Investment Policy and Guidelines

THE BAPTIST FOUNDATION OF OKLAHOMA

Investment Policy and Guidelines

The Baptist Foundation of Oklahoma

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2 INVESTMENT POLICY AND GUIDELINES

2.1 PURPOSE

The Baptist Foundation of Oklahoma (Foundation) was organized in 1946 by the Baptist General Convention of Oklahoma as its sole incorporated trust agency, offering a means whereby Southern Baptists can provide perpetual support for Southern Baptist causes within Oklahoma and around the world. The mission of the Foundation is to promote charitable planned giving and provide financial management for the gifts that strengthen Southern Baptist ministries today and tomorrow.

This Investment Policy and Guidelines is set forth by the Board of Directors (Board) of The Baptist Foundation of Oklahoma in order to:

- Define and assign the responsibilities of all involved parties.
- Establish a clear understanding, for all involved parties, of the investment objectives for the investments.
- Offer guidance and constraints to the consultant(s), managers, staff, and specialists as to the management of the investments.
- Establish a basis for evaluating investment results.

2.2 SCOPE

This Investment Policy and Guidelines applies to those assets over which the Foundation, either as trustee or custodian, exercises investment discretion. This will apply to all assets owned by the Foundation except the following:

- Contributed assets that should not be sold due to restrictions in the trust document (or similar instrument) or due to tax implications of certain accounts; managed according to the Trust Policy and Guidelines.
- Personal property including, but not limited to coins, jewelry, furnishings, art, and automobiles; managed according to the Trust Policy and Guidelines.
- Real property and mineral interests; managed according to the Property Management Policy and Guidelines.
- Assets used in the daily operations of the Foundation. Assets used in the daily operations include furniture, fixed assets, cars, etc.; managed according to the Property and Equipment Policy.

2.3 Responsibility

2.3.1 Asset Management Committee (Committee)

The Committee is a standing committee of the Board created to fulfill the responsibilities of the Board related to the management of the investments. As a standing committee, they shall report to the Board and only discharge those responsibilities specifically assigned to them by the Asset Management Committee Charter.

The Committee acts as a fiduciary, and as such is responsible for directing, monitoring and evaluating the management of the investments as defined within the scope of this policy. The Committee is authorized by the Board to retain professional experts in various fields, as deemed necessary, to assist the Committee in meeting its responsibilities and obligations to administer the investments prudently. These professional experts include, but are not limited to, investment consultant(s), investment managers, and specialists. The Committee shall retain final fiduciary responsibility for all of the Foundation's investments. The specific responsibilities of the Committee can be found in the Asset Management Committee Charter.

2.3.2 Investment Consultant(s)

The investment consultant's role is that of an advisor to the Committee. Investment advice concerning the management of investments shall be recommended by the consultant(s) and shall be consistent with the investment philosophy set forth in this policy.

Specific responsibilities include:

2.3.2.1 Assisting in the development and periodic review of the Investment Policy and Guidelines.

2.3.2.2 Assisting in the development and periodic review of the asset allocation utilized by the investment pool(s) and/or model(s).

2.3.2.3 Conducting investment manager searches and making recommendations as appropriate and as requested by the Committee.

2.3.2.4 Monitoring and evaluating the performance of the investment manager(s) and investment process to provide the Committee with the ability to determine progress towards the investment objectives.

2.3.2.5 Communicating and making recommendations on matters of policy, manager research, and manager performance to the Committee.

2.3.2.6 Communicating significant changes in the economic outlook, investment strategy, or other factors which affect the Foundation's investment management process or affect the Foundation's ability to achieve its investment objectives.

2.3.2.7 Other tasks as assigned by the Committee.

The consultant(s) shall be evaluated by the Committee based on the above-mentioned criteria no less than annually.

2.3.3 Investment Managers

Each investment manager shall have full discretion to make all investment decisions for the assets placed under the manager's jurisdiction, while adhering to this Investment Policy and Guidelines. Any requests for policy or guideline exceptions should be submitted by the investment manager(s) prior to taking any action that violates these Policies and Guidelines. Specific responsibilities include:

2.3.3.1 Discretionary investment and reinvestment management pertaining to decisions to buy, sell, or hold individual investments and funds.

2.3.3.2 Voting all proxies on behalf of the Foundation for the assets under advisement.

2.3.3.3 Timely reporting, at least quarterly, of investment performance results, trading details, account holdings, and other portfolio attributes to the Staff and the investment consultant in accordance with industry standards. Timely reporting should be within 30 days for traditional liquid portfolios and within 90 days for illiquid portfolios.

2.3.3.4 Communicating significant changes in the economic outlook, investment strategy, or other factors which affect the Foundation's investment management process or affect the Foundation's ability to achieve its investment objectives.

2.3.3.5 Informing, on a timely basis, the Committee regarding any qualitative changes within the investment management organization, including, but not limited to, portfolio management personnel, ownership structure, and investment philosophy.

2.3.3.6 Effecting transactions for the Foundation subject to the "best price and execution." If an investment manager utilizes brokerage from the Foundation's assets to effect "soft dollar" transactions, detailed records of such transactions will be kept by the investment manager and communicated to the Committee.

