

Policies on Parochial Endowment and Investment Practices

Board of Trustees
Episcopal Diocese of Western New York
The Rt. Rev. R. William Franklin, Bishop

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OVERVIEW

INTRODUCTION

This document is intended

- To help parishes understand some fundamentals of managing whatever endowments and investments they may possess; and
- To assist parishes in the proper management of those endowments – especially the endowments – and investments.

These days, many parishes are challenged to provide a quality program of worship and service in light of sometimes diminishing financial resources. With a general decline in congregation size – and often in financial contributions – large and small congregations alike may wish to achieve better results from whatever investments and endowments they may possess.

In that context, this document

- Explains some key fundamentals regarding the proper management of endowments;
- Describes some important recent changes (as of 2010) in New York State law regarding nonprofit institutions' prudent management of institutional funds; and
- Presents some Diocese-recommended policies and practices regarding a congregation's proper management of its investment and endowment funds.

Additionally, the Diocese has formulated various policies, agreements and arrangements that any parish may adopt for the efficient and effective management of its investment and endowment resources. Although these items are not included in this document, they are available on the Diocese website: www.episcopalwny.org. These documents include:

- Donor Fund Agreement
- Example Endowment-Investment Committee By-Laws
- Gift Acceptance Policy
- Gift Disposition Policy
- Designated Gift Policy
- <Fund Name> Endowment Fund Policy

HOW MIGHT WE ASSIST YOU?

This information is made available (a) to improve understanding of the overall endowment-investment situation in each parish, and (b) to encourage parish leaders to examine and strengthen their own parish's arrangements regarding endowments and investments. Although individual parishes may wish to make such improvements on their own (assisted by this and related documents), the Diocese stands ready to assist such efforts in a range of ways. Interested parishes are invited to seek assistance in these matters through the Diocese' Congregation Support Team. You may contact The Rev. Canon Jerre Feagin, jerrefeagin@episcopanwny.org, 716-881-0660, ext. 19.

This Overview describes each of the following chapters in this document.

CHAPTER 1. ENDOWMENTS VS. INVESTMENTS

Chapter 1 explains some key differences between endowments and investments. If parish leadership does not understand these important differences, it may fail to properly identify and separate endowment funds from non-endowment investment funds in its accounts – leading to either of two unfortunate outcomes:

- On the one hand, the management and investment of a parish’s endowment funds may fall short of the requirements of current New York State law regarding the prudent management of such funds – especially regarding the current State-mandated procedures for appropriation and use (spending) of the principal of an endowment fund; and/or
- On the other hand, the mistaken belief that a non-endowed investment fund is actually an endowment fund may lead to a parish policy to avoid spending any portion of that investment principal – when, in fact, no such prohibition exists for a parish’s truly non-endowed investments.

CHAPTER 2. SUMMARY AND PRACTICAL GUIDE REGARDING THE 2010 NEW YORK PRUDENT MANAGEMENT OF INSTITUTIONAL FUNDS ACT

Chapter 2 provides concise summaries of relevant portions of the following documents, and it indicates their postings on the Diocese website:

- The 2010 New York Prudent Management of Institutional Funds Act (NYPMIFA); and
- The New York Attorney General’s March 2011 *Practical Guide to the New York Prudent Management of Institutional Fund Act*. This *Practical Guide* itself is recommended as an authoritative, comprehensive and readable explanation of NYPMIFA.

As indicated in the New York Attorney General’s March 2011 *Practical Guide to the New York Prudent Management of Institutional Fund Act*:

The New York State Prudent Management of Institutional Funds Act (NYPMIFA, of September 2010) makes important changes to the rules governing the spending of endowment funds – funds that are not wholly expendable on a current basis due to donor-imposed restrictions on spending. In particular, and unlike prior law, it allows [not-for-profit corporations and institutions, including churches] to spend endowment funds below their original dollar amount (“historic dollar value”) without court approval or Attorney General review, if the institution’s board of directors concludes that such spending is prudent. NYPMIFA also provides standards for the prudent management and investment of institutional funds, the delegation of management and investment functions to outside advisors, and procedures for lifting of modifying donor-imposed restrictions on the management, expenditure or sue of institutional funds.

CHAPTER 3. INVESTMENT POLICY STATEMENT OF THE DIOCESAN INVESTMENT TRUST, EPISCOPAL DIOCESE OF WNY

Chapter 3 provides the full Investment Policy Statement of the Diocesan Investment Trust.

The Western New York Diocesan Investment Trust (DIT, or the Investment Trust) is an investment vehicle sponsored by the Trustees of the Episcopal Diocese of WNY (the Diocese) to provide for prudent management of invested funds by the diocese, its congregations, and church agencies. The Investment Trust is not itself an endowment, although endowment funds may be invested through it.

Fiduciary

The Investment Committee of the Diocese oversees the prudent management of the various investment options offered by the Investment Trust. The Investment Committee, meeting regularly, is steered by its own study, recommendation of consultants and advisors, and coordination by its chair and staff liaisons.

Investment Managers may be employed to manage Fund assets. Investment Managers may be individual asset advisors or mutual funds with discretion on investing Fund assets. An Investment Manager or a mutual fund must have a competitive record of performance, relevant experience and expertise.

