

Episcopal Endowment Corporation *Common Trust Fund*

Investment Policy Statement

As Revised: December 21, 2023

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¹This Investment Policy Statement, as adopted December 21, 2023, replaces the prior Investment Policy Statement first adopted by the Board in May 2017 (subsequently revised in November 2017 and October 2019). As of the date of adoption of this Investment Policy Statement, assets of the Fund total approximately \$49,657,674.

Episcopal Endowment Corp. – Common Trust Fund Investment Policy Statement

I. Executive Summary

Organization Type:	Tax-exempt Common Trust Fund
Type of Fund:	Long-Term Endowment
Time Horizon:	Perpetual ²
Return Objective:	Spending rate + inflation (net)
Spending Policy:	≈4%, established annually, 12 Quarter Average
Board “Policy Benchmark”	70% MSCI ACWI/30% Bloomberg Barclays US Aggregate

II. Introduction

The Episcopal Endowment Corporation (“Endowment”) was established by the Convention of the Protestant Episcopal Church in the Diocese of Tennessee (“Diocese”) in 1933 for the general purpose of holding and investing certain assets of the Diocese. In 1943, the Endowment established the Common Trust Fund (“Fund”) as a nonprofit common trust to further its designated purposes in the form of a commingled investment vehicle. The current assets and investments of the Fund are comprised of sub-funds of the Diocese and various affiliated entities.

The purpose of this Investment Policy Statement (“IPS”) is to establish guidelines for the ongoing oversight and management of the Endowment’s investment portfolio (the “Fund”), focusing on areas that most influence investment returns and risks. This IPS incorporates accountability standards that will be used for monitoring the Fund’s investment program and evaluating the contributions of the Discretionary Investment Adviser (the “Adviser”).

This IPS provides guidelines to help achieve the objectives of the Fund, consistent with prudent management of investment assets in a fiduciary setting. This document governs the investments of the Fund and serves as a communication link between the Board of Directors (the “Board”) and the Adviser.

This IPS is not intended to be modified frequently, or in response to short-term market fluctuations, but it will be reviewed periodically and amended, if appropriate, to reflect the investment objectives of the Endowment.

Specific purposes of this IPS include:

- Assign and define responsibilities for all parties.
- Establish a clear understanding of the Fund’s investment objectives.
- Establish specific asset allocation guidelines and portfolio risk parameters.
- Establish the basis for assessing performance of the Fund’s investments and of the Investment Adviser.
- Establish the appropriate investment time horizon for management of Fund assets.

² Performance will be benchmarked over rolling 7-10 year periods at the Fund level and over shorter periods at the asset and sub-asset level, as described herein.

III. General Guidelines

The Board will adhere to the standards of prudence and sound fiduciary oversight in managing the Fund's investment assets. As such, it will "act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances." The following factors will be considered in managing and investing the Fund:

"General economic conditions; the possible effect of inflation or deflation; the expected tax consequences, if any, of investment decisions or strategies; the role that each investment or course of action plays within the overall investment portfolio of the Fund; the expected total return from income and the appreciation of investments; other resources of the institution; the needs of the institution and the fund to make distributions and to preserve capital; and an asset's special relationship, if any, to the charitable purposes of the institution."

The Fund's investment program will emphasize total return -- the aggregate return from capital appreciation and dividend and interest income. The following sections set out Fund guidelines regarding investment objectives, asset allocation, spending, risk management and related areas.

IV. Roles and Responsibilities

Clear definition of responsibility, authority and accountability is critical to effective fiduciary oversight. Accordingly, this IPS defines the following roles for the parties responsible for the design, execution and monitoring of the Fund. Greater detail is provided in Appendix A, as appropriate.

- A. **Board of Directors** - The Board retains fiduciary responsibility for the prudent oversight of the Fund. Board authorities include: creating and maintaining the IPS; reviewing and approving Investment Advisory and Custodial Agreements; reviewing Fund reporting; selecting and engaging a Discretionary Investment Adviser, Custodian, and Fund Accountant and monitoring the activities of these providers.
- B. **Discretionary Investment Adviser** - The Adviser will recommend for Board approval a detailed Portfolio Asset Allocation and will have discretion regarding day-to-day implementation of this Allocation as authorized by the Board. The Adviser will perform other tasks as appropriate and consistent with this IPS or as otherwise directed by the Board.
- C. **Investment Managers / Funds** - The Investment Managers (including mutual funds and commingled investment pools and/or vehicles) selected by the Adviser will have discretion to purchase, sell, or hold the specific securities that will be used to meet the investment objectives of their designated portfolios.
- D. **Custodian** - The Custodian (or one or more sub-custodians) will maintain custody of securities and separately managed accounts, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales of securities. The Board may appoint the Adviser to serve as Custodian if it believes that so doing would be prudent and in the best interests of the Fund.

