

**Investment Strategy Statement  
General Board of Pension and Health Benefits  
of The United Methodist Church**

**I. Purpose of the Investment Strategy Statement:** As a fiduciary for the participants in its plans and programs, the General Board of Pension and Health Benefits (hereafter referred to as the “Board”) must manage its investment program in a financially sound and prudent fiscal manner. The Board will establish a Fiduciary Committee, which has responsibility for executing this Investment Strategy Statement and developing an appropriate Statement of Administrative Investment Policy relating to the prudent management of investments within the ethical parameters established by the Board of Directors and the Book of Discipline. It will also establish a Committee (the UMC Principles Committee) responsible for ensuring the Board’s investment program is aligned with the Social Principles of the United Methodist Church.

- A. The Fiduciary Committee will establish and monitor the Statement of Administrative Investment Policy relating to the prudent management of investments.
- B. The Statement of Administrative Investment Policy relating to the prudent management of investments must specify permitted investment funds. The Statement must include the following elements for each fund: fund objective, fund performance benchmark, performance objective, investment strategy, eligible investments, and limits including target and permitted range, active risk target, permitted active risk range, and eligible investors. It must also specify permitted asset classes/investment strategies and delegation of authority to staff. Finally, the Statement must specify the policy of the Board for ensuring that its investment funds adhere to the Social Principles of The United Methodist Church as referenced in the Book of Discipline.

**II. Application:**

- A. The policies stated in this Investment Strategy Statement apply to funds and investments administered by the Board.
- B. The standard of care when making decisions is the Prudent Expert Standard defined as: the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

**III. Committee Responsibilities:**

- A. The Fiduciary Committee of the Board of Directors is charged by the Board to:
  - 1. Establish a Statement of Administrative Investment Policy.
  - 2. Review for approval changes to the Statement of Administrative Investment Policy recommended by staff.
  - 3. Review and monitor investment performance for compliance with the Statement of Administrative Investment Policy.

4. Approve investment in any asset class or investment strategy not specifically listed in the Statement of Administrative Investment Policy.
  5. Approve any new investment management contracts or authorize any investment manager termination except as otherwise provided in the Statement of Administrative Investment Policy.
  6. Delegate the execution and administration of the Statement of Administrative Investment Policy to staff.
- B. The UMC Principles Committee of the Board of Directors is charged by the Board to:
1. Interpret the Social Principles and other directives of the General Conference as they apply to the Board's investment program.
  2. Monitor the execution of the Board's investment program to ensure that it fulfills the requirements specified in this Strategy Statement and in the Statement of Administrative Investment Policy.

#### **IV. Socially Responsible Investment Program:**

- A. Socially Responsible Investing defined: The Board's investment program should be administered in a manner that is consistent with the polity of the United Methodist Church but must also adhere to prudent fiduciary investment standards regarding expected rates of return commensurate with perceived investment risk.
- B. The Board demonstrates its commitment to issues of social responsibility in various ways:
1. Securities Screening - The Board screens out of its investment portfolio companies that derive significant income from products and services that are inconsistent with the Social Principles.
  2. Shareholder Advocacy - The Board uses various shareholder advocacy strategies to engage corporations on issues of concern. These strategies include letter writing, filing shareholder resolutions, engaging corporate management in dialogue, and divestment.
  3. Positive Social Purpose Investments Program– The Board will strive to invest in support of affordable housing, community development, for underserved communities, micro-financing and other types of positive social purpose investments, as identified in the Statement of Administrative Investment Policy, in the United States and throughout the world.
  4. Emerging Manager Program – the Board will attempt to identify and retain small investment firms with sound investment approaches for the Board's investment programs. All else being equal, preference will be given to minority-owned, woman-owned firms and/or socially proactive investment approaches.
- C. The Board votes on issues of corporate governance in the financial interests of our plan participants and also consistent with the values of the denomination.

## **Statement of Administrative Investment Policy General Board of Pension and Health Benefits of The United Methodist Church**

- I. Purpose:** The purpose of the Statement of Administrative Investment Policy (Statement) is to outline the governance of the General Board of Pension and Health Benefits (Board) investment program. The Board of Directors has charged the Fiduciary Committee to establish and monitor this policy. Certain elements of the policy related to socially responsible investing are monitored by another committee of the Board of Directors, the UMC Principles Committee. Investment management is responsible for hiring, monitoring and terminating external asset managers in all approved asset classes. External asset managers retained by the Board must strictly adhere to these policies unless otherwise agreed to by the Board. Exceptions are permitted, but must be contractually documented in the investment management agreement investment guidelines between the Board and external asset manager. Additionally, Board management must notify the Fiduciary Committee of any exceptions.
- II. Investment Funds:** The Board offers a variety of investment funds comprised of permitted asset classes and investment strategies. The net asset values for the Board's funds are based on the fair market value of the underlying assets. Unless otherwise specified, the investment funds are available to all participants or entities that have deposits on account with the Board. Funds may be selected by participants or other eligible investors. Additionally, the Board offers a managed account program (LifeStage Investment Management Service) elected by participants or as required in certain employer contribution plans (i.e., the Ministerial Pension Plan). **Exhibits shall be provided as addenda to this policy for each approved investment fund.** Each exhibit shall include the following elements for each fund: fund objective, fund performance benchmark, performance objective, investment strategy, eligible investments and limits including target and permitted range, active risk target, permitted active risk range and eligible investors.

The Board is authorized to offer the following funds:

- A. U.S. Equity Fund. The U.S. Equity Fund (USEF) invests in a broadly diversified portfolio of primarily publicly traded, U.S.-based equity securities. The USEF portfolio is intended to have most of its assets invested in equities and equity index futures. (Exhibit A)
- B. International Equity Fund. The International Equity Fund (IEF) invests in a broadly diversified portfolio of primarily equity securities of companies from non-U.S. countries. The IEF portfolio is intended to have most of its assets invested in equities and equity index futures of companies based in both developed and emerging market countries. IEF may also purchase currency forward contracts. (Exhibit B)
- C. Fixed Income Fund. The Fixed Income Fund (FIF) invests in a broadly-diversified portfolio of fixed income securities. FIF may also hold mortgages and other loans originated through the Positive Social Purpose Lending program. (Exhibit C)

- D. Inflation Protection Fund. The Inflation Protection Fund (IPF) invests in a portfolio of domestic and international inflation-protected securities, commodities futures contracts and cash equivalents. (Exhibit D)
- E. Stable Value Fund. The Stable Value Fund (SVF) invests in a broad range of short and intermediate term high quality, investment grade fixed income instruments and principal protection contracts. SVF may also hold mortgages and other loans initiated through the Positive Social Purpose Lending Program. (Exhibit E)
- F. Balanced Social Values Plus Fund. The Balanced Social Values Plus (BSVP) Fund invests in a portfolio of U.S. stocks, Positive Social Purpose loans, and cash equivalents. The principal difference between the BSVP and other funds managed by the Board is reflected in stricter social screening compared to other funds. (Exhibit F)
- G. Annuity Immunization Fund. The Annuity Immunization Fund (AIF) invests in fixed income securities of U.S. government, agency and investment-grade corporate bonds. (Exhibit G)
- H. Short Term Investment Fund. The Short Term Investment Fund (STIF) invests in short-term, highly-rated fixed income securities. (Exhibit H)
- I. Multiple Asset Fund. The Multiple Asset Fund (MAF) is a fund-of-funds vehicle with targeted fund allocations to four of the individual funds described above (USEF, IEF, FIF and IPF.) (Exhibit I)
- J. Long Duration Bond Fund: The Long Duration Bond Fund (LDBF) invests in Positive Social Purpose loans and fixed income securities generally of longer duration to align with the duration of the underlying liabilities. The Fund invests for the purpose of generating income to fund annuity obligations. The LDBF is limited to participants of the Ministerial Pension Plan and for investment of funds supporting MPP Annuities. (Exhibit L)
- K. Domestic Private Equity Fund: The Domestic Private Equity Fund holds limited partnership investments in U.S.-based private equity funds including direct private equity funds, mezzanine investment funds and private equity fund-of-funds. The Domestic Private Equity Fund is not offered directly to participants but is intended to be held by other Board funds and plans. (Exhibit M)
- L. Domestic Private Real Estate Fund: The Domestic Private Real Estate Fund holds limited partnership investments in U.S.-based private real estate funds including direct private real estate funds, mezzanine debt real estate investment funds, and real estate fund-of-funds. The Domestic Private Real Estate Fund is not offered directly to participants but is intended to be held by other Board funds and plans. (Exhibit N)
- M. International Private Equity Fund: The International Private Equity Fund holds limited partnership investments in internationally-domiciled private equity funds and private equity funds-of-funds. The International Private Equity Fund is not offered directly to participants but is intended to be held by other Board funds and plans. (Exhibit O)
- N. International Private Real Estate Fund: The International Private Real Estate Fund holds limited partnership investments in internationally-domiciled private real estate funds including direct private real estate funds, mezzanine debt real estate

