

Trustees Investment Policy Statement

First Parish Unitarian Universalist of Arlington

November 21, 2016

Statement of Investment Policy, Objectives, and Guidelines

Goal of the Endowment Fund

The overall goal of the Trustees is to invest First Parish's endowment funds in a socially responsible manner through skilled and experienced investment managers so as to maximize returns over time through prudent investment management with an appropriate degree of risk and, in any event, to achieve returns that equal or exceed market returns on comparable benchmarks so that there will be sufficient assets in the funds to assist in meeting the congregation's current and future needs.

The Trustees believe that expenditures in the future are as important as expenditures made today. This belief is consistent with the philosophy that this endowment fund should provide for expenditures in perpetuity. To attain this goal, the overriding objective is to maintain purchasing power. That is, net of spending (including investment management fees), the objective is to grow the aggregate portfolio value above the rate of inflation over the endowment's investment horizon. The endowment's specific investment objectives will be described later in this document. The exceptions to the goal of perpetuity are the Founders Fund, Social Justice Holding Account, and the Ministerial Housing Allowance Holding Account, which may be spent in their entirety.

Scope of the Investment Policy

This statement of investment policy reflects the investment policy, objectives, and constraints for the entire First Parish endowment, which comprise the following subfunds and accounts:

- **General Trust Fund** – Use unrestricted by the donors.
- **Founders Fund** – To be used for the acquisition of capital items with a value of at least \$500 or for major maintenance projects. This fund may be spent in entirety.
- **Tobey Fund** - For discretionary use by the ministers (restricted to use of dividend & interest income only).
- **Cooke, Smith, Teele Fund** - To be used for the maintenance of the Bailey Wing (restricted to use of dividend and interest income only). The accumulated earnings on the principal value (\$9,449) are available to the Property Committee for helping to maintain the church properties.
- **Agnes Whitman Damon Wellington Fund** - Per the direction of the donor, only the net income of this fund may be used for the general expenses of the church; the principal (derived from the sale of the parsonage in 2007) must be maintained. Based on the congregational vote in June 2007 directing the use of net income to support ministerial

housing for the foreseeable future, a Trustees policy decision on October 1, 2007, agreed to this use of the net income while preserving the real value of the principal. ("Real value" means maintaining the purchasing power of the principal by growing it at the rate of inflation plus fees.)

- **Social Justice Holding Account** – Monies held for the Social Justice Committee for use at their discretion. This fund may be spent in entirety.
- **Ministerial Housing Allowance Holding Account** – A holding account for the portion of net income taken from the Wellington Fund to meet the annual commitment toward ministerial housing.

Purpose of this Investment Policy Statement

This statement of investment policy is established by the Trustees of First Parish to:

- Define and assign responsibility to all involved parties.
- Establish a clear understanding for all involved parties of the investment goals and objectives of fund assets.
- Offer guidance and limitations to all investment managers regarding the investment of fund assets.
- Establish a basis for evaluating investment results.
- Manage fund assets according to prudent standards as established in common trust law.
- Establish the relevant Investment Horizon for which the fund assets will be managed according to this policy.

In general, the purpose of this statement is to outline a philosophy to guide the investment management of the assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

Delegation of Authority

The Trustees of the First Parish Unitarian Universalist of Arlington are fiduciaries for the congregation and are responsible for directing and monitoring the investment management of the fund assets. As such, the Trustees are authorized to delegate certain responsibilities to experienced professionals skilled in various fields. These include, but are not limited to:

- **Investment Management Consultant.** The consultant may assist the Trustees in establishing investment policy, objectives, and guidelines; selecting investment managers; reviewing such managers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate by the Trustees.
- **Investment Manager.** The investment manager has discretion to purchase, sell, or hold the specific securities that will be used to meet the fund's investment objectives.
- **Custodian.** The custodian will physically (or through agreement with a sub-custodian) maintain possession of securities owned by the fund, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales.

The custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the fund accounts.

- Co-Trustee. The Trustees may appoint an outside individual or entity, such as a bank trust department, to be co-trustee. The co-trustee will assume fiduciary responsibility for the administration of some or all of the fund assets.
- Additional specialists such as attorneys, auditors, actuaries, and other may be employed by the Trustees to assist in meeting their responsibilities and obligations to administer fund assets prudently.