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- E. **Fund Accountant** – The Fund Accountant will track individual donor/institution funds within the larger pool and provide accounting services and reporting to the participants in the funds. The Board may appoint the Custodian to serve as Fund Accountant if it believes that so doing would be prudent and in the best interests of the Fund.

Other specialists may be employed by the Board to assist in meeting the Boards' fiduciary responsibilities and obligations to prudently administer the Fund. Reasonable and customary expenses for such experts may be borne by the Fund as deemed appropriate and necessary and as directed by the Board.

V. Time Horizon

The Fund's investment time horizon is perpetual, but its investments will be managed with a stated long-term time horizon of 7-10 years. Capital values do fluctuate over shorter periods and the Board recognizes that the possibility of capital loss does exist. Investment results will also be measured over shorter periods of time, as defined herein.

The Board recognizes that investment objectives may not be attained each year and that the Fund may produce significant over or under performance relative to the broad markets over shorter time periods. However, historical asset class return data suggests that the risk of principal loss over a holding period of at least three to five years can be minimized with the long-term investment mix employed under this Investment Policy Statement. Investment returns will be measured over rolling time periods accordingly.

VI. Spending Policy

The Endowment's spending policy reflects the fundamental objective of preserving and enhancing the resources of the Endowment, both at present and in the future. Current spending and the long-term objectives of preserving and enhancing the assets are balanced by considerations given to reasonable expectations of investment returns, gift contributions, operating expenses and inflation.

It is the recommendation of the Board to annually pay out at a rate to be determined by the Board³, based on calculations averaging the twelve calendar quarter end market value balances and multiplying that average by the spending rate. The underlying institutions may withdraw/spend at a higher rate if they choose.

VII. Investment Objectives

The Fund is to be invested with the objective of preserving and growing the long-term purchasing power of assets while providing a relatively predictable and growing stream of distributions. The following Investment Objectives will guide this pursuit.

³ The anticipated spending rate is 4%, though constituent institutions may draw more or less than this amount from their designated sub-funds.

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- A. **Organizational Objective** - The primary long-term investment objective of the Fund is to provide a net real return that supports the spending while preserving the purchasing power of the Fund. Accordingly, the Organizational Objective is to attain an average annual return (measured over rolling five-year periods) equal to the Fund’s average annual spending rate, plus inflation.

- B. **Policy Objective** - A secondary long-term investment objective is to attain an average annual return (measured over rolling three-year periods) equal to or greater than a market “Policy Benchmark” of 70% Equities / 30% Fixed Income with the MSCI ACWI NR Index being the Equities benchmark and the Bloomberg Barclays Aggregate Bond Index being the Fixed Income benchmark.

- C. **Portfolio Objective** – On a rolling three-year basis, the Fund’s portfolio will be expected to generate average annual returns equal to or exceeding the “Portfolio Benchmark,” defined as the weighted target portfolio allocations to various sub-asset classes times (x) an appropriate benchmark reflecting the market returns of sub-asset classes. The “Portfolio Benchmark” will be proposed by the Adviser in a form similar to that presented in Appendix C and will be subject to review (and possible modification) prior to its approval by the Board.

For each of the objectives above, the Board recognizes that specific return targets may not be attained in every rolling period but anticipates that the objective should be attainable over a series of rolling periods.

The Board will additionally assess the performance of the total Fund portfolio *versus performance of comparable institutional portfolios*. Such “peer comparisons” will focus on portfolios of similar size and similar asset allocation over rolling periods.

VIII. Asset Allocation

The Board recognizes that the strategic allocation of the Fund across various asset and sub-asset categories with varying degrees of risk and return will be the most significant determinant of long-term investment performance. The Board expects that performance will vary widely over shorter periods of time but intends to make changes to asset allocation only when changes in spending policy or significant changes in the capital markets warrant such change.

