IX. PARISH INVESTMENT POLICY

1. Introduction

A Parish Investment Policy provides a clear set of investment guidelines to assist Pastors and Parish Finance Councils when investing excess cash. This Policy recognizes that each Parish is unique. Therefore, the level of investing and the choice of investments will vary with the cash flow needs of the Parish.

2. Responsibilities

Role of the Pastor

- The Pastor is the chief custodian of the financial resources of a Parish. With the assistance of the Parish Finance Council, the Pastor considers the Parish's short and long-term financial needs. These needs are detailed in the annual budget and a longer-term capital plan.
- Respects the wishes of parishioners who make restricted gifts to the Parish.
- Retains an **Investment Manager**, if necessary, to assist in the selection of appropriate investments.
- The Pastor should rely on the advice and assistance of the Parish Finance Council and Investment Manager in developing procedures and criteria to monitor investment performance and establish expectations for investment returns *(see specific performance guidelines below).*
- There should **never** be a co-mingling of Parish funds and personal funds. **There are no exceptions to this policy.**

Role of the Parish Finance Council

- The Parish Finance Council exercises its fiduciary duty by assisting the Pastor in overseeing the prudent financial management of the resources of the Parish. If desired, an Investment Sub-Committee of the Parish Finance Council can be created.
- Advises the Pastor with respect to investment objectives. If an Investment Manager is considered, the Parish Finance Council should

be actively involved in the selection process and the Investment Manager performance evaluation.

- Reviews investment performance at least on a quarterly and preferably monthly basis.

Conflicts of Interest

- The members of the Parish Finance Council, in making recommendations or providing strategic advice to a Pastor, should avoid conflicts of interest, either in fact or appearance. Any member of a Parish Finance Council who has a financial interest in an entity that does a substantial business with the Parish will be considered to have a direct or indirect conflict of interest.
- The Parish should adopt a Conflicts of Interest Policy. The policy will include a Conflicts of Interest Policy annual statement for members *(see Section 7, below)*. The Conflicts of Interest Policy should be reviewed annually by the Pastor and the members of the Parish Finance Council.

3. Statement of Objectives

Teachings of the Catholic Church

- In developing a Parish investment strategy, the Pastor, with the advice of the Parish Finance Council, will select investments that are consistent with the vision, mission and values of the Catholic Church.
- The Parish will not knowingly and willingly invest in enterprises that engage in activities contrary to the teachings of the Catholic Church. Investments in companies which engage in products and services that are incongruent with the values of the Parish, Diocese and Roman Catholic Church (e.g., embryonic stem-cell research, abortion, pornography) should be avoided.
- The Pastor and Parish Finance Council shall maintain responsibility for oversight of these standards, and communicate these standards to the Investment Manager. Periodic review of the Investment Manager's performance will also take into consideration this most important responsibility.

Standard of Prudence and Care

- The Pastor, as financial steward of the financial resources of the Parish, should always ensure that funds shall be invested with care, skill, prudence, and diligence.
- Investments shall be diversified by asset class, industry, and maturity so as to minimize risk of loss.

Meeting the needs of the Parish

- The investment plan adopted by the Pastor, with the advice of the Parish Finance Council, should consider the current and future welfare of the Parish as its primary objective.
- Current needs: The amount of operating cash that the Parish requires to meet its weekly obligations based on the annual Parish operating budget.
- Longer-term needs: The amount of money the Parish needs for planned and potential unplanned expenses. These could include:
    - Parish Endowment
    - Building Fund
    - Funding for various ministries
    - Major repair projects

4. Investment Guidelines

4.1 Investment Goals

Time horizon

When there is excess cash over the Parish's budgeted expenses that may be invested, the Pastor should consider the appropriate time horizon for when those funds may be required, and select the appropriate level of risk.

Here are some further guidelines in this respect:

- **Operating needs**: Sufficient cash should be available in the Parish's Operating Account or Money Market account to meet budgeted cash shortfalls at any given time, with an allowance for unexpected events.