investment funds, and real estate fund-of-funds. The International Private Real Estate Fund is not offered directly to participants but is intended to be held by other Board funds and plans. (Exhibit P)

- O. **Special Opportunities Fund:** The Special Opportunities Fund (SOF) holds interests in any of a number of alternatives investments and other special situations deemed appropriate for plans that the Board has asset allocation responsibility. SOF is not intended for daily priced funds available to participants in the various defined contribution plans offered by the Board. (Exhibit R)

III. **Socially Responsible Investing (SRI):** The Board promotes sustainable investing practices by considering environmental, social, and governance factors in selecting investments and external asset managers.

- A. The **UMC Principles Committee** monitors the Board's compliance with ¶716 of The Book of Discipline, which directs the Board "...in the investment of money to make a conscious effort to invest in institutions, companies, corporations, or funds whose practices are consistent with the goals outlined in the Social Principles, and shall endeavor to avoid investments that appear likely, directly or indirectly, to support racial discrimination, violation of human rights, sweatshop or forced labor, gambling, or the production of nuclear armaments, alcoholic beverages or tobacco, or companies dealing in pornography."
- B. The **Fiduciary Committee** is responsible for ensuring that the Board's investments adhere to ¶1504.14 of The Book of Discipline which directs the board "To discharge its fiduciary duties with respect to a benefit fund, plan, or program solely in the interest of the participants and beneficiaries and for the exclusive purpose of providing benefits to participants and their beneficiaries and defraying reasonable expenses of administering the plan, with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims."
- C. All Board investments shall be **screened** according to United Methodist values as described in the Social Principles, ¶716 of *The Book of Discipline 2008* and Resolution 4071 ("Investment Ethics") of *The Book of Resolutions 2008* provided that to do so does not abrogate the Board's fiduciary responsibility as described in ¶1504.14.
  - 1. The UMC Principles Committee will evaluate and approve Board screening guidelines following each General Conference to ensure consistency with adopted Church positions.
  - 2. Management shall maintain a list of companies excluded from investment. The list shall be updated monthly and made available to all Board external asset managers on a password protected General Board web site. Each quarter, an updated list of excluded companies shall be published on the Board's main Web site.
  - 3. Investments shall not knowingly be made in any company producing, as its core business, alcoholic beverages (beer, wine, distilled liquor) or
    - a) receiving 10% or more of gross revenues from selling, distributing or marketing alcoholic beverages, or

- b) receiving 10% or more of gross revenues from supplying key elements for alcoholic beverage production.
- 4. Investments shall not knowingly be made in any company manufacturing, as its core business, cigarettes, cigars, chewing tobacco or smokeless tobacco or
  - a) receiving 10% or more of gross revenues from selling, distributing or marketing tobacco-related products, or
  - b) receiving 10% or more of gross revenues from supplying key elements to the tobacco industry (cigarette papers, flavorings, adhesives, etc.).
- 5. Investments shall not knowingly be made in any company owning or managing, as its core business, casinos, racetracks or off-track betting parlors or receiving 10% or more of gross revenues from the production of goods and services related to the gaming or lottery industries.
- 6. Investments shall not knowingly be made in any company receiving 10% or more of gross revenues from the production, sale or distribution of products or services that are considered pornographic or meet the legal definition of “obscene” or “harmful to minors.”
- 7. Investments shall not knowingly be made in any company
  - a) receiving 10% or more of gross revenues from the manufacture, sale or distribution of antipersonnel weapons (land mines, “assault-type” automatic and semiautomatic weapons, firearms, etc.), armaments, ammunition or weapons-related systems provided for commercial and private markets (exceptions may be made for weapons and ammunition provided for sporting or law enforcement purposes), or
  - b) whose identifiable ratio of nuclear weapons contract awards from DOD or comparable agency or department of any foreign government to gross revenues is greater than or equal to 3%.
- 8. Investments shall not knowingly be made in any company/corporation in which 10% or more of gross revenue is derived from the management or operation of federal, state, county, or municipal correctional facilities (jails, prisons, penitentiaries, detention centers, prison camps, transfer centers).
- 9. Investments will not be made in corporations in which 10% or more of gross revenues are derived from a combination of the above (3 – 8).
- 10. Companies not falling into any of the above categories still may be ineligible for purchase because of reputation, public image or any specific business practices determined to be a gross violation of the Social Principles (such as human rights violations, abusive labor practices including the exploitation of child labor, flagrant or egregious damage to the environment, and unethical business practices).
- 11. 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.

12. Commingled hedge fund pools are exempt subject to periodic reporting described elsewhere in this statement.
- D. The Board will exercise prudent governance over companies whose stock is held in the Board's funds by voting proxies based on approved **proxy voting** guidelines.
1. Management will develop and maintain proxy voting guidelines that reflect the importance of environmental, social and governance issues in business practices. The proxy voting guidelines will be presented annually to the Fiduciary and UMC Principles Committees for review.
  2. Lending of securities on record date for voting proxies at the annual meeting is not permitted unless there is a compelling financial reason to do so.
  3. The Board's proxy voting record shall be available publicly on the Board's Web site.
- E. **Shareholder Advocacy:** The Board will carefully evaluate the various business practices of companies and attempt to influence them to operate responsibly, ethically and in alignment with the Social Principles. In the event that attempts at shareholder advocacy are unsuccessful, the Board may consider divestment. Annually, management will identify the primary advocacy issues to be addressed the following year. In deciding which issues to pursue, consideration will be given to the concerns of church constituencies, available staff resources and the advocacy priorities of the Board's strategic partners. Management is authorized to apply the following tools of shareholder advocacy to work for change.
1. **Written communications.** The Board will use letters to alert companies to issues, seek resolution of concerns, request a meeting or offer commendation.
  2. **Shareholder resolutions.** The Board will file or co-file a limited number of shareholder resolutions. Resolutions call upon companies to address a particular issue and provide shareholders with a report.
  3. **Dialogue.** The Board will attempt to engage selected companies in face-to-face meetings or conference calls. The Board reserves the right to withdraw from an unproductive engagement at any time.
  4. **Divestment.** The Board will consider the following in determining whether the sale of securities issued by a company whose business practices are considered to be an egregious violation of Church polity:
    - a) The Church, either in the Social Principles or *The Book of Resolutions*, has established a position on a specific divestment issue.
    - b) The call for divestment has been objectively researched and the business and social case articulated clearly and persuasively by United Methodist and other respected constituencies.
    - c) There is widespread support for divestment in the responsible investing community.
    - d) Management has communicated with the company in writing at least twice explaining the issue or issues prompting the

divestment discussion and requesting a clear statement of company policy and practices relating to the issue, any remedial action undertaken to address the issue and a request for holding a meeting to discuss the issue or issues in more detail.

- e) The Board has either directly filed or has partnered with other investors to file a shareholder resolution seeking a report on the company's course of action to address the issue in question.

