United Methodist Frontier Foundation
New York • Connecticut

Investment Policy of the

United Methodist Frontier Foundation, Inc.

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Albany, New York

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UNITED METHODIST FRONTIER FOUNDATION
INVESTMENT POLICY GUIDELINES

I. History, Function, and Purpose of the Foundation

The United Methodist Frontier Foundation, Inc. (“UMFF” or the “Foundation”) is a New York State Not - For – Profit Corporation established for non-business purposes that are charitable, educational and religious according to Section 501 (c) (3) of the Internal Revenue Code. It was formed by the consolidation of the New York-Connecticut Foundation of the United Methodist Church, Inc., and the United Methodist Church Foundation, Inc. It is governed by a board of directors that shall be no fewer than twenty-three nor more than thirty-nine members.

The Foundation engages the services of funds management professionals to provide funds management services for eligible participants. <u>The purpose of this document is to state the Foundation’s investment philosophy and strategy and the specific investment guidelines that govern the various investment products we offer.</u>

A. Purpose: The Mission of the United Methodist Frontier Foundation, Inc. is to strengthen the stewardship of the financial assets of United Methodist churches located within New York State and/or adjacent states, their related agencies, and to assist qualified and eligible individuals in the stewardship of their own current and accumulated resources. The Foundation attempts to fulfill this mission by:

1. Providing a conduit through which funds can be professionally managed in an effective and socially responsible manner, and in conformity with the United Methodist Book of Discipline, and
2. Providing these investment opportunities only for qualified and eligible participants, and
3. Operating the Foundation with moral and ethical standards while striving for investment excellence.

B. The Foundation also provides services by

1. Educating churches and related individuals in the general concepts of financial management techniques, and,
2. Encouraging churches and related individuals to be good stewards, and,
3. Providing opportunities to fulfill planned giving strategies.

C. In the fulfillment of this Mission, the Foundation seeks to serve those conferences with churches in New York State and adjacent states, their districts, their local churches and their affiliated agencies by offering a conduit for investment opportunities that are made with consideration of the United Methodist Church’s Social Principles. The Foundation also seeks to build endowments for future ministries of this constituent group.

II. Identification of eligible participants

A. The Foundation administers funds for any participant who is recognized as exempt under Section 501 (c) (3) of the Internal Revenue Code of 1986, as amended, and falls in one of the following categories of Eligible Participants:

1. United Methodist Churches and/or specific church related entities within the United Methodist Annual Conferences that serve the state of New York and/or adjacent states.

2. United Methodist Conferences and/or specific Conference related entities that serve the state of New York and/or adjacent states.

3. An official United Methodist organization, regardless of location, that would be covered by the United Methodist Church's group exemption ruling issued by the Internal Revenue Service.

4. Qualified and eligible individuals making irrevocable gifts through charitable gift annuities, pooled income funds, unitrusts or similar approved gifting mechanisms.

B. The entirety of the funds placed with the Foundation for investment must consist of one or more of the following:

1. Assets of a general endowment or other fund of one or more charitable organizations.

2. Assets of a pooled income fund.

3. Assets contributed to the United Methodist Frontier Foundation, Inc. for terminal distribution to the UMFF and a charitable organization in exchange for charitable gift annuities.

4. Assets of a charitable remainder trust or of any other trust in which the remainder interests are irrevocably dedicated to any charitable organization.

5. Assets of a charitable lead trust.

C. No funds invested through the Foundation may be held for individual retirement plans.

III. Purpose of the Investment Policy Statement

A. The Foundation has fiduciary responsibility for investing church and other related entity funds entrusted to it. The Foundation's Board of Directors has adopted this Statement within parameters established by the General Conference, the General Council on Finance and Administration, the General Board of Pension and Health Benefits, participating Annual Conferences and the Foundation's Committee on Investments. These parameters embrace the Social Principles of the United Methodist Church in identifying those issues to be considered when making investments. This statement affirms ways in which the resources entrusted to the Foundation are used and invested.

