



EPISCOPAL DIOCESE OF INDIANAPOLIS Statement of Investment Policy, Objectives and Guidelines

Episcopal Diocese of Indianapolis Mission Statement

Jesus Christ has gathered laity, deacons, priests, and bishop of congregations and diocesan ministries in central and southern Indiana to be the Episcopal Diocese of Indianapolis.

We celebrate the great gift of our Anglican heritage and will deepen our understanding of its tradition and heritage, inviting others to join us.

We welcome all persons into our common life and will proclaim the gospel to those in our communities who do not yet know our Lord.

We will nurture relationships in Christ, remaining in conversation with one another despite honest disagreement, always seeking God's will.

We are thankful for our differences and acknowledge that they enrich and energize our ministries.

We promise compassion, acceptance, and assistance to those in need.

We acknowledge and celebrate the wealth of talent and treasure which has been given and will grow in confidence that working together, we will always have enough to engage in God's mission.

Scope of This Investment Policy

This statement of investment policy reflects the investment policy, objectives and constraints of the Episcopal Diocese of Indianapolis.

Purpose of the Unrestricted and Special Funds

The purpose of the Unrestricted and Special Funds is to further the religious, charitable, educational, and social ministries of the Episcopal Diocese of Indianapolis and its Congregations, and to receive and administer funds for said purposes, as directed by the Episcopal Diocese of Indianapolis.

Purpose of This Investment Policy Statement

This statement of investment policy is set forth by the Episcopal Diocese of Indianapolis 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 for the investment of the Funds.
3. Offer guidance and limitations to all Investment Managers regarding the investment of the Fund assets.
4. Establish a framework for evaluating investment results.
5. Manage Unrestricted and Special Funds according to prudent standards as established under the Indiana Uniform Prudent Investor Act.
6. Establish the relevant investment horizon for which the Unrestricted and Special Funds will be managed.

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

Delegation of Authority

The Episcopal Diocese of Indianapolis, and its internal delegates, is a fiduciary, and as such, is responsible for directing and monitoring the investment management of Unrestricted and Special Funds. The Episcopal Diocese of Indianapolis is authorized to delegate certain responsibilities to professional experts in various fields. These include, but are not limited to:

1. **Investment Management Consultant.** The consultant may assist the Episcopal Diocese of Indianapolis in establishing investment policy, objectives and guidelines; establishing asset allocation ranges and targets; recommending short-term tactical allocation adjustments; selecting investment managers; reviewing managers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate.
2. **Investment Manager.** The investment manager has discretion to purchase, sell or hold the specific securities used to meet the Unrestricted and Special Funds' investment objectives, as defined by the Investment and Finance Committee.

3. **Custodian.** The custodian will physically (or with 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 accounts.
4. **Additional specialists** such as accountants, attorneys, auditors and others may be employed by the Episcopal Diocese of Indianapolis to assist in meeting its responsibilities and obligations to administer Fund assets prudently.

The Episcopal Diocese of Indianapolis will not reserve control over investment decisions, with the exception of specific limitations described in this statement. Discretionary Investment Managers (including the Investment Consultant when applicable) will be held responsible and accountable to achieve the objectives herein stated. While it is believed that the limitations will not hamper investment managers, each manager should request modifications that they deem appropriate.

Each expert employed is deemed to be a fiduciary and must acknowledge such in writing. All expenses for such experts must be customary and reasonable, and will be borne by the Unrestricted Fund as deemed appropriate and necessary.

Definitions

1. **“Fund”** shall mean the investment assets of the Unrestricted and Special Funds.
2. **“Investment and Finance Committee”** shall refer to the governing board established to administer the Unrestricted and Special Funds as specified by applicable Episcopal Diocese of Indianapolis governance.
3. **“Internal Delegates”** shall refer to any individual(s) appointed by the Episcopal Diocese of Indianapolis to act in a leadership capacity on behalf of the Episcopal Diocese of Indianapolis, including most notably the position of Treasurer.
4. **“Fiduciary”** shall mean any individual or group of individuals that render investment advice, exercise discretionary authority or control over Fund management, or any authority or control over management, disposition or administration of Unrestricted and Special Funds.
5. **“Investment Manager”** shall mean any individual or group of individuals employed to manage the investments of all or part of Unrestricted and Special Funds.