Goals

Specific goals of this Investment Policy are as follows:

- Growth;
- Preservation of principal;
- Stability of market value;
- Stability of income; and
- Liquidity

Investment philosophy

According to the Trustees' investment philosophy, the Diocesan Investment Trust provides several investment funds from which each investing institution may choose, in accordance with its risk profile and preferred asset mix. These investment options may vary from time to time to reflect changing economic circumstances.

Available investment funds

At present, the Diocesan Investment Trust offers four investment options:

FUND A: Growth and Income Fund

Potential return: Above average

Principal volatility: Moderate

Cost: FUND A is a low-cost fund, with a current annual fee of less than one percent of the investment.

Description: A favorable total investment return utilizing a conservatively managed mix of money market instruments, intermediate- and longer-term notes and bonds, and domestic and international stocks. Generally, a longer-term approach to asset allocation is emphasized, with the majority of assets invested in equity securities. International holdings are limited to 10 percent of the total fund. Roughly 95 percent of all participating parishes are in FUND A.

FUND B: Intermediate Bond Fund

Potential return: Moderate

Principal volatility: Low to moderate

Description: Investment only in fixed-income securities (no stocks), including government and corporate obligations, of intermediate maturity (generally from five to ten years). The average portfolio quality will be AA (“double-A”) or better, as defined by Moody’s and Standard & Poor’s. Unlike Fund C, the principal of Fund B may fluctuate.

FUND C: Money-Market Savings Fund

Potential return: Money-market yield

Principal volatility: No principal volatility

Description: Preservation of principal and a return similar to comparable short-term investment vehicles, such as certificates of deposit, commercial paper and Treasury bills. Accordingly, the return of this fund will fluctuate with short-term interest rates, but its principal value will remain stable.

FUND D: Growth Index Fund

Potential return: Above average

Principal volatility: Moderate to high

Description: This Fund is 100 percent in equities, utilizing the Vanguard Index Trust 500. It is an open-ended fund that seeks to replicate the performance of the Standard & Poor’s 500 Composite Index. It invests in all 500 stocks in the S&P 500 Index in the same proportion as that Index.

CHAPTER 4. KEY DONOR FUND POLICIES, AND GUIDELINES FOR OPERATION OF DONOR FUNDS

Chapter 4 identifies key policies of the Diocese’s donor funds, and it provides the Trustee document entitled, “Guidelines for Operation of Donor Funds.”

Key donor fund policies

A donor fund is for the benefit of

- A parish that has no endowment; or
- A parish that may wish to place its endowment(s) under the management of an independent trustee, but without paying high management fees.

A donor fund safeguards against any reallocation of endowment funds beyond their donor-stipulated use. This precludes administrative reinterpretations of the terms of a bequest or other donor-restricted gift.

A donor fund imposes no cost to the parish beyond the low HSBC annual management fee.

A donor fund can be established with a \$1,000 initial investment, which may then be increased in \$100 increments.

Guidelines for operation of donor funds

Each of the donor fund types that may be held in the Diocesan Investment Trust:

- An endowment fund preserves the fund’s principal in perpetuity while providing a prudent proportion of the market value to be made available annually to support the work of the church.
- A non-endowment fund anticipates expenditure of the entire fund. There are two types of non-endowment funds:
 - Temporarily restricted (with a time-related or a scope-of-purpose restriction, or both); or
 - Unrestricted.
- A pooled endowment fund provides for a common beneficiary for this type of fund, e.g., a local Episcopal parish or Episcopal charitable organization.

This section also includes other general guidelines for the operation of donor funds.

CHAPTER 1. ENDOWMENTS VS. INVESTMENTS

This chapter explains some key differences between endowments and investments. If parish leadership does not understand these important differences, it may fail to properly identify and separate endowment funds from non-endowment investment funds in its accounts – leading to either of two unfortunate outcomes:

- On the one hand, the management and investment of a parish’s endowment funds may fall short of the requirements of current New York State law regarding the prudent management of such funds – especially regarding the current State-mandated procedures for appropriation and use (spending) of the principal of an endowment fund; and/or
- On the other hand, the mistaken belief that a non-endowed investment fund is actually an endowment fund may lead to a parish policy to avoid spending any portion of that investment principal – when, in fact, no such prohibition exists for a parish’s truly non-endowed investments.

Endowment

Although the terms “endowment” and “investment” are commonly used interchangeably, there is a crucially important difference between them. According to the Investopedia, an endowment is a financial asset donation made to a non-profit group or institution in the form of investment funds or other property that has a stated purpose at the bequest of the donor. Most endowments are designed to keep the principal amount intact while using the investment income from dividends for charitable efforts.¹

For our purposes, endowments are financial assets donated to a parish (or other Episcopal institution) under donor-stipulated restrictions. Generally, the core endowment principal is to remain intact, and the income from that principal is to be used for the purposes stipulated by the donor. A parish that agrees to accept such a gift – whether it is a bequest (via the donor’s will) or simply a gift – undertakes to adhere to whatever restrictions accompany the gift.

Investment

In contrast, investments constitute financial assets held by a parish (or other Episcopal institution) that are *not* donor-restricted in terms of either (a) perpetual maintenance of the principal, or (b) restricted use of the income from the principal. That is, an investment is essentially a non-endowment.