B. Most United Methodist Boards and Agencies have developed policy statements to help them manage their investments in a socially responsible manner. These policies generally have three component parts: investments that should be avoided or divested, strategies to challenge companies to act in a socially responsible manner, and alternate investments that support positive social goals or enhance community development. This policy includes all three components. The investment policy of the Foundation is based upon careful consideration of return, both in social values and social justice, as well as financial responsibility. The fundamental policy goal shall be to invest in entities that make a positive contribution to the communities, societies and world where these entities have impact, with special reference to organizations that deliver safe products and services that sustain the natural environment. The Foundation avoids investing in companies associated with unhealthy, destructive and irresponsible acts of business behavior.

C. To assure compliance with these Social Principles, the Foundation follows the guidelines published by the United Methodist Church General Board of Pension and Health Benefits, as revised from time to time, including the requirements for divestiture that the General Board of Pension and Health Benefits places upon its fund managers.

IV. Stability and Preservation of Capital

A. To the degree consistent with the specific rate of return objectives, each Fund shall be invested to minimize risk and volatility. The Funds are expected to exist in perpetuity and should be invested for the long term. However, significant withdrawals may be required at unpredictable times.

V. Liquidity

A. Liquidity shall be maintained to provide for all anticipated withdrawals and transfers through the investment of issues of sufficient marketability to provide for such withdrawals.

VI. Marketability of Assets

A. The Foundation requires that at least 90% of Fund assets be invested in listed securities that can be transacted quickly and efficiently for the Funds, with minimal impact on market price.

VII. Governing Risk Standards

A. Diversification standards associated with modern portfolio theory will govern risk. In order to achieve a prudent level of portfolio diversification, not more than 5% of the market value of assets may be in outstanding securities of any one issuer except for securities issued by the U.S. Government or its agencies. It is expected that adequate diversification will limit the impact of specific loss in equity and bond portfolios and in portfolios comprised of both equity and bonds. It is understood that equity portfolios generally have higher market volatility and risk of loss than fixed income portfolios. The Foundation does not believe it is possible to insure that individual securities held in the Funds be free from market risk, risk of downgrade or risk of insolvency. The Foundation does not require that portfolios represent a cross section of the economy.

VIII. Quality Standards

A. All fixed income assets, including bonds, cash and cash equivalents, must be of investment grade. Short term securities may be held only if such securities are issued by the U.S. Treasury or an agency of the U.S. Government; are commercial paper rated P-2 or better by Moody's investor Services or A-2 or better by Standard & Poor's; or are certificates of deposit or banker's acceptances of U.S. banks which have, or whose holding companies have, a Standard & Poor's rating of A+ or better. Total investment in any bank will not exceed 1% of the bank's primary capital. Corporate notes, bonds and debentures may also be included if rated BBB- or better by Standard & Poor's or Fitch or Baa3 or better by Moody's for any issue.

B. All equity purchases will be in companies that are solvent at the time of investment. The investment manager (Manager) will invest in equity securities, as listed on the New York Stock Exchange, NASDAQ, the American Stock Exchange or mutual funds, ETFs, ADRs, etc. that are invested in equity securities that trade on recognized worldwide exchanges (with prior written approval), which the Manager deems to be in the best interest of the Foundation clients.

FUND INVESTMENT POLICY GUIDELINES

Sections IX and X are statements of the policies for, the objectives of, and the guidelines for the entire investment portfolio and, as indicated, the particular Funds of the United Methodist Frontier Foundation, Inc. as approved by the Foundation's Board of Directors. The Board reserves the right to modify the Investment Objectives and/or the Investment Guidelines in the future.

IX. Common Elements of Fund Guidelines

A. The Manager is prohibited from investing in:

1. Derivative securities, including securities with imbedded warrants are precluded from consideration in any Fund.

2. Commodity contracts, including oil and gas, mineral rights or royalty contracts.

3. Private placements or letter stocks

4. Deeds or mortgages for real estate

5. Hedge funds, personal loans, bank loans, non-publicly trades limited partnerships, venture capital investments, GICs, or investments requiring the filing of Federal, State or Local tax returns.

6. Collateralized mortgage obligations, CDOs or any other leveraged securitization of assets.

B. The Manager shall have the right to exercise, sell or convert any warrants or rights received in the normal course of business.

C. The Manager will avoid investment actions that would prove to be a violation of insider trading regulations as defined by the Investment Advisers Act of 1940, as amended. Investments in companies in which a Foundation Board Member, or their immediate family, is a controlling individual within that company, are prohibited. The Foundation Treasurer will make known any such situation to the Manager.

