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Comprehensive Financial Policies
Christ Evangelical Lutheran Church in Pacific Beach
Appendix A Investment Policy Guidelines for Operating Funds

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2
3 **I. PURPOSE**

4 The objective of this policy is to assure a reasonable return for CELC’s invested capital which
5 ultimately will further our mission. This policy is set forth by CELC’s Church Council in order to:

- 6 A. Define and assign the responsibilities of all involved parties.
7 B. Establish a clear understanding for all involved parties of CELC’s investment goals and
8 objectives.
9 C. Establish relevant Investment Horizons
10 D. Offer guidance and limitations regarding investment of CELC assets.
11 E. Establish a basis for evaluating investment results.
12 F. Manage CELC assets in accordance with California law and with prudent standards as
13 established in the Uniform Prudent Management of Institutional Funds Act (UPMIFA), “in good
14 faith and with the care an ordinarily prudent person in a like position would exercise under
15 similar circumstances.”¹

16 In general, the purpose of this statement is to outline a philosophy and attitude which will guide
17 investment management of CELC assets. It is intended to be sufficiently specific to be meaningful,
18 yet flexible enough to be practical.

19
20 **II. DEFINITIONS**

- 21 A. “CELC” shall mean Christ Evangelical Lutheran Church in Pacific Beach, CA
22
23 B. “Plan” shall refer to those assets outside of CELC’s annual operating funds specifically and
24 formally identified as such by the Church Council.
25
26 C. "Finance Committee" shall refer to the governing committee established by the Church
27 Council to administer Plan assets.
28
29 D. "Investment Horizons" shall be the time periods over which the investment objectives set
30 forth in this statement are expected to be met. Two *Investment Horizons* are used in this Plan:
31 **Long Term** defined as three to five years (a typical market cycle); and **Short Term** defined as
32 three years or less.
33
34 E. "Fiduciary" shall mean any individual or group of individuals that exercises discretionary
35 authority or control over Plan management or any authority or control over management,
36 disposition or administration of the Plan assets.
37
38 F. “Custodian” shall mean a specialized financial institution such as a brokerage or bank.
39
40 G. "Securities" shall refer to the marketable investment securities which are defined as

¹ California law always takes precedence over UPMIFA

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41 acceptable in this statement.

42
43 H. "FINRA" shall mean the Financial Industry Regulatory Authority, an independent, non-
44 governmental regulator for all securities firms doing business with the public in the United
45 States, authorized by Congress to protect America's investors by making sure the securities
46 industry operates fairly and honestly.

47
48 **III. DELEGATION OF AUTHORITY**

49 The Finance Committee of CELC is responsible for directing and monitoring the investment
50 management of CELC assets. As such, the Finance Committee is authorized at its discretion to
51 delegate certain responsibilities to paid professional experts in various fields. If such experts are
52 employed and deemed to be fiduciaries, they must acknowledge such in writing. All expenses
53 deemed appropriate and necessary for such experts must be customary and reasonable, and will be
54 borne by CELC.

55
56 **IV. ASSIGNMENT OF RESPONSIBILITY**

57 The Church Council in consultation with the Finance Committee shall designate which funds are to
58 be invested in the Plan and which are short-term and which long-term. They shall also project the
59 financial needs (cash flows) of the Plan.

60 The Finance Committee has responsibility for policy regarding management of Plan assets. The
61 Finance Committee shall discharge its duties solely in the interest of the Plan, with the care, skill,
62 prudence and diligence under the circumstances then prevailing, that a prudent person, acting in a
63 like capacity and familiar with such matters, would use in the conduct of an enterprise of a like
64 character with like aims. The specific responsibilities of the Finance Committee relating to
65 investment management of Plan assets include:

- 66
67 A. Communicating the Plan's risk tolerance and *Investment Horizons* to appropriate parties.
68
69 B. Establishing reasonable and consistent investment objectives, policies and guidelines which
70 will direct investment of Plan assets.
71
72 C. As deemed necessary, prudently and diligently selecting and employing qualified investment
73 advisors and other professionals, using FINRA and other resources.²
74

75 **V. RESPONSIBILITY OF INVESTMENT ADVISORS(S)**

76 An Investment Advisor's role is that of a non-discretionary certified advisor to the Finance
77 Committee. Advisors shall provide investment advice consistent with the investment objectives,
78 policies, guidelines and constraints described in this statement. Specific responsibilities of
79 Investment Advisors include:

² Should CELC elect to employ active fund manager(s), this policy statement shall first be modified to describe said manager(s) responsibilities, constraints, objectives and performance evaluation criteria.

