

**Church of the Epiphany
Tempe, AZ**

**Endowment and Investment Fund
Investment Policy Statement**

May 2023

Church of the Epiphany has established an Endowment and Investment Fund (the “Fund”) for its long-term endowment and investment assets. The Endowment Committee of Epiphany oversees the Fund and has developed and approved this Investment Policy Statement (“IPS”) for ratification by the Vestry of Epiphany.

The purpose of this IPS is to (a) set out the investment objectives and guidelines for the Fund, (b) assist the Endowment Committee with the investment, oversight and evaluation of the Fund and (c) establish a spending policy for the Fund. The Endowment Committee will administer the Fund in accordance with this IPS. The Endowment Committee may employ an outside investment manager (“Investment Manager”) and must review this IPS at least annually with the Investment Manager. As of 2023, Church of the Epiphany’s Investment Manager is the Episcopal Church Foundation.

1. Investment Objective

The investment objective of the Fund is to provide long term growth in the value of the Fund without undue exposure to risk so that the Fund provides a total return over time that allows for both current and future spending in accordance with the spending policy set out below. The assets of the Fund are to be invested with the same care, skill and diligence that a prudent investor would exercise in investing institutional endowment funds. The Fund is appropriate for long term endowment and investment funds.

2. Investment Guidelines

Time Horizon. The investment objectives and strategic asset allocation of the Fund are based on a long-term time horizon.

Risk Tolerance. With a long-term time horizon, the Fund can tolerate some interim fluctuation in market value and rates of return in order to achieve the investment objectives. High levels of risk and volatility should be avoided.

Permissible and Prohibited Investments. The Investment Manager shall invest the Fund in mutual funds, exchange traded funds, common trust funds or other commingled investment vehicles. The Investment Manager may not directly invest in private placements, restricted stock or other illiquid issues and may not directly engage in short sales, margin transactions or other similar specialized investment activities. Investment funds that use these activities are discouraged.

3. Asset Allocation

Strategic Asset Allocation. The Fund shall be invested in a broadly diversified portfolio that includes equities (including but not necessarily limited to U.S. and international as well as large-, and small-capitalization) and fixed income securities (which may include cash equivalents) in an asset allocation that is conducive to participation in rising markets while permitting adequate protection in falling markets. The asset allocation must also account for the spending policy of the Fund as set out below. The Endowment Committee shall review the strategic allocation of the Fund with the Investment Manager at least annually.

The strategic asset allocation and permissible investment ranges of the portfolio shall be:

<u>Asset Class</u>	<u>Low</u>	<u>Target</u>	<u>High</u>
Equities	60%	70%	80%
Fixed Income/Cash	20%	30%	40%

In 2023, the Endowment Committee selected a 70%/30% allocation for the new fund through Episcopal Church Foundation (see Appendix A), but this may be modified in the future if the Endowment Committee and Vestry find justification for doing so.

Tactical Asset Allocation. The Investment Manager has discretion to invest the portfolio in various sub-asset classes, and to make tactical asset allocation decisions for each sub-asset class within permissible ranges, as determined in consultation with the Endowment Committee. The Endowment Committee will review these decisions semi-annually. Current sub-asset class strategic allocations and permissible investment ranges are set out in Appendix A.

4. Rebalancing

The Investment Manager shall review the asset allocation of the portfolio at least quarterly. The portfolio should be kept within +/-3% of the current tactical position of the portfolio.

5. Socially Responsible Investing

To the extent possible and practicable, at the sole discretion of the Endowment Committee, the Fund shall be invested in full or in part in a socially responsible manner that aligns in full or in part with current socially responsible investment guidelines from the Episcopal Church. This should be in line with the Episcopal Diocese of Arizona’s Investment Guidelines and Objective Statement (last published in April 2022 as of creation of this policy).

6. Spending Policy

The Fund shall be invested for total return, including both income and appreciation, and the Vestry and the Endowment Committee shall follow a spending policy based on total return to the Fund. Each year, the Endowment Committee shall recommend to the Vestry for approval a prudent spending rate for the following year. Typically, this will be between 3% and 5% of the value of the Fund, or any sub-fund, averaged over the preceding twelve quarters. The prudent spending rate is intended to preserve the purchasing power of the Fund, or any sub-fund, over time after

accounting for inflation and fees. In some cases, a greater amount or additional distributions may be permitted by law and church policy.

In making this recommendation, the Endowment Committee shall act in good faith with the care that an ordinary prudent person in a like position would exercise under similar circumstances and shall consider if relevant the standards set out in the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”), as codified in A.R.S. §§ 10-11801 to -11806 (2023). At no time shall the Endowment Committee recommend, nor should the Vestry approve, a spending rate that creates a presumption of imprudence under UPMIFA.

The Endowment Committee will periodically review the spending rate with the Investment Manager. Any funds distributed from the Fund must be spent according to donor restrictions or church policy. At the end of the church’s fiscal year, the amount of any funds distributed but not spent shall be netted against the next planned distribution of the following fiscal year.

7. Performance Measurement Guidelines

The primary measure of the investment performance of the Fund will be a comparison to a custom-designed benchmark based on the strategic asset allocation of the Fund. An additional goal is providing protection against inflation. The current benchmark for the Fund is set out in Appendix A. The Investment Manager will notify the Endowment Committee of any change in the benchmark.