D. The Manager will notify the Foundation Committee on Investments promptly of any guideline violations, take actions to eliminate the guideline violation or obtain written permission from the Foundation's Committee on Investments to modify the guideline within 90 days of the occurrence of the violation.

E. The manager will notify the Foundation Committee on Investments within 30 days of security holdings that:

1. Exceed diversification guidelines by virtue of market action or sales elsewhere in the portfolio

2. In the case of fixed income securities, fall below investment grade by virtue of a rating agency downgrade

3. In the case of equity securities, are investments in companies that become insolvent after they are purchased

4. Come to violate any other provision of the guidelines as a consequence of market action or other events following the purchase of the security

F. The Foundation Committee on Investments will consult with the Manager and determine the course to follow that will best serve to maintain value in the portfolio.

G. All management and custody fees are to be taken from income and/or cash resulting from trading in the applicable Fund.

X. Individual Fund Guidelines

The differing investment objectives and strategies of the Funds can be summarized as follows:

A. Money Market Fund

1. Cash equivalents (defined as fixed income securities of less than one year) are acceptable substitutes for bonds, but must be rated A2/P2 or better.
2. The total return objective, before fees, would be to meet or exceed the rolling five (5) year rate of return on the 30 Day US Treasury Bill.

B. Bond Fund

1. The purpose of the Foundation's Bond Fund is to provide a relatively steady level of income that is generally higher than that available from bank accounts offered to church investors.

2. The total return objective, before fees, would be to meet or exceed the five (5) year average rolling rate of returns of a composite index comprised of 50% of the Barclay's Intermediate U. S. Government/Credit Index and 50% of the Merrill Lynch one to three year government/corporate bond benchmark.

3. Permitted Securities defined in Section VIII. A.

4. Prohibited securities defined in Section IX.A.

5. Diversification limits and constraints
    a) Individual holdings subject to Section VII. A.
    b) Except for government and agency issued securities, securities of issuing companies in a single industry should comprise no more than 30% of the portfolio's market value at the time of purchase or as the result of sales of other securities.

6. Risk Constraints
    a) The portfolio duration should not deviate from the benchmark by more than one year longer or one year shorter.

C. **Balanced Income Fund**

1. Investment Objectives: The purpose of the Foundation's Balanced Income Fund is to provide a relatively steady, higher level of income than is generally available from bank accounts normally offered to church investors plus modest appreciation of principal.

2. The investment posture to be assumed is a conservative one, so as to provide a high level of stability of principal and interest, noting that market values will fluctuate with interest rate changes and other market conditions.

3. The total return objectives, before fees, would be to meet or exceed the five (5) year average rolling returns of a composite index comprised 35% of the Barclays Intermediate U. S. Government/Credit Index and 35% of the Merrill Lynch one to three year government/corporate bond benchmark for the conservative segment and 30% of the Russell 3000 Index for the special situations equity segment.

4. Risk Constraints
    a) The portfolio duration should not deviate from the benchmark by more than one year longer or one year shorter.

5. Asset class allocation targets for the Foundation's Balanced Income Fund are:
    a) 70% or greater in conservative assets, defined as follows:
        (1) Cash, US Gov't and S & P AAA rated securities: at least 10%
        (2) S & P AA rated securities: at least 25%
        (3) S & P A rated securities: at least 25%
        (4) S & P BBB rated securities: no more than 5%
        (5) Utility stocks & conservative equities: no more than 5%
    b) No more than 15% in high quality growth & high-quality cyclical growth stocks;
    c) No more than 15% in aggressive growth & special situation stocks

D. **Growth and Income Fund**

1. Investment Objective: As the name implies, the Growth and Income Fund seeks to balance the objectives of long-term capital appreciation and present income.

2. The equity securities in the Fund are invested according to the guidelines for the Extended Market Equity Fund, described in Section F below.

3. The total return objective, before fees, will be to meet or exceed the rolling five (5) year average rate of return of the Russell 3000 index and 50% of the Barclays Intermediate U. S. Government/Credit Index measured in US dollars.