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80 A. Assisting in the development and periodic review of investment policy.

81
82 B. Providing ongoing analysis of the global capital markets and consequential advice on overall
83 plan structure and investment recommendations.

84
85 C. Reviewing Plan investment history, historical capital markets performance and the contents
86 of this investment policy statement with any newly appointed member(s) of the Finance
87 Committee upon request.

88
89 **VI. GENERAL INVESTMENT PRINCIPLES**

90 A. Investments shall be made solely in the interest of the beneficiaries of CELC.

91
92 B. The Fund shall be invested with the care, skill, prudence, and diligence under the
93 circumstances then prevailing that a prudent person acting in like capacity and familiar with such
94 matters would use in the investment of a Fund of like character and with like aims.

95
96 C. Investment of long-term funds shall be diversified so as to minimize the risk of large losses,
97 unless under the circumstances it is clearly prudent not to do so.

98
99 D. Investment of short-term funds shall employ the use of short-term cash equivalents and fixed
100 income securities maturing in 3 years or less which provide safety (preservation of capital),
101 liquidity, and return.

102
103 E. Separate accounts shall be used for short-term and long-term funds.

104
105 **VII. INVESTMENT MANAGEMENT POLICY**

106 A. Preservation of Capital – Investments shall be selected making reasonable efforts to preserve
107 capital, understanding that losses may occur in individual securities.

108
109 B. Risk Aversion - Understanding that risk is present in all types of securities and investment
110 styles, the Finance Committee recognizes that some risk is necessary to produce long-term
111 investment results sufficient to meet CELC's objectives.

112
113 C. Withdrawals – Authority to withdraw from short-term funds and earnings from long-term
114 funds is delegated to the Council and Finance Committee. Authority to withdraw principal from
115 long-term funds shall require congregational approval.

116
117 **VIII. SOCIAL RESPONSIBILITY**

118 The Finance Committee recognizes CELC's unique role as a Christian stewardship resource for our
119 church members and the Evangelical Lutheran Church in America. We choose to invest in institutions
120 and corporations which make a positive contribution toward the realization of goals outlined in the

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121 Social Principles of our Church³.

122 **IX. INVESTMENT OBJECTIVES**

123 A. Short-term investment objectives:

124 Preservation of Principal and Purchasing Power – Minimize risk of capital loss while seeking
125 returns meeting or exceeding the rate of inflation over the Investment Horizon.

126 B. Long-term investment objectives:

127 Income and Growth - To achieve a balanced return of current income and growth of capital
128 commensurate with Investment Horizon and assumed risk.

129 **X. VOLATILITY OF RETURNS**

130 Church Council and Finance Committee understand that in order to achieve the objectives for
131 Plan assets, the Plan will experience volatility of returns and fluctuations of market value. For
132 short-term investments, we support an investment strategy that minimizes the probability of
133 principal loss. However, for long-term investments we understand that the Plan’s long-term
134 return objectives are its primary concern.

135

136 **XI. LIQUIDITY**

137 To minimize the possibility of loss occasioned by an unplanned sale of a security forced by the
138 need to meet an unplanned expense, the Church Council shall no less frequently than semi-
139 annually provide the Finance Committee with an estimate of expected net cash flow in order to
140 allow sufficient time to build-up necessary liquid reserves.

141

142 **XII. INVESTMENT GUIDELINES**

143 Allowable Assets ⁴

144 A. Cash Equivalents

- 145 • Treasury Bills - US Government debt obligations with maturities less than one year.
- 146 • Money Market Funds - portfolios comprised of high-quality debt and monetary
147 instruments with maturities less than one year.
- 148 • Commercial Paper - unsecured, short-term debt instruments issued by corporations,
149 typically to finance accounts receivable, inventories, and short-term liabilities.
- 150 • Banker's Acceptances - short-term credit investment created by a non-financial firm
151 and guaranteed by a bank.
- 152 • Repurchase Agreements - government securities dealers sell securities to investors,
153 usually on an overnight basis, and buy them back the following day.
- 154 • Certificates of Deposit - savings certificates with fixed interest rates and maturity
155 dates.

156 B. Fixed Income Securities

- 157 • U.S. Government Notes and Bonds - US Government debt obligations with maturities
158 greater than one year.

