

**MAINE CONFERENCE OF
THE UNITED CHURCH OF CHRIST**

Consolidated Trust Fund

**INVESTMENT POLICY STATEMENT
Objectives & Guidelines**

As Adopted July 23, 2009

Maine Conference United Church of Christ
Executive Summary of Investment Policy Statement

Type of Plan: Consolidated Trust

Current Assets: \$4,137,000 (at June 30, 2009)

Time Horizon: 10 Years

Expected Return: 8.2%

Risk Tolerance: Moderate

Spending Policy: **Generally, income per unit = prior year's income per unit increased by inflation, but subject to upper and lower limits¹**

Asset Allocation: 1. Aggregate Trust Fund Asset Allocation Guidelines (at market value)

<u>Asset Class</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Preferred</u>
Equities	50%	80%	70%
Fixed Income	20%	50%	30%
Cash and Equivalents	0%	30%	0%

2. Trust Fund Asset Allocation –Asset Style Guidelines (at market value)

<u>Asset Style</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Preferred</u>
Large Cap Growth	15%	50%	25%
Large Cap Value	15%	50%	25%
Sm-Mid Cap Equities	0%	25%	10%
International Equities	0%	25%	10%
Fixed Income	20%	50%	30%
Cash and Equivalents	0%	30%	0%

Evaluation Benchmark: Total return to exceed the performance of a policy index based upon the strategic asset allocation of the Fund to various broad asset classes. Specifically, the policy index will be a weighted index comprised of:

- 50% S&P 500
- 10% Russell 2000 Small Cap Index
- 30% Lehman Intermediate Gov/Corp
- 10% EAFE GDP Net

¹See *Spending - Moving Average Determination* section at Page 6 of this document for a full explanation of this item.

Statement of Investment Policy, Objectives, and Guidelines

GENERAL INFORMATION

Trust Fund name: Maine Conference of the United Church of Christ Consolidated Trust Fund

Trust Fund's mission: The Maine Conference United Church of Christ Consolidated Trust Fund is a non-profit organization authorized to receive gifts, bequests and devises of real or personal property to be administered according to the terms of specific wills or governing instruments. The Conference acts as trustee for numerous churches and has been doing so for over one hundred years. The Trust Fund is a non-profit religious organization exempt from income tax under Internal Revenue Code Section 501(c)(3)-1(d)(2) and contributions to the Maine Conference United Church of Christ qualify as charitable contributions.

The Fund's investment mission is to preserve real value of assets and pay a reasonable and stable current income which increases over time at least at the rate of inflation.

Trust Fund's adoption date: The Consolidated Trust Fund, established on March 7, 1957, was authorized as a corporation under a special act (Chapter 49) of the Private and Special Laws of Maine during 1955.

SCOPE OF THIS INVESTMENT POLICY

This statement of investment policy reflects the investment policy, objectives, and constraints of the Maine Conference of The United Church of Christ Consolidated Trust Fund.

PURPOSE OF THIS INVESTMENT POLICY STATEMENT

This statement of investment policy is set forth by the Board of Trustees of the Maine Conference of The United Church of Christ in order to:

1. Define and assign the responsibilities of all involved parties.
2. Establish a clear understanding for all involved parties of the investment goals and objectives of Trust Fund assets.
3. Establish a basis for evaluating investment results.
4. Establish the relevant investment horizon for which the Trust Fund assets will be managed.

In general, the purpose of this statement is to outline a philosophy and attitude which will 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.

GOAL OF CONSOLIDATED TRUST

The Board of Trustees feels that this Consolidated Trust will serve its community best by emphasizing distributions to be made in the future as being as important as distributions made today. This is consistent with our philosophy that this Consolidated Trust is to exist in perpetuity. The Consolidated Trust's purchasing power *may* be subject to erosion unless the investment strategy implemented can support the

current and future levels of spending. That is, net of spending, the aggregate portfolio must grow at a rate equal to or in excess of the rate of inflation in order to avoid real principal invasion.

DELEGATION OF AUTHORITY

The Board of Trustees of the Maine Conference of The United Church of Christ is a fiduciary, and is responsible for directing and monitoring the investment management of Trust Fund assets. As such, the Board of Trustees is authorized to delegate certain responsibilities to professional experts in various fields. These include, but are not limited to:

1. **Investment Consultant.** The consultant may assist the Board of 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.
2. **Investment Manager.** Each investment manager has discretion to purchase, sell, or hold the specific securities that will be used to meet the Trust Fund's investment objectives, as long as all investments are in compliance with the guidelines outlined in this Statement of Investment Policy.
3. **Custodian.** The custodian will physically (or through agreement with a sub-custodian) maintain possession of securities owned by the Trust 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 Trust Fund accounts.
4. **Additional specialists** such as attorneys, auditors, actuaries, retirement plan consultants, and others may be employed by the Board of Trustees to assist in meeting its responsibilities and obligations to administer Trust Fund assets prudently.