- **Near-term requirements:** Funds needed in the short term (from three months to one year) should be invested in short-term risk-free instruments such as money market accounts, bank savings accounts, bank Certificates of Deposit (CD's), or U.S. Government Treasury Bills.

- **Longer-term requirements:** Longer-term needs can be invested in other appropriate vehicles that offer a higher return, with investments allocated in acceptable asset classes (as indicated below), reflecting a conservative- to moderate-risk tolerance over the projected time horizon.

Target return:

The Pastor, with the assistance of the Parish Finance Council, should seek to invest the funds of the Parish in assets that achieve the maximum return for the level of acceptable risk over the investment time horizon as indicated below:

- **Short-term investments:** Investment instruments that maximize the return available for risk-free investments such as bank savings deposits, CD's, or Treasury Bills.

- **Longer-term Investments:** The Parish should achieve a minimum return of 2-3% over the rate of inflation over time.

Diversification:
Investments should be diversified to avoid concentrated risk in any single type of investment. The FDIC insures a maximum of $100,000 of investments of an entity registered under one Employer Identification Number (EIN) for an FDIC-insured account. If the Parish is using a brokerage account, the Pastor and Parish Finance Council should understand the insurance coverage provided, since that account is not FDIC insured.

4.2 Criteria for opening investment accounts

- The Bishop's approval is needed to open an investment account for the benefit of the Parish, in the Parish Corporation name.
- The Bishop and the Pastor **and an alternate signatory as selected by the Pastor** are the only persons authorized to give buy/sell orders on behalf of the Parish. Read-only online Internet access to review investments may be authorized by the Pastor for the members of the Parish Finance Council.
- Many financial institutions grant credit cards and/or checking account privileges when opening an investment account. **The activation and use of these features is prohibited.**

4.3 Criteria for selecting investment firms

- The Pastor and the Parish Finance Council should interview no fewer than three Investment Managers.
- The criteria for choosing an Investment Manager should include: experience, performance, reputation, and fee structure.
- A qualifying Investment Manager must be a registered investment advisor under the Investment Advisors Act of 1940, or a bank, trust or insurance company.
- The Parish Finance Council must require that each Investment Manager provide, in writing, acknowledgement of fiduciary responsibility to the Church.
- No member of the Parish Finance Council should act as the Investment Manager, and there should be no conflict of interest between the Investment Manager and the Parish Finance Council.

4.4 Acceptable investments

- Money Market accounts or funds.
- U.S. Government Treasury or U.S. Government agency securities.
- Investment Grade Fixed Income Corporate Securities.
- Stock or fixed income mutual funds that are Morningstar® rating of "4" or higher. The Parish may invest in International stock funds subject to limits below. Emerging Market investments should be avoided owing to the high degree of risk associated with these investments.
- Real Estate Investment Trust (REIT) Mutual Funds that are only Morningstar® rating of "4" or higher.

4.5 Asset Allocation

Asset Class	Target Allocation	Acceptable Range
Cash or Liquid Investments including Money Market mutual funds	Lesser of 3 months of expenses or 2% of investment assets	2-25%
Fixed Income Investments or Fixed Income Mutual Funds	38%	10-50%
Stock mutual funds (domestic and international)	60%	20-80% International: up to 10%
REIT mutual funds	0%	Up to 20%

There are a wide variety of mutual fund investments from which to choose. Investments in mutual fund portfolios generally offer broader diversification than investments in individual stocks or bonds and thus are often perceived to be less risky. Nevertheless care should be taken when investing in mutual funds since they vary in degree of risk as outlined below.

The Pastor should consult with the Parish Finance Council in researching stock mutual fund investments to ensure that the appropriate balance of risk is taken relative to the investment time horizon.

