Episcopal Diocese of Washington Diócesis Episcopal de Washington

THE DIOCESAN INVESTMENT FUND OF THE EPISCOPAL DIOCESE OF WASHINGTON INVESTMENT POLICY STATEMENT[1]

I. Introduction

The Diocesan Investment Fund (hereafter referred to as the "Fund") was created to provide perpetual financial support to the Protestant Episcopal Diocese ofWashington (the "Diocese.") and to participating parishes. The purpose of this investment policy statement is to establish guidelines for the Fund's investment portfolio (the "Portfolio") in the areas that most influence investment returns and risks. The statement also incorporates accountability standards that will be used for monitoring the progress of the Portfolio's investment program and for evaluating the contributions of the manager(s) hired on behalf of the Fund and its beneficiaries.

II. Role of the Investment Committee

The Investment Committee ("Committee") is acting in a fiduciary capacity with respect to the Portfolio, and is accountable to the Diocesan Council of the Protestant Episcopal Diocese of Washington for overseeing the investment of all assets owned by, or held in trust for, the Portfolio.

A. This Investment Policy Statement ("Policies") sets forth the investmentobjectives, distribution policies, and investment guidelines that govern the activities of the Committee and any other parties to whom the Committee has delegated investment management responsibility for Portfolio assets.

B. The Policies for the Fund contained herein have been formulated consistent with the Diocese's anticipated financial needs and in consideration of the Institution's tolerance for assuming investment and financial risk, as reflected in the majority opinion of the Committee.

C. The Policies contained in this statement are intended to provide boundaries, where necessary, for ensuring that the Portfolio's investments are managed consistent with the short-term and long-term financial goals of the Fund. At the same time, they are intended to provide for sufficient investment flexibility inthe face of changes in capital market conditions and in the financial circumstances of the Institution.

D. The Committee will review these Policies at least once per year. Changes to the Policies can be made only by affirmation of a majority of the members of the Committee, and written confirmation of the changes will be provided to all Committee members and to any other parties hired on behalf of the Portfolio as soon thereafter as is practical.

[1] Approved – Diocesan Council – 14 January 2014

III. Investment Objective and Spending Policy

A. 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 Institution. The Fund has a goal of achieving a return consistent with its spending policy plus the inflation rate as measured by the Consumer Price Index (CPI) over a full market cycle. The total Fund performance will be compared to an appropriate blended index of equities and fixed income securities with a goal of matching or exceeding the performance of such a benchmark index. The performance of the equity and fixed income components will be compared separately to appropriate equity and bond benchmark indices.

B. The annual distribution from the fund to the Diocese and/or participating parishes shall established by those participating entities. It is anticipated that some participants may elect to reinvest dividends, interest, and capital gains distributions and that others will request having those receipts of income paid out on a monthly basis.

IV. Portfolio Investment Policies

A. Asset Allocation Policy

1. The Committee recognizes that the strategic allocation of Portfolio assets across broadly-defined financial 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 and Portfolio asset value stability.

2. The Committee expects that actual returns and return volatility may vary widely from expectations and return objectives across short periods of time. While the Committee wishes to retain flexibility with respect to makingperiodic changes to the Portfolio's asset allocation, it expects to do so only in the event of material changes to the Fund, to the assumptions underlyingFund spending policies, and/or to the capital markets and asset classes in which the Portfolio invests.

3. Fund assets will be managed as a balanced portfolio comprised of two major components: an equity portion and a fixed income portion. The expected role of Fund equity investments will be to maximize the long-term real growth of Portfolio assets, while the role of fixed income investments will be to generate current income, provide for more stable periodic returns, and provide some protection against a prolonged decline in the market value of Portfolio equity investments.

4. Cash investments will, under normal circumstances, only be considered as temporary Portfolio holdings, and will be used for Fund liquidity needs or to

facilitate a planned program of dollar cost averaging into investments in either or both of the equity and fixed income asset classes.

5. No more than 75% and no less than 45% of the funds assets may be investedin equity securities, active equity mutual funds, passive equity index funds, private capital funds and/or hedge funds. The balance may be invested in active and/or passive bond funds, real estate investment trusts, and diversified commodity funds.

   The Investment Committee in conjunction with an Investment Manager will establish asset allocation targets for each broad asset class (equities, fixed income,real estate, cash reserves and alternative investment) and each sub-asset class within the broad asset classes. The Investment Manager and the Investment Committee will review the asset classes and sub-asset classes quarterly and modify allocation targets if necessary.