³ *SOCIAL CRITERIA INVESTMENT SCREEN* APPROVED by the ELCA Church Council- November 2016 [CC16.11.46n]

⁴ Suggested standards for these guidelines include: the Advisors Act of 1940 and/or criteria included within Financial Accounting Standards Board (FASB) standards.

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- 159 • Government-Sponsored Enterprise (GSE) Bonds - debt obligations explicitly or
160 implicitly backed by the U.S. Government, issued by entities such as Fannie Mae,
161 Freddie Mac, Sallie Mae, and the Federal Home Loan Banks.
- 162 • Treasury Inflation-Protected Securities (TIPS) - Treasury note or bond that, like other
163 Treasuries, pays interest every six months and pays the principal when the security
164 matures. The coupon payments and principal are automatically increased to
165 compensate for inflation as measured by the consumer price index (CPI).
- 166 • Corporate Notes and Bonds - debt obligations issued by private companies.
- 167 • Foreign Bonds - government and corporate debt obligations issued in markets outside
168 the U.S.
- 169 • Preferred Stock - class of corporate ownership with a higher claim on assets and
170 earnings than common stock. Preferred stock generally has a fixed dividend that must
171 be paid out before dividends to common stockholders.

172 C. No Load Mutual Funds are the preferred investment instruments for CELC especially those
173 passively managed to reflect broad market indexes. These are funds which invest in equity
174 securities as allowed in this statement. Mutual funds are products of investment companies
175 that sell shares in a pool of assets and invest the proceeds in other assets, usually stocks and
176 bonds.

177 D. Equity Securities

- 178 • Exchange Listed Common Stocks - securities that represent ownership in
179 corporations.
- 180 • Convertible Bonds - bonds that may be converted into a predetermined amount of
181 common stock at certain times, usually at the discretion of the bondholder.
- 182 • Convertible Preferred Stocks - preferred stocks that may be converted into a
183 predetermined amount of common stock at certain times.
- 184 • American Depository Receipts (ADRs) of Non-U.S. Companies - certificate issued by
185 a U.S. bank representing shares in a foreign stock traded on a U.S. exchange.
- 186 • Real Estate Investment Trusts - securities that sell like stocks on the major exchanges
187 and invest in real estate directly, either through properties or mortgages.

188 E. Derivatives – not allowed.

189
190 **XIII. ASSET ALLOCATION GUIDELINES**

191 Investment management of the assets of CELC shall be in accordance with the following asset
192 allocation guidelines:

193 A. Long-Term Asset Allocation Guidelines (at market value) shall be:

Asset Class	Min.	Max.	Preferred
Equities	80%	90%	85%
Fixed Income	10%	20%	15%
Real Assets	0%	0%	0%
Cash & Equivalent	0%	5%	0%

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195 B. Short-Term Asset Allocation Guidelines (at market value) shall be:

Asset Class	Min.	Max.	Preferred
Equities	0%	0%	0%
Fixed Income	0%	80%	65%
Real Assets	0%	0%	0%
Cash & Equivalents	0%	100%	35%

196
197 C. Rebalancing - Actual Plan allocations shall be reviewed at least semi-annually and when
198 the portfolio is in violation of its specific guidelines, action shall be taken as promptly and
199 prudently as possible to bring the portfolio into compliance.

200

201 **XIV. FIXED INCOME INVESTMENTS AND CASH EQUIVALENT GUIDELINES**

202 Average credit quality should be A (or equivalent) or better

203 Fixed income maturity restrictions are as follows:

204

- 205 • Weighted average portfolio maturity:
 - 206 - Long Term, may not exceed 10 years
 - 207 - Short Term, may not exceed 3 years
- 208
- 209 • Weighted average portfolio duration:
 - 210 - Long Term, may not exceed 7 years
 - 211 - Short Term may not exceed 2 years
- 212
- 213 • Money Market Funds selected shall contain securities whose credit rating at the absolute
214 minimum would be rated investment grade by Standard and Poors and/or Moody's.

215

216 **XV. INVESTMENT POLICY REVIEW**

217 To assure continued relevance of the guidelines, objectives, financial status and capital markets
218 expectations as established in this statement of investment policy, the Finance Committee and
219 Church Council shall review this investment policy at least annually. Should CELC elect to employ
220 active fund manager(s), this policy statement shall first be modified to describe said manager(s)
221 responsibilities, constraints, objectives and performance evaluation criteria.