2.3.4 Custodian Bank(s)

The Custodian Bank's role is to serve as custodian of the assets. Specific responsibilities include:

2.3.4.1 Provide safekeeping of securities entrusted to it; collect dividends and interest on these securities, make disbursements, and manage cash flows as directed.

2.3.4.2 Arrange for timely settlement of all transactions made for the portfolios.

2.3.4.3 Provide complete and accurate accounting records, including each transaction, income flow, and cash flow by investment manager and portfolio.

2.3.4.4 Timely reporting of investment performance results, trading details, account holdings, and other portfolio attributes to the Staff and the investment consultant in accordance with industry standards. Timely reporting should be within 10 days.

2.3.4.5 Meet as requested with Staff and the investment consultant to report on the administration of the portfolios.

2.3.5 Specialists

Specialists such as actuaries, attorneys, auditors, financial planners, transition managers and others, may be employed by the Committee to assist in meeting its responsibilities and obligations to administer the investments prudently. All expenses for professional experts must be customary and reasonable and shall be borne by the investment portfolio as deemed appropriate and necessary by the Committee.

2.3.6 Investment Staff (Staff)

The Foundation Staff is responsible for implementing the decisions of the Committee. Specific responsibilities include:

2.3.6.1 Making recommendations to the Committee related to the investment management responsibilities of the Board.

2.3.6.2 Investing the assets managed under this policy within the parameters established by the Investment Policy and Guidelines.

2.3.6.3 Executing contracts, limited partnership agreements, and other documents at the direction of the Committee.

2.3.6.4 Review and approve amendments to executed contracts, limited partnership agreements, and other documents previously approved and executed at the direction of the Committee that are consistent with the Investment Policy and Guidelines.

2.3.6.5 Working with the consultant(s) and managers to plan, implement, and monitor the investments approved by the Committee.

2.3.6.6 Reporting all actions taken by Staff with regard to the above responsibilities for inclusion in the minutes of the next quarterly meeting of the Committee.

2.4 PRINCIPLES

2.4.1 Socially Responsible Investing

As a religious not-for-profit organization, the Foundation is committed to conducting its business affairs in a manner consistent with high Christian moral and ethical standards. The Foundation shall strive to preclude investment assets (investments) from being invested in securities of companies whose primary business is, or who profit materially from: the wholesale manufacturing and/or distribution of alcohol, tobacco, or pornography; direct involvement in gaming activities; providing abortion services; research conducted on embryonic stem cells derived from human fetal tissue; or producing and/or distributing forms of entertainment that are in direct conflict with the Christian message and Southern Baptist beliefs. Staff will strive to ensure adherence to these convictions through communication of these standards during interviews with prospective managers, periodic monitoring of investment holdings, and the termination of managers who knowingly and continuously fail to comply with this established policy.

2.4.2 Investment Philosophy

2.4.2.1 Return Objective

To achieve a return that, net of manager fees, meets or exceeds, over the investment horizon, the established target return (which may be a recognized benchmark, combination of benchmarks or a stated target return as provided by a specific investment discipline or fund).

2.4.2.2 Risk Reduction

The Foundation recognizes that risk is inherent in investing, and that some risk is necessary to produce long-term investment results sufficient to meet the investment objectives. The Foundation shall attempt to moderate investment risk through proper asset allocation and portfolio diversification.

2.4.2.3 Risk/Return Objective

To maintain a level of risk that with each incremental increase is less than or equal to each corresponding incremental increase in return. Risk shall be measured by the standard deviation, or other statistical variance measures, as appropriate, of quarterly returns of the total portfolio.

2.4.2.4 Asset Allocation

The Foundation is dedicated to achieving an appropriate balance among equities, income oriented and inflation-oriented assets which reflect the changing economic and market conditions as well as the specific investment objectives and requirements of each account.

2.4.2.5 Tactical vs. Target Asset Allocation

The Foundation does not believe it has sufficient insights to time markets successfully and therefore strives to be fully invested. It does, however, believe that from time to time markets become sufficiently over or under valued to provide unusual investment opportunities with favorable risk/reward tradeoffs. In appropriate cases, the Foundation will attempt to exploit these anomalies.

2.4.2.6 Derivatives

The Foundation believes that derivatives, properly employed, represent a useful financial tool. Direct use of derivative products shall be used sparingly, only to facilitate very specific investment strategies as defined in the Investment Policy and Guidelines and not in a speculative fashion. The Foundation recognizes that many of our underlying alternative investments may use derivatives to execute their investment strategy.

2.4.2.7 Leverage

The Foundation does not permit direct leverage. However, many of the alternative investments including the Private Capital, Real Assets, Hedged Equity, and Absolute Return managers may utilize leverage in their investment strategy.

2.4.2.8 Short Selling

Short Selling is limited to the Hedged Equity and Absolute Return managers only.

2.4.2.9 Prudent Investment

The Foundation recognizes that the Prudent Investor Rule applies to the assets under its management. Investments shall be made with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent investor acting in like capacity and familiar with such matters, would use in the investment of a fund of like characteristics and with like aims.