When no measurable company action is achieved through engagement or shareholder advocacy, management will present a business case rationale supporting a recommendation for divestment to the UMC Principles and Fiduciary Committees. The rationale should consider both the fiduciary implications of divestment and the appropriate social criteria found in the Social Principles.

- F. **Strategic Partnerships:** The Board will partner with other socially responsible investors, socially responsible investing organizations and organizations dedicated to corporate accountability and responsibility. Partners should complement the Board's full range of responsible investing activities. The Board will consider partner relationships under the following conditions:

1. The partner must be:
  - a) an investor or investing organization related to The United Methodist Church,
  - b) a socially responsible investor that has publicly stated its commitment to considering environmental, social, and governance factors in its investment decisions, or
  - c) an individual or organization working for greater corporate accountability in alignment with widely-held socially responsible investing values.
2. The partner's socially responsible investing or advocacy activities are consistent with United Methodist policies and teachings as found in the Social Principles and *The Book of Resolutions*.
3. The partner's advocacy objective must be consistent with best practices relating to the consideration of environmental, social and governance issues in making investment decisions.
4. The partner is credible and respected in the socially responsible investing community.
5. The partnership is mutually beneficial to both the partner and the Board, maximizing financial resources and staff capacity.

- G. Positive Social Purpose Lending Program

1. The Board seeks loans that make a positive contribution toward the goals outlined in the Social Principles. These loans are expected to earn a market rate of return commensurate with the risk to participants.

Examples of such loans include:

- a) affordable housing,
- b) community development facilities,
- c) microfinance lending opportunities
- d) charter schools, and

- e) enterprises owned by women, ethnic, or racial minorities, or enterprises that provide positive social impact to women, ethnic or racial minorities, and
    - f) special social concerns as identified by General Conference provided all such loans are in keeping with this investment policy.
  - 2. Quarterly, management will report loans funded through the Positive Social Purpose Lending Program to the UMC Principles and Fiduciary Committees.
- H. **Women and/or Minority-Owned Manager Program**
  - 1. The Board supports and will endeavor to identify and retain qualified and sound investment management firms that are owned by women or members of an ethnic minority group or who factor environmental, social, or governance criteria into their investment philosophies.
  - 2. Quarterly, management will identify investments directed through the Women or Minority-Owned Manager Program to the UMC Principles and Fiduciary Committees.
- I. **Manager Due Diligence:** The Board's request for proposals will include a question asking prospective external asset managers to describe their policy of evaluating environmental, social and governance (ESG) issues when making investment decisions. Ongoing investment manager due diligence will include an annual response provided by all Board external asset managers in which they will explain how they factor ESG issues into their investment decisions. Management will formally assess each external asset manager's commitment and success in evaluating the impact of ESG on its investment decisions.

**IV. Permitted Asset Classes/Investment Strategies:** Asset classes and investment strategies are permitted only if specifically listed below.

- A. U.S. Equity Securities: Investments in U.S. equities shall be limited to common or preferred corporate stocks and investment trusts of corporations domiciled in the U.S. and listed on the NYSE, AMEX or the NASDAQ exchanges or the ADRs of foreign stocks traded on these exchanges. To avoid the risk of concentration of assets, no more than 2% of the outstanding securities of any one class of an issuer may be held. Equity derivative contracts are permitted but must comply with the Derivatives Investment Policy (Exhibit J).
- B. International Equity Securities: Investments shall be limited to common or preferred stocks of corporations domiciled in countries that comprise the Morgan Stanley Capital International All Countries World Index or other countries specifically permitted by Board management. Sub-asset classes include Developed Market Equities, which consist of stocks of companies domiciled in countries that comprise the MSCI EAFE plus Canada Index, ex-USA, and Canada; and the MSCI Emerging Market IMI Index External asset managers may purchase stocks of companies domiciled in countries that do not comprise either of these indices if permitted by the investment management agreement investment guidelines. External asset managers may execute foreign exchange contracts and invest in local country cash equivalents issued under the laws of permitted foreign

countries. Equity derivative contracts are permitted but must comply with the Derivatives Investment Policy (Exhibit J).

- C. Fixed Income Securities: Investments shall be limited to classes of securities specified below. External asset managers may purchase classes of securities not listed if specifically permitted by the investment management agreement investment guidelines. Fixed income derivative contracts are permitted but must comply with the Derivatives Investment Policy (Exhibit J). The following classes are permitted:

1. U.S. Treasury and agency fixed income securities
2. Credit Bonds that are rated investment grade that comprise the Barclay's Capital Credit Index
3. U.S. Treasury Inflation Protected Securities
4. Guaranteed investment contracts issued by insurance companies with a rating of "A" or better by A M Best.
5. Non-investment grade securities if specifically permitted by the investment management agreement investment guidelines. These include publicly and privately traded U.S. dollar-denominated securities (including bank loans) that have a below investment grade rating from one of the major rating services. Unrated securities are permitted if management has permitted an exception to the investment manager's investment guidelines.
6. International Bonds: exchange traded fixed income securities (including inflation-linked bonds) that are investment grade denominated in currencies other than the U.S. and issued by governments and corporations domiciled outside of the United States. Investment grade emerging market debt denominated in U.S. dollars and foreign currencies is also permitted. Non-investment grade debt (e.g. emerging market debt) is permitted but the security must be rated and specifically permitted in the investment management agreement investment guidelines.
7. Cash Equivalents: instruments issued by domestic corporations including corporate notes and floating rate notes, repurchase agreements (subject to appropriate collateralization), obligations of domestic banks, including banker's acceptances, certificates of deposit, time deposits, notes and other debt instruments, instruments denominated in U.S. dollars of U.S. banks offshore, bank loans, agency and non agency mortgage backed securities.
8. Mortgage-Backed Securities (MBS): securities with cash flows that are backed by the principal and interest payments of a set of mortgages. MBS issued by Fannie Mae, Freddie Mac, and Ginnie Mae are permitted. Non-agency MBS are only permitted if rated in the three highest investment grades assigned by a major rating agency or allowed by investment guidelines.
9. Asset-backed securities secured by cash flows backed by principal and interest payments for financing business and consumer purchases such as

- auto loans, credit cards, and student loans that are rated investment grade.
10. Bank loans: syndicated bank loans provided they meet investment guideline requirements.
  11. Municipal securities of state or local government entities.
- D. Active Currency: Investments are permitted in forward contracts for foreign currencies of countries approved by the Board.
  - E. Securities Lending: The Board will administer a securities lending program in accordance with the Securities Lending Policy (Exhibit K). The purpose of the securities lending program is to generate incremental income while safeguarding the return of principal and ensuring liquidity. Securities lending is permitted for all Board funds unless specifically precluded.
  - F. Positive Social Purpose Lending Program: The Board manages a positive social purpose lending program to make a positive contribution toward the goals outlined in the Social Principles and to earn a rate of return commensurate with risk. . . The program is administered by management, who is required to adhere to the PSP Lending Program Oversight policy. The program lends through the following structures:
    - a) mortgage-backed securities issued or guaranteed by government sponsored entities
    - b) bridge loans to Low Income Housing Tax Credit partnerships
    - c) public and privately-placed commercial mortgage-backed securities
    - d) participants in pools of loans to microfinance institutions
    - e) senior participants in pools of mortgage loans
    - f) senior participations in standalone affordable multi-family mortgage loans
    - g) senior participations in loans to New Markets Tax Credits partnerships and items including Section III G of this policy.
  - G. Private Real Estate: Private real estate consists of investments in commingled limited partnerships which invest either domestically or internationally in the debt or equity of underlying real estate properties, portfolios of properties or operating companies within the real estate industry.
  - H. Timber and Energy (Real assets): Investments are permitted in timber and energy via commingled limited partnership vehicles which own interests in timber-producing and energy-producing properties, such as cultivated forestlands, oil wells, pipelines, gas fields, etc.
  - I. Private Equity: Private equity consists of buyout, venture capital and special situation funds, such as distressed and mezzanine debt. Private equity funds can invest domestically and internationally. Unless specifically approved by the Fiduciary Committee, the Board will only invest in private equity through commingled fund-of-funds limited partnership vehicles, which invest in limited partnerships or companies.
  - J. Hedge Funds: Hedge funds that invest according to specific strategies, which may include, but are not limited to global macro, convertible arbitrage, equity long/short, equity market neutral, distressed, and merger arbitrage. The Board is permitted to invest in hedge funds only through a registered commingled investment fund-of-funds vehicle that is offered by a Securities and Exchange

Commission-registered investment advisor. The nature of hedge fund investing, including complex investment strategies and very rapid fluctuations in investment portfolios, makes it extremely difficult to impose social responsibility guidelines on individual hedge fund managers prospectively. However, not less than once quarterly, the intermediary fiduciary shall prepare a report to the Board regarding restricted securities held by the underlying hedge funds aggregated at the overall fund level.