8. Responsibilities

Endowment Committee. The Endowment Committee oversees and administers the Fund in accordance with this IPS. It is responsible for:

- Establishing investment objectives and guidelines for the Fund and preparing and approving an IPS. The objectives and guidelines will reflect a prudent investment standard.
- Selecting a qualified Investment Manager for the Fund using prudent due diligence procedures and overseeing the ongoing performance of that Investment Manager.
- Setting the strategic asset allocation of the Fund in accordance with the investment objectives and guidelines set out in the IPS and in consultation with the Investment Manager.
- Monitoring the Fund on a regular basis to ensure compliance with the investment objectives and guidelines of the IPS.
- Reviewing the performance of the Fund with the Investment Manager at least semi-annually.
- Evaluating the performance of the Investment Manager at least annually.
- Taking appropriate action if the Investment Manager does not meet the investment objectives or follow the investment guidelines.
- Communicating with the Investment Manager in a structured, ongoing manner.
- Reporting periodically to the Vestry.
- Meeting periodically to carry out its responsibilities.

Additionally, the Endowment Committee is responsible for recommending a prudent spending rate for the Fund for Vestry approval, communicating with the Investment Manager about any distributions, and overseeing distributions from the Fund in accordance with the purposes of the Fund and any applicable sub-fund.

Investment Manager. The Investment Manager shall invest and manage the assets of the Fund in conformity with this IPS unless in the Investment Manager’s opinion to do so would be clearly imprudent. The Investment Manager is responsible for:

- Designing an investment strategy that complies with this IPS and any related policies in consultation with the Endowment Committee.
- Implementing the investment strategy, including fund selection and tactical asset allocation, within the guidelines of this IPS and any related policies.
- Providing timely written quarterly performance reports to the Endowment Committee.
- Meeting semi-annually with the Endowment Committee to review investment objectives, strategy and performance.
- Notifying the Endowment Committee in writing of any material deviation from this IPS.

Custodian. The assets of the Fund shall be held by a custodian that is a reputable, well-established financial institution. The custodian is responsible for:

- Safekeeping the assets of the Fund.
- Providing timely written monthly statements of balances and transactions to the Endowment Committee.
- Fulfilling all regular fiduciary duties required of a custodian by pertinent state and federal laws and regulations.

Appendix A

This information is for the Endowment and Investment Fund of Church of the Epiphany as of the date of this IPS. It may be updated or amended over time. Graphics below represent the asset allocation and associated benchmarks of the ESG funds that were selected for the Fund in 2023. If changes are made to the funds or asset allocation, the below will need to be updated accordingly.

1. Asset Allocation

ESG 70/30 Portfolio - Holdings

A sample ESG All Passive portfolio with asset allocation of 70% equities and 30% fixed income. This portfolio is 100% ESG screened.

ESG All Passive - Portfolio Holdings (New Funds Are Highlighted):

	Asset Class	Low	Strategic allocation 70/30	High	Fund
Equities	US Large/Mid Cap	20%	34.0%	50%	iShares ESG Aware MSCI USA ETF (ESGU)
	US Small Cap	0%	5.0%	15%	iShares ESG Aware MSCI USA Small Cap Index ETF (ESML)
	Int'l Developed Large/Mid Cap	10%	22.0%	40%	iShares ESG Aware MSCI EAFE ETF (ESGD)
	Int'l Emg Mkts Large/Mid Cap	0%	9.0%	19%	iShares ESG Aware MSCI EM ETF (ESGE)
	Subtotal			70.0%	
Fixed Income	US Investment Grade	5%	23.0%	40%	
	US Investment Grade	0%	10.0%	20%	iShares ESG Aware US Aggregate Bond (EAGG)
	US Investment Grade Corporate	0%	10.0%	20%	iShares ESG Aware USD Corp Bond ETF (SUSC)
	US Short Term Corporate	0%	3.0%	13%	iShares ESG Advanced High Yield Corporate Bond ETF (SUSB)
	US High Yield	0%	7.0%	17%	iShares ESG Advanced High Yield Corp Bond ETF (HYXF)
	Cash	0%	0.0%	10%	State Street Instit'l US Gov't MM Fund
	Subtotal			30.00%	

Source: SSGA, as of July 2022



2. Benchmark

Asset Class	Benchmark
Equities	
US Large Cap	S&P 500 Index
US Mid Cap	S&P Mid Cap 400 Index
US Small Cap	Russell 2000 Index
International	MSCI ACWI ex-US Index
International Developed	MSCI EAFE Index
International Developed Small Cap	S&P EPAC Small Cap Index
International Emerging Markets	MSCI Emerging Markets Index
Global REITs	FTSE EPRA NAREIT Developed Index
Commodities	Bloomberg Roll Select Commodity Total Return Index
Fixed Income	
US Investment Grade	Bloomberg Barclays US Aggregate Bond Index
US Non-Investment Grade	Bloomberg Barclays US High Yield Custom BB/B ex-144A Index
US TIPS	Bloomberg Barclays US TIPS Index
International Emerging Markets Fixed	JPM EMBI Global Diversified Index