4. The fixed income securities in the Fund are invested according to the guidelines for the Bond Fund, described in Section B above, except that the benchmark for the bonds is the Barclay's Intermediate U. S. Government/Credit index as measured in US dollars and, hence the average duration is that of this benchmark and the risk limits are that the duration of the portfolio should be within one year shorter and one year longer than the duration of the benchmark.

5. Both asset classes are invested in highly diversified portfolios which are in compliance with the Foundation guidelines and their respective asset class guidelines.

6. Target allocations are 50% for fixed income and 50% for equities, with periodic rebalancing to remain within the range of 40% to 60% in each category

E. **Diversified Equity Fund** (formerly known as the Extended Equity Fund into which the assets of the Core Equity fund were merged in Sept 2010).

1. The investment objective: To seek growth of principal through price appreciation and dividend earnings over the long term, within acceptable risk parameters, through investments in equity securities of companies of various quality levels and capitalization size, domiciled predominantly, but not exclusively, in the United States

2. The total return objective, before fees, will be to meet or exceed the rolling five (5) year average rate of return of the Russell 3000 index measured in US dollars.

3. Permitted securities
    a) Permitted securities are generally defined in Section VIII. B.
    b) In addition, the Manager has the right to invest in mutual funds, ETFs, iShares and ADRs, etc. if the Manager expects these security funds to play a particular role in creating exposure not available as individual security purchases, providing that these investments meet the social criteria identified above.
    c) Investments in the securities(ADR's, mutual funds) of companies domiciled outside the United States will be limited to 20% of the total portfolio, measured at

the end of each quarter and must meet the criteria for socially responsible investing noted above..

4. Prohibited securities and activities
   a) Prohibited securities include those defined in IX.A.
   b) The Manager will not engage in margin transactions or short sales.

5. Additional diversification Standards
   a) Individual holdings subject to Section VII
   b) No single industry exposure should exceed 25% of the total portfolio
   c) Cash investments should be maintained between zero (0%) and five (5%) percent of the portfolio at all times. In periods of historically high equity market volatility the manager may seek permission to increase the cash level in the portfolio from the Investment Committee Chairperson or, in the Chairperson's absence, the Vice Chair of the UMFF.

6. Measurement of these investment limitations will be at the end of each calendar quarter.

XI. Annuity Funds

1. The Charitable Gift Annuities sold to individuals by the United Methodist Frontier Foundation are governed by New York State Insurance Law, Section 1110 (McKinney 2000 and 2005) which requires that admitted assets in a Charitable Gift Annuity be invested in accordance with the prudent investor standard as defined in Section 11.2-3 of the Estates, Powers and Trusts Law. Such assets are to be segregated as separate and distinct funds, independent of all other funds of the UMFF and are not used to pay its debts and obligations for any purpose except for the management of the assets and distributions according to the charitable gift annuity contracts.

2. In conformity with the requirements of XI. 1. Assets designated for charitable gift annuities, hereafter referred to as the "Annuity Funds" are in custody with a trust company licensed to do business in New York State.

3. The Annuity Funds have two components: a) the gift to the charitable/religious institution designated by the purchaser and b) a fixed income annuity for the life (lives) of the designated beneficiary (beneficiaries). The first component is to be invested so as to maintain its value at or above 50% of the initial gift. The second component, the annuity, is governed by New York State Insurance Law section 1108(a) which sets exemptions and licensing requirements.

4. The annuity is subject to regulation by the NYS Insurance Law. However, this is a limited degree of regulation as compared to the Department's regulation if an insurance company. NYS Insurance Law section 1108(a) provides that with respect to insurers exempt from licensing and other requirements, (i.e. Charitable Gift Annuities), the said insurers, their officers, agents, representatives and employees shall be exempt from

licensing and other requirement imposed by the provisions of NYS Insurance Law section 1108(a) (except article 74 hereof to the extent specified here as any charitable society which complies with the requirements of section 1110 of this article, to the extent therein stated. The relevant requirements are as follows:

   i. **The entity must be engaged in bona-fide charitable, religious, missionary, educational or philanthropic activities for at least ten years prior to issuance of the charitable gift annuity.**
   ii. **The entity is permitted to receive such gifts, provided that it pay the annuitant as per the agreement.**
   iii. **Every such entity shall, file with the Superintendent of Insurance copies of its forms of agreement with annuitants and a schedule of its maximum annuity rates, which shall be computed on the basis of the annuity standard adopted by it for calculation of its reserves so as to return to it upon the annuitant's death a residue at least equal to one-half the original gift or other consideration for such annuity.**