- K. **Commodities:** Exchange-traded agreements, including swaps and futures, which allow the Board to gain exposure to the return on a portfolio of physical commodities without having to own the underlying commodities directly. The use of commodities derivatives contracts is subject to the Derivatives Investment Policy (Exhibit J).
- L. **Managed Accounts for Defined Contribution Plans:** The Board will administer for participants a managed account program for executing the asset allocation for participant defined contribution accounts. The program is required for all participant balances in Supplement III of the Clergy Retirement Security Program (f/k/a Ministerial Pension Plan) except for the balance of those participants who elected to retain a Participant Directed Account established on April 16, 2004. The program is elective for participant contributions to any currently active defined contribution plan administered by the Board and shall be the default election for enrolled participants who do not make an investment election. The Board will administer the managed account program as described in the Managed Account Investment Policy (Exhibit Q).
- M. **Rebalancing:**
  - 1. **Fund rebalancing:** Asset classes within each fund shall be rebalanced whenever actual allocations to an asset class fall outside the maximum and minimum allocation range as specified in the fund exhibits.
  - 2. **Plan rebalancing:** Benefit plan fund allocations shall be rebalanced whenever actual allocations to a specific fund fall outside the maximum and minimum allocation range as established for the plan.
  - 3. **Liquidity limitations:** Rebalancing may be temporarily suspended should market conditions preclude cost-effective implementation of fund and/or plan rebalancing. Management will notify the Fiduciary Committee whenever conditions warrant suspending rebalancing.

- V. **Delegation of Authority:** The Fiduciary and UMC Principles Committees delegate to management the following responsibilities for administering this Statement:
  - A. Invest fund assets among approved asset classes listed in Section IV consistent with the guidelines specified in each fund exhibit.
  - B. Select external asset managers responsible for investing assets allocated to approved asset classes for each fund. Management is authorized to identify and hire external asset managers for fund mandates without seeking formal approval from the Fiduciary Committee provided that each manager's investment mandate is within permitted guidelines. In addition, management may terminate investment contracts with existing external asset managers without Fiduciary

Committee approval. Management shall informally notify the committee quarterly of changes that it initiates.

- C. Manage the Board's Positive Social Purpose Lending Program. Not less than once biennially, management will provide the Fiduciary Committee with an independent opinion from a qualified third party regarding the viability and adequacy of the administration of the Positive Social Purpose Lending Program.
- D. Develop for each investment management firm an investment mandate that formally outlines the nature of that firm's engagement with the Board, which will include the importance of evaluating environmental, social, and governance issues in selecting investments.
- E. Formally evaluate and document not less than annually each investment manager's success in fulfilling its investment mandate.
- F. Maintain formal documentation that outlines the procedures that management will adhere to when carrying out its responsibilities.
- G. Hire and retain qualified external asset managers, consultants, and PSP intermediaries to assist in the execution of this policy and document annually an appraisal of the external asset managers', consultants' and PSP intermediaries' services.
- H. Develop and adhere to a code of conduct for all management and staff involved in administering the responsibilities delegated by this Statement.
- I. Provide the Fiduciary Committee with an annual written analysis of the impact of the Board's screening guidelines on investment.
- J. Review not less than annually with the Fiduciary Committee that management has applied best practices for reporting the fair market value of all investments for which a readily identified market price is not available.
- K. Provide the Fiduciary Committee with a quarterly summary report on the performance of investment funds and external asset managers and other related investment activities, such as social advocacy initiatives.
- L. Within six months after each General Conference, management will provide the UMC Principles Committee with a listing of resolutions adopted by General Conference that affect, either directly or indirectly, the Board's investment program.
- M. At least annually, management will submit a strategic advocacy proposal to the UMC Principles Committee that reflects United Methodist policies and positions. The UMC Principles Committee will evaluate and approve the Board's advocacy program.
- N. At least quarterly, management will prepare and submit a report to the UMC Principles Committee listing all corporate engagements and issues under discussion.
- O. At least annually, management will prepare and submit a report to the UMC Principles Committee that outlines the extent to which external asset managers have integrated environmental, social, and governance issues or UN PRI compliance into their investment decision processes.
- P. At least annually, management will prepare and submit a report to the UMC Principles Committee listing all shareholder resolutions filed by the Board with

respective voting results. The report also will include withdrawn resolutions and the reason for withdrawal.

- Q. Report not less than quarterly to the Fiduciary Committee that management has complied with this Statement and list any exceptions.

**Exhibit A**  
**Investment Strategy**  
**U.S. Equity Fund**

The strategy below is subject to review by the designated board committee no less than annually.

- I. Fund Objective:** To attain long-term capital appreciation available from a broadly diversified portfolio of primarily U.S. domiciled publicly owned companies and to a lesser extent U.S. privately owned companies and U.S. private real estate.
- II. Fund Performance Benchmark:** Russell 3000™ Index
- III. Performance Objective:** To produce a return that exceeds that of the performance benchmark by 75 basis points on average per year over a market cycle (three to five years and net of management and fund administration expenses).
- IV. Investment Strategy:** The Fund employs a blended use of passive and active investment management. For passive management, the fund includes investments that are designed to closely match the performance of various indices representing different market segments. Index funds are permitted to hold all, or a representative sample, of the securities that comprise the target market index. For active management, the fund employs different investment management firms to make decisions about the fund's portfolio investments. The fund relies on the professional judgment of its investment managers to seek investments in attractively valued companies that, in their opinion, represent good long-term investment opportunities. The fund primarily employs investment managers that will accomplish this objective through fundamental analysis, including meeting with company executives and employees, suppliers, customers and competitors. Securities may be sold when the adviser no longer believes that they represent attractive investment opportunities. Passive and active managers are subject to SRI restrictions.
- V. Eligible investments and limits:**
- | <u>Asset Class</u>                    | <u>Minimum</u> | <u>Target</u> | <u>Maximum</u> |
|---------------------------------------|----------------|---------------|----------------|
| U.S. Equity Securities                | 85%            | 90%           | 100%           |
| Cash Equivalents                      | 0%             | 0%            | 5%             |
| Alternatives Investments <sup>1</sup> | 0%             | 10%           | 12%            |
- <sup>1</sup> Permitted Alternative investments include private real estate, timber and energy (real assets), private equity, and hedge funds.
- VI. Active Risk Target:** 36 month trailing standard deviation of benchmark relative excess return equal to 2%. Permitted Active Risk range: Between 1% and 3%.
- VII. Eligible Investors:** There is no limitation on investors or plans.

## Exhibit B

### Investment Strategy

### International Equity Fund

The strategy below is subject to review by the designated board committee no less than annually.

