Investment and Endowment Policy Statement

For

Fairmount Presbyterian Church

Endowment Funds

As approved by _________________
on _________________
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I. PURPOSE OF THIS STATEMENT

The purpose of this Investment and Endowment Policy Statement is to assist the Fairmount Presbyterian Church ("Church" or "FPC"), the Session and the Endowment Committee to articulate a comprehensive and disciplined investment program for its underlying endowments by:

- Stating in a written document the goals, objectives and requirements regarding the investment of the underlying endowment assets;
- Specifying acceptable allocation ranges for the permitted asset classes;
- Defining the separate responsibilities of the Endowment Committee, the Session, the FPC staff, and the Investment Consultant (the “Consultant”); and
- Providing guidelines for evaluating the performance of the endowment portfolios, the Endowment Committee and the Consultant.

II. CHURCH AND ENDOWMENT PROFILE

Fairmount Presbyterian Church is a vibrant community of faith in the heart of Cleveland Heights, Ohio. As beloved children of God, we welcome all persons to join our family of faith as full participants, regardless of age, race or ethnicity, national origin, gender, marital status, sexual orientation, mental or physical ability, economic status, differences of thought and expression, or any other human condition.

Over the years the Church has been and continues to be fortunate to have an engaged and generous congregation that contributes to church endowments. There are separate endowments for a variety of purposes, the largest ones being for property and general operations. Other endowments support a number of different missions and activities.

The Endowment Committee of FPC (also referred to as the Trustees) has the responsibility to monitor and direct the investments of its underlying endowments in accordance with the Church’s principles and commitments. The Committee is charged with carrying out its responsibilities with regards to the purpose and objective of each endowment fund, the investment management, and the permissible distributions (or spending). Ongoing communication with Session, staff and FPC’s Investment Consultant is required to carry out these responsibilities. The time horizon for most underlying endowments is long-term in nature and should be able to withstand short-term periods of volatility to meet fund objectives. Depending upon donors’ objectives and specifications, gifts may be invested for growth and income, or predominantly for income.

In conjunction with the Church’s annual budget planning, the Committee will convey in writing
to Session the permissible level of spending based on each fund’s spending policy. Some endowment funds are governed by donor restrictions such as an “income-only” spending policy or are limited to be used for special purposes with no spending cap as specified by donors (collectively, “Donor Restricted Funds”). Those that are not “Donor Restricted Funds” are governed by Fairmount’s policy that applies a 5% annual spending rule based on the average value of the funds over the previous five years ended June 30. That policy is considered prudent by Ohio Code which adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) for institutional endowment spending.

The Committee’s primary investment management goals are:

- To permit the fulfillment of the purposes and policies of the endowments;
- To maintain sufficient liquidity in the endowments to meet short-term disbursement requirements;
- To achieve long-term investment results that provide for increases in spending beyond the rate of inflation;
- To utilize broad diversification of assets in order to reduce the risks of over-concentration in particular investments;
- To avoid investing in financial assets which are inconsistent with the mission of FPC, as determined by Session.

III. DELEGATION OF RESPONSIBILITIES

Responsibilities of Session with regard to the Endowment

- Exercise final authority over the Investment and Endowment Policy Statement, including revisions.
- Exercise final authority over spending from the endowments, in accordance with limitations specified by donors.
- Review at least twice yearly the asset allocation and performance of the endowment, as provided by the Endowment Committee with assistance from the Investment Consultant.

Responsibilities of the Endowment Committee

- Establish reasonable investment objectives.
- Develop investment policy guidelines, which are approved by Session, that are consistent with the investment objectives.
- Oversee the management of the endowments in accordance with policies and objectives expressed herein.
• Select, monitor, and assess the services of a qualified Investment Consultant.

• Meet at least four times per year with the Investment Consultant to review asset allocation, overall portfolio performance as well as individual managers’ performance.

• Exercise investment discretion with regards to the selection and mix of investments that are compatible with the Investment Policy guidelines. This includes discretion over the selection of underlying investment managers as well as decisions to increase, decrease, or eliminate allocations to those managers.

• Communicate with the Consultant regarding all significant matters pertaining to the investment of the endowment's assets, including changes in committee membership and key personnel, investment strategy, asset mix, endowment structure, contributions to and distributions from the Endowment funds.

• Discharge and replace the Consultant for the Consultant’s failure to conduct services as expected.

• Serve three-year terms up to a maximum of six consecutive years. After serving six consecutive years, Endowment Committee members are ineligible to serve again for a period of at least one year.

• Communicate at least twice a year with the Administration Council, primarily to discuss recommended spending amounts from the Operating, Property and other endowment funds that contribute to the church’s budget.

• Meet at least twice a year with Session to report on such items as endowment asset allocation, performance, new gifts and endowments, and permissible spending amounts from each endowment fund. During the Fall of each year, the Endowment Committee will present its report for permissible spending out of the various endowments for the following year.

• Determine annually the roles and responsibilities of individual committee members. The Endowment Committee shall consist of 5-7 members. A minimum of three members will have primary responsibility over the investment management and a minimum of two members will have primary responsibility over the administration of the individual endowments to ensure accurate record keeping and implementation of spending policies with regards to both purpose and permissible levels of spending each year. These administrative responsibilities will include coordination with FPC staff in their record keeping of contributions to and withdrawals out of the various endowment funds. To ensure effective meetings and follow up, the Committee will select each year a Moderator, Vice Moderator and Secretary.
• Report to Head Pastor and Session any known improprieties with regards to missing funds or inappropriate usage of funds.