The Trustees do not plan to reserve day-to-day control over investment decisions, with the exception of specific limitations described in these statements. Investment managers will be held responsible and appropriate based on legal requirements and performance, and be accountable to achieve the objectives herein stated.

All experts employed in a fiduciary capacity must acknowledge such in writing. All fees and expenses for such experts employed in connection with the fund must be customary, reasonable, and appropriate based on legal requirements and performance, and will be borne by the fund as the Trustees deem appropriate and necessary.

Definitions

- “Fund” shall mean the First Parish Unitarian Universalist of Arlington endowment fund.
- “Trustees” shall refer to the governing board established to administer the fund as specified by First Parish bylaws.
- “Fiduciary” shall mean any individual or group of individuals who exercise discretionary authority or control over fund management or any authority or control over management, disposition, or administration of the fund assets.
- “Investment Management Consultant” shall mean any individual or organization employed to provide advisory services, including advice on investment objectives and/or asset allocation, manager search, and performance monitoring.
- “Investment Manager” shall mean any individual or group of individuals, employed to manage the investments of all or part of the fund assets.
- “Securities” shall refer to the marketable investment instruments that are defined as acceptable in this statement.
- “Investment Horizon” shall be the time period over which the investment objectives, as set forth in this statement, are expected to be met. The investment horizon for this policy is 20 years.

Responsibility of the Investment Management Consultant(s)

The investment management consultant’s role is that of an advisor to the Trustees. Investment advice concerning the investment management of the fund assets will be offered by the investment consultant, and will be consistent with the investment objectives, policies, guidelines and constraints as established in this statement. Specific responsibilities of the investment consultant include:

- Assisting in the development and periodic review of investment policy.
- Conducting searches for prospective investment manager when requested by the Trustees.
- Providing “due diligence,” or research on prospective investment manager(s).
- Monitoring the performance of the investment manager(s) to provide the Trustees with the ability to determine the progress toward the investment objectives.
- Communicating matters of policy, manager research, and manager performance to the Trustees.
- Reviewing fund investment history, historical capital markets performance and the contents of this investment policy statement to any newly appointed Trustee.

Responsibility of the Investment Manager(s)

Each investment manager must acknowledge in writing its acceptance of responsibility as a fiduciary. Each investment manager will have full discretion to make all investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this statement. Specific responsibilities of the investment manager(s) include:

- Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this statement.
- Reporting, on a timely basis, quarterly investment results.
- Communicating any major changes to economic outlook, investment strategy, or any other factors that affect implementation of investment process, or the investment objective progress of the fund’s investment management.
- Informing the Trustees regarding any qualitative change to the investment management organization. Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.
- In the case of mutual funds, fiduciary responsibility remains with the mutual fund manager, as guided by the fund prospectus, although the investment manager retains fiduciary responsibility regarding the selection of the mutual fund.

General Investment Principles

Investments will be guided by the following principles:

- Investments shall be made solely in the interests of the beneficiaries of the fund.
- The fund assets shall be invested with care, skill, prudence, and diligence under the circumstances then prevailing that a prudent skilled professional acting in a like capacity and experienced with such investments would use in the investment of a fund of like character and with like aims.
- Investment of the fund shall be so diversified as to minimize the risk of large losses, unless under the circumstances it is clearly prudent to do so.

- The Trustees may employ one or more investment managers of varying styles and philosophies to attain the fund's objectives.
- Cash is to be employed productively at all times, by investment in short-term cash equivalents to provide safety, liquidity, and return.

Investment Management Policy

The investment management policy is based upon the following principles:

- **Preservation of Capital.** Consistent with their respective investment styles and philosophies, investment managers should make reasonable efforts to preserve capital, understanding that losses may occur in individual securities.
- **Investment Returns.** Investment Managers are expected to maximize investment returns and achieve returns that equal or exceed benchmarks applicable to their respective asset classes.
- **Risk Management.** Understanding that risk is present in all types of securities and investment styles, the Trustees recognize that some risk is necessary to produce long-term investment results that are sufficient to meet the fund's objectives. However, the investment managers are to make reasonable efforts to control risk, and will be evaluated regularly to ensure that the risk assumed is commensurate with the given investment style and objectives.
- **Adherence to Investment Discipline.** Investment managers are expected to adhere to the investment management styles for which they were hired. Investment managers will be evaluated regularly for adherence to investment discipline.
- **Socially Responsible Investing.** All investments will be consistent with Unitarian Universalist values, emphasizing socially responsible investing that considers environmental, social, and governance (ESG) criteria.