2.4.2.10 Rebalancing

The Foundation believes that rebalancing to a target asset allocation reduces volatility and increases return over time. When market conditions cause a significant deviation from a strategic asset allocation, the Foundation shall take action to return an investment portfolio to the strategic asset allocation.

2.4.3 Legislative Direction

In all cases, Investment Policy and Guidelines shall adhere to all federal and state legislation, including but not limited to the following legislative instruments:

2.4.3.1 Uniform Prudent Management of Institutional Funds Act

2.4.3.2 Oklahoma Uniform Principal and Income Act

2.4.3.3 Oklahoma Charitable Gift Annuity Act

2.4.3.4 Oklahoma Charitable Fiduciary Act

2.4.3.5 Philanthropy Protection Act

2.4.3.6 Internal Revenue Code

2.5 POLICY STATEMENTS

2.5.1 Investment of Assets

2.5.1.1 Investment of Endowment Assets

- Scope
  - Endowment assets include all accounts where the Foundation is the fiduciary of an institutional fund that is not wholly expendable by the institution on a current basis and is designed to be managed in accordance with the standard of conduct set forth in Section 3 of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) (60 Okla. Stats. §300.13).
  - Exceptions
    - Endowment assets which the Foundation manages but which an entity other than the Foundation serves as the fiduciary will be managed according to the "Investment of Custodial Assets" section below.
    - Endowment assets which the Foundation manages as trustee but which the trust document includes investment allocation and/or distribution restrictions will be managed according to the "Investment of Custodial Assets" section below.
- Return Objective
  - Achieve a net return sufficient to fund and grow the distribution determined by the Spending Policy at a rate that is intended to provide equitable distributions (adjusted for inflation) among generations in perpetuity.
- Endowment Investment Philosophy
  - Prudent management requires a carefully conceived, diversified investment strategy designed to attain a total return sufficient to preserve and enhance the purchasing power of the investments, while at the same time providing a dependable source of income at the highest possible yield.
    - Total Return: The Foundation recognizes the need for both yield and capital appreciation to achieve the investment objectives.
    - Long-term Investment Horizon: The Foundation understands that a long-term investment horizon is required to properly monitor and evaluate the performance of investment managers and investments over a number of varying market and economic conditions.
    - Illiquidity Premium: The Foundation understands that a return premium exists for providing capital to the least liquid asset classes due to a liquidity premium.
    - Equity Bias: The Foundation believes equity ownership is the best way to grow capital over time. As such, the asset allocation of the endowment assets will be weighted higher to equity strategies and less towards income-oriented strategies.

2.5.1.2 Investment of Gift Annuity Assets

- Scope
  - Gift annuity assets include all accounts managed under any gift annuity contract in which the Foundation is obligated to make payment to income beneficiaries and is governed by the Trust Policy and Guidelines.
  - Exception
    - Annuities backed by an entity other than the Foundation will be managed according to the "Investment of Custodial Assets" section below.
- Return Objective
  - To achieve a return that maximizes the gift at the maturity of the annuity.
- Gift Annuity Investment Philosophy
  - Volatility Reduction
    - The Foundation recognizes that risk is inherent in investing, and that some risk is necessary to produce long-term investment results sufficient to meet the investment objectives. Gift annuities are especially sensitive to volatility due to the finite time horizon and high percentage current distribution requirement. The Foundation shall attempt to moderate volatility through proper asset allocation and portfolio diversification.
  - Balance Income and Principal Beneficiaries
    - The Foundation shall strive to balance the interests of both the income beneficiary and the principal beneficiary where it is determined that it is appropriate to do so.

2.5.1.3 Investment of Trust Assets

- Scope
  - Trust assets include all accounts, other than endowment assets, where the Foundation serves as fiduciary. Trust assets include, but are not limited to, the following trust types:
    - Charitable Remainder Annuity Trusts
    - Charitable Remainder Unitrusts
    - Charitable Lead Trusts
    - Revocable Trusts
    - Irrevocable Trusts
- Return Objective
  - To achieve a return that maximizes the gift at the maturity of the trust while protecting the income stream to the current beneficiary.
- Trust Investment Philosophy
  - Individual Management
    - Investment will vary by account according to an individualized Investment Policy Statement (IPS) for each trust. The IPS will be completed by Staff upon trust initiation and reviewed not less than annually. The IPS will consider the trust document, age, risk, income needs, and tax issues, as well as other individual characteristics of each trust.
  - Balance Income and Principal Beneficiaries

    - The Foundation shall strive to balance the interests of both the income beneficiary and the principal beneficiary where it is determined that it is appropriate to do so.
  - Rebalancing
    - The Foundation believes that rebalancing to a target asset allocation reduces volatility and increases return over time. Trust account investments shall be rebalanced when market conditions cause a significant deviation from the strategic asset allocation. The rebalance shall take place no less than annually (end of calendar year).
  - Foundation as Third-Party Administrator
    - Trustor may choose a financial advisor to manage the fund. Appropriate investments include any investments included in section 11.6.1.1 through 11.6.1.11 of this Investment Policy and Guidelines. With respect to the section 11.6.2.1 concerning socially responsible investing, all mutual funds and/or exchange traded funds will be acceptable if they are not publicly recognized as being incompatible with the moral and ethical posture of the Foundation.