Mutual Fund Type	Degree of risk
Money Market and U.S. Government Treasury or Agency Securities	Lowest
Fixed Income Corporate Securities	Low
REIT	Medium
Domestic Stock	Higher
International Stock	Highest

Domestic stock funds vary by company size (referred to as company capitalization):

Company Size	Degree of Risk
Small Capitalization	Highest
Mid Capitalization	High
Large Capitalization	Lower

Domestic stock mutual funds are further classified by the type of company in which they invest:

- Growth-oriented funds invest in companies with strong growth potential. The primary characteristic of a growth company is an earnings growth rate higher than that of the overall market. These funds may have a tendency toward higher risk.

- Value-oriented funds seek companies with earning potential that the market may have underestimated or overlooked. They can range from conservative to aggressive.

A Parish Endowment may have its own investment and use policy statement, and additional clarification shall state what percentage of the funds (principal and/or income) can be used for Parish needs. Since an endowment usually is for a longer period of time, the choice of investments may carry more risk and earn a higher return.

4.6 Restricted Gifts

Income from a restricted gift(s) must be used for only the stated purpose designated by the donor.

4.7 Treatment of gifts of stock

The Parish **must** sell the gift of an individual stock as soon as possible and reinvest the funds in a manner consistent with the Parish's investment plan.

4.8 Prohibitions

The following investments may pose significant risk or illiquidity and thus substantial risk of loss and are thus prohibited. These include:

- Purchases of shares of individual stocks
- Real Estate (other than for Parish use and REITs)
- Commodities
- Investments in hedge funds
- Investments in derivative instrument, including, without limitation: options, futures, warrants, collateralized debt obligations (CDO) and collateralized loan obligations (CLO).
- Private Equity investments or investments where there is not an active secondary market
- Venture Capital investments
- Foreign Exchange contracts
- Emerging Markets mutual funds
- Junk bonds

4.9 Rebalancing

With the advice of the Parish Finance Council and the Investment Manager, the Pastor should review the need to rebalance the investment portfolio on a periodic basis in accordance with the performance evaluation guidelines set forth below.

5. Performance Review and Evaluation

Investment performance reviews must be conducted at least once each quarter. Such reviews will evaluate, among other things:

- The general conditions and trends prevailing in the economy, securities markets, and mutual fund industry.
- Whether each investment remains consistent with the Parish's overall investment objectives.
- Whether the investments are adequately diversified and the Church's allocation strategy met.
- The investment results as compared to established indexes or benchmarks over a series of different time horizons.
- The fee structure and expense ratio of selected investments as compared to alternatives available in the marketplace.
- The experience and qualifications of the personnel providing the investment management services.

Periodic account statements and performance reports generated by the Investment Manager shall be compiled at least quarterly and distributed to the Parish Finance Council for review. The investment performance of total portfolios, as well as asset class components, both gross and net of Investment Manager expenses, 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. Investment managers shall be reviewed at least yearly, but more frequently if the Parish Finance Council deems appropriate. The review issues will include performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

The Parish Finance Council shall evaluate the portfolio periodically, but reserves the right to recommend to the Pastor the termination of an Investment Manager for any reason, including the following:

- Investment performance which 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 changes to the investment management organization.

6. Accounting

All investment account activity must be recorded in the Parish Accounting System. Sub-accounts must be established for each financial institution in which the Parish has investments.

Transactions including transfers should be recorded on the date of execution. The monthly statement from each institution must be reconciled promptly in the Parish Accounting System including the recording of interest, dividends and fees.

7. Conflicts of Interest Policy

Article I – Purpose

The purpose of the conflicts of interest policy is to protect the Parish's interest when it is contemplating entering into a transaction or arrangement that might benefit the private interest of a member of the Parish. This policy is intended to supplement but not replace any applicable state laws governing conflicts of interest applicable to the Parish and charitable corporations, trusts or foundations.

Article II – Definitions

Interested Person
Any member of a Parish Finance Council or Investment Sub-committee who has a direct or indirect financial interest, as defined below, is an interested person.

