

INVESTMENT POLICY STATEMENT

UNITED METHODIST FOUNDATION OF WESTERN NORTH CAROLINA, INC.



January, 2022

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PREFACE

Contained herein is the Investment Policy Statement for the Investment Funds of the United Methodist Foundation of Western North Carolina, Inc. This policy was developed by the Investment Team of the Foundation, in cooperation with its investment consultant, Callan LLC, a nationally recognized investment consulting firm.

Recognizing that United Methodist funds may have different needs and risk tolerances, the Investment Team created five Investment Fund options:

- The Income Only Fund**
- The Conservative Fund**
- The Balanced Fund**
- The Diversified Fund**
- The All Equity Fund**

Information about the asset allocation for each Fund can be found in the Appendix section of this Policy Statement.

Together, we trust that these Investment Funds can offer United Methodist churches and institutions the potential for achieving consistent success in the financial markets, and a way to address their unique investment needs in support of their mission and ministry.

INTRODUCTION

Purpose

The purpose of this Investment Policy Statement is to assist the United Methodist Foundation of Western North Carolina, Inc. (the “UMFWNC”), its Board and Investment Team in effectively supervising, monitoring and evaluating the investment of the UMFWNC’s Investment Funds. Accordingly, this Investment Policy Statement shall:

1. Make a clear distinction between the responsibilities of the Board of Directors, the Investment Team, and the Staff, as well as those of the service providers hired to help implement Foundation policy—the investment consultant, the investment managers, and the bank custodian/trustee.
2. Describe the UMFWNC’s risk tolerance, as defined by the asset classes that are considered allowable investments and the percentage allocations to each asset class.
3. Set forth the criteria to be placed on diversification of portfolio investments.
4. Describe the investment practices that apply to the individual portfolios managed by each of the investment managers.
5. Provide rate-of-return objectives and establish formal criteria to monitor and evaluate the performance results achieved by the investment managers.
6. Establish effective communication procedures between the Team and the investment managers, investment consultant, and bank custodian/trustee.
7. Create a formal review process for reviewing this Investment Policy Statement.

This investment policy statement is to provide standards ensuring compliance with all legal, fiduciary, prudence, and due-diligence requirements that experienced investment professionals strive to achieve. The Investment Team will comply with all applicable laws, rules, and regulations from various local, state, and federal entities that may have an impact on UMFWNC assets.

This Investment Policy Statement has been arrived at upon careful consideration by the Investment Team and Board of Directors of the financial implications of a wide range of policies, and describes the prudent investment process that the Team deems appropriate.

Objectives

The objectives of the UMFWNC are based on current and projected financial requirements. The objectives are:

1. To maximize return within reasonable and prudent levels of risk.
2. To preserve inflation adjusted capital. The UMFWNC seeks preservation of capital with a consistent, positive return on UMFWNC assets. Although speculation is to be avoided, the UMFWNC appreciates the fact that an above-average return is associated with a certain degree of risk. Risk to be assumed must be considered appropriate for the return anticipated and consistent with the total diversification of UMFWNC assets.
3. To control costs of administering the UMFWNC’s investment program.

Time Horizon

For purposes of planning, the time horizon for investments is perpetuity. Capital values do fluctuate over shorter periods and the UMFWNC recognizes that the possibility of capital loss does exist. However, the risk of principal loss can be minimized with the long-term asset mix employed under this Investment Policy Statement.

Risk Tolerance

The UMFWNC recognizes that risk must be assumed to achieve the UMFWNC's long-term investment objectives. UMFWNC understands that the nature of financial instruments and markets in which it invests involves some interim fluctuations in market value and rates of return.

Account Performance Measurement

Performance is to be measured according to the CFA Institute methodology. The performance of account data is to be computed using the time-weighted method so as to minimize the impact that contributions and withdrawals have on portfolio returns.

Social Restrictions

No equity or corporate debt security investment shall be made in any company which derives any significant portion of its revenue from alcohol, tobacco products, pornography or gambling operations, or related activities or enacts policies or otherwise engages in conduct that may cause concern to UMFWNC or be inconsistent with UMFWNC's mission, philosophy or objectives. UMFWNC has assigned responsibilities for adherence to this policy to the investment managers.