6. "Investment Management Consultant" shall mean any individual or organization employed to provide advisory services, including advice on investment policy, investment objectives, asset allocation, manager search and performance monitoring.
7. "Securities" shall refer to the marketable investment securities that are defined as acceptable in this statement.
8. "Investment Horizon" shall be the time period over which the investment objectives, as set forth in this statement, are expected to be achieved. The investment horizon for the Unrestricted and Special Funds is 5 to 7 years.

Assignment of Responsibility

Responsibility of the Investment Manager(s)

Each Investment Manager must be a Registered Investment Advisor ("RIA"), as defined in the Investment Advisors Act of 1940, a bank or insurance company and 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. Compliance with mandatory Manager Performance Presentation Standards as set forth by the Association for Investment Management and Research (AIMR).
3. Communicating, in writing on a timely basis, any major changes to economic outlook, investment strategy, or any other factors which affect implementation of investment process, or the progress toward achieving the Unrestricted and Special Funds' investment objective.
4. Informing the Investment Consultant regarding any qualitative change to investment management organization: Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.
5. Voting proxies in accordance with industry the best interests of the Episcopal Diocese of Indianapolis.

Responsibility of the Investment Consultant

The Investment Consultant must acknowledge in writing its acceptance of responsibility as a fiduciary. Investment advice concerning the investment management of 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. Monitor the Fund's planned cash flow requirements to establish continued liquidity needs of the Fund.
3. Maintaining an Asset Allocation Model which reflects the longer term outlook for current and potential asset class performance and risk and recommend allocation ranges and targets for each asset class to establish appropriate risk parameters for the Fund.
4. Providing to the Episcopal Diocese of Indianapolis short-term tactical portfolio recommendations in a timely and appropriate manner.
5. Conducting investment manager searches when requested by the Episcopal Diocese of Indianapolis.
6. Monitoring the Performance of the Investment Manager(s) to provide the Episcopal Diocese of Indianapolis with the ability to determine progress toward the investment objectives. Compliance with mandatory Consultant's Performance Standards as set forth by the Investment Management Consultant's Association (IMCA).
7. Communicating matters of policy, manager research, and manager performance to the Episcopal Diocese of Indianapolis.
8. Reviewing Fund investment history, historical capital markets performance and the contents of this investment policy statement for any newly appointed members of the Episcopal Diocese of Indianapolis.

General Investment Principles

1. Investments shall be made solely in the interest of the Episcopal Diocese of Indianapolis.
2. The Fund assets shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in like

capacity and familiar with such matters would use in the investment of a Fund of like character and with like aims.

3. Investment of the Unrestricted and Special Funds shall be so diversified as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.
4. The Episcopal Diocese of Indianapolis may employ one or more investment managers of varying styles and philosophies to attain the Fund's objectives within defined risk parameters.
5. 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

1. 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.
2. Risk Aversion – Understanding that risk is present in all types of securities and investment styles, the Episcopal Diocese of Indianapolis recognizes 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.
3. Adherence to Investment Discipline – Investment managers are expected to adhere to the investment management style for which they were hired. Managers will be evaluated regularly for adherence to investment discipline.

Attitude Toward Gifts

Future giving (contributions) to the Funds is encouraged and expected. As a result, the Episcopal Diocese of Indianapolis has set an investment strategy with the objective of growing purchasing power of the Fund assets with consideration of future gifts.

Spending Policy

The Investment and Finance Committee, as empowered by the Episcopal Diocese of Indianapolis serving at the behest of the Bishop, maintains the authority to recommend an annual distribution pursuant to the formal approval of the Executive Council. The consideration of immediate funding obligations is to be balanced with the long-term goal of growing Fund assets. The Investment and Finance Committee will work with the Investment Consultant to ensure future distribution schedules are communicated, and necessary funds be made available at the time of distribution in a prudent, risk-sensitive manner. Recommended distributions are to be made in accordance with the canons of the constitution of the Diocese.

Investment Objectives

In order to meet its needs, the investment strategy of the Unrestricted and Special Funds is to emphasize total return; that is, the aggregate returns from capital appreciation and dividend and interest income.

Specific Investment Goals

Over the investment horizon established in this statement, it is the goal of the aggregate Fund assets to meet (passively managed) or exceed (actively managed) net of fees:

The return of a composite portfolio comprised of appropriate market indexes with a similar average long-term asset allocation as the Fund, measured over moving five-year periods.