- I. Fund Objective:** To attain long-term capital appreciation from a diversified portfolio of non-U.S. domiciled publicly owned companies and to a lesser extent international privately owned companies and private real estate.
- II. Fund Performance Benchmark:** Morgan Stanley Capital International All Country World (MSCI ACWI) ex USA Index.
- III. Performance Objective:** To produce a return that exceeds that of the performance benchmark by 200 basis points on average per year over a market cycle (three to five years and net of management and fund administration expenses).
- IV. Investment Strategy:** The Fund seeks a favorable long-term rate of return from a broadly diversified portfolio of foreign stock domiciled in developed and emerging market countries. The fund relies on the professional judgment of its investment managers to decide how to allocate fund assets among different countries and/or regions of the world and in which equities the fund should invest. The investment managers seek to invest in attractively valued companies that represent above-average long-term investment opportunities. The investment managers accomplish this objective primarily through fundamental analysis, which may include meeting with a company's management, competitors, suppliers and customers in order to evaluate a company's future prospects. Managers are subject to SRI restrictions.
- V. Eligible investments and limits:**

<u>Asset Class</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
International Developed Market Equities	60%	82%	100%
International Emerging Market Equities	16%	18%	20%
Cash Equivalents	0%	0%	5%
Alternative Investments <sup>1</sup>	0%	0%	10%
Active Currency <sup>2</sup>			

<sup>1</sup> Permitted Alternative investments include private real estate, timber and energy (real assets), private equity, and hedge funds.

<sup>2</sup> Active currency management is limited to no more than 15% of the notional value of the Fund

- VI. Active Risk Target:** 36 month trailing standard deviation of benchmark relative excess return equal to 3%. Permitted Active Risk range: Between 2% and 4%.
- VII. Eligible Investors:** There is no limitation on investors or plans.

**Exhibit C**  
**Investment Strategy**  
**Fixed Income Fund**

The strategy below is subject to review by the designated board committee no less than annually.

- I. Fund Objective:** To earn current income while preserving capital by investing in a diversified mix of fixed income securities.
- II. Fund Performance Benchmark:** Barclays U.S. Universal Index (excluding Mortgage-Backed Securities).
- III. Performance Objective:** To produce a return that exceeds that of the performance benchmark by 50 basis points on average per year over a market cycle (three to five years and net of management and fund administration expenses).
- IV. Investment Strategy:** The Fund employs a blended approach of enhanced passive and active investment management. For the enhanced passive management component, the fund's manager attempts to slightly exceed the return of the performance of the benchmark (10 basis points). For active management, the fund relies on investment management firms to exercise professional judgment in seeking investments in attractively valued securities that, in their opinion, represent good long-term investment opportunities. The Fund is intended to complement the Inflation Protection Fund in terms of credit exposure. Accordingly, the Fund will tend to have a lower allocation to U.S. Government debt than what is typical for a diversified bond fund. Passive and active managers are subject to SRI restrictions.
- V. Eligible investments and limits:**

<u>Asset Class</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Fixed Income Securities	75%	85%	90%
Positive Social Purpose Loans	10%	15%	20%
Alternative Investments <sup>1</sup>	0%	0%	5%

<sup>1</sup> Permitted Alternative investments include hedge funds.

- VI. Active Risk Target:** 36 month trailing standard deviation of benchmark relative excess return equal to 2%. Permitted Active Risk range: Between 1% and 3%.
- VII. Eligible Investors:** There is no limitation on investors or plans.

**Exhibit D**  
**Investment Strategy**  
**Inflation Protection Fund**

The strategy below is subject to review by the designated board committee no less than annually.

- I. Fund Objective:** To provide investors with current income and to protect principal from long-term loss of purchasing power due to inflation.
- II. Fund Performance Benchmark:** Barclays Capital U.S. Government Inflation-Linked Bond Index.
- III. Performance Objective:** To produce a return that exceeds that of the performance benchmark by 25 basis points on average per year over a market cycle (three to five years and net of management and fund administration expenses).
- IV. Investment Strategy:** The Fund employs a blended approach of passive and active investment management. For the passively managed component, the fund's manager attempts to match the return of the performance benchmark. For the active management component, the Fund's manager(s) exercise(s) professional judgment to seek attractively valued investments that, in their opinion, represent good long-term investment opportunities. The Fund is intended to complement the Fixed Income Fund in terms of credit exposure as the Fund is comprised primarily of U.S. Government and foreign government debt. The fund also attempts to modestly improve investment returns by investing up to 10% of its assets in commodities. Managers are subject to SRI restrictions.
- V. Eligible investments and limits:**

<u>Asset Class</u>	<u>Min</u>	<u>Target</u>	<u>Max</u>
Passive U.S. Treasury Inflation Protected Securities	48%	50%	52%
Active Global Inflation-Linked Bonds	28%	30%	32%
Active Emerging Market Inflation-Linked Bonds	8%	10%	12%
Cash Equivalents	0%	0%	2%
Commodities	9%	10%	11%

- VI. Active Risk Target:** 36 month trailing standard deviation of benchmark relative excess return equal to 2%. Permitted Active Risk range: Between 1% and 3%.
- VII. Eligible Investors:** There is no limitation on investors or plans.

**Exhibit E**  
**Investment Strategy**  
**Stable Value Fund**

The strategy below is subject to review by the designated board committee no less than annually.

- I. Fund Objective:** To preserve both invested principal and earned interest, to earn a stable fixed-income yield and to provide liquidity for participant-directed disbursements.
- II. Fund Performance Benchmark:** BofA Merrill Lynch Wrapped 1-5 Year Corporate/Government Index
- III. Performance Objective:** To produce a return that exceeds that of the performance benchmark by 25 basis points on average per year over a market cycle (three to five years and net of management and fund administration expenses).
- IV. Investment Strategy:** The Fund will invest in a broad range of high quality, low risk fixed income instruments. The Fund will contract with highly rated insurance companies that will provide the principal protection feature that assures participants can transfer or withdraw the value of all contributions and accumulated interest.
- V. Eligible investments and limits:** The investment portfolio consists of a broad selection of short and medium term fixed income securities including U.S. government and agency bonds, corporate bonds, mortgages, and asset-backed securities. Additionally, the fund may hold insurance company issued Guaranteed Investment Contracts (GICs) or similar instruments as well as cash equivalents. The Fund may also hold privately placed positive social purpose loans such as loans to support affordable housing, microfinance, etc.

<u>Asset Class</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Short Term Bonds	50%	80%	100%
Core Bonds <sup>1</sup>	0%	20%	25%
Guaranteed Investment Contracts	0%	0%	40%
Positive Social Purpose Loans <sup>2</sup>	0%	0%	20%
Cash Equivalents	0%	0%	30%

<sup>1</sup> Barclays Intermediate Aggregate Benchmark

<sup>2</sup> Positive Social Purpose loans must have a maturity of five years or less

- VI. Active Risk Target:** Not applicable. The Fund will be managed to a duration target set by the lead manager of the fund. In no case is duration permitted to exceed three and one half years.
- VII. Eligible Investors:** Limited to individual participants in the Clergy Retirement Security Program, Horizon 401(k), Ministerial Pension Plan, and United Methodist Personal Investment Plan.

**Exhibit F**  
**Investment Strategy**  
**Balanced Social Values Plus Fund**

The strategy below is subject to review by the designated board committee no less than annually.