Thus, regardless of how a parish itself may informally “name” an investment in its accounts, an investment must be classified as an endowment if it meets the above criteria. Although it is not uncommon for parishes to identify some or all of their investments as “endowment” fund(s), each fund identified as an “endowment” should clearly have been established under such donor stipulations.

¹ Read more: <http://www.investopedia.com/terms/e/endowment.asp#ixzz1vDjv7CaP>

Different legal requirements for managing “endowment” and “investment” funds

A parish must properly distinguish its endowment funds from its non-endowment investments, because the laws of each state mandate procedures for the management and investment funds held by not-for-profit corporations (including religious entities).

- In order to ensure the continued donor stipulations relating to endowments, New York State law requires a number of quite specific procedures for the management and investment of endowment funds. As noted in Chapter 2, although a 2010 New York State law relaxed the former prohibition against spending any portion of the “historic dollar value” of the original endowment principal, it also imposed detailed procedures for the “prudent” appropriation of endowment principal for subsequent expenditure.
- In contrast, those parish investment funds originating from truly unrestricted donations or bequests – where the donors did not restrict either the expenditure of investment principal or the purpose of any spending from that investment – would *not* be subject to the state’s more stringent requirements for the management, investment, and use of endowment funds.

Various purposes for non-endowment investments

Just as a parish may hold various endowment funds – each for a different donor-stipulated purpose – it also may (quite commonly) hold several non-endowment investment funds, at the decision of the vestry. For example, a parish might well maintain separate non-endowment investment funds with various current or capital expenditure designations. These might include a general capital improvements fund, and even a simple reserve fund with no particular operating or capital designation. Therefore, unlike in an endowment fund, both the income and the principal of a non-endowed investment fund could be spent in any manner directed by the vestry.

CHAPTER 2. SUMMARY AND PRACTICAL GUIDE REGARDING THE 2010 NEW YORK PRUDENT MANAGEMENT OF INSTITUTIONAL FUNDS ACT

A. SUMMARY OF NYPMIFA

SOME BASICS OF THE 2010 LAW

New York's Prudent Management of Institutional Funds Act (NYPMIFA), which took effect on September 17, 2010, governs the management and investment of funds held by not-for-profit corporations, including educational, religious and charitable entities. NYPMIFA adds a new Article, 5-A (Sections 550-558), to New York's Not-for-Profit Corporation Law (N-PCL). NYPMIFA addresses three principal areas of a not-for-profit organization's responsibilities for its "institutional funds":^{2, 3}

- The management and investment of those institutional funds that are generally considered to be its cash and cash equivalents and its investment portfolio (but excluding its property, equipment, and other assets used for the organization's operational purposes);
- The appropriation or spending of resources (and the related earnings) held as "endowment funds"; and
- The release of donor restrictions on resources held as endowment.

NYPMIFA establishes specific guidelines with respect to the management of endowment funds and the related investment decisions. *Importantly, all not-for-profit organizations (including those entities, such as private foundations, which do not have "endowments" in the traditional sense) must now have formal investment policies relating to the use of their institutional funds (even if those are just cash checking accounts) that are maintained for investment purposes.* These policies must also be affirmed each year by the organization's governing board.

With regard to endowment funds, a key element of NPMIFA is the determination of when the governing board of a not-for-profit organization has acted "prudently" with regard to its endowment. *Prior to September 2010, New York generally considered it prudent for a not-for-profit organization to spend some percentage of the earnings of its endowment (e.g., interest, dividends, rents, etc.), as well as of its net capital appreciation – to the extent such appreciation was realized on the disposition of all endowment assets and unrealized on those assets that were readily marketable assets. However, except for very unusual circumstances, a not-for-profit organization could not invade the established historic dollar value of an endowment fund's assets.*

² The following material, a relatively concise summary of NYPMIFA, is taken directly from EisnerAmper – Accountants and Advisors, Informational and educational document: "NYPMIFA – Eighteen Months Later!", March 21, 2012 (www.eisneramper.com/nypmifa-18-months-later-0312.aspx#sthash.ZUFaR3wa.dpuf)

³ Additional materials that address NYPMIFA include the following: Charities Bureau of the Office of the [New York] Attorney General, *A Practical Guide to the New York Prudent Management of Institutional Funds Act*, March 2011 (www.charitiesnys.org); New York Community Trust, Professional Tax & Estate Planning Notes: "Investment Standards for Not-for-Profit Corporations under NYPMIFA," July 2011, and Professional Tax & Estate Planning Notes: "Endowment Spending and Release of Endowment Restrictions under NYPMIFA," October 2011 (www.nycommunitytrust.org); and Skadden, Arps, Slate, Meagher & Flom LLP, Informational and educational document: "New York State Makes Significant Changes to the Laws Governing How Not-for-Profit Organizations May Manage and Spend Their Endowment Funds," September 22, 2010 (www.skadden.com).

NYPMIFA, on the other hand, did away with the historic dollar value benchmark and permits a not-for-profit organization – subject to certain specific procedural and documentation rules – to "appropriate" for subsequent expenditure of as much of the endowment fund's assets as the governing board deems prudent.