   The equity sub-asset classes may include US large cap, mid cap, small cap; international (developed markets) emerging markets; and other classes identifiedby the Investment Manager or the Investment Committee

   Bond investments will be made in large well established mutual funds with proven records of value added investment results and managed by experienced teams with broad research capabilities. Multiple bond funds may be employed forrisk reduction and diversification. Both the Investment Manager and the Investment Committee must approve the bond funds selected.

B. Diversification Policy

Diversification across and within asset classes is the primary means by whichthe Committee expects the Portfolio to avoid undue risk of large losses over long time periods. To protect the Portfolio against unfavorable outcomes within an asset class due to the assumption of large risks, the Committee will take reasonable precautions consistent with generally accepted investment standards for fiduciaries of charitable institutional accounts to avoid excessive investment concentrations. Specifically, the following guidelines will be in place:

1. With the exception of fixed income investments explicitly guaranteed by the U.S. government, no single investment security or the securities of one issuershall represent more than 5% of total Portfolio assets.

2. With the exception of passively managed investment vehicles seeking to match the returns on a broadly diversified market index, no single investment pool or investment company (mutual fund) shall comprise more than 25% of total Portfolio assets.

3. With respect to fixed income investments, the minimum average credit quality of these investments shall be investment grade (Standard & Poor's BBB or Moody's Baa or higher).

C. Rebalancing Policies

It is expected that the Portfolio's actual asset allocation will vary from its target asset allocation as a result of the varying periodic returns earned on its investments in different asset and sub-asset classes. The Portfolio will be re-balanced to its target normal asset allocation under the following circumstances:

1. Utilize incoming cash flow (contributions) or outgoing money movements (disbursements) of the portfolio to realign the current weightings closer to the target weightings for the portfolio.

2. The Investment Manager will review the portfolio at least quarterly to determine the deviation from target weightings and report to the Committee. During each quarterly review, the following parameters will be applied:

   a) If any asset class (equity or fixed income) within the portfolio is +/-5 percentage points from its target weighting, the portfolio will be rebalanced.

   b) If any fund within the portfolio has increased or decreased by greater than 20% of its target weighting, the fund will be rebalanced.

3. The investment manager may provide a rebalancing recommendation at any time.

4. The investment manager shall act within a reasonable period of time consistent with generally accepted standards for fiduciaries of charitable institutional accounts to evaluate deviation from these ranges.

D. Other Investment Policies

Unless expressly authorized by the Committee, the Portfolio and its investment managers are prohibited from:

1. Purchasing securities on margin, or executing short sales.

2. Pledging or hypothecating securities, except for loans of securities that are fully collateralized.

3. Purchasing or selling derivative securities for speculation or leverage.

4. Engaging in investment strategies that have the potential to amplify or distort the risk of loss beyond a level that is reasonably expected given the objectives of their portfolios.

5. Investing more than ten percent of the Fund's assets in securities that are illiquid as to resale.

6. In the event that individual equities rather than index mutual funds are utilized for investment in the Fund, the Investment Manager shall not invest material amounts of funds in the securities of any company that derives substantial amounts of income from the manufacture, distribution, or selling of firearms to the general public; alcohol; tobacco; or other products orservices that conflict with the Christian mission of the Diocese as from time to time may be communicated to the Investment Manager by the Committee. Individual company stocks held within index mutual funds are notconsidered to be material amounts.

V. Monitoring Portfolio Investments and Performance

The Committee will monitor the Portfolio's investment performance against the Portfolio's stated investment objectives. On a quarterly basis or more frequently as requested by the Investment Committee, the Investment Manager will provide a formal written report to the Investment Committee that will include a summary ofthe holdings with market values and costs and investment results of the total fundand each broad asset class as well as each sub-asset class with a comparative benchmark that is agreeable to the Investment Manager and the Investment Committee.

A. The Portfolio's composite investment performance (net of fees) will be judged against the following standards:

   1. The Portfolio's absolute long-term real return objective

   2. A composite benchmark consisting of the following unmanaged market indices weighted according to the expected target asset allocations stipulated by the Portfolio's investment guidelines

B. The performance of professional investment managers hired on behalf of the Portfolio will be judged against the following standards:

   1. A market-based index appropriately selected or tailored to the manager's agreed-upon investment objective and the normal investment characteristics of the manager's portfolio

   2. The performance of other investment managers having similar investment objectives

C. In keeping with the Portfolio's overall long-term financial objective, the Committee will evaluate Portfolio and manager performance over a suitably long-term investment horizon, generally across full market cycles or, at a minimum, on a rolling five-year basis.

D. In addition to the formal quarterly written reports, each investment manager is expected to be available to meet with the Investment Committee once per yearto review portfolio structure, strategy, and investment performance.