The investment goals above are the objectives of the aggregate Fund, and are not meant to be imposed on each investment manager. The goal of each actively managed investment fund, over the investment horizon, shall be to:

1. Exceed net of fees by 100 basis points (1.00%) and 50 basis points (0.50%), respectively, for actively managed equity and fixed accounts relative to the market index, or blended market index, selected and agreed upon by the Episcopal Diocese of Indianapolis that most closely corresponds to the style of investment management.
2. Display an overall level of risk in the portfolio not to exceed 120% of the risk associated with the benchmark specified above. Risk will be measured by the standard deviation of quarterly returns.
3. Actively managed portfolios should consistently rank in the top 40% of a universe of managers of similar style and risk characteristics. Short term deviations below the top 40th percentile will be reviewed by the Episcopal Diocese of Indianapolis.

Specific investment goals and constraints for each investment manager, if any, shall be incorporated as part of this statement of investment policy. Each manager shall receive a written statement outlining his specific goals and constraints as they differ from those objectives of the entire Fund.

Definition of Risk

The Episcopal Diocese of Indianapolis believes that any person or organization involved in the process of managing the Fund assets understands how it defines risk, so that the assets are managed in a manner consistent with the Unrestricted and Special Funds' objectives and investment strategy as designed in this statement of investment policy. The Episcopal Diocese of Indianapolis defines risk as:

The probability of not meeting the Fund's current funding obligations and long-term growth of Fund assets.

Liquidity

To minimize the possibility of a loss occasioned by the sale of a security forced by the need to meet a required payment, the Episcopal Diocese of Indianapolis will notify the investment consultant in a timely manner, to allow sufficient time to build up necessary liquid reserves, if there are unanticipated changes to the planned cash flow pattern.

To maintain the ability to deal with unplanned cash requirements that might arise, the Episcopal Diocese of Indianapolis requires that a small amount of Fund assets shall be maintained in cash or cash equivalents, including money market funds, or short-term U.S. Treasury securities.

Marketability of Assets

In general, no Fund assets shall be invested in illiquid securities.

Socially Responsible Investing

Socially responsible investing in the Episcopal Church began as a response to apartheid in South Africa. Today, through the Executive Council Committee on Corporate Social Responsibility, the Church examines company's records in regards to workplace equality, fair practices in the developing world, and environmental policy. Corporate social responsibility reinforces our values through business interactions and helps ensure our mission will continue through our investments
(http://www.episcopalchurch.org/109303_107624_ENG_HTM.htm).

The Episcopal Diocese of Indianapolis maintains a socially responsible approach toward its various investment funds. Faithful, competent and socially responsible stewardship

directs the actions of the Episcopal Diocese of Indianapolis with dual and inseparable purposes: 1) to achieve a reasonable rate of return of invested financial resources in order for the Unrestricted and Special Funds to provide significant support to the Episcopal Diocese and its Congregations in perpetuity; and, 2) to encourage socially responsible strategies and investments based on Episcopal religious principles.

The Investment and Finance Committee and the Investment Consultant will annually review the holdings of the Unrestricted and Special Funds to evaluate potential conflicts with the existing Socially Responsible Investment Policy of the Episcopal Diocese of Indianapolis.

The Episcopal Diocese of Indianapolis and its Congregations encourage the investment in companies that demonstrate, by their stated policies and their actions, a corporate commitment to the following standards:

- **Community Service and Leadership**, giving back to the communities in which its employees, customers and suppliers work and live; taking an active role in addressing the needs of the community; establishing and enforcing a strict code of business ethics.
- **Respect for Diversity**, providing equal opportunity for all employees, fair wages, as well as employee benefits and programs addressing critical work and family needs; nurturing a corporate environment that recognizes and realizes the potential of a diverse work force and supplier base; conducting business in a non-discriminatory manner.
- **Protection of the Environment**, complying with air, water and other environmental regulations and putting recycling programs into every-day practice in all business operations. Encouraged are investments in companies in the business of protecting or responsibly cleaning up the environment, and promoting the creative and efficient use of energy.
- **Product and Service Quality and Safety**, maintaining high standards for product and service quality; respecting consumer rights and protections; providing safe products and services.

To these criteria may be added additional standards, as recommended by the Investment and Finance Committee or directed by Convention.