DISTINCTION OF RESPONSIBILITIES

Board of Directors

The Board is responsible for establishing principles, policies, standards and guidelines for the investment management of all monies, assets and properties of the UMFWNC. The Board may delegate these duties to the Investment Team.

Investment Team

The responsibility of the Investment Team is to recommend investment policy, for approval by the **Board of Directors** and administer approved policy. The cornerstone of investment policy is the risk tolerance. The Team has acknowledged that it will communicate the risk tolerance in terms of the allowable asset classes in which investments can be made, and the percentage exposure to each. Consequently, the Team's risk tolerance shall be communicated via a set of asset-allocation guidelines. Other responsibilities of the Team are as follows:

1. To determine, with the assistance of its Investment Consultant, an investment manager structure (the number and types of investment managers) and to hire and discharge investment managers. Each investment manager retained by the Team must be a bank, an insurance company, an investment adviser as defined by the Investment Advisers Act of 1940, or an agency of The United Methodist Church that is engaged in the management of investment assets.
2. To determine the investment limitations (if any) that apply to the portfolios managed by investment managers. Although it is the intent of the Team to afford the investment managers full investment discretion regarding the individual securities they buy and sell, the Team may establish guidelines and limitations that address the risk levels to be maintained by the investment managers. All portfolios will be managed with appropriate consideration to the social principles of the United Methodist Church.
3. To monitor and evaluate the performance results achieved by the investment managers, as reported in quarterly reports prepared by its Investment Consultant.
4. To establish effective communication procedures between the Team and the investment managers, the Investment Consultant, and the bank custodian/trustee.
5. To monitor and control investment expenses.

Investment Consultant

The primary role of the Team's Investment Consultant is to provide objective, third party advice. The investment consultant will carry out this role by:

1. Assisting the Team in making well-informed and well-educated decisions regarding the investment of UMFWNC assets.
2. Assisting the Team in the development of investment policy guidelines that reflect the Team's tolerance for risk and rate-of-return objectives. When making asset-allocation recommendations, the Investment Consultant shall rely upon generally accepted asset-optimization computer modeling techniques based on modern portfolio theory to project alternative asset-allocation policies that are "efficient" in the context of risk and return.
3. Assisting the Team in the development of an investment manager structure that provides adequate diversification with respect to the number and types of investment managers.
4. Assisting the Team in the identification of appropriate market benchmarks and manager "style groups" against which each investment manager shall be evaluated.

5. Maintaining a nationwide database of qualified investment managers and possessing the knowledge and insights about managers that are required to prudently assist the Team in the implementation of a process based on procedural due diligence.
6. Assisting the Team in monitoring each investment manager. This includes the ongoing monitoring of (i) total fund and individual investment manager performance on a quarterly basis; (ii) each investment manager's adherence to its stated investment style, and (iii) organizational developments at each investment manager.

Investment Managers

In general, the primary responsibility of each investment manager is to act as a "prudent expert" by investing assets in accordance with the investment policies described herein, and in accordance with its own judgments concerning relative investment values. Each investment manager is responsible for making investment decisions in a discretionary manner, within the guidelines established by the Team, and within the provisions of all applicable laws. As distinguished from the Team, which is responsible for investment policy (the risk decision), each investment manager is responsible for investment strategy (price and selection decisions).

The specific duties and responsibilities of each investment manager are these:

1. To manage the UMFWNC's assets under its supervision in accordance with the guidelines and objectives contained in this Investment Policy Statement, and consistent with each investment manager's stated investment philosophy and style as presented to the Team.
2. To exercise investment discretion in regard to buying, managing and selling assets held in the portfolio, subject to any limitations contained in this Investment Policy Statement.
3. To vote proxies received from companies in which UMFWNC funds are invested (See Proxy Voting Guidelines on page 9).
4. To communicate with the Team in writing regarding all significant changes pertaining to the portfolio it manages or the firm itself.
5. To use the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like foundations with like aims in accordance and compliance with all applicable laws, rules, and regulations.
6. To acknowledge and agree in writing as to their fiduciary responsibility to fully comply with this entire Investment Policy Statement.

