

**The Episcopal Diocese of Western Michigan  
Diocesan Investment Fund  
Investment Policy Statement  
Approved by Diocesan Council on September 10, 2022**

*Bring justice to our land, that all may dwell secure,  
and finely build for days to come foundations that endure.  
Hymn 600, verse 3 (The Hymnal 1982)*

The Diocesan Investment Fund (“DIF”) is a collective investment program for the long-term endowment and investment assets of the Episcopal Diocese of Western Michigan and any of its churches and church-related organizations that choose to invest alongside the Diocese. An Investment Committee appointed by the Bishop of the Diocese oversees and administers the DIF upon approval from Diocesan Council as appropriate. The current Investment Subcommittee and Finance Committee have approved this Investment Policy Statement (“IPS”), including the change making the Investment Committee a committee of Diocesan Council instead of its current status as a sub-committee of the Finance Committee.

The purpose of this IPS is to set out the investment objectives and guidelines of the DIF and to assist the Investment Committee with the investment, oversight, and evaluation of the DIF. The Investment Committee will administer the DIF in accordance with this IPS. The Investment Committee may employ an outside investment manager (“Investment Manager”), upon approval by Diocesan Council, and must review this IPS at least annually with the Investment Manager.

## **1. Investment Objectives**

The investment objective of the DIF is to provide long term growth in the value of the DIF without undue exposure to risk so that the DIF provides a total return over time that allows for prudent spending while accounting for inflation and fees. The DIF is appropriate for long term endowment and investment funds. The assets of the DIF are to be invested with the same care, skill and diligence that a prudent investor would exercise in investing institutional endowment funds.

The Investment Committee may also oversee the investment of Reserve Funds—these are funds to be held in anticipation of either capital spending needs or extraordinary spending (that is, spending that does not occur each year in the annual budget) that is predictable and for which Council has set aside funds in advance. It is standard policy that a Reserve Fund is spent only on those items intended and it is not available to contribute to the annual spending policy draw for the regular budget. As a Reserve Fund’s time horizon is relatively short (typically

three years), the investment objective of a reserve fund should preserve the value of the funds allocated to it; principal appreciation is secondary. In addition, the liquidity requirements of a reserve fund are high. Reserve fund resources need to be available on relatively short notice (30 days at most). Direct investments and illiquid securities are not appropriate.

**2. Investment Guidelines**

Time Horizon. The investment objectives and strategic asset allocation of the DIF are based on a long-term time horizon.

Risk Tolerance. With a long-term time horizon, the DIF can tolerate some interim fluctuation in market value and rates of return in order to achieve the investment objectives. High level portfolio risk and volatility should be avoided.

Prohibited Investments. The Investment Manager may not invest in private placements, restricted stock or other illiquid issues and may not engage in short sales, margin transactions or other similar specialized investment activities unless approved by the Investment Committee and Diocesan Council. The use of funds that use these investment activities in a constructive manner is permitted.

**3. Asset Allocation**

Strategic Asset Allocation. The DIF shall be invested in a broadly diversified portfolio that includes equities, fixed income securities and cash equivalents in an asset allocation that is conducive to participation in rising markets while permitting adequate protection in falling markets. The asset allocation must also account for the spending policy of the DIF as set out below. The Investment Committee shall review the strategic allocation of the DIF with the Investment Manager at least annually.

The initial strategic asset allocation and permissible investment ranges shall be:

<u>Asset Class</u>	<u>Low</u>	<u>Target</u>	<u>High</u>
Equities/Real Assets	55%	65%	75%
Fixed Income	25%	35%	45%
Cash	0%	0%	10%

Tactical Asset Allocation. The Investment Committee will consult with the Investment Manager on the use of sub-asset classes and their initial strategic targets and ranges. The Investment Manager will then have the discretion to make

tactical asset allocation decisions within these ranges. The Investment Committee will review these decisions quarterly and report to Diocesan Council. Current sub-asset class targets and ranges are set out in Appendix A.

**4. Rebalancing**

The Investment Manager shall review the asset allocation of the portfolio at least quarterly. The portfolio should be kept within +/-3% of the current tactical position of the portfolio.

**5. Socially Responsible Investing**

The Diocese is committed to investing its long-term assets in a socially responsible manner and periodically reviews developments in socially responsible investing, considers guidance from the Episcopal Church and consults with the Investment Manager.

**6. Spending Policy**

The DIF shall be invested for total return including both income and appreciation. The Diocesan Council and Investment Committee shall follow a total return spending policy for Diocesan funds included in the DIF. Each year, after the reception of Second Quarter portfolio and performance reports, the Investment Committee will recommend to Diocesan Council for approval a prudent spending rate for Diocesan funds for the following fiscal year. Typically, this will be between 3% and 5% of the value of a fund averaged over twenty quarters unless a greater amount is permitted by law and Diocesan policy. The spending rate is intended to preserve the purchasing power of Diocesan funds over time while accounting for inflation and fees.

In making this recommendation, the Investment Committee shall act in good faith with the care that an ordinary prudent person in a like position would exercise under similar circumstances and shall consider if relevant the standards set out in the Michigan Uniform Prudent Management of Institutional Funds Act (“Michigan UPMIFA”). At no time shall the Investment Committee recommend, nor should Diocesan Council approve, a spending rate that creates a presumption of imprudence under the Michigan UPMIFA.