Investment Guidelines

Allowable Assets

1. Cash Equivalents
 - Treasury Bills
 - Money Market Funds
 - STIF Funds (Short-Term Investment Funds)

- Commercial Paper
 - Banker's Acceptances
 - Repurchase Agreements
 - Certificate of Deposit
2. Fixed Income Securities
- U.S. Government and Agency Securities
 - Corporate Notes and Bonds
 - Mortgage Backed Bonds
 - Preferred Stock
 - Fixed Income Securities of Foreign Governments and Corporations
 - Planned Amortization Class Collateralized Mortgage Obligations (PAC CMOs) or other "early tranche" CMOs
 - Asset Backed Securities and Commercial Mortgage Backed Securities
3. Equity Securities
- Common Stocks
 - Exchange Traded Funds (ETF's)
 - Exchange Traded Notes (ETN's)
 - 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
- Open-End Mutual Funds
 - Closed-End Funds
 - Index Funds
5. Other Assets
- Guaranteed Investment Contracts (GIC's)
 - Real Estate
 - Commodities
 - Natural Resources
 - Covered Call Strategies

Derivative Investments

Derivative securities are defined as synthetic securities whose price and cash flow characteristics are based on the cash flows and price movements of other underlying securities. Most derivative securities are derived from equity or fixed income securities and are packaged in the form of options, futures, CMOs (PAC bonds, IOs, POs, residual bonds, etc.), and interest rate swaps, among others. The Episcopal Diocese of Indianapolis

feels that many derivative securities are relatively new and therefore have not been observed over multiple economic cycles. Due to this uncertainty, the Episcopal Diocese of Indianapolis will take a conservative posture on derivative securities in order to maintain its risk averse nature. Since it is anticipated that new derivative products will be created each year, it is not the intention of this document to list specific derivatives that are prohibited from investment, rather it will form a general policy on derivatives. **Unless a specific type of derivative security is allowed in this document, the Investment Manager(s) must seek permission from the Episcopal Diocese of Indianapolis to include derivative investments in the Unrestricted and Special Funds' portfolios. The Investment Manager(s) must present detailed information as to the expected return and risk characteristics of such investment vehicles.**

Stock Exchanges

To ensure marketability and liquidity, investment advisors will execute equity transactions through the following exchanges: New York Stock Exchange, American Stock Exchange – and NASDAQ over-the-counter market. In the event that an Investment Manager determines that there is a benefit or a need to execute transactions in exchanges other than those listed in this statement, prior written approval is required from the Episcopal Diocese of Indianapolis.

Prohibited Assets

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

1. Private Placements
2. Options
3. Limited Partnerships
4. Venture-Capital Investments
5. Interest-Only (IO), Principal-Only (PO), and Residual Tranche CMOs

Prohibited Transactions

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

1. Margin Transactions

Closed-End Fund Restrictions

In allocating funds to Closed-End Funds (CEF's), the initial purchase requires adherence to all of the following criteria:

- CEF's may not be purchased at a price in excess of 105% of their NAV.
- Leverage percentage within any eligible CEF may not exceed 40% at the time of purchase.

- Eligible CEF's must have a market capitalization greater than \$100 million.
- Maximum ownership of an eligible CEF may not exceed 2% of the market capitalization of the CEF.
- Maximum initial allocation for any eligible CEF not to exceed 5% of the total portfolio allocation.
- As with all asset classes employed on behalf of the Episcopal Diocese of Indianapolis portfolios, full Tactical Risk Management analysis conducted on all CEF's, ensuring daily risk management metrics.

Following the purchase of eligible CEF's, it is the intent of the Episcopal Diocese of Indianapolis to maintain broad compliance with these criteria throughout the duration of their respective ownership. Violations of these criteria are to be brought to the attention of the Episcopal Diocese of Indianapolis, led by the investment consultant, at which time a review of the CEF in question will be conducted to ensure that the CEF in question is an appropriate investment for the Episcopal Diocese of Indianapolis.

Asset Allocation Guidelines

Investment management of the Unrestricted and Special Funds shall be in accordance with the following long-term target asset allocation guidelines:

Asset Class	Target
Domestic Equity (Large, Mid, Small Caps)	35%
International Equity	15%
Alternatives - Real Estate, Commodities	10%
Fixed Income	40%
Cash	0%
Total Fixed Income	40%
Total Equities (including Alternatives)	60%

1. The Episcopal Diocese of Indianapolis may employ investment managers whose investment disciplines require investment outside the established asset allocation guidelines. However, taken as a component of the aggregate Fund, such disciplines must fit within the overall asset allocation guidelines established in this statement. Such investment managers will receive written

direction from the Episcopal Diocese of Indianapolis regarding specific objectives and guidelines.