Gifting

Future giving (contributions) to this endowment is expected to be unpredictable. As a result, the Trustees have set an investment strategy with the objective of maintaining purchasing power of endowment assets before consideration of gifts. Accordingly, future giving will serve to increase purchasing power.

Use of the Funds

Spending from the General Trust Fund will be directed to support capital infrastructure needs, including the reciprocal contribution (with the Parish Committee) to the capital maintenance fund. Spending from the Wellington Fund will be provided to help offset the ministerial housing obligations in the annual operating budget. A portion of earnings will be reinvested in both of these funds to grow purchasing power above inflation.

Because expected investment returns are inherently variable and unpredictable, setting an inflexible annual expenditure obligation, such as a fixed percentage or dollar value, is inadvisable and counter to our obligations to protect the real value of the principal and maintain the funds in

perpetuity. As a general practice, the Trustees may not outspend the investment returns in a given year. In 2016, the Trustees set a guideline of a 3% annual spending maximum based on historical returns over the previous 20 quarters, expectations of future market conditions, asset mix, and the advice of our investment consultants. The Trustees will revisit this guideline annually. This longer view versus an annual period will help to even out the maximum distribution figure, providing more predictability in the distribution rate. The maximum spending guideline applies to both the General Trust Fund and the Wellington Fund. Spending above the maximum guideline may occur only in extraordinary circumstances, subject to approval by the Trustees.

Spending beyond the maximum guideline or in negative market environments shall be governed by careful consideration of the following factors:

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

Investment Objectives

The investment objective of the endowment fund is total return; that is, the combined return from capital appreciation, and dividend and interest income. The primary strategy in the investment management for fund assets shall be long-term growth of capital. Long-term growth of principal will be pursued while avoiding excessive risk. Short-term volatility will be tolerated as long as it is consistent with the volatility of a comparable market index.

Specific Investment Goals

Over the 20-year investment horizon, the goal for fund assets is to produce a return that at a minimum exceeds inflation and fees by a reasonable margin and that in any event equals or exceeds asset allocation benchmarks.

These goals apply to the overall endowment fund, and not on each investment account. The goal of each investment manager, over the investment horizon, shall be to:

- Meet or exceed the appropriate market index (or blended market index) that most closely corresponds to the style of investment management.
- Display an overall level of risk in the portfolio that is consistent with the risk associated with the benchmark specified above. Risk will be measured by the standard deviation of annual returns.

Definition of Risk

The Trustees realize that there are many ways to define risk. The Trustees define risk as the:

- Probability of losing value over the investment horizon.
- Probability of not meeting the cash flow commitments.
- Probability of not exceeding market benchmarks for the assets under management.

The worst performance that may be tolerated in a 12-month period is -15% to -20%. This performance floor must always be evaluated relative to current market conditions. No loss is tolerable over the 20-year investment horizon.

Marketability of Assets

The Trustees wish to limit investment in illiquid securities to a maximum of 15% of the fund, although there is no requirement to invest in illiquid securities. All other investments should be in liquid securities, defined as securities that may be transacted quickly and efficiently for the fund, with minimal impact on market price

Investment Asset Allocation Guidelines

Allocation of assets of the fund will be determined by the Trustees from time to time in consultation with the investment management consultant. At the time that this investment management policy was adopted, the following asset allocation guidelines were established:

For the Wellington Fund:

	<u>Range</u>
US Large Cap Equities	25-40%
US Small/Mid Cap Equities	0-15%
International Equities	5-15%
Fixed Income	35-60%
Cash and Equivalents	0-6%

For the General Trust Fund (and Small Subfunds):

	<u>Range</u>
US Large Cap Equities	25-45%
US Small/Mid Cap Equities	10-20%
International Equities	10-20%
Fixed Income	30-45%
Cash and Equivalents	0-6%

The fund portfolio shall be monitored quarterly and re-balanced at least annually, or on a significant cash inflow/outflow. The investment management consultants may recommend asset allocation changes and re-balancing at any point in time.