The Investment Committee will periodically review the Diocesan spending rate with the Investment Manager.

Any church or church-related organization investing in the DIF may determine its own spending policy, including spending rate, in accordance with applicable law and any policies. It is a church or organization's responsibility to understand and comply with any restrictions on its funds and to ensure that distributions comply with any applicable law or policy.

## **7. Performance Measurement Guidelines**

The primary measure of the performance of the DIF will be comparison to a custom-designed benchmark based on its strategic asset allocation. An additional goal is providing protection against inflation. The benchmark for the DIF is set out on Appendix A. The Investment Manager will notify the Investment Committee of any change in the benchmarks.

## **8. Responsibilities**

Investment Committee. The Investment Committee oversees and administers the DIF in accordance with this IPS subject to Diocesan Council approval. It is responsible for:

- Establishing investment objectives and guidelines for the DIF and preparing and approving an IPS. The objectives and guidelines will reflect a prudent investment standard.
- Selecting a qualified Investment Manager for the DIF and overseeing the ongoing performance of that Investment Manager.
- Setting the strategic asset allocation of the DIF in accordance with the investment objectives and guidelines set out in the IPS and in consultation with the Investment Manager.
- Monitoring the DIF on a regular basis to ensure compliance with the investment objectives and guidelines of the IPS.
- Reviewing the performance of the DIF with the Investment Manager at least quarterly.
- Evaluating the performance of the Investment Manager at least annually.
- Taking appropriate action if the Investment Manager does not meet the investment objectives or follow the investment guidelines.
- Communicating with the Investment Manager in a structured, ongoing manner.
- Reporting periodically to the Diocesan Council as required, usually quarterly and at least annually.
- Meeting periodically either in person or electronically to carry out its responsibilities.

Additionally, the Investment Committee is responsible for recommending a prudent spending rate for Diocesan funds invested in the DIF and for overseeing distributions from the DIF of Diocesan funds in accordance with the purposes of the Diocesan funds.

Investment Manager. The Investment Manager shall invest and manage the assets of the DIF in conformity with this IPS unless in the Investment Manager's opinion to do so would be clearly imprudent. The Investment Manager is responsible for:

- Designing an investment strategy that complies with this IPS and any related policies in consultation with the Investment Committee.
- Implementing the investment strategy, including fund selection and tactical asset allocation, within the guidelines of this IPS and any related policies.
- Providing timely written quarterly performance reports to the Investment Committee.
- Meeting quarterly with the Investment Committee to review investment objectives, strategy, and performance.
- Notifying the Investment Committee in writing of any material deviation from this IPS.

Custodian. The assets of the DIF shall be held by a custodian that is a reputable, well-established financial institution. The custodian is responsible for:

- Safekeeping the assets of the DIF.
- Providing timely reports of transactions and valuations of assets.
- Fulfilling all regular fiduciary duties required of a custodian by pertinent state and federal laws and regulations.

**Appendix A**  
**Episcopal Diocese of Western Michigan**  
**Diocesan Investment Fund**

This information is for the Diocesan Investment Fund as of the date of this Investment Policy Statement. It may be updated or amended over time.

**1. Asset Allocation**

	Low	<b>Strategic Allocation</b>	High
<b>EQUITIES</b>			
US Large/Mid Cap	10.00%	<b>26.00%</b>	50.00%
US Small Cap	0.00%	<b>5.00%</b>	15.00%
International Developed	4.00%	<b>14.00%</b>	45.00%
International Developed Small Cap	0.00%	<b>4.00%</b>	14.00%
International Emerging Markets	0.00%	<b>8.00%</b>	18.00%
Global REITs	0.00%	<b>4.00%</b>	14.00%
Commodities	0.00%	<b>4.00%</b>	14.00%
		<b>65.00%</b>	
<b>FIXED INCOME</b>			
US Investment Grade	7.00%	<b>17.00%</b>	27.00%
US Intermediate Credit	0.00%	<b>0.00%</b>	10.00%
US Non-Investment Grade	0.00%	<b>6.00%</b>	15.00%
US TIPS	0.00%	<b>6.00%</b>	15.00%
Int'l Emerging Markets Fixed	0.00%	<b>6.00%</b>	15.00%
<b>CASH</b>			
	0.00%	<b>0.00%</b>	10.00%
		<b>35.00%</b>	

**2. Benchmark**

Asset Class	Benchmark(s)
<b>Equities</b>	
US Large/Mid Cap	MSCI USA Index
US Small Cap	Russell 2000 Index
International Developed	MSCI EAFE Index / MSCI AC World Ex-US Index
International Developed Small Cap	MSCI EAFE Small Cap Index
International Emerging Equity	MSCI Emerging Markets Index
Global REITs	FTSE EPRA NAREIT Developed Index
Commodities	BBG Roll Select Commodity Total Rtn Ind
<b>Fixed Income</b>	
US Investment Grade Fixed Income	BBG US Aggregate Bond Index BBG U.S. Intermediate Credit Bond Index
US Non-Investment Grade	BBG US High Yld Cstm BB/B ex-144A
Treasury Inflation Protected Securities	BBG US TIPS Index
International Emerging Fixed Income	JPM Emrg Mkts Global Diversified Index