**Responsibilities of the Investment Consultant**

• Assist Fairmount Presbyterian Church in establishing investment policy and objectives.

• Recommend appropriate asset allocation and investment strategies to the Endowment Committee.

• Meet at least quarterly with the Endowment Committee to review asset allocations, performance and investment managers.

• Communicate as appropriate with the Endowment Committee regarding all matters needing attention for endowment management.

• Consult with authorized signers for FPC and communicate with the Endowment Committee regarding Fairmount Presbyterian Church’s cash flow needs.

• Assist as needed and agreed to on other related matters.

**Responsibilities of Church Administration Office**

• Maintain accurate and up-to-date records of all money inflows and outflows involving the various endowment funds.

• Safekeeping of endowment documents pertaining to donors’ gifts and specifications as to purpose and spending policy.

• Communicate to head pastor, Endowment Committee and Investment Consultant regarding new gifts to the various endowments.

• Communicate to head pastor and Endowment Committee any concerns regarding endowment money flows.
IV. INVESTMENT STRATEGY APPROACHES

The Endowment Committee employs either a growth and income strategy or an income-oriented strategy for each of the endowment funds. The choice of strategy may be specified by the donor or, if unspecified, it will be determined by the Endowment Committee based on its assessment of the endowment’s purpose and spending policy.

1. The Growth and Income Strategy will be pursued through a total return approach that seeks both income and capital appreciation. The objective is to achieve an average annual gross rate of return for the endowments over a market cycle of approximately 6-9%, e.g. inflation + 3-5%. This is to be viewed as a long-term objective to achieve growth in spending and will not be cause for concern if it is not met over shorter periods. A second objective is to achieve an average annual total endowment return that equals or surpasses a customized blended benchmark as mutually agreed to by the Consultant and the Investment Committee.

2. The Income-based strategy will emphasize income-oriented investment strategies and pursue a strategy that has inherent lower volatility and expected returns than the growth and income based strategy. Performance for this strategy will be measured against a more conservative benchmark than that used for the Growth and Income strategy.

V. INVESTMENT POLICY GUIDELINES

Investment Philosophy

The Session and Endowment Committee recognize that risk (i.e. the uncertainty of future events and portfolio performance), volatility (i.e. the potential for variability of asset values), and the potential loss in purchasing power due to inflation are present with all types of investment vehicles. The assumption of a level of risk that is commensurate with the Endowment Committee’s objectives and responsibilities is warranted and encouraged so that the endowment has the opportunity to achieve satisfactory results.

Most types of investments utilized for the endowment are within the discretion of the Endowment Committee. The Endowment Committee is expressly permitted to engage in strategies that invest in large, medium and small capitalization stocks (both domestic and international), investment and non-investment grade bonds (both domestic and international), marketable alternative or multi-class strategies, and high quality cash alternatives.

The overall performance and volatility of the endowment is expected to approximate that of the endowment benchmarks. Below are the acceptable ranges of asset allocations for the overall endowment portfolio.
Asset Allocation Guidelines

<table>
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<tr>
<th>Investment Type</th>
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<tr>
<td>Domestic Equity</td>
<td>40% - 70%</td>
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<tr>
<td>International Equity</td>
<td>0% - 30%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>0% - 10%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>20% - 50%</td>
</tr>
<tr>
<td>Alternatives/Multi-Class/Commodities</td>
<td>0% - 10%</td>
</tr>
<tr>
<td>Cash</td>
<td>0% - 10%</td>
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Requirements Regarding Diversification, Marketability and Fixed-Income Quality

• The Endowment Committee is responsible for the diversification of equity, fixed income and other securities, as well as the rebalancing of the portfolio so that it adheres to policy guidelines.

• Weighting in an economic sector that is more than double the sector weighting of the relevant equity index should be reviewed and likely trimmed.

• An equity position in any one company may not exceed 6% of the equity value of the endowment.

• Unless approved by Session, endowment investments must be made in marketable securities available on public markets.

• It is the intention of the Endowment Committee that the majority of the fixed income securities held in the endowment should be rated as investment grade by Standard & Poors or Moody’s. Non-investment-grade bonds should not constitute more than 25% of the fixed income portion of the endowment.

Prohibited Transactions

The following are prohibited transactions for investments:
• Any specific investment identified as inappropriate by Session.

• Short selling that exceeds 10% of the value of the Endowment is not permitted. Lesser amounts of shorting are permitted for use as a hedging as long as only the dollar amount invested is at risk.

• Any asset class other than those mentioned as being appropriate in this policy without the written consent of Session.

**Consideration of Presbyterian Church (USA) Investment Guidelines**

Being a Presbyterian Church, our investment policy shall consider the guidelines and recommendations of the General Assembly of the Presbyterian Church (USA) regarding social witness and other policies. The Endowment Committee will remain sensitive to any concerns of the congregation regarding investments in specific issues/issuers. Specific concerns of the congregation are to be formally presented to the Endowment Committee for consideration. The committee will then present its recommendation regarding the matter to Session. Following Session’s decision, the Endowment Committee will communicate any decisions by Session that will affect investment management to the Investment Consultant who will be charged with exiting investments deemed inappropriate.

**EVALUATION AND REVIEW**

On a timely basis, but not less than annually, the Endowment Committee and Session will review this policy and the actual results achieved to determine whether:

• The Endowment Committee has performed in accordance with the philosophy and policy guidelines set forth herein.

• The Consultant has provided investment services in accordance with the policies established herein.

**SIGNATURES**

Fairmount Presbyterian Church Session

Accepted by: __________________________ (print)

Signed: ________________________________

Date: __________________________