2.5.1.4 Investment of Donor Advised Fund Assets

- Scope
  - Donor Advised Fund assets include all accounts managed under any Donor Advised Fund agreement in which the Foundation administers the assets for the benefit of a charitable institution or institutions and is governed by the Trust Policy and Guidelines where the donor has retained the right to advise both the investment and distribution of funds.
- Return Objective
  - Will vary by account according to advice received from account advisor.
- Investment Philosophy
  - Will vary by account according to advice received from account advisor.
  - Donor may choose a financial advisor to manage the fund. Appropriate investments include any investments included in section 11.6.1.1 through 11.6.1.11 of this Investment Policy and Guidelines. With respect to the section 11.6.2.1 concerning socially responsible investing, all mutual funds and/or exchange traded funds will be acceptable if they are not publicly recognized as being incompatible with the moral and ethical posture of the Foundation.

2.5.1.5 Investment of Custodial Assets

- Scope
  - Custodial assets include all accounts where the funds have been placed with the Foundation for investment without the Foundation serving in a fiduciary capacity. Written asset allocation directions will be provided by the account owner. Written asset allocation direction may be provided by completing a form provided by the Foundation or similar

document and signed by the appropriate party. This may include, but is not limited to the following accounts:

    - Custodial Accounts
    - Church Funds Management Accounts
    - All other accounts not managed according to another section under "Investment of Assets."

- Return Objective
  - Will vary by account according to instructions received from account owner.
- Custodial Investment Philosophy
  - Will vary by account according to instructions received from account owner.

2.5.2 Disposition of Assets

Noncash assets contributed to the Foundation shall be converted to cash as soon as practical in order that the proceeds from the sale may be invested according to the Investment Policy and Guidelines defined below. In the event that such assets are not readily convertible for investment purposes, or the conditions attendant to the transfer of the assets to the Foundation prohibit such conversion, those assets shall continue to be held and managed according to the Trust Policy and Guidelines.

2.5.3 Exception

The Investment Policy and Guidelines is governed by the Board. The Board may grant exceptions to this policy as needed and as requested in advance, in writing. Exceptions granted shall be reviewed no less than annually.

2.5.4 Policy Review

To assure continued relevance of the investment responsibilities, objectives and philosophy set forth in this policy, the Committee shall review the Investment Policy and Guidelines not less than annually.

2.5.5 Disclaimer

This Investment Policy and Guidelines reflects the commitment of the Foundation to act prudently in the investment of funds entrusted to it. However, no part of this policy is to be construed as a promise, guarantee, covenant, or commitment by the Foundation to attain a particular rate of return or to avert a diminution in value of the assets entrusted to it. Investments are subject to risk, and past performance is not a guarantee of future results.

2.6 Guidelines

The Guidelines contained in this Policy and Guidelines are intended to be a guide to all parties involved. Changes to these Guidelines shall be recommended by the Committee to the Board for approval.

Deviations from these Guidelines may also occur from time to time. Such deviations are not considered violations of this Policy and Guidelines. All deviations shall be brought to the attention of the Committee for consideration in advance, if possible. Otherwise, the Committee shall be advised of the deviation at the next scheduled meeting.

2.6.1 Investment Manager Guidelines

The following guidelines have been developed for all managers according to the investment category for which they manage a portfolio for the Foundation. Specific objectives for each investment manager shall be approved by the Committee by contract with the manager. Mutual funds approved for investment by the Committee may be utilized and are exempted from the specific investment restrictions defined by asset class below, though they are expected to adhere to the Policy and Guidelines as closely as possible.

2.6.1.1 General Manager Guidelines

- Assets should be fully invested, at all times, in securities representative of the manager's investment discipline.
- Subject to constraints and restrictions imposed by the manager guidelines, all decisions regarding sector and security selection, portfolio construction, and timing of purchases and sales are delegated to the investment manager.
- Transactions shall be executed at the lowest possible total cost subject to the "best price and execution," which includes commissions, efficiency of execution, and market impact.
- Any investment or action with respect to an investment not expressly allowed is prohibited, unless presented to and approved prospectively by the Committee. All guidelines must be adhered to; however, if from time to time a manager shall deem an exception to the Policy and Guidelines appropriate, approval must be granted prior to its implementation according to the exception sections of this Policy and Guidelines.

2.6.1.2 Developed Market (Long-Only) Equity Investments

- Acceptable equity investments include:
  - Common Stocks (including Initial Public Offerings)
  - Convertible Bonds
  - Convertible Preferred Stocks
  - American Depository Receipts (ADRs)
  - Global Depository Receipts (GDRs)
- To ensure marketability and liquidity, managers should execute equity transactions through recognized exchanges.
  - Equity securities must be listed at the time of purchase.

    - Delisted securities may continue to be held if the fundamental case for investment remains intact.
- Investment in any single company should not exceed the higher of 8% of the total market value of a manager's equity portfolio, or its index weighting, at the time of purchase.
- Tactical cash should not exceed 10% of each manager's portfolio.
- Managers who invest in non-U.S. listed securities may enter into foreign exchange contracts on currency if use of such contracts is limited to hedging currency exposure existing within the manager's portfolio. Such managers should not engage in any direct foreign currency speculation or any related investment activity.