The Board has established the following asset allocation framework to guide the prudent design and implementation of the Fund portfolio. This framework assigns responsibility and authority for “strategic intent” to the Board while delegating responsibility and authority for “effective implementation” to the Adviser within the guidelines established in this IPS.

- A. **Policy Asset Allocation** – The “Policy Asset Allocation” is defined as the Board-established broad asset allocation guideline, intended to reflect the strategic return objectives and risk tolerances deemed by the Board to provide for prudently pursuing the Fund’s Organizational Objective. The Board has approved the following Policy Asset Allocation:

Major Asset Class	Minimum (%)	Preliminary Target (%)	Maximum (%)
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Total Equities	50	70	85
Total Fixed Income	10	30	50
Diversifying Assets	0	0	25
Cash	0	0	20
Total		100	

- B. **Portfolio Asset Allocation** – The “Portfolio Asset Allocation” is the Adviser-recommended, Board-approved detailed asset allocation that defines target, minimum and maximum allocations to sub-asset classes. The Portfolio Asset Allocation will be presented to the Board for approval at least semi-annually and will remain in compliance with the Policy Asset Allocation established above. Allowable and prohibited investments are defined in Appendix B.

IX. Operational Guidelines

- A. **Socially Responsible Investments** - The selection of securities in separately managed accounts by investment managers should take into consideration that the Endowment was founded on Episcopal Church policies. Investments in securities of companies violating these principles and values should be avoided when suitable investment vehicles are available by which to do so. To the extent that actively managed socially responsible investment options are deployed, such may result in a portfolio bias to actively managed separate accounts, commingled funds and/or mutual funds over passively managed strategies, such as index funds, that do not provide socially responsible screening.
- B. **Diversity, Equity, and Inclusion** - Principles of Diversity, Equity and Inclusion may be considered alongside traditional investment manager evaluation criteria in the selection of Investment Managers/Funds and the underlying investment strategies with the understanding that earning competitive risk-adjusted rates of return remains the primary portfolio objective. The Board reserves the right to exclude any specific investments that it deems to be contrary to the principles and values of the Episcopal Church.
- C. **Liquidity** – Recognizing the Fund’s perpetual nature and the potential merits of “Private Funds” and/or “Illiquid Investments,”⁴ the Board may, at its discretion, consider recommendations by the Adviser to employ such investments in the portfolio. In considering such investments, the Board will exercise prudence to balance spending needs with the potential for enhancing long-term returns in arriving at its decision to approve/disapprove the Adviser recommendation. The maximum allocation to Private and Illiquid Funds will be established by the Board.

⁴ “Private funds” are investment funds that do not trade on public markets and which are allowed to accept investments only from certain qualified investors – examples are hedge funds and private equity funds. “Illiquid investments,” as defined in this context, are investments that cannot be readily liquidated through sale in the public markets. The liquidation schedule for private and illiquid investments is generally governed by the terms of an investment agreement and may be monthly, quarterly, annually, or some other period.

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While it is expected that the Fund will generally remain fully invested, it is recognized that cash reserves may be utilized to provide liquidity or to implement some types of investment strategies. Cash reserves will be held in the custodian's money market fund, short-term maturity Treasury securities, or insured savings instruments of commercial banks.

- D. Diversification / Risk Management** – Thoughtful diversification is the primary means by which the Board expects the Fund to attain the stated return objectives and avoid undue risk of losses over long periods of time. The Adviser will manage risk through careful application of asset allocation, diversification, and rebalancing in accordance with prudent fiduciary practices. Short-term volatility will be expected but extended periods of negative returns or greater-than-market volatility will be cause for review of the strategies employed by the Adviser.

For the purpose of monitoring risk, the Adviser will provide to the Board a quarterly analysis of portfolio risk metrics for relevant trailing performance periods. Such metrics may include standard deviation and up/down capture relative to Policy and Portfolio benchmarks, together with other “risk metrics” as agreed with the Board.

E. Rebalancing

Formal rebalancing is important to ensure that the Fund adheres to the Policy Asset Allocation policy, even as the capital markets demonstrate volatile performance. The Adviser is responsible for ensuring the ongoing compliance of the Fund's portfolio with the minimum and maximum ranges established in the Policy Asset Allocation.

