

EPISCOPAL DIOCESE OF OKLAHOMA
STATEMENT OF INVESTMENT POLICY

September 6, 1990

Revised October 28, 1999

Revised May 28, 2004

Revised September 1, 2004

Revised September 5, 2006

Revised November 16, 2006

September 6, 1990

TABLE OF CONTENTS

	<u>Page</u>
SUMMARY OF STATEMENT OF INVESTMENT POLICY	1
STATEMENT OF INVESTMENT POLICY	
SECTION I: PURPOSE	2
SECTION II: TOTAL DIOCESAN OBJECTIVES, POLICIES AND GUIDELINES	3
A. INVESTMENT OBJECTIVES	
B. INVESTMENT POLICIES	
C. GUIDELINES	
SECTION III: GUIDELINES FOR MANAGEMENT OF EQUITY COMPONENT OF THE DIOCESE	8
SECTION IV: GUIDELINES FOR MANAGEMENT OF FIXED INCOME COMPONENT OF THE DIOCESE	9
SECTION V: GUIDELINES FOR FINANCE COMMITTEE AND COMPTROLLER	11
LETA M. CHAPMAN TRUST	12
SPENDING RULE	13

September 6, 1990
Amended May 28, 2004
Amended September 1, 2004

SUMMARY OF STATEMENT OF INVESTMENT POLICY

1. The long-term rate of return objective for the Episcopal Diocese of Oklahoma is 5% per year in excess of the Consumer Price Index measured over moving five-year periods.
2. The total Diocesan Investment Fund shall be 60% invested in equities and 40% invested in fixed income.
3. The equity component is to be managed by managers whose investment approaches differ, but are complimentary for purposes of diversification.

Equity management over any given five year period is expected to:

- (a) Earn 6.0% in excess of inflation;
 - (b) Out-perform a similar risk passive index; and,
 - (c) Rank in the top 40% of a comparable peer group of equity managers.
4. The fixed income component is to emphasize bonds and cash equivalents whose average weighted maturity is in the short to intermediate range.

Fixed income management over any given five year period is expected to:

- (a) Earn 2.0% in excess of inflation;
 - (b) Out-perform a similar risk passive index; and,
 - (c) Rank in the top 40% of a comparable peer group of fixed income managers.
5. The Finance Committee expects investment managers to address them when requested, but at least annually. The Council expects to be addressed only when requested.
 6. The Finance Committee will review the managers' performance on a quarterly basis.

September 6, 1990

Statement of Investment Policy

I. **PURPOSE**

The purpose of this Investment Policy Statement is to:

- A. Set forth the investment objectives, policies, and guidelines which the Diocesan Council judges to be appropriate and prudent, in consideration of the needs of the Diocese.
- B. Establish the criteria which the investment management organizations retained by the Diocese are expected to meet and against which they are to be measured.
- C. Communicate the investment objectives, guidelines and performance criteria to the investment managers.
- D. Serve as a review document to guide the Finance Committee's ongoing oversight of the investments of the Diocese.

II. TOTAL DIOCESAN OBJECTIVES, POLICIES AND GUIDELINES

A. INVESTMENT OBJECTIVES

1. The objective of investing the assets of the Episcopal Diocese of Oklahoma is to assure funding for expenditures while increasing the market value at a real growth rate to insure no erosion of principal.
2. Given the characteristics of the Diocese, the long-term investment objective for the Diocese is to earn an investment return which exceeds the inflation rate, as measured by the Consumer Price Index, by 5% per year over moving five-year periods. Investment return means total compound return, calculated to recognize all cash income plus realized and unrealized capital gains and losses.
3. If the 5% real return objective is not achieved over any particular five-year measurement period, the shortfall should be explainable in terms of general economic and capital market conditions. A temporary shortfall will not necessarily indicate failure to achieve the long-term objective. Thus, this policy dictates that periods in which the objectives are not met must be offset by periods in which the return is greater than 5% real.

B. INVESTMENT POLICIES

1. ASSET MIX: The 5% real rate of return objective and the investment preferences of the Diocese imply a total return investment approach.

Specifically, the Council intends to insure that the Diocesan Investment Fund conforms to the following asset allocation guidelines:

September 6, 1990
Amended May 28, 2004

Market Value Basis

EQUITY (including <u>no</u> Cash Equivalents)	60%
FIXED INCOME (including Cash Equivalents)	40%

These percentages will be based on the market value of investments. It is understood that these percentages are meant to be guidelines, and that market conditions may temporarily violate these guidelines. The financial advisor will consult with the Finance Committee if any rebalancing is deemed appropriate.