- I. Fund Objective:** To attain current income and capital appreciation by investing in a broad mix of different types of investments with added emphasis on the socially responsible investing objectives of The United Methodist Church.
- II. Fund Performance Benchmark:** The fund uses a blended benchmark to measure the success of its performance. The benchmark includes the following: 60% Domini 400 Index, 30% Barclays Mortgaged Backed Securities Index, and 10% Merrill Lynch 90-day Government Index.
- III. Performance Objective:** To produce a return that exceeds that of the performance benchmark by 10 basis points on average per year over a market cycle (three to five years and net of management and fund administration expenses).
- IV. Investment Strategy:** The Fund is intended to provide a specific group of socially responsible investors averse to any investment exposure to the military industrial complex with a balanced fund comprised of equity, fixed income, and short-term money market investments. The Fund is designed to outperform a mix of commonly recognized indices representing the performance of the U.S. stock and bond markets. The Fund's exposure to fixed income investments is designed to accomplish a positive social purpose. The Fund's equity component is indexed to the Domini 400 Social Index and the fixed income component is actively managed by investing in loans supported by affordable housing developments. These investments seek to attain a market rate of return commensurate with risk while helping to provide shelter to low- and moderate-income individuals and families. While adhering to the social screens outlined in Section III of this Investment Policy, the Fund has additional military restrictions with the following securities to be excluded from investment: a) the currently listed and published top 100 companies receiving the largest dollar volume of prime contract awards from the Department of Defense (DOD) related to the production and distribution of conventional military armaments; b) any company with an identifiable DOD contract award related to the production and distribution of military armaments if that company's ratio of DOD contracts to gross revenues is larger than 5%; and c) any company with an identifiable nuclear weapons contract. Finally, securities issued by the U.S. Government, except for short-term liquidity needs, student loans, farm loans and government-backed mortgage securities are also excluded.
- V. Eligible investments and limits:**

<u>Asset Class</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
U.S. Equity Securities	57%	60%	63%
Positive Social Purpose Loans	27%	30%	33%
Cash Equivalents	7%	10%	13%

- VI. Active Risk Target:** 36-month trailing standard deviation of benchmark relative excess return equal to 1%. Permitted Active Risk range: Between 0.5% and 1.5%.
- VII. Eligible Investors:** There is no limitation on investors or plans.

**Exhibit G**  
**Investment Strategy**  
**Annuity Immunization Fund**

The strategy below is subject to review by the designated board committee no less than annually.

- I. Fund Objective:** To ensure that the forecasted cash inflows from Fund investments closely match forecasted cash outflows of monthly benefit payments for certain annuity obligations and ensure that the market value of fund assets exceeds the settlement value of fund liabilities.
- II. Fund Performance Benchmark:** Plan liabilities
- III. Performance Objective:** To produce a return that matches or exceeds the performance benchmark each and every year.
- IV. Investment Strategy:** The Fund invests in fixed income investments for the purpose of preserving invested principal and earned interest in order to fulfill all annuity obligations. The investment manager will align expected cash inflows from portfolio investments to closely match expected cash outflows as forecasted by the General Board's Actuarial Department. The Fund may incur investment grade credit risk.
- V. Eligible investments and limits:** The investment portfolio consists of a broad selection of fixed income securities including U.S. government and agency bonds, corporate bonds, mortgages, and asset-backed securities.

<u>Asset Class</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Core Bonds <sup>1</sup>	80%	100%	100%
Positive Social Purpose Loans	0%	0%	20%
Cash and Equivalents	0%	0%	10%

<sup>1</sup> Defined as securities that comprise the Barclays Aggregate Bond Index

- VI. Active Risk Target:** The performance of the investment assets must closely match the performance of the liabilities the assets support. Permitted Active Risk range: Up to 1%.
- VII. Eligible Investors:** Annuities established on or before December 31, 2004 for participants in the Cumulative Pension Benefit Fund, the Defined Contribution Organization Money, the Personal Investment Plan, and the Staff Retirement Benefit Program.

**Exhibit H**  
**Investment Strategy**  
**Short Term Investment Fund**

The strategy below is subject to review by the designated board committee no less than annually.

- I. Fund Objective:** To preserve capital while earning current income higher than that of money market funds.
- II. Fund Performance Benchmark:** Merrill Lynch 90 day Treasury Bill Index
- III. Performance Objective:** To produce a return that, on average, slightly outperforms the performance benchmark by approximately 10 basis points (three to five years and net of management and fund administration expenses).
- IV. Investment Strategy:** The Fund will invest in a broad range of short term, high quality, low risk fixed income instruments.
- V. Eligible investments and limits:**

<u>Asset Class</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Short Term Bonds	0%	20%	50%
Positive Social Purpose Loans <sup>1</sup>	0%	5%	20%
Cash Equivalents	0%	75%	100%

<sup>1</sup> Positive social purpose loans must have a maturity of three years or less

- VI. Active Risk Target:** 36 month trailing standard deviation of benchmark relative excess return equal to 0.5% Permitted Active Risk range: Between 0% and 1%.
- VII. Eligible Investors:** Institutional investors, any plans offered by the General Board and participants that are not eligible to invest in the Stable Value Fund.

**Exhibit I**  
**Investment Strategy**  
**Multiple Asset Fund**

The strategy below is subject to review by the designated board committee no less than annually.

- I. Fund Objective:** To attain current income and capital appreciation by investing in a broad mix of different types of investments.
- II. Fund Performance Benchmark:** The fund uses a blended benchmark to measure the success of its performance. The benchmark includes the following:
- 10% Barclays Capital U.S. Government Inflation Linked Bond Index
  - 25% Barclays U.S. Universal Index, ex Mortgage-Backed Securities
  - 45% Russell 3000 Index
  - 20% Morgan Stanley All Country World Index, ex-USA
- III. Performance Objective:** To produce a return that exceeds that of the performance benchmark by 80 basis points on average per year over a market cycle (three to five years and net of management and fund administration expenses).
- IV. Investment Strategy:** The Fund is intended to provide investors with exposure to a broadly diversified universe of asset classes. The Fund will very closely adhere to a pre-specified allocation comprised of four funds offered by the Board. The Board will rebalance the Multiple Asset Fund to the pre-specified mix when the actual holdings fall outside of the pre-specified range. Futures overlays may be used to temporarily adjust allocations to align more closely with targets.
- V. Eligible investments and limits:**
- | <u>Investment Funds</u>   | <u>Min</u> | <u>Target</u> | <u>Max</u> |
|---------------------------|------------|---------------|------------|
| U.S. Equity Fund          | 42%        | 45%           | 48%        |
| International Equity Fund | 18%        | 20%           | 22%        |
| Fixed Income Fund         | 23%        | 25%           | 27%        |
| Inflation Protection Fund | 8%         | 10%           | 12%        |
- VI. Risk Target:** Not applicable.
- VII. Eligible Investors:** There is no limitation on investors or plans.

## **Exhibit J**

### **Derivatives Investment Policy**

- I. Definition:** A derivative is a financial instrument whose value is derived from, in whole or part, the value of any one or more underlying securities or assets of an index of securities or assets (such as bonds, stocks, commodities and currencies). Mortgage-backed securities and asset-backed securities are not considered derivatives for the purpose of this policy. Derivatives may be purchased through a national exchange or through an over-the-counter direct arrangement with a qualified counterparty.
- II. Philosophy:** The Board may use derivatives to manage asset exposure and risks in a prudent, timely and cost effective manner. This is accomplished by using derivatives to achieve exposure that could otherwise be achieved with physical securities as well as strategies described in Section V below. Derivatives shall only be used to acquire asset and risk exposures consistent with approved investment policies and portfolio guidelines. Generally, derivatives are primarily to be used for tactical implementation of the Board's investment strategies. Long term strategic use of derivatives is generally discouraged unless it is impractical to hold the physical assets represented by the derivative contracts (e.g. commodities).
- III. Objective:** To facilitate cost-effective and timely investment and risk management, provide for trading efficiency (i.e. speed of trade execution and lower cost), and to optimize asset allocation in cases where using derivatives may be more cost - effective than purchasing/selling physical securities in illiquid financial markets. In addition, derivatives may be used to enhance or manage the risk/return profile of individual securities or portfolios.
- IV. Authorization for Executing Derivative Transactions:** Qualified external investment managers specifically contracted by the Board may engage in derivatives transactions only if the transactions are consistent with the overall investment objectives of the manager's investment mandate. Additionally, for the derivative transactions the Board periodically directs to fulfill the Board's asset allocation objectives, Investments Staff will maintain detailed policy and procedures for initiating, documenting, and monitoring directed derivative transactions. The procedures shall require a Derivatives Strategy Form and Directed Exposure Form for each transaction with multiple signoffs and reviews by Investments staff, including the Chief Investment Officer.
- V. Permitted Strategies: Derivatives may be used to facilitate the following strategies:**

  - A. Manage overall asset allocation of a Fund, including rebalancing activities
  - B. Implement investment strategies in a low-cost and efficient manner
  - C. Construct portfolios with risk/return characteristics that could not be created with cash market securities
  - D. Manage transition of assets between managers
  - E. Hedge cash balances in a fund to replicate the performance of a permitted fund asset class within the fund

- F. Hedge or manage exposure to equity markets
- G. Hedge or manage duration, total return, yield or credit exposure, sector and/or country exposure
- H. Hedge or manage the risk/return profiles of individual securities of a portfolio
- I. Hedge or manage commodity exposures
- J. Hedge or manage currency exposures

**VI. Permitted Types of Derivatives:**

- A. Futures
- B. Options
- C. Forward Contracts
- D. Credit Default Swaps
- E. Interest Rate Swaps
- F. Warrants

**VII. Restrictions:**

- A. Derivatives shall not be used to replicate the performance of an asset class not specifically listed in Section IV of the Statement of Administrative Investment Policy.
- B. Derivatives are not permitted for the purpose of leveraging a portfolio unless specifically approved by the Fiduciary Committee.
- C. Investment managers shall reconcile cash and margin requirements concerning derivatives on a daily basis with the Board's custodian bank.
- D. Speculation with derivatives is prohibited.