2.6.1.3 Emerging Markets (Long-Only) Equity Investments

- Acceptable equity investments include:
    - Common Stocks (including Initial Public Offerings)
    - Convertible Bonds
    - Convertible Preferred Stocks
    - American Depository Receipts (ADRs)
    - Global Depository Receipts (GDRs)
- To ensure marketability and liquidity, managers should execute equity transactions through recognized exchanges.
    - Equity securities must be listed at the time of purchase.
    - Delisted securities may continue to be held if the fundamental case for investment remains intact.
- Investment in any single company should not exceed the higher of 8% of the total market value of a manager's equity portfolio, or its index weighting, at the time of purchase.
- Tactical cash should not exceed 10% of each manager's portfolio.
- Managers who invest in non-U.S. listed securities may enter into foreign exchange contracts on currency if use of such contracts is limited to hedging currency exposure existing within the manager's portfolio. Such managers should not engage in any direct foreign currency speculation or any related investment activity.

2.6.1.4 Hedged (Long / Short) Equity Investments

- Acceptable equity investments include:
    - Common Stocks (including Initial Public Offerings)
    - Convertible Bonds
    - Convertible Preferred Stocks
    - American Depository Receipts (ADRs)
    - Global Depository Receipts (GDRs)
    - Derivatives, including but not limited to Options, Credit Default Swaps (CDS), Futures/Forward Contracts, Participatory Notes and Structured Products
    - Private Placements
- The Committee recognizes that short-selling equity securities is a way to enhance the risk/reward profile of an equity portfolio over time, and thus short sales are permitted by these managers.

- Hedged Equity managers should manage well-diversified portfolios and not subject the Foundation to undue risk by applying excessive leverage or maintaining inappropriate liquidity profiles.
- The Committee recognizes that Hedged Equity assets are typically held in Limited Partnership fund format, which possesses liquidity constraints. Care will be taken by the Committee to avoid managers that impose unnecessary liquidity provisions on investors.
- As is standard practice in the industry, Hedged Equity managers are permitted to charge incentive fees so long as they are stated in advance and deemed reasonable by the Committee.
- Hedged Equity managers are expected to provide reasonable transparency of their portfolios to the Committee, Staff and the investment consultant. At least quarterly, Staff and the investment consultant should receive exposure reports from each manager. Underlying holdings (on a lagged basis) should be available to the Committee, Staff and the investment consultant upon specific request.
- It is understood by the Committee, Staff and the investment consultant that many Hedged Equity strategies can be compromised if other competitors in the marketplace gain knowledge of a manager's underlying portfolio. Thus, knowledge of a Hedged Equity manager's underlying holdings is to be kept in strict confidence by all interested parties.

2.6.1.5 Private Capital Investments (i.e. Private Equity, Venture, Distressed, Special Situations, Private Debt, Private Real Estate and Private Real Assets)

- Acceptable equity investments include:
    - Fund-of-Funds limited partnerships
    - Direct limited partnerships
    - Private placement debt or equity securities (includes both co-investment with an existing private capital manager and co-investment with a previously approved organization, subject to "Direct Investment of Private Assets" guidelines defined below)
- The Committee recognizes that private capital investments are illiquid by nature, and that such investments should carry an expected return premium above what is believed to be attainable in the public markets.
- The Committee recognizes that private capital partnerships often carry an investment period of 10 years or more, and thus the size of commitments in this area should be carefully weighed against the Foundation's future liquidity needs.
- Private Capital partnership investments should be reasonably well diversified, although the Committee recognizes that the nature of direct fund investments in this area may involve concentration within a specific industry and a portfolio of less than 10 companies.
- Private capital investments should be diversified by vintage year, investment style and investment manager.
- As is standard practice in the industry, private capital managers are permitted to charge incentive fees so long as they are stated in advance and deemed reasonable by the Committee.

- Private capital managers are expected to provide reasonable transparency of their portfolios to the Committee, Staff and the investment consultant. At least annually, Staff and the investment consultant should receive valuations from each manager. Such valuations are expected to be independently audited by a 3rd party at least every 3 years.