The Adviser will monitor the Fund's asset allocation as differing performance creates shifts across asset classes. When sub-asset allocations fall outside the minimum or maximum limits established in the Portfolio Asset Allocation, the Adviser will rebalance the portfolio. Such rebalancing will be accomplished no less frequently than quarterly. If the Adviser determines at any time that rebalancing is not in the best interests of the Fund, the Adviser will promptly inform the Board of this decision and its rationale.

F. Selection/Termination of Investment Managers / Products / Funds

The Board has delegated responsibility for the selection of Investment Managers / Funds, investment products and investment vehicles to the Adviser. Factors to be considered in such selection include: assets under management; stability and quality of the investment firm; manager tenure with the specific product; historic performance of the product; risk adjusted performance; overlap with other managers employed in the Fund; expenses and fees; and other relevant factors.

Portfolio performance for all Investment Managers / Funds will be compared to an appropriate benchmark index and a relevant peer group on a quarterly basis.

An Investment Manager / Fund may be replaced by the Adviser at any time. Manager / Fund performance will be evaluated on a long-term basis and the Board and Adviser recognize that performance over short-term periods may deviate significantly from relevant market indices. In decisions to terminate a Manager / Fund, the Adviser will consider various factors,

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including: material events that affect the ownership or structure of the manager; legal or regulatory actions taken against the manager; material servicing deficiencies, including a failure to communicate information relevant to the Fund; violation of the terms of the contract or changes to agreed-upon services without written approval of the Adviser; significant style drift; lack of diversification; and poor relative performance.

G. Communication and Reporting

The Board and the Adviser will agree on explicit reporting and meeting requirements, which will generally include monthly custodial and/or “flash reports” (showing portfolio positions and market values), together with quarterly reporting on portfolio performance, market values, attribution analysis, portfolio movements, and market commentary. The Adviser will meet formally with the Board each quarter and will be available for other discussions upon request. More detailed information on Communication and Reporting is provided under Roles and Responsibilities for the Investment Adviser in Appendix A.

H. Fees and Expenses

The Adviser will manage the Fund portfolio with a sensitivity to cost. Decisions to employ “active” funds or separate account managers will be made with consideration of whether the likely risk-adjusted returns justify the cost of such strategies. Fees and expenses incurred in managing the Fund will be limited to those deemed by the Adviser to be reasonable and necessary to accomplish the prudent management of the Fund.

The Adviser will provide annually to the Board a detailed analysis of all fees and expenses incurred in the oversight and implementation of the portfolio. This analysis will include all direct and indirect fees including Adviser Fees, Manager / Fund Fees, Custodian Fees and any other costs incurred. Such fees will be expressed in annualized basis points.

X. Investment Adviser Evaluation

The Board acknowledges that fluctuation in return characterizes the capital markets, particularly over short time periods. Recognizing that such fluctuations create variations in performance, the Board intends to evaluate the Adviser’s performance over rolling three-year and five-year periods. The Board may engage the services of an independent third-party service to facilitate this review.

At least every five years, the Board will conduct a comprehensive review of the Adviser relationship. This review will include both quantitative and qualitative factors such as: overall portfolio performance and performance relative to indices and peers; the Adviser’s ability to hire and monitor appropriate Managers / Funds; risk management; management of costs; avoidance of conflicts in the portfolio; compliance and litigation; strong communication and responsiveness; and overall service level.

At its discretion, the Board may pursue a Request for Proposal to replace the Adviser.

XI. Investment Policy Statement Review

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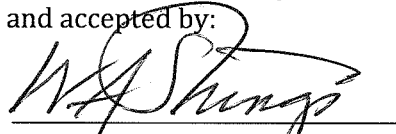
To ensure continued relevance of the guidelines, objectives, and expectations expressed in this IPS, the Board will review the IPS no less frequently than annually years, making revisions as necessary. It is not expected that short-term changes in the financial markets will require adjustments to the IPS.

XII. Other Considerations

- A. **Environmental, Social and Governance (ESG) Investing** – In addition to the Socially Responsible Investing principles described in Section IX, the Board acknowledges the potential value of ESG Investing and may direct the Adviser to consider Investment Managers / Funds that integrate ESG factors in their investment approach.
- B. **Diversity, Equity and Inclusion (DEI)** – The Board acknowledges the potential value of DEI goals in the context of the Fund’s investing activities and may consider directing the Adviser to incorporate DEI goals in its investment processes.