2. STRUCTURE OF INVESTMENT MANAGERS: The Council, through the Finance Committee, is responsible for selecting investment managers and directing the investments of the Diocese.
3. USE OF COMINGLED FUNDS: The investment managers may invest Diocesan assets in commingled funds, provided that:
 - a. Such investments in commingled funds are consistent with the guidelines established herein;
 - b. Securities held in the commingled funds are permissible Investments for Diocesan assets; and
 - c. Notification is given to the Finance Committee describing the commingled vehicles utilized.
 - d. Approval is secured from the Finance Committee

September 6, 1990
Amended August 10, 2006

- e. The Finance Committee, with approval of Diocesan Council, may directly invest in mutual funds which have a minimum invested balance of one hundred million dollars and where the Diocesan share would represent no more than ten percent of the total assets of the fund.
4. REAL ESTATE & FOREIGN SECURITIES: Though the Diocese does not contemplate investments in real estate or foreign securities, they reserve the right to consider these investments in the future. In no event shall any investment in real estate and/or foreign securities exceed 10% of the total market value of the Diocese's assets.
 5. ALLOCATION OF NEW MONIES: The Finance Committee will determine the allocation of contributions to investment managers on an ongoing basis.
 6. REVIEW PROCEDURES:
 - a. PERFORMANCE MEASUREMENT: The Finance Committee intends to review quarterly the performance of Diocesan investments and of the individual investment managers relative to the objectives and guidelines described herein. Such a review may include performance analysis and comparisons compiled by individuals or firms retained by the Diocese. The investment performance review will include comparisons with appropriate risk indices, a broad universe of investment managers, and the Consumer Price Index.

September 6, 1990

- b. MEETINGS: Each investment manager is expected to meet when requested, but at least annually with the Finance Committee, and with the Council when requested, to review its portfolio and investment results in the context of this Statement of Investment Policy.
- c. REVIEW AND MODIFICATION OF INVESTMENT POLICY: The Finance Committee shall review this Statement of Investment Policy at least every year to determine if modifications are necessary or desirable. The Finance Committee will recommend changes to the Council for approval. If modifications are made, they shall be promptly communicated to all investment managers and other interested persons.

C. GUIDELINES

1. PERMISSIBLE INVESTMENTS: Diocesan assets may be invested in publicly traded common and preferred stocks, convertible bonds and preferred stocks, and non-convertible fixed income securities, whether interest bearing or discount instruments, including money market instruments, subject to any restrictions hereinafter specified. In addition, permissible investments shall also include ADR's and ADS's, rights and warrants and foreign or currency related exchange traded funds. No other securities are permissible investments without the specific approval in writing from the Finance Committee.
2. FUTURES CONTRACT: Transactions are not permitted in futures contracts of any kind or in options contracts of any kind.
3. SECURITIES TRADING: The emphasis of security trading should be on a best execution basis, i.e., the highest proceeds to the Diocese and the lowest costs, net of all transaction expenses. Placement of orders should be based on the financial viability of the brokerage firm and the assurance of a prompt and efficient execution.

September 6, 1990

4. SECURITIES LENDING: Securities owned by the Diocese but held in custody by another party, such as a bank custodian, will not be loaned to any other party for any purpose.
5. FIDUCIARY RESPONSIBILITY: The assets of the Diocese shall be invested in a manner that is consistent with generally accepted standards of fiduciary responsibility. The safeguards which would guide a “prudent man” will be observed. All transactions undertaken on behalf of the Diocese will be for the exclusive benefit of the Diocese.
6. SOCIAL RESPONSIBILITY: The Diocese, as a Christian organization, will from time to time request divestment of certain securities due to social and moral issues. Such requests will be issued by the Council or its Finance Committee in writing.

September 6, 1990
Amended May 28, 2004

III. GUIDELINES FOR MANAGEMENT OF EQUITY COMPONENT OF THE DIOCESE

- A. Each manager should have an adequate, but not excessive level of diversification. No security issuer may exceed 10% of the total equity assets on a market basis (not including cash equivalents held by the equity manager).
- B. MEASUREMENT STANDARDS FOR THE EQUITY PORTFOLIO: The equity investment managers are expected to manage a portfolio of assets whose characteristics adhere to the guidelines as set forth in this section. The Council expects, over moving five-year periods that the equity managers will:
1. Achieve a compound time-weighted rate of return in excess of a similar risk passive index (with dividends).
 2. Achieve a cumulative rate of return that exceeds the increase in the Consumer Price Index by 6.0% per year.
 3. Rank no lower than the 40th percentile when compared to other comparable equity investment managers.
- C. INVESTMENTS AND TRANSACTIONS THAT ARE NOT PERMITTED: The following types of equity investment purchases of the Diocese's assets are not permitted:
1. Stock in non-public corporations.
 2. Short Sales of any type.
 3. Letter or restricted stock.
 4. Buying or selling on margin
- D. Subject to the guidelines in this section and the policies set forth in this Statement of Investment Policy, any investment manager retained by the Diocese is to have full discretionary investment authority over the assets he/she is responsible for managing.