Bank Custodian/Trustee

The bank custodian/trustee is hired by, and is responsible to, the Foundation. The primary responsibilities of the bank custodian/trustee are to:

1. Provide adequate safekeeping services, cash management services, administrative support, accounting services, data processing capabilities.
2. Settle securities transactions on time.
3. Collect income when due.
4. Provide prompt, accurate proxy administration.
5. Make sure that all available cash is invested.
6. Ensure that the UMFWNC is the registered or beneficial owner of all assets.

INVESTMENT POLICY GUIDELINES

Asset Allocation Guidelines

The Team has established asset allocation policies for each Investment Fund. These policies, developed after examining the historical relationships of risk and return among asset classes, are designed to provide the greatest probability of meeting or exceeding the UMFWNC's return objectives at the lowest possible risk.

The Team, in consultation with its outside consultant, considered the risk, reward and volatility of securities markets in establishing the risk tolerance for the Investment Funds. The Team also reviewed the long-term characteristics of various asset classes, focusing on balancing risk with expected return. Accordingly, the Team selected these six asset classes as allowable asset classes to be invested in: Large-capitalization U.S. equities, Small/Mid-capitalization U.S. equities, Non-U.S. equities, Fixed Income securities, Inflation Sensitive Assets, and Cash.

In recognition of the differing needs and risk tolerances of fund participants the UMFWNC has created the following **Investment Funds**.

	The Income Only Fund	The Conservative Fund	The Balanced Fund	The Diversified Fund	The All Equity Fund
<i>U.S. Equity –Large Cap</i>	0	30	25	35	50
<i>U.S. Equity –Small / Mid Cap</i>	0	0	7	10	14
<i>Non-U.S. Equity</i>	0	0	18	25	36
<i>Total Equity</i>	0	30	50	70	100
<i>Cash</i>	100	35	1	1	0
<i>Fixed Income</i>	0	30	41	24	0
<i>Inflation Protection</i>	0	5	8	5	0
<i>Total Fixed Income</i>	100	70	50	30	0

Diversification Emphasis

Investment managers shall place emphasis on broad portfolio diversification, unless under the circumstances it is not prudent to do so. The investment managers shall be given full discretion to manage the assets under their supervision subject to this Investment Policy Statement, all applicable laws, and their investment management agreements with the UMFWNC. All transactions effected for the UMFWNC will be subject to best price and execution.

Investment Practices

U.S. and Non-U.S. Equity Managers:

1. Equity investment managers are engaged to provide total return that meets the requirements of this policy statement and for a specific investment philosophy or style that the Investment Team believes is appropriate for UMFWNC.
2. Unless otherwise stated in this document, decisions as to individual U.S. security selection, security size and quality, number of industries and holdings, current income levels, turnover, and the other tools employed by active managers are left to the manager's discretion, subject to the usual standards of fiduciary prudence.
3. Each actively managed equity manager may hold some investment reserves of cash but with the understanding that performance will be measured against equity benchmarks. It is expected that each manager will remain essentially fully invested at all times. It shall be the responsibility of each manager, however, to give reasonable notice to the Team of its intention to raise its allocation to cash should it believe that market conditions warrant such action. For purposes of this Policy, the term "essentially fully invested" means no more than 10% of the portfolio in cash.

Fixed Income Securities:

1. Fixed income managers are engaged to reduce the overall volatility of the UMFWNC's assets, provide a deflation hedge, and a highly predictable and dependable source of income. It is expected that investments made by the active managers will be flexibly allocated among maturities of different lengths according to interest rate prospects.
2. Unless otherwise stated in this document, decisions as to individual security selection, the use of non-investment grade bonds and non-U.S. bonds, currency hedging, turnover, number of industries and holdings, and the other tools employed by active managers are left to the manager's discretion, subject to the usual standards of fiduciary prudence.
3. Each actively managed fixed income manager may at its discretion hold investment reserves of cash, but with the understanding the performance will be measured against fully invested fixed income benchmarks. It is expected that each manager will remain essentially fully invested at all times. It shall be the responsibility of each manager, however, to give reasonable notice to the Board of its intention to raise its allocation to cash should it believe that market conditions warrant such action. For purposes of this Policy, the term "essentially fully invested" means no more than 10% of the portfolio in cash.

Mutual/Commingled Funds:

The Investment Team is authorized to invest in mutual/commingled funds whose guidelines differ from this investment policy when the Investment Team believes that it is in the best interest of the UMFWNC. The Investment Team shall consider the mutual/commingled funds' guidelines when selecting the fund. The Investment Team recognizes that mutual/commingled funds' guidelines are established by their trust documents/prospectuses.