XIII. Accepted

This Investment Policy Statement has been reviewed and approved by the Board of Directors and is agreed to and accepted by:



President, Board of Directors

12/21/2023
Date

Acknowledged:

Discretionary Investment Adviser Representative

Date

Appendix A

Roles and Responsibilities

I. Board of Directors

The Board is responsible for overall investment policies, monitoring investment performance and approving all management contracts. It is responsible for the design, oversight, and implementation of the Fund's investment activities, including:

- Develop and maintain a comprehensive IPS.
- Select, engage, and monitor a qualified Discretionary Investment Adviser (“Adviser”).
- Define specific investment authorities to be granted to the Adviser.
- Select and engage a Custodian for safekeeping of Fund investments.
- Review Adviser reports related to performance, Investment Managers / Funds and Fund expenses.
- Evaluate the Adviser on a periodic basis as established in this IPS.
- Periodically report to the Board on matters related to Fund investments.

II. Discretionary Investment Adviser

As a Discretionary Investment Adviser and co-fiduciary, the Adviser will:

- Advise the Board on issues pertaining to maintenance of the IPS.
- Provide an annual spending and capital market analysis to assist the Board in establishing a spending rate for the year.
- Recommend a Portfolio Asset Allocation that complies with the Policy Asset Allocation.
- Provide investment management services within the guidelines established in this IPS, including the exercise of discretionary authorities as defined herein.
- As appropriate, present to the Board for review and approval recommendations regarding investment in “private” or “illiquid” investment vehicles.
- On an ongoing basis, select individual Investment Managers / Funds for inclusion in the portfolio, monitor the activities and performance of such Investment Managers / Funds, and prudently retain, terminate or replace such Managers / Funds.
- Inform the Board of any changes in the Investment Adviser's recommended investment strategy, changes in ownership, or other relevant changes.
- Provide annually to the Board a detailed analysis of total Fund fees and expenses.
- Meet quarterly with the Board to review the Fund's investment results.
- Provide the following quarterly reporting:
 - Economic and capital market analysis and commentary;
 - Fund investment performance versus benchmarks over appropriate periods;
 - Investment performance for Investment Managers / Funds versus approved benchmarks and relevant peers over appropriate periods;
 - Performance attribution analysis;
 - Summary of all activity and portfolio changes for the quarter;
 - Asset allocation analysis at quarter-end versus approved Asset Allocation;

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- Portfolio liquidity analysis reflecting the impact of Private Funds, if any;
- Provide data to a Board -designated third-party performance review service provider in the form required by such provider.

III. Investment Managers

Investment Managers are expected to exercise discretion within the restrictions outlined in this Policy and, if applicable, their specific Adviser-approved mandate. Specific duties and responsibilities include:

- Managing designated assets on a discretionary basis.
- Reporting, on a timely basis, quarterly investment performance results.
- Communicating any major changes in investment strategy, or other factors.
- Reporting qualitative changes in the investment management organization.
- Voting all proxies in a manner consistent with the long-term interests and objectives of the Fund; document such activity accordingly.
- On request, disclose brokerage commissions, including those under any soft dollar or commission sharing arrangements.

If mutual or commingled funds are used, the Adviser will ensure that the selection of such funds is in compliance with the intent of this IPS.

Appendix B

Allowable Investments & Prohibited Assets/Transactions

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The Board desires to allow Adviser flexibility to maximize investment opportunities. However, it is cognizant of its responsibility to practice prudent management in order to conserve and protect the assets and to prevent exposure to undue risk. Exceptions to the guidelines stated below may be made upon special written approval of the Board and shall be subject to annual review. The Board foresees the possibility of using mutual funds, collective trust funds, and/or limited partnerships in the form of fund of funds hedge funds and understands that they would not have any control over the management of such funds with regard to guidelines and restrictions. However, they intend to utilize funds that generally comply with the investment guidelines stated in this Investment Policy Statement.

