concerns with the customers who knowingly use their products in a manner not aligned with United Methodist values;
- seek investments in companies that publish and enforce supplier codes of conduct and hold suppliers accountable for any breaches of conduct;
- seek investments in corporations, companies, institutions, funds, or ventures located in or dedicated to alleviating poverty in developing countries, provided that those countries respect human and labor rights and have a record of pursuing improvements in national living standards while working to maintain ecological integrity;
- pursue opportunities to encourage companies to work in partnerships to address major health challenges, including treatment for HIV/AIDS, tuberculosis, and malaria and to promote access to medicines and global health care;
- endeavor to commend corporations for their transparency, disclosure, sustainable and socially responsible business practices, and efforts to raise industry standards on ESG issues that are of major concern to The United Methodist Church; and
- actively evaluate external consultants, investment advisers, and funds regarding their commitment to sustainable and socially responsible investment practices and diversity within their workforce and governance structure."

**Exclusionary Screening:** In addition, the Investment Adviser shall endeavor to avoid investments in companies engaged in core business activities that are not aligned with the Social Principles through their direct or indirect involvement with the production of anti-personnel weapons and armaments (both nuclear and conventional weapons), alcoholic beverages or tobacco; or that are involved in privately operated correctional facilities, gambling, pornography or other forms of exploitative adult entertainment.

A. Core business activity refers to a company's primary, or central focus of activity and is an essential element in the company's economic success. Generally, a "core business" is one that accounts for 10% or more of a company's revenue derived from the objectionable products and/or services and discontinuing the activity would materially change the nature of the company's operations. An exception to the 10% threshold will apply to restaurants and other food retailers that sell or serve alcoholic beverages. For such businesses, a 25% revenue threshold will apply. In addition, the Investment Adviser will not knowingly invest in any company with identifiable nuclear weapons production contract awards from the U.S. Department of Defense or comparable agency or department of any foreign government.

B. Companies supplying raw materials, packaging, supplies, and/or other components to ineligible companies will be assessed on a case-by-case basis. General retail establishments (other than restaurants and other food retailers) engaged in the sale of alcoholic beverages, tobacco products, adult entertainment, including pornography and other harmful materials, lottery tickets or firearms will be assessed on a case-by-case basis.

**United Methodist Foundation, Inc.**  
**Balanced Fund**  
**Investment Policy Statement**

C. Emerging markets commingled equity pools are exempt from the above restrictions if specifically authorized and the aggregate exposure of companies otherwise prohibited does not exceed 10% of the value of the fund.

D. Commingled hedge fund pools are exempt subject to periodic reporting described elsewhere in this Investment Policy Statement.