

The following parameters were presented to the Endowment Team for review and accepted for implementation on May 21, 2017. In the future, these parameters may be updated by an Advisory Committee appointed by the Endowment Team if circumstances warrant an adjustment to our investment practices.

## **Peace Lutheran Church Endowment Fund Investment Parameters**

### **History**

The Endowment Team designated an Advisory Committee be established to draft parameters for investment and fiduciary responsibilities of the Team. The composition of this and any future Advisory Committee will require membership of a minimum of one member of the Endowment Team, two individuals with a history of financial experience and one investment professional. Members of the initial Advisory Committee were Bob Nygaard, Jake Barnes, Cathy Kirsling and Tim Benn serving under the leadership of Duane Klabon.

### **Purpose of Investment Parameters**

The Purpose of these investment parameters is to provide a clear statement of the Endowment Fund's investment objectives, to define the responsibilities of the Endowment team and any other parties' involvement in managing the Fund's investments, and to identify or provide target asset allocations, permissible investments, diversification requirements and disbursement procedures.

### **Investment Objective**

The overall investment objective of the Endowment Fund is to provide a balance of long term capital appreciation through equity investments, while maintaining a moderate level of income through fixed income securities. This is done through prudent investing and planning while minimizing risk and expenses through the maintenance of a diverse portfolio.

### **General Provisions**

- All transactions shall be for the sole benefit of the Endowment fund.
- The team members shall conduct an annual review of the investment assets to verify the existence and marketability of all of those underlying assets.
- Any asset that is not expressly permitted under the parameters must be formally reviewed and approved by the team.
- The team will endeavor to operate the Fund's investments in compliance with all applicable state, federal and local laws.
- Investments shall be diversified with a view of minimizing risk.

## **Delegation of Responsibilities; Reliance on Experts and Advisors**

- The Endowment Team has the ultimate responsibility for the investment and management of the Fund's investment assets
- The Endowment Team will hire outside experts as investment consultants or investment managers with fiduciary responsibility.
- When possible professional management advice for proper fund selection and other investing decisions should be utilized.
- The Endowment Team may also establish an Advisory Committee (which may include non-team members) to provide investment advice to the Team. Advisory committee will have no authority to act for the Team, but may monitor compliance with the investment parameters, recommend changes, assist the Team in selecting and retaining Investment Managers or Consultants to execute the Investment Parameters.

## **Responsibility of the Team, or if Authority is Delegated the Investment Committee**

The Team or if authority is delegated, the Investment Committee, is charged with the responsibility of managing the assets of the Fund. The specific responsibility of the Team or Investment Committee, as applicable, include:

1. Determine the Team's risk tolerance and investment horizon and communicate these to the appropriate parties.
2. Establish reasonable and consistent investment objectives, parameters and allocations which will direct the investment of the assets, to be reviewed by the Team on an annual basis.
3. Prudently and diligently select one or more qualified investment professionals, including investment manager(s), investment consultant(s) and custodian(s). It is understood that minimum fund balances may be required before it is financially feasible to employ outside investment management.
4. Develop and enacting proper control procedures; e.g., replace investment manager(s) due to a fundamental change in the investment management process, or for a failure to comply with established parameters.

## **General Investment Parameters**

- A copy of the Investment Parameters shall be provided to all Team members and members of the Investment Committee.
- The Endowment Fund is a tax-exempt organization under the Internal Revenue Code. This exempt status should be taken into consideration when making Fund investments.

- The Fund is expected to operate in perpetuity; therefore, a 10-year investment horizon shall be employed. Interim fluctuations should be viewed with appropriate perspective.
- A cash account shall be maintained with a zero to very low risk tolerance to keep cash available for grant distribution and other anticipated expenses.
- Permitted investments include: Cash and cash equivalents, marketable securities including equities and fixed income securities.
- No fixed income security shall have an equivalent credit quality below investment grade at the time of purchase, as defined as:
  1. BBB by Standard & Poors for straight bonds and convertibles.
  2. Baa3 by Moody's Investor Services for straight bonds and convertibles.
  3. A1 by Standard & Poors for short term securities.
  4. P1 by Moody's Investor Service for short term securities.
  5. AAA for money market accounts.
- The following transactions are prohibited: Purchase of non-negotiable securities, derivatives, high risk or junk bonds, private placements, precious metals, commodities, short sales, any marginal transactions, straddles, warrants, options, life insurance contracts, leverage or letter stock.

## **Diversification**

- The Funds will maintain a reasonable diversification of investment assets between the classes and investment categories at all times. Investments in the equity securities of any one company shall not exceed (5%) of the portfolio.
- Reasonable sector allocations and diversification shall be maintained. No more than 25% of the entire portfolio may be invested in securities of any one sector.
- Investments within the investment portfolio should be readily marketable.

## **Asset Allocation**

- Asset allocation procedure shall be predicated on the following factors:
  1. Historical performance of capital markets adjusted for the perception of the future short and long-term capital market performance.
  2. The correlation of returns among the relevant asset classes.
  3. The perception of future economic conditions, including inflation and interest rate assumptions.
  4. Liquidity requirements for projected grants and other charitable expenditures.

## Allocation Parameters

Asset Allocation Range	Target	Limits
Cash & Equivalents	5%	0-15%
Fixed Income	40%	20-60%
Equities: Domestic Large Cap	25%	20-40%
Equities: Domestic Small/Mid Cap	20%	10-25%
Equities: International	10%	5-15%

## Performance

- Performance objectives are to be met on a net of fee basis. The investment performance of each asset allocation class will be measured on two levels: against inflation objectives for the Fund and against index objectives for the individual portfolio components. Investment performance shall be measured no less than quarterly on a net of fee basis. Performance shall be evaluated on a three to five year basis to allow for market fluctuations and volatility.

## Disbursement

- Disbursements may begin once the Fund reaches minimum principal amount of \$100,000. The principal amount is defined as cash or a cash equivalent (liquid asset) being donated directly to the Endowment fund by a donor(s); and/ or an asset other than cash that has been donated and later converted to cash or cash equivalent. Not included in the definition of principal is capital gain, market increases of asset values, interest or dividend; those non-principal items will be defined as income.
- The amount of the annual distribution will be limited to income earned the prior year.