Moreover, as was the case before the new law, NYPMIFA permits the governing board to remove an endowment restriction, with the donor's consent. NYPMIFA then provides a methodology for sending letters to donors (to the extent they are living and can be reasonably reached), asking for a release from restriction. For a fund older than 20 years and with a total value of less than \$100,000 – and for which the donor's consent is not available – the not-for-profit organization may request a release [from the endowment restriction] from the Attorney General by submitting documentation that includes the not-for-profit organization's efforts at donor contact, an explanation as to why the donor's restriction has become untenable, and the intended use of the fund if the restriction is released.

EXPENDITURE OF ENDOWMENT FUNDS

What is an “Endowment Fund”?

One definition of an endowment fund is a permanent gift of money or property to a specified institution for a specified purpose, as restricted by the donor. This means that the principal of an endowment is not to be spent, and the income from that principal may be spent only for the original donor-specified purpose. To avoid any confusion, the following statement by the Charities Bureau regarding an "endowment fund" refers to a permanent endowment fund consisting of "permanently restricted net assets."

Parish leaders should understand that an “endowment fund,” as defined above, is distinguished from any other parish investment funds that were donated to the parish without restriction as to the use of either the principal or the income therefrom. Indeed, it is not uncommon for a parish to hold such unrestricted investments that nonetheless may have come to be erroneously referred to as its “Endowment” or its “Endowment Fund(s).” Such misclassified so-called “endowed” investments might simply have accumulated over the years without any donor restriction as to its use. Therefore, any such unrestricted investments would not be subject to the NYPMIFA strictures regarding endowment funds.

Thus, it is important that parishes holding investment accounts understand – or, from a careful review of the history of their investments, come to understand – which of their perhaps several investment accounts are indeed “endowed” (and, importantly, with what restrictions), and which are not.

NYPMIFA’s treatment of the expenditure of endowment principal

From our perspective here, perhaps the most important aspect of NYPMIFA is its treatment of the expenditure of endowment principal – Section 553 of the Not-for-Profit Corporation Law – as interpreted here by the Charities Bureau of the Office of the Attorney General. :⁴

Unless otherwise stated in the gift instrument, the assets in an endowment fund are donor-restricted assets (i.e., may not be spent) until they are "appropriated for expenditure" by the institution.

⁴ Op. cit., Charities Bureau of the Office of the [New York] Attorney General, pp.3-4.

Although this term is not defined in the Act, an appropriation is generally understood to mean a decision by the governing board to release a portion of an endowment fund from the donor-imposed restriction on spending, thus authorizing it to be spent in accordance with the terms of the gift instrument. Funds appropriated for expenditure need not be spend immediately; such funds may be appropriated on one date and spend at a later date over a period of time. Effective September 17, 2010, decisions to appropriate from endowment funds are governed by Section 553 of the Not-for-Profit Corporation Law.

Under prior law, an institution could appropriate for expenditure so much of the net appreciation as its governing board determined was prudent; however, the institution could not appropriate below the historic dollar value on an endowment fund without court approval unless the gift instrument permitted such appropriation. NYPMIFA removed the prohibition on appropriations below the historic dollar value of endowment funds; however, the donor of an endowment fund established before September 17, 2010, who is "available" as defined in the Act may opt to retain the historic dollar value limit with respect to that fund by responding to a notice sent by the institution. Furthermore, as under prior law, the donor of an endowment fund may include an explicit spending limitation in the gift instrument. The Act continues to require that decisions to appropriate for expenditure from endowment funds be made prudently, but adds specific criteria for determining when this standard is met.

In deciding whether to appropriate from an endowment fund, the institution must act "in good faith, with the care that an ordinary prudent person in a like position would exercise under similar circumstances," and must consider, if relevant, the following factors:

- (1) The duration and preservation of the endowment fund;
- (2) The purposes of the institution and the endowment fund;
- (3) General economic conditions;
- (4) The possible effect of inflation or deflation;
- (5) The expected total return from income and the appreciation of investments;
- (6) Other resources of the institution;
- (7) Where appropriate and circumstances would otherwise warrant, *alternatives to expenditure of the endowment fund*, giving due consideration to the effect that such alternatives may have on the institution; and
- (8) The investment policy of the institution.

[Furthermore,] *an institution must make a contemporaneous record of the consideration it gave to each of these eight factors in deciding to appropriate.* If the institution decides to accumulate rather than appropriate from an endowment fund, it must also keep a record of such action. [Italics added for emphasis throughout this extended selection.]

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The full text of NYPMIFA is available on the Diocese website at www.episcopalwny.org.

B. SELECTED GUIDANCE REGARDING NYPMIFA

(From the Charities Bureau of the Office of the New York Attorney General)

In March 2011, the Charities Bureau of the Office of New York Attorney General released *A Practical Guide to the New York Prudent Management of Institutional Funds Act*, which provides an authoritative, comprehensive and readable explanation of NYPMIFA. This portion of Chapter 3 offers further information from *A Practical Guide* on "alternatives to expenditure of the endowment funds" and on "contemporaneous records of the determination to appropriate," as taken from the *Practical Guide*.

(Interested parishes may wish to make available to their Vestry, and especially their endowment-investment committee, the complete text of the NY Attorney General's Charities Bureau document, *A Practical Guide to the New York Prudent Management of Institutional Funds Act*.)

The complete *Practical Guide* is available on the Diocese website at www.episcopalwny.org.