2. In the event that the above aggregate asset allocation guidelines are violated, for reasons including but not limited to market price fluctuations, the Episcopal Diocese of Indianapolis 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 Episcopal Diocese of Indianapolis expects that the Investment Manager will bring the portfolio into compliance with these guidelines as promptly and prudently as possible without instruction from the Episcopal Diocese of Indianapolis.
3. The Episcopal Diocese of Indianapolis will review asset allocation policy at least annually and explore additional asset classes for future consideration with the assistance of the Investment Consultant.

Diversification for the Total Fund

The Episcopal Diocese of Indianapolis does not believe it is necessary or desirable that securities held in the Unrestricted and Special Funds represent a cross section of the economy. However, in order to achieve a prudent level of portfolio diversification, the securities of any one company or government entity should not exceed 5% of the total Fund. Individual treasury securities may represent an amount greater than 5% of the total Fund, and the total allocation to treasury bonds and notes may represent up to 100% of the Fund's aggregate fixed income position.

Guidelines for Fixed Income Investments and Cash Equivalents

1. Investment-grade fixed income portfolios may be invested only in bonds rated BBB (or equivalent) or better, at time of purchase.
 - In the event an existing holding is downgraded beneath a BBB rating, the investment manager is to immediately contact the Episcopal Diocese of Indianapolis and/or the Investment Consultant with a written description of the downgrade and the investment manager's preference with regard to holding or selling the security. The Episcopal Diocese of Indianapolis may, at their discretion, request the liquidation of any securities downgraded beneath a BBB rating.
 - Commingled vehicles must maintain average credit quality ratings of BBB (or equivalent) or better.
2. High yield fixed income portfolios and other hybrid fixed income strategies are exempt from the quality restrictions detailed in item #1 of this section.

3. Fund assets may be invested only in commercial paper rated A1 (or equivalent) or better.
4. Fixed income maturity restrictions are as follows:
 - Weighted average portfolio duration may not exceed 8 years.
5. Money Market Funds selected shall contain securities whose credit rating at the absolute minimum would be rated investment grade by Standard and Poor's, and/or Moody's.

Selection of Investment Managers

The Episcopal Diocese of Indianapolis' selection of actively managed Investment Manager(s) must be based on prudent due diligence procedures. A qualifying investment manager must be a registered investment advisor under the Investment Advisors Act of 1940, or a bank or insurance company. The Episcopal Diocese of Indianapolis requires that each investment manager provide, in writing, acknowledgement of fiduciary responsibility to the Episcopal Diocese of Indianapolis.

Investment Manager Performance Review and Evaluation

Performance reports generated by the Investment Consultant shall be compiled at least quarterly and communicated to the Episcopal Diocese of Indianapolis for review. The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. The Episcopal Diocese of Indianapolis intends to evaluate the portfolio(s) over a reasonable period, but reserves the right to terminate a manager for any reason including, but not limited to, 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.

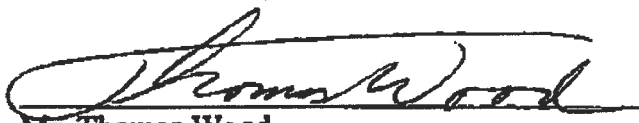
Investment managers shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

Investment Policy Review

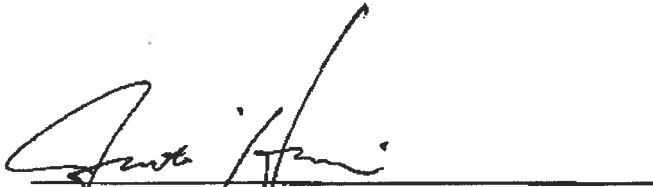
To assure continued relevance of the guidelines, objectives, financial status and capital markets expectations as established in this statement of investment policy, the Episcopal Diocese of Indianapolis plans to review investment policy at least annually.

This statement of investment policy is adopted on 16 AUGUST, 2010, by the Episcopal Diocese of Indianapolis.

Approved by:



Mr. Thomas Wood
Treasurer, Episcopal Diocese of Indianapolis



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