5. The second component, the annuity, is subject to the definition of "admitted assets" as follows:
   a. The admitted assets must be equal to or greater than the sum of its reserves (calculated by Gift Calc) and a surplus of 10% of such reserves or, the amount of $100,000.
   b. The admitted assets shall be invested in accordance with the prudent investor standard as defined in section 11-2.3 of the Estates, Powers and Trusts Law.

6. The ***Prudent Investor standard. Section 11-2.2 requires that:***
   a. Trustee must exhibit a standard of conduct consistent with that of a prudent investor investing the funds. It is the behavior not the outcome that governs.
   b. Trustee shall exercise reasonable care, skill and caution as a *prudent investor would for the entire portfolio, taking into account the purposes and terms of the governing instrument.*
   c. Trustee should pursue an overall investment policy that enables the trustee to make appropriate present and future distributions to the beneficiaries – in accordance with risk and return objectives reasonably suited to the entire portfolio. The trustee should consider the following:
      i. The size of the portfolio, the duration of the fiduciary relationship, the liquidity and distribution requirements of the governing instrument, general economic conditions, the possible effects of inflation and deflation, the expected tax consequences of investment decisions and of distributions of income and principal. This requirement dictates a broadly diversified portfolio of stocks and bonds, since this policy will minimize the risk associated with either inflation or deflation and will provide sufficient liquidity to meet the distribution requirements of the income annuity and charitable gift. The distributions of the annuity will be treated as ordinary income by the beneficiary – with adjustment for the value of the charitable gift. Therefore, whether returns are generated via income or capital gains is not material.

ii. ***Appropriate diversification of the assets. The trustee is directed to pursue an overall investment strategy to make appropriate present and future distributions for the benefit of the beneficiaries under the governing instrument, in accordance with risk and return objectives reasonably suited to the entire portfolio; Using mortality tables to "estimate" the duration of the annuity, the risk associated with this risk is deemed to be acceptable.***

iii. Retention or disposal of initial assets. This concern is only relevant if the gift is in the form of appreciated stocks or bonds. The investment manager is under no compulsion to retain the form of the original gift since there is no tax consequence to immediate sale of the asset.

iv. Numerous clauses with respect to illiquid or infrequently priced assets do not apply as these will not be included in the portfolio.

d. With respect to delegation by the trustee of the investment management of the assets, the trustee must exercise diligence in assessing the qualifications of the investment manager and should review the qualifications of the investment manager with appropriate frequency. The UMFF meets with its SEC-registered investment adviser at least twice annually, receives quarterly reviews of the portfolio, and monthly portfolio valuations.

7. Cash investments should be maintained at approximately $15,000 at all times to accommodate ongoing annuity payments to the annuitants.

8. Measurement of these investment restrictions will be at the end of each calendar year.

XII. Additional Fund Information

A. The Funds exist for the purpose of investing the assets held by the Foundation as custodian, agent, trustee, fiduciary or owner. The Funds are not guaranteed by the Foundation, the United Methodist Church, or any organization associated with it, or by any governmental agency or organization. An insurance policy is maintained to insure against fraudulent acts committed by Foundation employees or board members. Coverage levels may be obtained upon request to the President of the UMFF.

XIII. Additional Investment Manager Requirements

A. Investment managers will be expected to meet with the Foundation's Committee on Investments at least annually.

B. The review will include: Review of the investment management organization, portfolio management team and resources, performance of the portfolio and structure of the portfolio over the period under review.

C. The review will include the portfolio manager's expectation for the performance of the portfolio and the investment climate going forward

D. The Portfolio manager will be expected to provide a written review of the portfolio and the performance of the portfolio, quarterly.

E. This review should include:

1. Attribution of the benchmark relative performance of the portfolio

2. A statement that the portfolio was in compliance with the guidelines and/or an explanation of any deviations that occurred.

3. Current quarter performance review

4. Investment outlook