The NYPMIFA amends Section 553 of New York's Not-for-Profit Corporation Law [N-PCL] to provide rules that boards must follow in deciding whether to appropriate from or to accumulate endowment funds. Item 7 of those rules discusses *alternatives to expenditure* of the endowment funds. In its "Practical Guide to NYPMIFA", the Charities Bureau of the Office of the New York Attorney General provided special guidance on Item 7, regarding how institutions should consider this factor. It also provided guidance on Contemporaneous Records (which appear after the following paragraph):⁵

ALTERNATIVES TO EXPENDITURE OF THE ENDOWMENT FUNDS

What is meant by "alternatives to expenditure of the endowment fund," and how should institutions give consideration to that factor?

N-PCL, Section 553(a), requires that, in making a determination to appropriate or accumulate from and endowment fund, the board must consider, if relevant, eight factors, including "(7) where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the institution." In this Office's view, the inclusion of this factor, which is unique among all states that adopted UPMIFA [the Uniform Prudent Management of Institutional Funds Act – the general form of NYPMIFA that had been adopted at that time by nearly all US states] was intended to ensure that boards do not automatically decide to appropriate from endowment funds when circumstances warrant considering whether reasonable alternatives are available. For example, if an endowment fund has diminished in value, the board may determine that it is appropriate to take steps to avoid or reduce further spending of the fund. Such steps might include, where appropriate, fund-raising efforts, expense reductions, sale of non-essential assets, or reductions in non-essential staff. The board might

⁵ The information in this section is selectively taken from Charities Bureau of the Office of the [New York] Attorney General, *A Practical Guide to the New York Prudent Management of Institutional Funds Act*, pp. 12-13.

also consider whether certain expenditures can prudently be deferred. The board should identify the particular alternatives that might be appropriate in the circumstances and discuss to what extent these steps are feasible as an alternative to endowment spending, including what impact such alternatives would have on the institution's operations and programs. The consideration of alternatives should be appropriately documented. (See "Contemporaneous Records of the Determination to Appropriate," immediately below).

CONTEMPORANEOUS RECORDS OF THE DETERMINATION TO APPROPRIATE

What should the contemporaneous record address?

The contemporaneous record of the determination to appropriate should address each of the eight factors included in N-PCL, Section 553(a) and discuss the consideration that the board gave to each factor. In this Office's view, it is not sufficient to state in a conclusory fashion that the board considered a particular factor; rather, the record should describe the substance of the consideration given to each factor. If any factor was deemed not relevant to the board's decision, the record should explain why.

As stated [earlier in the Practical Guide], if the governing board of an institution makes a single decision to appropriate from multiple endowment funds that are similarly situated, it is this Office's view that the decision may be documented in one contemporaneous record.

How should the contemporaneous records be documented?

The form of the record is less important than the substance. The record may be made in the board's minutes; alternatively, boards may wish to develop a record especially for the purpose of documenting their decisions to appropriate endowment funds for expenditure. Contemporaneous records of decisions to appropriate from endowment funds should be maintained as part of the permanent records of the institution. The Charities Bureau may request production of these records in the exercise of the Attorney General's supervisory authority over institutions.

When should contemporaneous records be prepared?

To be contemporaneous, the record should be prepared at the time the board makes a decision to appropriate from an endowment or immediately thereafter. If the board relies on advice and information from professionals (such as lawyers, accountants or investment advisors) when it decides to appropriate endowment funds for expenditure, it may (but is not required to) incorporate all or part of such written advice in its contemporaneous record, to the extent such advice is not privileged, confidential or proprietary.

**CHAPTER 3. INVESTMENT POLICY STATEMENT
DIOCESAN INVESTMENT TRUST, EPISCOPAL DIOCESE OF WNY**

INVESTMENT POLICY STATEMENT

Submitted to Investment Committee

March, 2012

**Episcopal Diocese of Western New York
Western New York Diocesan Investment
Trust**

The Western New York Diocesan Investment Trust (the “Investment Trust”) is an investment vehicle sponsored by the Trustees to provide for prudent management of invested funds by the diocese, its congregations, and church agencies. The Investment Trust is not itself an endowment, although endowment funds may be invested through it.

The Investment Committee of the Episcopal Diocese of Western New York is tasked with the duty to oversee the prudent management of the various investment options offered by the Investment Trust.

Oversight of these funds requires:

- Maintaining adequate internal controls;
- Adopting intelligent policies for investment of assets; and
- Providing for competent, careful administration.

FIDUCIARY

This Ministry will be delivered by the Trustees as supported by the Investment Committee. The Investment Committee, meeting regularly, is steered by its own study, recommendation of consultants and advisors, and coordinated by its chair and staff liaisons. Specific roles and responsibilities are outlined as follows but not limited to:

Trustees

- Appoint Investment Committee to delegate appropriate authority to execute the Investment Program;
- Review Investment Committee recommendations;
- Review, at least annually, the performance of all fiduciaries;
- Review, at least annually, the investment performance of the Fund.