Proxy Voting Guidelines

Investment managers shall have the responsibility for voting proxies. Accordingly, they have full discretion to develop proxy policies that are consistent with their strategies for adding long-term investment value and consistent with the goals of the UMFWNC. An annual summary report of proxy voting decisions will be furnished to the UMFWNC.

Brokerage Policy

Each manager is charged with the responsibility of seeking the best execution and best price in the best interest of the UMFWNC. If a manager utilizes brokerage from the UMFWNC assets to effect “soft dollar” transactions, detailed records will be kept and communicated to the Board.

Manager Selection Procedures

In selecting investment managers, the Team will:

- 1) Only consider a bank, insurance company, investment advisor as defined by the Registered Investment Advisers Act of 1940, or an agency of The United Methodist Church that is engaged in the management of investment assets.
- 2) Follow a due-diligence process so as to avoid selecting managers on an ad-hoc basis.
- 3) The due-diligence process, at a minimum, will involve analyzing investment manager candidates in terms of certain:
 - a) **Qualitative Characteristics**, such as key personnel, investment philosophy, investment strategy, research orientation, decision-making process, and risk controls.
 - b) **Quantitative Characteristics**, such as Global Investment Performance Standards-compliant composite return data, risk-adjusted rates of return and portfolio characteristics in relation to an appropriate market index.
 - c) **Organizational Factors**, such as type and size of firm, ownership structure, client-servicing capabilities, record of gaining and keeping clients, and fees.
- 4) Use proprietary databases for screening purposes and ensure an unbiased and objective search process.

RATE-OF-RETURN OBJECTIVES

Time Horizon

The Team acknowledges that fluctuating rates of return characterize the securities markets, particularly during short-term time periods.

Recognizing that short-term fluctuations may cause variations in the total portfolio's performance, the Team requires each investment manager to develop long-term investment strategies consistent with the guidelines contained in this Investment Policy Statement. A minimum of a five-year moving time period reflects the Team's emphasis on the long term. However, this five-year moving average shall not be the sole determinant of any Team decision.

Performance Objectives

The Team has determined that it is in the best interest of the UMFWNC that performance objectives be established for each Investment Fund and each investment manager. It is clearly understood that these objectives are to be viewed over the long term and have been established after full consideration of all factors set forth in this Investment Policy Statement. The Team acknowledges that investment styles come in and go out of favor depending on economic and capital market conditions. Accordingly, the Team has established style group comparisons as shorter-term performance objectives to be applied over a minimum of rolling three-year time periods.

Asset Category	Long Term Performance Index Target	Callan Peer Group /Style Benchmark
U.S. Equity	Russell 3000	Fund Sponsor Domestic Equity
Large Cap U.S. Equity	S & P 500	Large Cap Equity
Small / Mid Cap U.S. Equity	50% Russell Mid Cap Index / 50% Russell 2000	Small / Mid Cap Equity
Non-U.S. Equity	MSCI ACWI ex-US IMI	Fund Sponsor International Equity
Fixed Income	Bloomberg Barclays Aggregate Index	Fund Sponsor Fixed Income
Inflation Protection	80% Bloomberg World Govt Inflation Linked, 10% Bloomberg EM Tradeable Inflation Linked, 10% Bloomberg Commodity	Callan Real Assets
Cash Equivalents	T-Bills	Cash

Performance Measurement Guidelines

The Team acknowledges that the ongoing review of money managers is just as important as the due diligence during the selection process. Accordingly, the Team has deemed it appropriate to include “objective standards” designed to govern future decisions to terminate contractual relationships.

The standards, noted below, are not to be mechanically applied. Rather, if an investment manager seemingly fails to meet any one of the following three standards, then, subject to appropriate due diligence, the Investment Team shall consider whether to terminate the relationship. The three standards are these:

1) **Extraordinary Events (Organizational Issues)**

Extraordinary events that need to be rigorously evaluated prior to a termination decision include such things as--

- a) Ownership changes (e.g., key people “cash out”)
- b) Key people leave firm
- c) Manager changes the strategy it was hired to implement
- d) Manager is involved in material litigation or fraud
- e) Material client servicing problems

2) **Long-Term Performance in Relation to Appropriate Market Index**

Long-term performance standards should measure a manager’s since-inception return and a minimum of rolling five-year returns in relation to the market index that the manager previously agreed to be measured against. If a manager fails to generate a return premium in excess of the Performance Objective listed on the previous page, then, upon completion of appropriate due diligence, the Team shall consider whether to terminate the contract with the manager.