2.6.1.6 Income Oriented Investments

- Acceptable fixed income investments include debt securities issued or guaranteed by the United States Government or its agencies, corporate bonds or debentures and other forms of debt obligations. Specifically:
  - U.S. Government and Agency Securities
  - Corporate Bonds
  - Mortgage Backed Bonds
  - Preferred Stock
  - Planned Amortization Class Collateralized Mortgage Obligations (PAC CMOs) or other "early tranche" CMOs
  - Guaranteed Insurance Contracts (GICs)
  - Private Placement Securities issued under SEC Rule 144A
  - Municipal Bonds (both taxable and tax-exempt)
  - Asset-Backed Securities (ABS)
  - Emerging Market Debt (EMD)
  - Convertible Bonds
  - Non-U.S. Developed Market Debt
  - Asset classes included in the benchmark (Barclay's U.S. Aggregate Bond Index) not referenced above.
- All rated bonds should have, as a minimum, a credit rating of either "B3" by *Moody's Investor Service,* "B-" by the *Standard and Poor's Corporation,* or "B-" by *Fitch Ratings Inc.* at time of purchase. If, after the date of purchase, a bond's rating falls below "B3"/"B-"/"B-", the manager must sell the security unless an exception is granted by the Committee.
  - If an issue's quality is split rated, the higher rating shall apply.
  - Investments in fixed income securities rated below investment-grade (Baa3 by Moody's, BBB- by S&P or BBB- by Fitch), including non-rated fixed income securities, are limited to 25% of the portfolio by market value at time of purchase
- Investment in any one issuer, except obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities, should not exceed 5% of the bond portfolio, at the time of purchase.
- U.S. dollar denominated Emerging Market and Non-U.S. Developed Market Debt should not exceed 20% of the bond portfolio, at the time of purchase.
- Duration of an investment manager's bond portfolio should not fall below 75% nor should it exceed 125% of the duration for the specified benchmark.
- Average maturity patterns may be modified (lengthened or shortened) as the result of anticipation of expected interest rate trends.
- Tactical cash should not exceed 10% of each manager's portfolio.
- Average credit quality should not drop below ratings of "A3" by Moody's Investor Service, "A-" by the Standard and Poor's Corporation, or "A-" by Fitch Ratings. Securities issued by the U.S. Government and its Agencies will be

considered to be rated AAA for purposes of calculating the portfolio average quality.

- Fixed-payer interest swaptions can be used to mitigate portfolio volatility with respect to interest rate changes, though other factors may affect its value. In no case shall any derivative be used for any activity where the primary purpose is speculation.
  - Counter-party creditworthiness shall equal a rating of A3 as defined by Moody's Investor Service, A- by Standard & Poor's or A- by Fitch. The use of counter-parties holding a split rating with one of the ratings below Baa2/BBB/BBB is not allowed.
  - All OTC derivatives must be governed by an ISDA Master Agreement and a Credit Support Annex.

2.6.1.7 Short-Term Investments (Cash Equivalents)

- Acceptable short-term investments include all reasonable and prudent instruments with less than a three-year maturity available through banking and brokerage institutions consistent with the Investment Policy and Guidelines. Specifically:
  - US Treasury and Agency Bills and Notes
  - Money Market Funds
  - Commercial Paper
  - Bankers Acceptances
  - Repurchase and Reverse Repurchase Agreements (must be fully collateralized with approved collateral)
  - Certificates of Deposit
  - Eurodollar CD's, TD's, and Commercial Paper
  - U.S. and Eurodollar floating rate notes
  - Private Placement Securities issued under SEC Rule 144A
- All short-term investments should have, as a minimum, a credit rating equivalent to either *Moody's Investor Service* or the *Standard and Poor's Corporation* "A" rating at time of purchase. If, after the date of purchase, an instrument's rating falls below "A" (equivalent), it should be sold.
- Acceptable short-term investments also include Church Extension Fund investments offered through WatersEdge Ministry Services.

2.6.1.8 Church Extension Fund Investments

Acceptable investments include loans advanced, serviced, and managed according to the WatersEdge Ministry Services' Church Extension Fund. For specific terms related to the Church Extension Fund, please refer to the Church Extension Fund Policies and Guidelines.

2.6.1.9 Passive Overlay Investments

- The Foundation's Passive Overlay portfolio is designed to serve strictly as a rebalancing and liquidity tool for the Church Extension Fund portfolio. As such, only Church Extension Fund Investments and cash are permitted to exist in the collateral pool.
  - Due to margin requirements, cash is required to make up approximately 10% of the collateral pool. The Foundation will strive to maintain

approximately 20% of collateral pool in cash, (double initial margin requirements) to be better able to withstand market corrections.

- The Passive Overlay manager is permitted to buy and sell only highly liquid, exchange traded futures contracts on the S&P 500 and Barclays Aggregate indices. The use of other contracts must be approved by the Committee.
- Speculative use of futures contracts is not permitted in the Passive Overlay portfolio.

2.6.1.10 Absolute Return Investments

- Acceptable Absolute Return investments include (but are not limited to):
  - Common Stocks (including Initial Public Offerings)
  - Convertible Bonds
  - Preferred Stocks
  - Income Oriented Securities
  - American Depository Receipts (ADRs)
  - Global Depository Receipts (GDRs)
  - Derivatives, including but not limited to Options, Credit Default Swaps (CDS), Futures/Forward Contracts, Participatory Notes and Structured Products
  - Private Placements
- The Committee recognizes that short-selling securities is a way to enhance the risk/reward profile of an absolute return portfolio over time, and thus short sales are permitted by these managers.
- Absolute Return managers should manage well-diversified portfolios and not subject the Foundation to undue risk by applying excessive leverage or maintaining inappropriate liquidity profiles.
- The Committee recognizes that Absolute Return assets are typically held in a Limited Partnership fund format, which possesses liquidity constraints. Care will be taken by the Committee to avoid managers that impose unnecessary liquidity provisions on investors.
- As is standard practice in the industry, Absolute Return managers are permitted to charge incentive fees so long as they are stated in advance and deemed reasonable by the Committee.
- Absolute Return managers are expected to provide reasonable transparency of their portfolios to the Committee, Staff and the investment consultant. At least quarterly, Staff and the investment consultant should receive exposure reports from each manager. Underlying holdings (on a lagged basis) should be available to the Committee, Staff and the investment consultant upon specific request.
- It is understood by the Committee, Staff and the investment consultant that many Absolute Return strategies can be compromised if other competitors in the marketplace gain knowledge of a manager’s underlying portfolio. Thus, knowledge of an Absolute Return manager’s underlying holdings is to be kept in strict confidence by all interested parties.