Investment Committee of the Trustees

The Investment Committee is responsible for the development, implementation, monitoring and periodic revision of a sound and consistent investment management program for all Investment Trust investment options. Specifically, the Committee is responsible for:

- Establishing reasonable and appropriate investment goals and objectives for each option;
- Identification of asset mix guidelines appropriate for each option;
- Developing investment guidelines for each asset class;
- Establishing a performance measurement and review process;
- Overseeing the performance of all fiduciaries involved with investment assets;
- Communicating specific responsibilities to Investment Managers, Consultants and Custodians;
- Reviewing quarterly Investment Reports;
- Reviewing and, if necessary, revising the Investment Policy.

Investment Fund Managers

Investment Managers may be employed to manage Fund assets. Investment Managers may be individual asset advisors or mutual funds with discretion on investing Fund assets. To be considered for appointment, an Investment Manager or a mutual fund must have a competitive record of performance, relevant experience and expertise. Each investment manager or fund employed will be subject to the following:

- Expected to act within the specific limitations, guidelines and philosophies as expressed in written policy amendments, or fund prospectus.
- Responsible for making all investment decisions on a discretionary basis. Such discretion shall include selection of securities and the time of transactions.
- Maintain continuous communication with the Consultant both on matters of investing assets and on any significant corporate changes.
- Responsible for providing quarterly investment reviews.

GOALS

Specific goals of this Investment Policy are explained as follows:

- Growth. Growth is defined as a return exceeding the rates of inflation and corresponding to a defined benchmark in each asset class or Fund.
- Preservation of Principal. Preservation of principal is the intention of the Trustees to make reasonable efforts to preserve the principal of the assets in the fund, but preservation of principal shall not be imposed on each individual investment.
- Stability of Market Value. The Investment Committee recognizes the sometimes conflicting outcomes of growth and stability objectives. However, in designing an appropriate investment strategy, the Committee also recognizes that volatility can be detrimental to overall goals.
- Stability of Income. Income can be a significant contribution to the total return and can be a stabilizing influence on market value.
- Liquidity. Insofar as it pertains to spending policy, liquidity is a specific requirement of the investment program.

ASSET ALLOCATION POLICY

The investment program for the Investment Trust is to offer options to allow diversification over asset classes. Benchmarks for each asset class are outlined in the Program Assessment section of this Policy Statement.

Investment Objective

The investment objective for each invested fund deposited by the diocese, its congregations, and church agencies is to be established by the governing board of the depositing institution. When depositing the fund, and selecting the investment options under the Investment Trust, the institution should consider the role that each investment plays within its overall portfolio, the

other resources of the institution, the needs of the institution and of the fund, and the deposited fund's relationship or special value to the purposes of the institution.

The depositing institution is responsible to manage and invest its particular fund or funds in good faith and with the care of an ordinarily prudent person in a like position would exercise under similar circumstances.

The investing institution should review the objective at least annually in the context of general economic conditions, the effects of inflation or deflation, overall return of the investment portfolio, the expected return from income and the appreciation of investments and the spending needs of the fund.

Investment Philosophy

It is the investment philosophy of the Trustees that investment options will be offered under the umbrella of the Investment Trust to provide for diversification and selection of an asset mix and risk profile for each fund by the investing institution which is appropriate for a wide variety of investment purposes. The options offered by the Investment Trust may vary from time to time in response to changes in the economy.

At present, the Investment Trust offers four investment options. No maximum or minimum limitation is set on the allocation which may be made between the four investment options by the Investment Trust. That decision is left to each investing institution.

The Trustees urge each institution to recognize that diversification within and between asset classes can help manage the volatility of a portfolio.

Investment Funds Available

Current investment options established by the Investment Trust are as follows:

FUND A: Growth and Income Fund

Potential Return: Above average

Principal Volatility: Moderate

Cost: FUND A is a low-cost fund. Its current annual fee is less than one percent of the value of the investment.

Description: The objective of this fund is to achieve a favorable total investment return utilizing a conservatively management mix of money market instruments, intermediate and longer term notes and bonds, and domestic and international stocks. HSBC is the investment manager. The investment manager will allocate assets of the fund in accord with its judgement about the relative attractiveness of each asset class given current and prospective economic conditions. Generally, a longer-term approach to asset allocation will be stressed with the majority of its assets invested in equity securities. International holdings will be limited to 10% of the total fund. Roughly 95 percent of all participating parishes are in FUND A.

FUND B: Intermediate Bond Income Fund

Potential Return: Moderate
Principal Volatility: Low to moderate

Description: This fund differs in that its investment vehicles are fixed income securities (no stocks) of intermediate maturity, including government and corporate obligations. Generally, the fund's average maturity will range from five to ten years. The average quality of the portfolio investments will be maintained at AA (double-A) or better as defined by Moody's and Standard & Poor's. This fund is different from Fund C in that its principal value will fluctuate.

FUND C: Money Market Savings Fund

Potential Return: Money market yield
Principal Volatility: No principal volatility

Description: This fund seeks preservation of principal and a return similar to comparable short-term investment vehicles such as certificates of deposit, commercial paper and Treasury Bills. Accordingly, the return of this fund will fluctuate with short-term interest rates, but its principal value will remain stable.

FUND D: Growth Index Fund

Potential Return: Above average
Principal Volatility: Moderate to high

Description: This fund is 100% in equities utilizing the Vanguard Index Trust 500. This is an open-end fund, which seeks to replicate the performance of the S&P 500 Composite Index. This fund invests in all 500 stocks in the Standard and Poor's 500 Index in the same proportion as the index.