3) **Shorter-Term Performance in Relation to Appropriate “Style Group” and/or Style Benchmark**

Shorter-term performance standards should incorporate a time period of at least three years. Each manager is to be measured against the median return of a previously agreed-upon peer group of managers with similar investment styles. If a manager fails to generate a return in excess of the median return of the appropriate Callan “Style Group” and/or the style benchmark (if applicable), then, upon the completion of appropriate due diligence, the Team shall consider whether to terminate the contract with the manager.

COMMUNICATIONS

Each investment manager is required to provide the Team and its Investment Consultant with periodic investment information as follows:

Quarterly (due no later than the 21st calendar day following quarter end)

- 1) Time-weighted rates of return for the quarter, YTD, and since inception.
- 2) Performance commentary that attributes both good and bad elements of quarterly performance to the sources of return.
- 3) Strategy statement that describes the portfolio strategies currently in place and the manager's reasons for implementing them.

Monthly (due no later than the 10th business day following month end)

- 1) Asset listings that contain descriptions of all securities held in the portfolio.
- 2) Time-weighted rate of return for the month.

Event Driven (due no later than the 1st business day following the event)

- 1) Organizational developments that address any changes to the manager's organization, investment philosophy, decision-making process, financial condition, ownership, or professional staff.

Investment Team Meetings

The agenda for such meetings shall include the following:

- 1) Review of Investment Manager's strategies and objectives, investment style, and compliance to guidelines that apply to management of portfolio.
- 2) Discussion of Investment Performance and Risk - Current quarter, YTD, and since inception, in relation to mutually agreed upon market index. Discussion of investment strategies that have helped and hurt performance.
- 3) Discussion of Recent and Material Developments at Investment Manager's Organization - Ownership, organizational structure, financial condition, outstanding litigation, investment philosophy and investment decision-making process, professional staff, and client-servicing program.
- 4) Review all investment programs covering UMFWNC funds under management and the allocation of such funds among allowable asset classes.

At the discretion of the Investment Team, investment managers may be invited to present at Investment Team meetings.

REVIEW PROCEDURES

The Team and its Investment Consultant shall formally review this Investment Policy Statement annually. Any modifications shall be reviewed and discussed with the investment managers prior to implementation.

By acknowledging in writing the receipt of this Investment Policy Statement, each investment manager agrees to its terms and conditions. In the event an investment manager believes at any time that changes, additions, or deletions to this Investment Policy Statement are advisable, they will communicate such recommendations to the Team in writing. It is clearly understood that the Team, and not the investment managers, is responsible for the establishment of this Investment Policy Statement.

This Investment Policy Statement has been formally adopted and became effective by the Board of Directors of United Methodist Foundation of Western North Carolina, Inc. on the dates shown below:

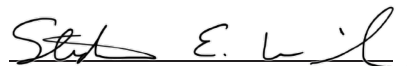
November 9, 2021

(Date Adopted)

January 1, 2022

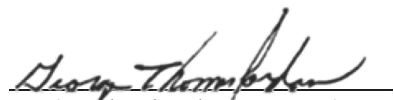
(Date Effective)

Investment Team:


(Authorized Signature)

Steve Wilson
Investment Team Leader

Board of Directors:


(Authorized Signature)

Tom Jordan
Chairperson of the Board

Appendix - Investment Funds

Summary Information

In recognition of the differing needs and risk tolerances of fund participants the UMFWNC has created the following **Investment Funds**. Descriptions of each Investment Fund are included in the following pages.

The Income Only Fund

Fund Description: The Income Only Fund offers a conservative investment approach that allows for immediate cash withdrawal. The fund's rate of interest is variable and reflects current money market rates.

Fund Benchmark: Total return to exceed the 90 day Treasury Bill rate of return.