**VIII. Delegations of Authority:** The Fiduciary Committee delegates to Staff the following responsibilities for administering this policy:

- A. Define the strategy parameters and guidelines for portfolios using derivative strategies including risk assessment and counterparty guidelines.
- B. Select investment managers to execute derivatives strategies.
- C. Monitor on a daily basis all derivatives activities to assure that they comply with this policy and are within strategy, asset class and overall fund investment guidelines.
- D. Report not less than annually to the Fiduciary Committee all derivative strategies executed by the Board for the preceding year.

## **Exhibit K**

### **Securities Lending Policy**

- I. Definition:** Securities lending is an agreement between a lender and a borrower to temporarily transfer ownership of a security for a variety of strategies executed by the borrower. Transactions are structured so that the lender retains the economic benefits of the security and receives any distributions such as coupon interest and dividend payments that occur with respect to the security during the life of the lending transaction. The lender receives cash from the borrower as collateral to ensure that the borrower returns the borrowed securities. Typically, the borrower provides additional margin to collateralize the lending transaction. The lender pays the borrower a rate of interest on the cash collateral called the “rebate” rate. The lender in turn invests the cash collateral during the term that the securities are out on loan. The lender transfers all ownership rights to the securities, such as the right to vote proxies. The lender, however, has the ability to direct the lending agent to recall securities for proxy voting. Such action allows the Board to execute its socially responsible shareholder advocacy initiatives.
- II. Philosophy:** The Board may engage in securities lending activity for the purpose of adding incremental value to the Board’s investment program. All publicly traded fixed income and equity securities held by the Board are eligible for lending under this program. The program is to be administered by highly-qualified third party lending agents that incur minimal risk. Incremental value is attained from two sources: the spread between the risk free rate and rebate rate paid to borrowers, and additional earnings resulting from the reinvestment of the collateral.
- III. Objective:**
- A. To generate incremental income from a high quality program that safeguards the return of principal, maintains adequate daily liquidity, ensures diversification and tightly controls exposure to fluctuating interest rates by lending securities to qualified borrowers.
  - B. The lending portfolio should generate income primarily from the difference between the risk free rate (U.S. Treasury Bills) and the rebate rate paid on cash collateral received from the borrower. Additionally, by investing in cash equivalent instruments other than U.S. Treasury Bills, the Board may be able to earn an additional spread over and above the risk free rate, depending on market conditions.
  - C. The securities lending program will be conducted in a manner so as not to interfere with the management of the Board’s investment funds.
- IV. Permitted Investments for Cash Collateral Reinvestment:**
- A. Reinvestment of cash collateral shall be in Cash Equivalents
    - 1. Instruments purchased with cash collateral must be rated in the three highest investment grades assigned by a major rating agency. In the case of split-rated securities, the lowest rating shall prevail.
    - 2. No instrument purchased with cash collateral shall have a maturity in excess of three months, with the exception of floating rate instruments, which can have a two-year maturity.

3. The lending agent is required to maintain prudent diversification across reinvestment instruments, market sectors, industries and specific issuers.
- B. During volatile financial market environments, Investments staff is directed by this policy to further restrict cash reinvestment to overnight repurchase agreements with Primary Dealers, as designated by the Federal Reserve Bank. Additionally, each lending agent may have an amount further specified in its guidelines that can be invested in commingled money market funds backed by the full faith and credit of the U.S. government.
- Certain securities may be grandfathered as exceptions to this if the securities were purchased prior to the guidelines being further restricted, were in conformance to existing guidelines at the time of purchase, or in cases where the lending agent recommends holding with Board concurrence.
- C. The issuers of the securities purchased for reinvestment must adhere to the socially responsible investing guidelines outlined in Section III of this Statement.

**V. Restrictions:**

- A. Borrowing of Board securities:
1. Permitted borrowers must meet the highest standards as outlined in formal guidelines prepared and monitored by Staff.
  2. The lending agent must ensure that the Board has sufficient collateral from borrowers on a daily basis.
  3. The following margins requirement apply for securities on loan:
    - a. 102% for domestic equity and fixed income securities; excluding U.S. Treasury Inflation Protected Securities
    - b. 100% for U.S. Treasury Inflation Protected Securities
    - c. 105% for international equity securities.
  4. The lending agent will be responsible for the preservation of the Board's voting rights for all domestic equity securities on loan.
  5. Agents may lend international equity securities without preserving voting rights unless the company is subject to a Board-sponsored resolution or a resolution which involves an issue of high sensitivity to the Social Principles Committee.
  6. The Board has the right to recall any loaned security at any time.
- B. Reinvestment in cash collateral instruments:  
(See Section IV above.)

**VI. Delegations of Authority:** The Fiduciary Committee delegates to Staff the following responsibilities for administering this policy:

- A. Select and negotiate contract terms with securities lending agents to execute the securities lending program.
- B. Perform oversight and monitoring of the securities lending agents to ensure compliance with this policy and all contractual securities lending guidelines.
- C. Monitor daily all securities on loan to ensure that they are in compliance with established program guidelines.
- D. Maintain a list of approved borrowers and monitor to ensure that lending is conducted only with approved borrowers.
- E. Develop guidelines for prudent diversification of cash collateral reinvestment with respect to types of instruments, market sectors, industries and issuers and ensure compliance.

- F. Maintain a list of acceptable collateral instruments for repurchase agreements.  
(*See Section IV above*).
- G. Report quarterly to the Fiduciary Committee regarding the performance of the securities lending program.
- H. Develop and modify this securities lending policy as well as the detailed securities lending guidelines in the Investments Reference Guide where appropriate and to keep current with best industry practices.

**Exhibit L**  
**Investment Strategy**  
**Positive Social Purpose Lending Fund**

- I. Fund Objective:** To facilitate closely matching the performance of Ministerial Pension Plan (MPP) annuities liabilities to negate the impact of interest rate fluctuations on plan funded status. The fund objective is accomplished by investing in a diversified mix of Positive Social Purpose (PSP) loans. Investment grade short-term fixed income securities are also used as an interim funding mechanism to offset binding but not drawn PSP forward commitments.
- II. Fund Performance Benchmark:** *To be determined.* The Board will manage the duration of the fund in a manner that complements the other fixed income funds used to manage the fixed income asset class for the MPP annuities.
- III. Performance Objective:** To produce a return that exceeds that of the performance benchmark by 50 basis points, on average, per year over a market cycle net of management and fund administration expenses.
- IV. Investment Strategy:** The Fund invests primarily in long-term PSP loans and fixed income investments that will facilitate duration matching for the MPP annuities investments. For the fixed income portion of the fund used to offset binding but not drawn PSP Forward Commitments, the Fund may incur investment-grade credit risk.
- V. Eligible investments and limits:** The Fund consists of a broad selection of PSP loans such as senior debt for affordable housing and charter schools, and microfinance or other types of PSP loans consistent with the Board's socially responsible investment initiatives. The fund also consists of a broad selection of short-term investment- grade fixed income securities including U.S. government and agency bonds, corporate bonds, mortgages, and asset-backed securities to collateralize PSP forward commitments until the Board has funded new loans.
- VI. Eligible investments:**
  - Positive Social Purpose Loans
  - Investment Grade short-term fixed income securities (to collateralize PSP forward commitments)
- VII. Active Risk Target:** *To be determined*
- VIII. Eligible Investors:** The fund is limited for use by MPP annuities.