Rebalancing Strategy

The investment options maintain their described potential return and volatility characteristics. The investing institutions are responsible to establish and employ a rebalancing strategy if considered appropriate to the fund.

Spending Policy

The Trustees, Investment Committee of the Trustees and the Investment Fund Manager do not have a spending policy in place. The spending policy for each invested fund is to be established by the governing board of the investing institution and reviewed periodically.

The following factors are among those that may affect decision-making on spending:

- Preservation of the Fund
- Needs of the Episcopate
- Economic condition
- Effects of inflation and deflation
- Total return of investments
- Other resources or alternatives of the Episcopate

- Context of the overall Investment Policy

PROGRAM ANALYSIS

The Investment Policy imposes a requirement for a quarterly review of the overall investment program and specific elements on either an annual, quarterly, or semi-annual basis.

Program Assessment

The Investment Manager will provide a quarterly report to the investing institution with respect to each invested fund, showing the investment results and investment allocation. In addition, the Western New York Investment Fund will provide an annual report.

INVESTMENT OPTION	BENCHMARK(S)
A: GROWTH AND INCOME FUND	Blended: 65% Equity: S & P 500 35% Fixed Income: BarCap G/C
B: INTERMEDIATE BOND	BarCap Gov't/Credit Bonds
C: MONEY MARKET YIELD	US Treasury Bills – 30 days
D: GROWTH INDEX	S&P 500

Investment Committee Review

The Investment Committee will meet, at a minimum, quarterly. The Committee will evaluate all elements of the Investment Program including, but not limited to, the following (either annually or quarterly at the Committee's direction):

- Option performance in relation to the appropriate benchmark
- Outside agent performance
- Compliance with all appropriate regulations
- Investment Policy changes
- Benchmark changes

The Committee will receive and review all quarterly reports and "Investment Restrictions and Guidelines" recommend Trustee action where appropriate. The Committee will report annually to the Trustees as to the investment performance compared to the benchmark, with any investment changes that should be considered.

STATEMENT OF INVESTMENT RESTRICTIONS – ALL ACCOUNTS

Equity

- Market Capitalization: No more than 20% of the Composite Portfolio at market value may be invested in securities of corporations with a market capitalization of less than \$250 million unless exempted by the Investment Committee.
- Permissible Universe: (a) Common stocks traded on major U.S. exchanges and in the over-the-counter market; (b) American Depository Receipts (ADR's) traded on major U.S. exchanges whose underlying shares are consistent with the guidelines as herein stated; (c) Securities convertible into common stocks; (d) Mutual funds; (e) Exchange Traded Funds; (f) Alternative investments as reviewed and recommended by the Committee.
- Gifts and Bequests: The above constraints are for purchased securities and do not apply to equity securities acquired by gift or bequest.

Fixed Income

- Quality: Fixed income securities should be 90% Investment Grade or better, as measured by Standard & Poor's or Moody's.
- Permissible Universe: (a) Debt securities issued or guaranteed by the United States Government, its agencies or instrumentalities (including U.S. Government Agency mortgage-backed securities); (b) Corporate bonds, debentures and other forms of corporate debt obligations; (c) Mutual funds.
- Gifts and Bequests: The above constraints are for purchased securities and do not apply to debt instruments acquired by gifts or bequests.

Cash Equivalents

- Strategy Constraints: In general, endowment fund assets should always be fully invested in the capital markets. Cash equivalents may be held in endowment funds as a tactical measure when in support of long-term goals.
- Permissible Universe: (a) United States Treasury bills; (b) certificates of deposit; (b) bankers acceptances and repurchase agreements from banks with short-term deposit ratings of at least P-1 from Moody's and A-1 from Standard and Poor's; (c) Commercial paper rated at least P-1 by Moody's and A-1 by Standard and Poor's; (d) Money market funds of quality consistent with the criteria of this section; (e) Mutual funds of quality consistent with the criteria of this section.

Not permissible securities

- Short Sales
- Put and Call Options
- Futures
- Margin Purchases
- Lending or Borrowing Funds
- Private or Direct Placements

Deviation from guidelines

The Investment Committee may authorize the investment of funds in a manner which does not conform to these guidelines if deemed appropriate for the long-term goals of the Fund.

CHAPTER 4. KEY DONOR FUND POLICIES, AND GUIDELINES FOR OPERATION OF DONOR FUNDS

KEY DONOR FUND POLICIES

Before reviewing the guidelines for operation of donor funds, it may be helpful to identify key policies of the Diocese's donor funds.

- A donor fund is for the benefit of
 - A parish that has no endowment; or
 - A parish that may wish to place its endowment(s) under the management of an independent trustee, but without paying high management fees.
- A donor fund safeguards against any reallocation of endowment funds beyond their donor-stipulated use. This precludes administrative reinterpretations of the terms of a bequest or other donor-restricted gift.
- A donor fund imposes no cost to the parish beyond the low HSBC annual management fee.
- A donor fund can be established with a \$1,000 initial investment, which may then be increased in \$100 increments.