Financial Interest
A person has a financial interest if the person has, directly or indirectly, through business, investment, or family.

a. An ownership or investment interest in any entity with which the Parish has a transaction or arrangement, or

b. A compensation arrangement with any entity or individual with which the Parish has a transaction or arrangement, or

c. A potential ownership or investment interest in, or compensation arrangement with, any entity or individual with which the Parish is negotiating a transaction or arrangement.

Compensation includes direct and indirect renumeration as well as gifts or favors.

Article III – Procedures

A. <u>Duty to Disclose</u>
In connection with any actual or possible conflicts of interest, an interested person must disclose the existence and nature of his or her financial interest to the members of the Parish Finance Council or Investment Sub-committee considering the proposed transaction or arrangement.

B. Determining Whether a Conflict of Interest Exists

After disclosure of the financial interest, the interested person shall leave the meeting at which the proposed transaction or arrangement is being considered, while the financial interest is discussed and voted upon. The remaining Parish Finance Council or Investment Sub-committee members, in executive session, shall decide if a conflict of interest exists.

C. Procedures for Addressing the Conflict of Interest

1. The chairperson of the Parish Finance Council or Investment sub-committee shall, if appropriate, appoint a disinterested person or committee to investigate alternatives to the proposed transaction or arrangement.

2. After exercising due diligence, that person or committee shall determine whether the Parish can obtain a more advantageous transaction or arrangement with reasonable efforts from a person or entity that would not give rise to a conflict of interest.

3. If a more advantageous transaction or arrangement is not reasonably attainable under circumstances that would not give rise to a conflict of interest, the Parish Finance Council or Investment sub-committee shall determine, by a majority vote of the disinterested members, whether the transaction or arrangement is in the Parish's best interest and for its own benefit and whether the transaction is fair and reasonable to the Parish and shall make its recommendation to the Pastor as to whether to enter into the transaction or arrangement in conformity with such determination.

D. Violations of the Conflicts of Interest Policy

1. If the Parish Finance Council or Investment sub-committee has reasonable cause to believe that a member has failed to disclose actual or possible conflicts of interest, it shall inform the member of the basis for such belief and afford the member an opportunity to explain the alleged failure to disclose.

2. If, after hearing the response of the member and making such further investigation as may be warranted in the circumstances, the Parish Finance Council or Investment sub-committee determines that the member has in fact failed to disclose a conflict of interest, in fact or

appearance, it shall advise the Pastor to take appropriate disciplinary and corrective action.

Article IV – Records and Minutes

The minutes of the Parish Finance Council or Investment sub-committee shall contain:

a. The names of the persons who disclosed or otherwise were found to have a potential conflict of interest, in fact or appearance, the nature of the financial interest, any action taken to determine whether a conflict of interest was present, and the Parish Finance Council's or Investment sub-committee's decision as to whether a conflict of interest, in fact or appearance, existed.

b. The names of the persons who were present for discussions and votes relating to the transaction or arrangement, the content of the discussion, including any alternatives to the proposed transaction or arrangement and a record of any votes taken in connection therewith.

Article V – Annual Statements

Each member of the Parish Finance Council or Investment sub-committee with responsibility for advising the Pastor on investment of Parish financial resources shall **annually** sign a statement which affirms that such person:

a. has received a copy of the Conflict of Interest Policy,
b. has read and understands the policy,
c. has agreed to comply with the policy, *and*
d. understands that the Parish is a charitable organization and that in order to maintain its Federal tax exemption it must engage primarily in activities which accomplish one or more of its tax-exempt purposes.

8. Commonly-Used Terms and Definitions

Bond: A financial obligation issued for a period of more than one year with the purpose of raising capital by borrowing.

Brokerage Account: A customer account maintained with a company registered to buy and sell securities.

Collateralized Debt Obligation/ Collateralized Loan Obligation: A form of security backed by debt obligations.

Capital Plan: A Plan developed by the Pastor with the assistance of the Parish Finance Council to meet the longer-term needs of the Parish (ministries, buildings, equipment, etc).

Certificate of Deposit: Short or medium-term, interest-bearing, FDIC-insured debt instrument offered by banks and savings and loans. CDs offer higher rates of return than most comparable investments, in exchange for tying up invested money for the duration of the certificate's maturity.