Fund assets will be invested in accordance with the objectives stated in this IPS, taking into account cash-flow targets, risk tolerance, time frames, liquidity issues and other relevant factors. The Adviser shall have discretion for implementing the Board -approved Portfolio Asset Allocation. Such discretion will include selection of Investment Managers / Funds.⁷

Diversification across and within asset classes is the primary means of avoiding undue risk of large losses over long time periods. Investments will be broadly diversified regarding geography, economic sector, industry, number of holdings, and other investment characteristics. Only institutional quality securities are eligible for inclusion in the portfolio.

Allowable Investments include the following:⁸

- Cash Equivalents - Treasury Bills, Money Market Funds, Commercial Paper, Banker's Acceptances, Repurchase Agreements, and Certificates of Deposit.
- Fixed Income Securities - The fixed income allocation has an investment objective of outperforming an appropriate benchmark. Purposes of this allocation are 1) to contribute to overall return (including current income and potential capital appreciation), 2) to control overall portfolio risk, and 3) to provide a hedge against prolonged economic contraction. Allowable investments include: U.S. Government and Agency Securities, Corporate Notes and Bonds, Mortgage Backed Bonds, Collateralized Mortgage Obligations, Mutual Funds, and ETF's.⁹
- Equity Securities - The equity allocation has an investment objective of outperforming an appropriate blended benchmark index. This allocation's purpose is to produce a proportionately greater contribution to total return than the fixed income portion of the portfolio, although it is recognized that this involves the assumption of greater risk and return variability. Allowable investments include: Common Stocks, American Depository Receipts (ADRs) of Non-U.S. Companies, Stocks of Non-U.S. Companies (ordinary shares if appropriate), Mutual Funds, and ETFs.

⁷ The Board reserves the authority to review proposed investments in "private" or "illiquid" investments in advance of their implementation. The Board further reserves authority to review proposed investments in any proprietary funds or investment products of any kind issued or managed by the Adviser.

⁸ While these types of investments may be included in various commingled investment vehicles, direct investments specifically prohibited from inclusion in the portfolio include: Derivatives for speculative purposes, Letter Stock, Restricted Stock, Private Placements of individual companies, Options, Short Selling, Margin Transactions, and Investments in securities of companies specific identified by the Board as restricted due to the values and principles of the Episcopal Church.

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- Diversifying Investments - In aggregate, the objective of diversifying investments will be to avail the Fund of opportunities to dampen short-term volatility and/or enhance total return. Diversifying Investments are assets not traditionally recognized as: (i) cash or cash equivalent, (ii) a mutual fund, exchange traded fund, separately managed account or commingled fund representing allocations to equities, fixed income, or cash, or (iii) an individual stock, ADR, or bond listed on a recognized securities exchange.

Appendix C

Portfolio Asset Allocation and Portfolio Benchmark

Portfolio Asset Allocation:

Asset Class	Minimum	Target	Maximum	Benchmark
Equities	55%	62%	75%	MSCI ACWI (GR)
- Large Cap Domestic	22.5%	32%	50%	S&P 500 Index
- Small/Mid Cap Dom.	0%	10%	20%	Russell 2500 Index
- Int'l/Emerging Eq.	0%	20%	35%	MSCI EAFE / MSCI EM
Fixed Income	10%	21%	50%	Barclays U.S. Agg.
- Domestic	-	-	-	
- International	-	-	-	
Diversifying Assets	0%	14%	25%	
- Hedge Funds	-	6%	-	HFRI FOF
- Private Equity	-	8%	-	Cambridge PE
- Comm/Nat. Res	-	-	-	Alerian MLP
- Real Estate	-	-	-	NCREIF
- Other Div. Assets	-	-	-	-
Cash	0%	3%	10%	90 Day T-Bill

Portfolio Benchmark:

Asset Class	Target	Benchmark
Global Equity	62%	MSCI ACWI (Net)
- Large Cap Domestic	32%	S&P 500 Index
- Small/Mid Cap Dom.	10%	Russell 2500 Index
- Int'l/Emerging Eq.	20%	MSCI EAFE / MSCI EM
Fixed Income	21%	
- Domestic	-	Barclays U.S. Aggregate Bond Index
- International	-	
Diversifying Assets	14%	
- Hedge Funds	6%	HFRI-I Index
- Private Equity	8%	Cambridge PE
- Comm/Nat. Res	-	-
- Real Estate	-	-
- Other Div. Assets	-	-
Cash	3%	90 Day T-Bill

