

**American Baptist Churches USA  
(DRAFT) INVESTMENT POLICY  
May 28, 2017**

The purpose of this Investment Policy ("Policy") is to guide the American Baptist Churches USA (the "Corporation") Board of General Ministries ("BGM"), the BGM Finance Committee, the ABCUSA Treasurer's Office and any Investment Management Suppliers in effectively managing, monitoring and evaluating the investment of funds held by the Corporation not including program-related assets ("Institutional Funds"). This Policy replaces the Investment Policy Statement last revised on November 20, 1997.

The Corporation is incorporated under the laws of New York and follows the principles of New York Prudent Management of Institutional Funds Act ("NYPMIFA") with respect to the management, investment, and expenditure of Institutional Funds.

**DIVISION OF RESPONSIBILITIES**

Board of General Ministries

The Board of General Ministries is responsible for approving and periodically reviewing this Policy, and for considering such recommendations as the BGM Finance Committee may from time to time offer with respect to this Policy or the financial interests of the Corporation. The Board of General Ministries appoints members of the BGM Finance Committee and designates the Budget Review Officer to serve as Chairperson.

BGM Finance Committee

The BGM Finance Committee is responsible and accountable, as delegated by the Board of General Ministries, for the prudent management of the Corporation's Institutional Funds, including 1) implementing this Policy in light of the Corporation's strategic plan; 2) setting risk tolerances and controls for investments; 3) allocating assets for investment purposes; 4) appointing and evaluating the Investment Management Supplier(s); and 5) reporting to the Board periodically the results of the investment program. As such, the BGM Finance Committee serves as the Investment Committee of the Board of General Ministries and any reference to the Investment Committee shall mean the BGM Finance Committee. The BGM Finance Committee will meet at least twice a year. A quorum of the Committee is defined as a majority of voting members of the Committee.

With respect to the Investment Management Supplier(s), the Committee shall be responsible for: (1) selecting, continuing or terminating the Investment Management Supplier(s), including assessing the independence and any conflicts of interest an Investment Management Supplier has or may have; (2) establishing the scope and terms of the delegation, including the payment of compensation, consistent with the purposes of the Corporation and the Institutional Funds; and (3) monitoring the performance of the Investment Management Supplier(s) and compliance with the scope and terms of the delegation. In general, communication with the Investment Management Supplier(s) will be handled by the ABCUSA Treasurer's Office on behalf of the BGM Finance Committee.

Investment Management Supplier

An Investment Management Supplier is a third-party service provider retained by the Corporation to oversee the implementation of the investment program in a manner consistent with this Policy. In doing so, it will assist in the attainment of the stated objectives while complying with all Policy

guidelines and standards. An Investment Management Supplier will serve as the primary contact for one or more money managers and custodians. An Investment Management Supplier will perform its duties exercising reasonable care, skill and caution to comply with the scope and terms of its delegation.

## **INVESTMENT STANDARDS**

Each person performing duties pursuant to this Policy, including managing and investing Institutional Funds, shall do so in a manner consistent with the duty of loyalty, in good faith, and with the care an ordinarily prudent person in a like position would exercise under similar circumstances. A person that has special skills or expertise, or is selected in reliance upon the person's representation that the person has special skills or expertise, has a duty to use those skills or that expertise in managing and investing institutional funds.

Subject to the intent of the donor expressed in a gift instrument, Institutional Funds shall be managed and invested considering the purposes of the Corporation and the Institutional Funds.

Unless otherwise provided by a gift instrument, management and investment decisions about an individual asset shall be made not in isolation but rather in the context of the Corporation's investment portfolio of investments as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the Institutional Funds and to the Corporation. Institutional Funds may be commingled for investment purposes and may be invested in any kind of property or type of investment consistent with this Policy and New York law.

Unless otherwise provided by a gift instrument, Institutional Funds shall be invested and managed considering the following factors:

- General economic conditions;
- Possible effect of inflation or deflation;
- Expected tax consequences, if any, of investment decisions or strategies;
- Role that each investment or course of action plays within the overall investment portfolio of the fund;
- Expected total return from income and the appreciation of investments;
- Other resources of the Corporation;
- Needs of the Corporation to make distributions and preserve capital; and,
- An asset's special relationship, if any, to the charitable purposes of the Corporation.

The investments of an Institutional Fund shall be diversified unless it is prudently determined by the BGM Finance Committee that, because of special circumstances, the purposes of the fund are better served without diversification. The BGM Finance Committee shall review a decision not to diversify as frequently as circumstances require, but at least annually. Within a reasonable time after receiving property, the BGM Finance Committee shall make and carry out decisions concerning the retention or disposition of the property or to rebalance a portfolio, in order to bring the Institutional Fund into compliance with the purposes, terms, and distribution requirements of the Corporation as necessary to meet other circumstances of the institution and the requirements of this Policy.