**Exhibit M**  
**Investment Strategy**  
**Domestic Private Equity Fund**

The strategy below is subject to review by the designated board committee no less than annually.

- I. Fund Objective:** To attain long-term capital appreciation available from U.S.-based private equity funds.
- II. Fund Performance Benchmark:** Russell 3000™ Index
- III. Performance Objective:** To produce a return that exceeds that of the performance benchmark by 500 basis points on average per year over a market cycle
- IV. Investment Strategy:** The Fund invests primarily in U.S.-based private equity fund-of-funds, but can also invest in private equity funds and mezzanine investment funds directly with notification to the Fiduciary Committee.
- V. Eligible investments and limits:** U.S.-based private equity funds-of-funds, private equity and mezzanine investment funds.
- VI. Active Risk Target:** N/A
- VII. Eligible Investors:** This fund is only available for investment by other Board funds and plans.

**Exhibit N**  
**Investment Strategy**  
**Domestic Private Real Estate Fund**

The strategy below is subject to review by the designated board committee no less than annually.

- I. Fund Objective:** To attain long-term capital appreciation available through investment in U.S.-based private real estate debt and equity funds.
- II. Fund Performance Benchmark:** NCREIF NPI Index
- III. Performance Objective:** To exceed the NCREIF NPI Index by 300 bps over a market cycle.
- IV. Investment Strategy:** The Fund seeks a favorable long-term rate of return through investment primarily in U.S.-based private real estate debt and equity funds, but can also invest in funds-of-funds.
- V. Eligible investments and limits:** Domestic private real estate debt and equity funds.
- VI. Active Risk Target:** N/A
- VII. Eligible Investors:** This fund is only available for investment by other Board funds and plans.

**Exhibit O**  
**Investment Strategy**  
**International Private Equity Fund**

The strategy below is subject to review by the designated board committee no less than annually.

- I. Fund Objective:** To attain long-term capital appreciation available from internationally private equity funds and funds-of-funds.
- II. Fund Performance Benchmark:** *To be determined.*
- III. Performance Objective:** *To be determined.*
- IV. Investment Strategy:** The Fund invests primarily in internationally-domiciled private equity fund-of-funds, but can also invest in private equity funds and mezzanine investment funds directly with notification to the Fiduciary Committee.
- V. Eligible investments and limits:** Internationally-domiciled private equity funds-of-funds, private equity and mezzanine investment funds.
- VI. Active Risk Target:** N/A
- VII. Eligible Investors:** This fund is only available for investment by other Board funds and plans.

**Exhibit P**  
**Investment Strategy**  
**International Private Real Estate Fund**

The strategy below is subject to review by the designated board committee no less than annually.

- I. Fund Objective:** To attain long-term capital appreciation through investments in internationally-domiciled private real estate debt and equity funds.
- II. Fund Performance Benchmark:** *To be determined.*
- III. Performance Objective:** *To be determined.*
- IV. Investment Strategy:** The Fund seeks a favorable long-term rate of return through investment primarily in internationally-domiciled private real estate debt and equity funds, but can also invest in funds-of-funds.
- V. Eligible investments and limits:** International private real estate debt and equity funds and funds-of-funds.
- VI. Active Risk Target:** N/A
- VII. Eligible Investors:** This fund is only available for investment by other Board funds or plans.

## **Exhibit Q**

### **Managed Account Program**

- I. Definition:** A managed account program is an algorithmic based methodology for establishing and monitoring participant investment fund allocations among funds offered by the Board and included in the program. The algorithm will consider: participant indicative data, account balances and expected future benefits among Board plans, present value of future expected Social Security benefits, participant responses to an optional questionnaire, and other relevant information. The algorithm produces target fund allocations that represent participants' ideal allocation to the appropriate Board funds.
- II. Philosophy:** For plan balances administered by the managed account program, the Board will attempt to reasonably match the asset allocation that would be determined by a qualified investment advisor. This includes setting a higher risk (equity) allocation for younger participants during their asset accumulation years and gradually lowering risk allocations as participants approach the de-accumulation phase of their lives. It also includes evaluating other known assets (including estimated current value of future social security benefits and employer defined benefit programs). The managed account program should also consider unique participant provided inputs such as psychological risk tolerance and future expectations regarding the form of benefit received (such as annuities). The Board will engage the services of a qualified external partner/consultant to assist it in developing the algorithm to be applied against participant accounts.
- III. Objective:**
- A. Develop an asset allocation algorithm that will invest participant balances among funds representing diversified asset classes offered by the Board.
  - B. Design the algorithm in a manner that will allow the Board to consider certain limited types of information unique to each participant to facilitate determination of the optimal asset allocation for participant balances invested by the managed account program algorithm.
  - C. Design the algorithm in a manner that will consider unique participant information that is not available from data that resides elsewhere on the Board's systems but may influence the calculation of the optimal asset allocation (e.g. psychological risk tolerance).
  - D. Design the managed account program so that it will periodically evaluate unique participant data for changes and adjust a participant's optimal asset allocation accordingly.
  - E. Design the managed account program so that it will periodically rebalance participant accounts in a controlled and cost-effective manner.
  - F. Design the managed account program in a manner that attempts to adhere to a long-term investment approach by discouraging frequent changes by participants to their election of the program or changing information provided by the participant (e.g. psychological risk tolerance).
  - G. Periodically evaluate the algorithm to ensure that it reflects best practices for managing participant account balances.

- IV. **Quarterly Audits:** Each quarter, the Board will evaluate target fund allocations and actual allocations for all participants enrolled in the managed account program to ensure that the algorithm is operating as intended.
  
- V. **Annual Review:** Each year, Board staff will provide the Fiduciary Committee with information regarding the implementation and operation of the managed account program so that the committee can evaluate and assess the effectiveness of the program. This information may include but is not limited to: asset allocation by age group, investment returns for various asset allocation groupings, trends in participant-controlled variables (e.g. psychological risk tolerance and expected ages for converting balances to annuities). Staff will also provide the committee with information regarding best industry practices and how the program does or does not conform with industry practice.

**Exhibit R**  
**Investment Strategy**  
**Special Opportunities Fund**

The strategy below is subject to review by the designated board committee no less than annually.

- I. Fund Objective:** To take advantage of perceived market inefficiencies by investing in various approved asset classes depending on market conditions.
- II. Fund Performance Benchmark:** The fund has an absolute return objective.
- III. Performance Objective:** To produce an absolute return that exceeds the long-term (10 year) expected rate of inflation by 1000 basis points.
- IV. Investment Strategy:** The Fund seeks exceptional rates of return by making short-term and long-term investments on an opportunistic basis often due to temporary displacements in the financial markets. It may invest in publicly traded securities managed by a registered investment advisor, hedge funds, limited partnership interests, or other legally recognized fund structures.
- V. Eligible investments and limits:** Permitted investments include those approved by the Fiduciary Committee and listed in Section IV of the Statement of Administrative Investment Policy.
- VI. Active Risk Target:** None
- VII. Eligible Investors:** The fund is limited to plans for which the General Board is responsible for asset allocation (excluding plans managed by the LifeStage Investment Management Service). These plans include the Clergy Retirement Security Program – Defined Benefit, Comprehensive Protection Plan, Endowments, HealthFlex, Ministerial Pension Plan – Annuities, and the Pre-82 Defined Benefit Plan. At the time of purchasing fund units, the investment in the fund by any plan may not exceed 10% of fund assets unless specifically approved by the Fiduciary Committee.