The Board of Trustees will not reserve any control over investment decisions, with the exception of specific limitations described in these statements. Managers will be held responsible and accountable to achieve the objectives herein stated. While it is not believed that the limitations will hamper investment managers, each manager should request modifications which they deem appropriate.

ASSIGNMENT OF RESPONSIBILITY

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:

1. **Discretionary investment management** including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this statement.
2. **Reporting**, on a timely basis, quarterly investment performance results.

3. Communicating any major changes to economic outlook, investment strategy, or any other factors which affect implementation of investment process, or the investment objective progress of the Trust Fund's investment management.
4. Informing the Board of Trustees regarding any qualitative change to investment management organization: Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.
5. Voting proxies, if requested by the Board of Trustees, on behalf of the Trust Fund, and communicating such voting records to the Board of Trustees on a timely basis.

Responsibility of the Investment Consultant(s)

The Investment Consultant's role is that of a non-discretionary advisor to the Board of Trustees of the Maine Conference of The United Church of Christ. Investment advice concerning the investment management of Trust 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:

1. Assisting in the development and periodic review of investment policy.
2. Conducting investment manager searches when requested by the Board of Trustees.
3. Providing "due diligence", or research, on the Investment Manager(s).
4. Monitoring the performance of the Investment Manager(s) to provide the Board of Trustees with the ability to determine the progress toward the investment objectives.
5. Communicating matters of policy, manager research, and manager performance to the Board of Trustees.
6. Reviewing Trust Fund investment history, historical capital markets performance and the contents of this investment policy statement to any newly appointed members of the Board of Trustees.
7. Perform the duties associated with Socially Responsible Investing as set forth on the next page.

INVESTMENT MANAGEMENT POLICY

1. Risk Aversion - Understanding that risk is present in all types of securities and investment styles, the Board of Trustees recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Trust 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.
2. Adherence to Investment Discipline - Investment managers are expected to adhere to the investment management styles for which they were hired. Managers will be evaluated regularly for adherence to investment discipline.

3. Concentration with one investment firm – The Board of Trustees wishes to limit exposure to any one single investment management firm to no more than 35% of total portfolio assets.

Socially Responsible Investing

1. **Restrictions.** In its selection process, any Investment Manager responsible for decisions resulting in direct ownership of securities should avoid securities of companies which derive a significant portion (as defined in the table below) of their revenues from the manufacture, sale or distribution of alcohol, gambling or tobacco.

Alcohol	10%
Gambling	10%
Tobacco	1%

At the end of each financial year of the Consolidated Trust, each of the above noted Investment Managers shall certify that these restrictions have been adhered to, or alternatively explain any deviations and the steps taken to redress the situation as well as to ensure compliance in future. These certifications and explanations shall be presented to the Board of Trustees by the Investment Consultant.

2. **Community Investing.** The Board of Trustees seeks, subject to availability of suitable investments, to invest 1% of current assets in companies and organizations which provide access to credit, equity, capital or basic banking products to communities which would otherwise lack such access. Such investments will be selected by the Board of Trustees acting upon the advice of the Investment Consultant.
3. **Proxy Voting.** The Investment Consultant will instruct the various Investment Managers to vote proxies in line with management's recommendations as explained in the proxy materials, unless it appears that Management is proposing something that is clearly self-serving and in management's interest rather than in the best interest of the shareholders. Investment Managers are, however, to be instructed to vote in favor of any proposal to 1) separate the functions of Chief Executive Officer and Chairman of the Board of Directors, and 2) require that the Chairman of the Board of Directors be an independent (non-employee) director. Investment Managers are to report to the Board of Trustees, through the Investment Consultant, when they have voted in opposition to management's recommendation.

Spending - Moving Average Determination

This Consolidated Trust will use the following method of determining year to year spending in order to smooth distributions from the aggregate portfolio. Income will be calculated and distributed every 90 days at a rate equal to the amount distributed in the prior year plus an adjustment equal to the increase in inflation (as measured by the Consumer Price Index) for that same year. This formula will hold subject to a minimum payout of 3% of a 5 year average of year-end market values and a maximum payout of 6% of the same average. This policy serves two purposes. First, it provides for more consistent and predictable spending for the programs supported by this Consolidated Trust. Second, it allows the Board of Trustees to design an investment strategy which is more "aggressive" with a higher expected return than might be the case if spending were determined by annual investment performance. With an annual determination method, there is a tendency to pay out the "excess" earnings during periods of overperformance, while maintaining a certain absolute dollar floor of spending during periods of underperformance. Over the long-term, this may

result in an erosion of real principal. Therefore, by smoothing the spending, the Consolidated Trust reduces the likelihood of real principal erosion due to portfolio volatility.