The Corporation may incur only those costs that are appropriate and reasonable in relation to the assets, the purposes of the endowment, and the skills available to the Corporation, and make a reasonable effort to verify facts relevant to the management and investment of the institutional fund.

## **SOCIALLY RESPONSIBLE INVESTING (SRI)**

- ABCUSA has a long-standing practice of socially-responsible investing, particularly with regard to companies that profit from gambling, weapons, environmental damage, liquor, and tobacco. Investment Management Suppliers are required to invest in a manner consistent with this practice. Socially-responsible investing practices of Investment Management Suppliers are to be reviewed by the BGM Finance Committee at least annually.
- As a general policy, securities will not be selected or purchased for the purpose of expressing approval or disapproval of a company's activities or for the purpose of enabling ABCUSA to contest a company's activities. However, ABCUSA does retain the right to make such purchases on an occasional basis so as to bear witness to important issues.

## **RETURN OBJECTIVE**

- The Institutional Funds will be managed to maximize annualized returns net of all costs over rolling 10 year periods while adhering to the Corporation's stated risk parameters and SRI guidelines.
- Because the Corporation is exempt from income tax and most of the Corporation's Institutional Funds are invested for the long term, performance measurement will be based on total return. Total return is a measure of the total gain (or loss) of an investment, after fees, and makes no distinction between capital appreciation (or depreciation), realized or unrealized gains or losses, interest, dividends, and other income.

## **RISK CONSIDERATIONS**

- The Institutional Funds will be deployed in a manner that seeks to avoid a 25% or greater drawdown over any one-year time frame.
- The Institutional Funds will be structured to avoid annualized shortfalls exceeding 200 basis points, relative to the average return of all U.S. higher education endowments and affiliated foundations reporting to NACUBO, over rolling 10-year periods.

## **LIQUIDITY**

- Under normal circumstances, at least 5% of the total Institutional Funds is intended to be held in vehicles utilizing lockups of 3 months or shorter. Lockup is defined as an expected period until all or substantially all of the value from an investment vehicle can be received in cash by the Endowment.

## **STRATEGIES**

- The long-term horizon of the Corporation's Institutional Funds allows for a large allocation to equity-oriented strategies where the potential for long-term capital appreciation exists. Other assets, including but not limited to hedging, derivative, or diversification strategies, may also be used to reduce risk and overall portfolio volatility.
- The Corporation's Institutional Funds will be diversified across asset classes and managers.

## **USE OF DERIVATIVES**

Consistent with the risk considerations specified in this Policy, the BGM Finance Committee authorizes the use of any type of derivative instruments, including, without limitation, over-the-counter and exchange-traded derivative instruments that may exist on the date hereof or that may be created in the future. Such instruments may be employed (i) for hedging purposes, (ii) as an alternative to the underlying direct investments where such derivative instruments offer (a) advantages with respect to timing, flexibility, lower execution costs or improved control or (b) other benefits, or (iii) in any other circumstance in which the BGM Finance Committee believes that the use of such instruments is in the best interest of the Corporation. Derivative investments may not exceed ten percent (10%) of the total amount invested with any particular Investment Management Supplier.

## **PROXY VOTING POLICY**

All proxies are voted by the managers with two primary purposes:

- To express the opinion of ABCUSA on matters of faith and economic life, as found in ABCUSA's policy statements and resolutions.
- To maximize shareholder value.

## **ASSET ALLOCATION**

This Policy intentionally omits any specification of asset allocation. Investment Management Suppliers are free to choose asset allocations that are consistent with the provisions and requirements stated elsewhere in this Policy.

## **POLICY REVIEW**

The BGM Finance Committee will review this Policy periodically and will reaffirm or revise the selection of Investment Management Suppliers annually each fall. The Committee may make recommendations from time to time to the Board of General Ministries with respect to other changes to this Policy.

## **APPENDIX A - OTHER POLICIES**

### **SPENDING POLICY**

Responsibility for the Spending Policy resides with the BGM Finance Committee. Formal Spending Policies will be adopted to fairly meet the legal and programmatic requirements of the Corporation. An additional goal of this Policy is to minimize the temptation to relieve all budgetary pressures by simply taking additional monies from the Institutional Funds. The approved spending rate formula is designed to provide a relatively predictable and growing stream of revenues to the operating budget.

For endowment funds, defined as funds that are not wholly expendable under the terms of the gift instrument, the following factors will be considered prior to the approval of appropriations from the endowment funds in the annual budget:

- Duration and preservation of the endowment fund;
- Purposes of the Corporation and the endowment fund;
- General economic conditions;
- Possible effect of inflation and deflation;
- Expected total return from income and the appreciation of investments;
- Other resources of the Corporation;
- 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 Corporation; and
- The Investment Policy.

Unless otherwise agreed by the BGM Finance Committee after reviewing the above factors, the default spending rate formula is 4% of the historical value of an endowment or quasi-endowment fund, said historical value to be calculated as the average of the market values of such fund at the end of each of the previous twelve calendar quarters.