2.6.1.11 Real Assets Investments (Liquid)

- Acceptable Real Assets investments include (but are not limited to):
  - Common Stocks (including Initial Public Offerings)

  - Real Estate Investment Trusts (REITs)
  - Real Estate Operating Companies (REOCs)
  - Futures/Forward Contracts
  - American Depository Receipts (ADRs)
  - Global Depository Receipts (GDRs)
  - Income Oriented Securities (collateral)
  - Derivatives, including but not limited to Options, Credit Default Swaps (CDS), Participatory Notes and Structured Products
  - Private Placements
- The Committee recognizes that short-selling securities is a way to enhance the risk/reward profile of a hedged Real Assets portfolio over time, and thus short sales are permitted by these managers.
- Real Assets managers should manage well-diversified portfolios and not subject the Foundation to undue risk by applying excessive leverage or maintaining inappropriate liquidity profiles.
- The Committee recognizes that some Real Assets strategies are typically held in a Limited Partnership fund format, which possesses liquidity constraints. Care will be taken by the Committee to avoid managers that impose unnecessary liquidity provisions on investors.
- As is standard practice in the industry, Real Assets managers are permitted to charge incentive fees so long as they are stated in advance and deemed reasonable by the Committee.
- Real Assets managers are expected to provide reasonable transparency of their portfolios to the Committee, Staff and the investment consultant. At least quarterly, Staff and the investment consultant should receive exposure reports from each manager. Underlying holdings (on a lagged basis) should be available to the Committee, Staff and the investment consultant upon specific request.
- It is understood by the Committee, Staff and the investment consultant that many Real Assets strategies can be compromised if other competitors in the marketplace gain knowledge of a manager's underlying portfolio. Thus, knowledge of a Real Assets manager's underlying holdings is to be kept in strict confidence by all interested parties.

2.6.2 Investment Management

The following guidelines have been developed for investment management and administration.

2.6.2.1 Implementation of Socially Responsible Investing

As a religious not-for-profit organization, the Foundation is committed to conducting its business affairs in a manner consistent with high Christian moral and ethical standards. Staff will strive to ensure adherence through communication of the desired standards during interviews with prospective managers, periodic monitoring of investment holdings, and the termination of managers who knowingly and continuously fail to comply with the established policy.

Violations include investment in securities of companies whose primary business is, or who profit materially from: the wholesale manufacturing and/or distribution of alcohol, tobacco, or pornography; direct involvement in gaming activities; providing abortion services; research conducted on embryonic stem cells derived from human fetal tissue; or producing and/or distributing forms of entertainment that are in direct conflict with the Christian message and Southern Baptist beliefs. A violation will also include any investment in a company whose products, services or activities are publicly recognized (as determined by the Foundation) as being incompatible with the moral and ethical posture of the Foundation.

The Committee is aware of the difficulties in maintaining a "pure" portfolio and understands that such a portfolio does not exist in a fallen world. As such, the Committee has established minimum social screen standards for investment and these standards may vary depending on investment structure. Managers shall be held to these minimum standards before initial investment as well as post investment.

A comprehensive review of compliance will be conducted no less than annually and reported to Committee. All known violations will be monitored by Staff and reports will be made as needed.

- Liquid (long-only) managers
  - No investment in securities deemed to be a violation.
  - Should an investment be made, the investment shall be sold and realized loss (if any) reimbursed to fund by the manager.
- Hedged Equity, Absolute Return and Private Capital managers
  - Socially screened funds or share classes are the preferred method of investment.
  - Holdings transparency at the end of each calendar year is required. A delay of up to 90 days would meet this transparency requirement.
  - Portfolio exposure reports (strategy and sector breakout, and top ten holdings) at the end of each quarter are required.
  - No new or subsequent investment in funds with current known holdings of securities deemed to be a violation.
  - Investment in securities deemed to be a violation cannot be a top ten holding.
  - Investment in securities deemed to be a violation cannot appear in marketing materials for the fund or manager.

2.6.2.2 Direct Investment of Private Assets

From time to time, the Foundation may have the opportunity to make direct private investments without the benefit of a manager. The Foundation may participate in these investment opportunities. Investments must be made consistent with this Policy and Guidelines and are subject to the following:

- Funding: Allocation to Private Placements will only be allowed as a part of the allocation to Private Capital Investments currently limited to the Spending Policy Pool. This allocation will be limited to 2.5%, at the time of investment, of the market value of the Spending Policy Pool. This 2.5% will be included in and not in addition to the allocation to Private Capital Investments.