Asset Allocation	Strategic Allocation
Cash Equivalents	100%

The Conservative Fund

Fund Description: The Conservative Fund provides a 70% allocation to fixed income securities with 30% allocated to domestic equity. The fund focuses on current income and capital preservation with limited opportunity for capital appreciation.

Fund Benchmark: Total return to exceed a weighted index comprised of 30% S&P 500; 30% Bloomberg Barclays Aggregate Bond Index, 5% Blended Inflation Index, and 35% T-bills.

Asset Allocation	Lower Limit	Strategic Allocation	Upper Limit
U.S. Large Cap Equities	20%	30%	40%
Fixed Income	25%	30%	35%
Inflation Protection	0%	5%	10%
Cash Equivalents	30%	35%	40%

Rebalancing of Asset Allocation Guidelines

One essential component of a strategic asset allocation policy is the development and use of rebalancing ranges for the target allocation. The rebalancing ranges are shown in the above table.

The actual allocation will be rebalanced periodically back to the strategic allocation. The strategic allocation and target ranges are to be reviewed annually for reasonableness in relation to significant economic and market changes. An asset allocation review will be conducted at least every five years to verify or amend the targets.

The Balanced Fund

Fund Description: The Balanced Fund provides a 50% allocation to domestic and international equity and a 50% allocation to fixed income securities. The fund seeks income and conservation of capital with the opportunity for long-term growth of income and capital appreciation.

Fund Benchmark: Total return to exceed a weighted index comprised of 32% Russell 3000; 18% MSCI ACWI ex-US IMI; 41% Bloomberg Barclays Aggregate Bond Index, 8% Blended Inflation index, and 1% T-bills.

Asset Allocation	Lower Limit	Strategic Allocation	Upper Limit
U.S. Large Cap Equities	15%	25%	35%
U.S. Small / Mid Cap Equities	2%	7%	12%
Non-U.S. Equity	13%	18%	23%
Fixed Income	36%	41%	46%
Inflation Protection	0%	8%	16%
Cash Equivalents	0%	1%	2%

Rebalancing of Asset Allocation Guidelines

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The actual allocation will be rebalanced periodically back to the strategic allocation. The strategic allocation and target ranges are to be reviewed annually for reasonableness in relation to significant economic and market changes. An asset allocation review will be conducted at least every five years to verify or amend the targets.

The Diversified Fund

Fund Description: The Diversified Fund provides a 70% allocation to domestic and international equity and a 30% allocation to fixed income securities. The fund primarily seeks income, long-term capital appreciation and the protection of real purchasing power.

Fund Benchmark: Total return to exceed a weighted index comprised of 45% Russell 3000; 25% MSCI ACWI ex-US IMI; 24% BC Aggregate Bond Index, 5% Blended Inflation Index, and 1% T-bills.

Asset Allocation	Lower Limit	Strategic Allocation	Upper Limit
U.S. Large Cap Equities	25%	35%	45%
U.S. Small / Mid Cap Equities	5%	10%	15%
Non-U.S. Equity	20%	25%	30%
Fixed Income	19%	24%	29%
Inflation Protection	0%	5%	10%
Cash Equivalents	0%	1%	2%

Rebalancing of Asset Allocation Guidelines

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The actual allocation will be rebalanced periodically back to the strategic allocation. The strategic allocation and target ranges are to be reviewed annually for reasonableness in relation to significant economic and market changes. An asset allocation review will be conducted at least every five years to verify or amend the targets.

The All Equity Fund

Fund Description: The All Equity fund is 100% allocated to domestic and international equity. The fund seeks long-term capital appreciation and income.

Fund Benchmark: Total return to exceed a weighted index comprised of 64% Russell 3000 and 36% MSCI ACWI ex-US IMI.

Asset Allocation	Lower Limit	Strategic Allocation	Upper Limit
U.S. Large Cap Equities	40%	50%	60%
U.S. Small / Mid Cap Equities	9%	14%	19%
Non-U.S. Equity	31%	36%	41%

Rebalancing of Asset Allocation Guidelines

One essential component of a strategic asset allocation policy is the development and use of rebalancing ranges for the target allocation. The rebalancing ranges are shown in the above table.

The actual allocation will be rebalanced periodically back to the strategic allocation. The strategic allocation and target ranges are to be reviewed annually for reasonableness in relation to significant economic and market changes. An asset allocation review will be conducted at least every five years to verify or amend the targets.