Asset Diversification

To achieve a prudent level of portfolio diversification, the securities of any one company or government agency should not exceed 10% of the total fund, and no more than 20% of the total fund should be invested in one industry. Individual Treasury securities may represent up to 100% of the total allocation to bonds.

Guidelines for Fixed Income Investments and Cash Equivalents

- Fund assets may be invested only in investment grade bonds rated BBB (or equivalent) or better.
- Fund assets may be invested only in commercial paper rated A1 (or equivalent) or better.
- Maximum maturity for a single security is 30 years.

Socially Responsible Investing

The Trustees undertake the investment management process recognizing that their responsibility does not end with maximizing returns and minimizing risk. The Trustees' investment approach also aligns with our Unitarian Universalist values, emphasizing socially responsible investing that considers environmental, social, and governance (ESG) criteria to identify the companies and funds best positioned to deliver strong long-term financial performance. This approach is paramount in the selection of investment managers and consultants.

Fund investments will favor companies that are meeting positive thresholds of performance for ESG issues, such as strong workplace practices, a demonstrated record of producing safe products for consumers, protecting the environment, fair compensation for employees and executives, and respecting and upholding human rights. In addition, funds will not be invested in companies with significant involvement in producing, marketing, or distributing firearms, tobacco, gaming, nuclear power, pornography, or military weapons systems.

Performance Review and Evaluation

Performance expectation is to maximize the returns on fund assets so that the total returns match or exceed performance of the market benchmarks for each of the asset classes held in the fund.

Performance reports generated by the investment management consultant shall be compiled quarterly and communicated in writing to the Trustees for review. Quarterly reports will be provided to the Trustees as soon as possible at the end of each quarter. An annual written summary will be provided to the Trustees after June 30th of each year (to coincide with the church year). The investment performance of total portfolios, as well as asset class components,

will be measured against commonly accepted performance benchmarks acceptable to the Trustees.

The Trustees intend to evaluate the portfolio over at least a 3-year period, but reserve the right to terminate a manager for any reason including the following:

- Investment performance that is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
- Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.
- Significant qualitative or quantitative changes to the investment management organization.
- Failure to comply with any legal or regulatory requirement applicable to the management of investments or any other actions or inactions that raise questions about fiduciary capacity or prudence of an investment manager.


The investment management consultant serves at the pleasure of the Trustees and may be terminated at any point in time for any reason, with or without cause, and without recourse to the fund.

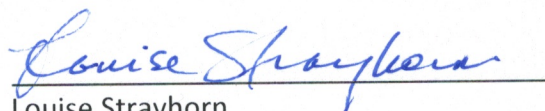
Given the fiduciary responsibility that the Trustees have to the congregation, the Trustees will conduct a periodic review of the investment management support for the First Parish Trust Funds. This periodic review, which shall occur at least every 7 years, will include a competitive evaluation of proposals solicited from investment management firms based on a request for proposals developed by the Trustees.

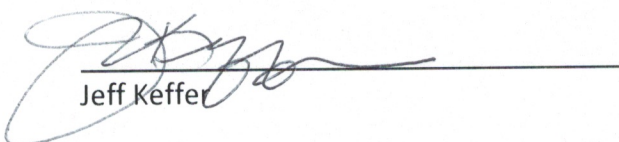
Investment Policy Review

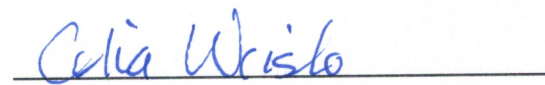
To ensure continued relevance of the guidelines, the Trustees will review the investment policy as least annually.


The Trustees of the First Parish Unitarian Universalist of Arlington hereby adopt this Statement of Investment Policy on November 21, 2016.

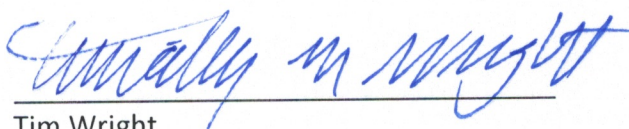

Marlene Hobel


Louise Strayhorn


Jeff Keffer


Celia Wcislo


Ted Live


Tim Wright