September 6, 1990
Amended September 1, 2004

IV. GUIDELINES FOR MANAGEMENT OF FIXED INCOME COMPONENT OF THE DIOCESE

- A. The fixed income investment managers shall create and maintain a portfolio of bonds, such that the average dollar-weighted maturity is between one and ten years at all times. All bonds are rated 'BAA' or better by Standard and Poor's or an equivalent rating agency. The percentage of the fixed income portfolio on a market value basis committed to bonds rated 'BAA' shall never exceed 20%. Any one corporate debenture shall be limited to 10% of the marketable bond portfolio.
- B. MEASUREMENT STANDARDS FOR FIXED INCOME PORTFOLIO: The fixed income investment manager is expected to manage a portfolio of fixed income assets whose characteristics adhere to the guidelines set forth in this section. In addition, the Council expects, over moving five-year periods, that the fixed income manager will:
1. Out-perform a similar risk passive index.
 2. Achieve a cumulative rate of return that exceeds the increase in the Consumer Price Index by 2.0 percentage points per year.
 3. Rank in the top 40% of a comparable peer group of fixed income managers.
- C. INVESTMENTS AND TRANSACTIONS THAT ARE NOT PERMITTED: The following types of fixed income investment of the Diocese's assets are not permitted.
1. Tax-exempt bonds.
 2. Bonds, notes, or other indebtedness for which there is no public market (private placements).
 3. Corporate obligations not rated at least 'BAA' by Standard and Poor's or an equivalent, recognized rating agency. Unrated corporate bonds are not permissible investments.
 4. Commercial paper not rated A1/P1.

September 6, 1990

5. Master notes, unless the public debt of the issuer is rated at least 'BAA' or the equivalent.
 6. Direct placement of mortgages on real property, except for loans to Episcopal entities.
- D. Subject to the guidelines in this section and the policies set forth in this Statement of Investment Policy, any investment manager retained by the Diocese is to have full discretionary investment authority over the assets he is responsible for managing.

September 6, 1990

V. GUIDELINES FOR FINANCE COMMITTEE AND COMPTROLLER

In the event the Diocese is the recipient of stocks, bonds or other investments from bequests or gifts, the comptroller is directed to survey the retained investment managers to determine if the donated security would be compatible with their investment philosophy.

If the security is compatible, it will be placed with that manager; otherwise, it will be sold and the proceeds invested.

September 6, 1990

LETA M. CHAPMAN TRUST

- I. It is the preference of the Council and its Finance Committee that the Corporate Trustee meet the same guidelines and objectives established for the Diocese.
- II. With the exception of the original energy equities, the Council also prefers that the Corporate Trustee follows the identical guidelines established for the Diocese.
- III. The Finance Committee will review the performance of the Leta M. Chapman Trust on a quarterly basis.

September 6, 1990
Amended June 6, 1991
Amended May 28, 2004

Spending Rule

I. APPLICATION

- A. This policy will apply to all Trusts, Funds and Endowments which are a part of the Episcopal Diocese of Oklahoma unless the document establishing an individual Trust requires a different method of determining amounts to add to principal.
- B. CUSTODIAL FUNDS: This policy will be recommended to Parishes and Organizations participating in the Common Investment Fund.

II. PURPOSE

The purpose of the Spending Rule is to:

- A. Set forth the policies and guidelines which will determine the amounts which will be available for expenditure.
- B. Increase principal at a rate that will allow future expenditures to, at a minimum, keep pace with inflation.
- C. Provide a stable, increasing cash flow from year to year.

III. SPENDING POLICY

- A. Amounts available for expenditure will be of 5% of a five-year moving average of the market value of the assets.
- B. Calculation of spending percentage.
 - 1. The market value of the assets will be calculated on calendar year ends for the total agency investment portfolio for the most recent five-year period and averaged.
 - 2. The amount available for expenditure will be 5% of this amount.

September 6, 1990
Amended June 6, 1991
Amended May 28, 2004

3. In the event the application of this spending rule results in funds available of less than the amount budgeted for expenditure, the Finance Committee may review this policy to consider increasing the amounts available for expenditure on a fund by fund basis.
4. In the event the application of this spending rule results in income available of more than the amount budgeted for expenditure, the Finance Committee may review this policy to consider decreasing the amounts available for expenditure on a fund by fund basis.

IV. EXCEPTIONS TO POLICY

- A. NEW FUNDS WITHOUT A FIVE-YEAR HISTORY – The comptroller will select a similar fund to the new fund and base the amount available for expenditure for the new fund on the five-year results on the selected fund.

In the event this provides a spendable amount of less than the amount budgeted for expenditure, the fund shall be reviewed by the Finance Committee.

- B. CUSTODIAL FUNDS: Parishes and Organizations will be notified of this policy and it will be applied to the accounting for their funds unless they request in writing that the existing policy be continued or they request the use of an alternative policy.