GUIDELINES FOR OPERATION OF DONOR FUNDS

The following is a summary of donor fund types that can be held in the Western New York Diocesan Investment Trust:

Endowment fund

This arrangement preserves the fund's principal in perpetuity while providing a prudent proportion of the market value to be made available annually to support the work of the church. The portion of the fund made available for use each year may either be (i) subject to donor restriction(s) or (ii) unrestricted, which means the funds will be used for the most pressing church need at the time. The needs will be determined in the manner specified in the governing instrument (Donor Fund Agreement).

- The donor of the initial gift will have naming rights for this endowment.
- \$25,000 is the minimum initial contribution.
- Additional gifts of \$100.00 or more will be accepted.
- The gift will be held in perpetuity.
- Designated beneficiary will be an Episcopal Church entity or entities within the Episcopal Diocese of WNY unless otherwise approved by the Bishop in the Donor Fund Agreement.

- Purpose may be restricted by the donor/advisor subject to the approval of the Bishop in the Donor Fund Agreement.
- Donor may choose among investment styles offered within the Western New York Diocesan Investment Trust. Current options include a Balanced Fund, a Bond Fund, a Money Market Fund and an S&P 500 Index Fund.
- Donor may choose among current valuation and distribution styles offered. See the Donor Fund Agreement.
- An Advisor or Advisors may recommend distribution of the funds.
- Fund variance power is as specified in the Donor Fund Agreement.

Non-endowment fund

This arrangement anticipates expenditure of the entire fund. There are two types of non-endowed funds available: (a) temporarily restricted (with a time-related or a scope of purpose restriction or both) or (b) unrestricted. The manner of use for the funds will be determined in the manner specified in the Donor Fund Agreement.

- The donor of the initial gift will have naming rights for this fund.
- \$10,000 is the minimum initial contribution.
- Additional gifts of \$100.00 or more will be accepted.
- This gift is not intended to be held in perpetuity.
- Designated beneficiary will be an Episcopal Church entity or entities within the Episcopal Diocese of WNY unless otherwise approved by the Bishop in the Donor Fund Agreement.
- Purpose may be restricted by the donor/advisor subject to the approval of the Bishop in the Donor Fund Agreement.
- Donor may choose among current investment styles offered within the Western New York Diocesan Investment Trust. Current options include a Balanced Fund, a Bond Fund, a Money Market Fund and a S&P 500 Index Fund.
- An advisor or advisors may recommend distribution of the funds in their entirety.
- Fund variance power is as specified in the Donor Fund Agreement.

Pooled endowment fund

There will be a common beneficiary for this type of fund, e.g., a local Episcopal parish or Episcopal charitable organization.

- \$1,000 is the minimum initial contribution.
- Additional gifts of \$100.00 or more will be accepted.
- The gift will be held in perpetuity.
- Designated beneficiary will be an Episcopal Church entity within the Episcopal Diocese of WNY unless otherwise approved by the Bishop when the fund is initially set up.
- The portion of each fund made available for use each year will be unrestricted, meaning the funds will be used for the most pressing church need at the time at the discretion of the governing body of such entity e.g. the vestry of a parish.

- Assets in each Pooled Endowment Fund shall be invested in Fund A of the Western New York Diocesan Investment Trust or its successor balanced portfolio.
- The Trustees' policy will determine the amount of distribution (which at the current time is 5% of the rolling 5-year average of the market value) of the fund.
- Fund variance power is as specified in the Donor Fund Agreement.

Other general guidelines

- All donor funds will be administered under a written Donor Fund Agreement between the Protestant Episcopal Diocese of Western New York, and the Donor(s). These general guidelines are to become a part of each such fund agreement. The Bishop, after consultation with the Trustees, may change the general guidelines in the future, from time to time. The general guidelines, as so amended, shall apply to each and every Donor fund.
- Gifts which do not immediately qualify for a named fund, but which are part of a plan for future giving which will eventually qualify the fund, may be invested as a separate account in the Western New York Diocesan Investment Trust at the discretion of the Bishop.
- Distributions from donor funds are governed by the Trustees' minimum distribution policy in effect at the time of distribution. The current minimum amount for distribution is \$100. The minimum amount for distribution is subject to change.
- Unless the Donor Fund Agreement provides to the contrary, the number of minimum distributions during the year shall be in the discretion of the Trustees.
- Advisor(s) (and Successor Advisor(s), if any), are to be specified in the original Donor Fund Agreement, and may include the donor or other named persons.
- Donors or Advisors may not choose the individuals who are to benefit from distributions from donor funds. For example, if the Advisor recommends that a scholarship is awarded from a donor fund for a particular purpose, the church selects the awardee(s).
- At the present time, the Western New York Diocesan Investment Trust provides a quarterly report on activities of each fund. The frequency and content of reports from the Western New York Diocesan Investment Trust may change in the future.
- All gifts, other than cash, are subject to review for acceptability under the Trustee's gift acceptance policies in effect at time of the gift.

Adopted (date): _____

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ADDITIONAL RELEVANT TRUSTEE DOCUMENTS

The following Trustee documents, which may also be useful in implementing the policies discussed here, may be obtained from the Diocese:

- Donor Fund Agreement
- Example Endowment-Investment Committee By-Laws
- Gift Acceptance Policy
- Gift Disposition Policy
- Designated Gift Policy
- <Fund Name> Endowment Fund Policy