Commodity: Physical substance, such as food, grains, and metals, which is interchangeable with another product of the same nature, and which investors buy or sell.

Derivative instrument: A financial instrument whose characteristics and value depend upon the characteristics and value of another financial instrument typically a commodity, bond, stock or currency.

Endowment: A permanent or quasi-permanent fund bestowed upon an individual or institution, such as the Parish, the income from which is to be used for a specific purpose.

FDIC: Federal Deposit Insurance Corporation. An entity of the Federal government that insures bank deposits up to $100,000 per account.

Fixed Income Security: Another term for a bond; a debt instrument that pays a periodic fixed rate of return and has a fixed maturity date.

Foreign Exchange: Currency of a country other than the United States represented.

Futures: A standardized, transferable, exchange-traded contract that requires delivery of a commodity, bond, currency, or stock, at a specified price, on a specified future date.

Hedge Fund: Unregistered and unregulated investment companies

Investment Advisors Act of 1940: A U.S. Federal law that was created to regulate the actions of investment advisors as defined by the law.

Investment Grade Security: A security which is relatively safe, having a high credit rating issued by Moody's Investor Service, Standard and Poor's, or Fitch (three well-known and highly respected rating agencies). The minimum investment grade rating is Baa3 (Moody's), BBB- (Standard and Poor's), and BBB- or F3 (Fitch).

Investment Manager: A Securities and Exchange Commission-registered investment advisory company that provides investment management services.

Money Market Account: A savings account which shares some of the characteristics of a money market fund. Like other savings accounts, money market accounts are insured by the FDIC. Money market accounts offer many of the same services as checking accounts although transactions may be somewhat more limited. These accounts are usually managed by banks and brokerages, and can be a convenient place to hold money that is to be used in the near term for investments or has been received from the sale of recent investments. They are very safe and highly liquid investments, but offer a lower interest rate than most other investments.

Money Market Fund: A mutual fund which invests only in short term (one day to one year) debt obligations such as U.S. Treasury Bills, CD's and Commercial Paper. The main goal is the preservation of principal, and they pay a dividend based on the interest rates of the debt obligations that the Fund invests in. Unlike bank accounts and money market accounts, most deposits are not FDIC insured, but the risk is generally extremely low.

Morningstar: A provider of independent investment research in the United States and in major international markets.

Mutual Fund: A form of collective investment that pools money from many investors and invests their money in stocks, bonds and short-term money market instruments, and/or other securities.

Option: A contract that represents the right, but not the obligation, to buy or sell a security at a specific price for a fixed period of time.

Security: A negotiable interest representing financial value. Securities are broadly categorized into debt and equity securities.

Stock: An equity security that represents an ownership interest in a company.

Real Estate Investment Trust (REIT): A tax designation for a corporation investing in real estate that reduces or eliminates corporate income tax. In return, REITs are required to distribute 90% of their income, which may be taxable in the hands of the investors. The REIT structure was designed to provide a similar structure for investment in real estate as mutual funds provide for investment in stocks.

Restricted Gift: Donations in which the donor specifies how the gift is to be used.

Risk-free investments: Investments that are usually backed by the full faith and credit of the U.S. government where there is no risk of loss to principal.

U.S. Government Treasury Bill: A debt obligation issued by the U.S. Treasury with a maturity of less than one year.

U.S. Government Treasury Bond: A debt obligation issued by the U.S. Treasury with a maturity of more than one year.

U.S. Government Agency Security: A debt obligation issued by an agency of the Federal government that usually carries the full faith and credit of the U.S.

Venture Capital: A type of private capital typically provided by professional, institutionally-backed outside investors to new, start-up businesses. Investors generally receive shares in the start-up company. Venture capital investments are usually high risk, but offer the potential for above-average returns.

Warrant: A security that entitles the holder to buy stock of the company that issued it at a specified price, which is much higher than the stock price at the time of issue.