VOLATILITY OF RETURNS

It is anticipated that the aggregate Trust Fund has a 60% probability, over the a 10-year investment horizon, of achieving an absolute annualized return of 7.5%.

It is anticipated that the aggregate Trust Fund has a 53% probability, during any single one year period, of achieving an absolute return of 7.5%.

This distribution analysis is based on the expected return of 8.2%, the annualized standard deviation of 9.8%, and the expected standard deviation of return for the 10-year investment horizon of 9.3%. This analysis uses the assumption that investment returns are normally distributed.

INVESTMENT GUIDELINES

Allowable Assets and Transactions

1. Cash Equivalents
 - Treasury Bills
 - Money Market Funds
 - Certificates of Deposit
2. Fixed Income Securities
 - U.S. Government and Agency Securities
 - Corporate Notes and Bonds (BBB or better)
 - Fixed Income Securities of Foreign Governments and Corporations
3. Equity Securities
 - Common Stocks
 - Convertible Notes and Bonds
 - Convertible Preferred Stocks
 - American Depository Receipts (ADRs) of Non-U.S. Companies
 - Stocks of Non-U.S. Companies (Ordinary Shares)
4. Mutual Funds / Co-mingled funds
 - Mutual Funds which invest in securities as allowed in this statement.
5. Other
 - GIC's
 - Limited Partnerships
 - Real Estate Investment Trusts
 - Venture Capital Investments
 - Commodities and Futures in the case of equity managers using index futures to eliminate cash drag
 - Options in the case of equity managers employing a covered call strategy

Prohibited Assets and Transactions

Prohibited investments include, but are not limited to the following:

1. Commodities and Futures Contracts
2. Private Placements
3. Real Estate Properties
4. Any use of margin credit
5. Hedge Funds or Hedge Funds of Funds
6. Short Selling

Asset Allocation Guidelines

Investment management of the assets of the Maine Conference of The United Church of Christ shall be in accordance with the following asset allocation guidelines:

1. Aggregate Trust Fund Asset Allocation Guidelines (at market value)

<u>Asset Class</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Preferred</u>
Equities	50%	80%	70%
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3. The Board of Trustees may employ investment managers whose investment disciplines require investment outside the established asset allocation guidelines. However, taken as a component of the aggregate Trust Fund, such disciplines must fit within the overall asset allocation guidelines established in this statement. Such investment managers will receive written direction from the Board of Trustees regarding specific objectives and guidelines.
4. In the event that the above aggregate asset allocation guidelines are violated, for reasons including but not limited to market price fluctuations, the Board of Trustees will instruct the Investment Manager(s) to bring the portfolio(s) into compliance with these guidelines as promptly and prudently as possible. In the event that any individual Investment Manager's portfolio is in violation with its specific guidelines, for reasons including but not limited to market price fluctuations, the Board of Trustees expects that the Investment Manager will bring the portfolio into compliance with these guidelines as promptly and prudently as possible without instruction from the Board of Trustees.

INVESTMENT MANAGER PERFORMANCE REVIEW AND EVALUATION

Performance reports generated by the Investment Consultant shall be compiled at least quarterly and communicated to the Board of Trustees for review. The investment performance of each manager, , as well as Trust portfolio asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The Board of Trustees intends to evaluate each manager over at least a three year period, but reserves the right to terminate a manager for any reason including the following:


1. Investment performance which is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
2. Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.
3. Significant qualitative changes to the investment management organization.

Investment managers shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

INVESTMENT POLICY REVIEW

To assure continued relevance of the guidelines, objectives, financial status and capital markets expectations as established in this statement of investment policy, the Board of Trustees plans to review investment policy at least annually.

The Maine Conference of the United Church of Christ Board of Trustees adopted a revised statement of investment policy on July 28, 2005. Subsequently the Board of Trustees amended this policy on July 27, 2006; on November 1, 2006; on July 26, 2007; and on October 25, 2007; and on July 23, 2009 and today, July 23, 2009 the Board of Trustees adopts the July 28, 2005 policy with the aforesaid amendments as its investment policy.

Attest: , Conference Business Manager On Behalf of the Board of Trustees and its Direction on July 23, 2009.