- Consideration: Private Placement investment without the co-investment of an existing private capital manager or other approved organization is prohibited. Minimum due diligence required includes a detailed review of company history, key personnel, key clients, investment structure, compliance with social screens, and potential of successful investment exit.
- Selection: Investment must be approved by the Committee.
- Monitoring: Staff will monitor the ongoing performance of the company as needed reviewing all communication and reports. Whenever issues of concern are identified, this will be reviewed and any potential corrective action, if appropriate, will be consider by the Committee.
- Valuation: The Foundation will determine the fair value of each portfolio company utilizing one of two valuation approaches: market or cost. Based upon the stage of the portfolio company investment, the primary approach will be market. The market approach relies on comparable public and private company transactions multiples and the company's overall performance. Available data points and inputs will be assessed to determine fair value. These will include, but not be limited to:
    - Market transactions or quotes for similar companies
    - Financial position and operating results of the company
    - Recent financings and business trends of the portfolio company
    - General business and industry environment for each company
    - Company's prospects for an initial public offering, merger, acquisition or other liquidity event
    - Terms of the security owned
    - Company valuations performed by independent valuation firms
- Exit: As the Foundation is not investing for control, exits will generally be commensurate with a liquidity event triggered by the investment manager which the Foundation is co-investing with.

2.6.2.3 Investment of Assets Not Placed with Manager "Non Pooled Assets"

Approved investments for those accounts invested by Staff according to individualized IPS (as allowed under the "Investment of Trust Assets" and the "Investment of Donor Advised Fund Assets") are considered to be any approved investment under the "Investment Manager Guidelines".

- Direct alternative investments are prohibited. Alternative investments made via a mutual fund are acceptable if they meet the minimum requirements of this Policy and Guidelines.
- All investments made by Staff must be made consistent with this Policy and Guidelines.

2.6.2.4 Custodian Requirements

Custody of assets shall be maintained with a "qualified custodian" as that term is defined in Rule 206(4)-2 under the Investment Advisers Act of 1940 (15 United States Code §80b-1 *et. seq.*) as amended.

2.6.2.5 Transitional Managers

From time to time, there may be a need to transition a portfolio from one manager's oversight to another. On these occasions, Staff may engage transition managers to affect the transition between managers unless it is deemed not to be necessary due to the cost for the service including but not limited to commissions, taxes, fees, and "bid/ask" spread.

2.6.2.6 Proxy Voting

The Foundation believes that the voting of proxies can be an important tool for investors to promote best practices in corporate governance and we seek to vote all proxies in the best interests of our clients and beneficiaries.

- Proxies will be voted by the investment manager.
- When the asset is not managed by an investment manager, the Staff will vote for what is believed to be in the best interest of the client. In most cases, this will be a vote with management. Staff shall vote against management only when an affirmative vote is not believed to be in the best interest of the client or is in direct conflict with the Christian message and Southern Baptist beliefs.

2.6.2.7 Securities Lending

The Foundation may enter an agreement with the custodian to lend securities to institutions wishing to borrow the same.

- Collateral Requirement: The Collateral shall be no less than 102 percent of the market value of loaned securities.
- Investment of Collateral:
    - Approved investments include the following:
        - U.S. Government and Agency Securities
        - Organization for Economic Cooperation and Development (OECD) Securities
        - High Grade Commercial Paper, Notes, Bonds and other debt obligations
            - Obligations maturing within one year must be issued by issuers rated at least A-1 (by Standard & Poor's) or P-1 (by Moody's)
            - Obligations maturing beyond one year must be issued by issuers rated at least A (by Standard & Poor's) or A2 (by Moody's)
        - Asset Backed Securities which carry the highest credit ratings by Standard & Poor's or Moody's
        - Certificates of Deposit, Time Deposits and other bank obligations of U.S. Banks
            - Obligations maturing within one year must be issued by issuers rated at least A-1 (by Standard & Poor's) or P-1 (by Moody's)
            - Obligations maturing beyond one year must be issued by issuers rated at least A (by Standard & Poor's) or A2 (by Moody's)
        - Repurchase and Reverse Repurchase Agreements

        - Money Market Mutual Funds
    - Maturities
        - Government Securities and OECD Securities have no maturity limit
        - Fixed Rate Instruments shall have a maturity no greater than 13 months
        - Floating Rate Instruments shall have maturities as follows:
            - "A" & "AA" Rated Instruments no greater than three years with resets no less frequent than 3 months
            - "AAA" Rated Instruments no greater than five years with resets no less frequent than 3 months
    - Concentration
        - Investment in any one issuer, U.S Treasury and OECD Securities exempted, should not exceed 5 percent of the portfolio at the time of purchase
        - Investment in any single corporate or financial industry group, U.S. Treasury and OECD Securities exempted, should not exceed 25 percent of the portfolio.

2.6.2.8 Commission Recapture

The Foundation may enter into an agreement with a broker to participate in commission recapture by directing that a percentage of the trades of each manager be directed to this broker.

- Directed Brokerage
    - The Foundation may direct managers to place trades with a specific broker subject to the manager's duty to provide best execution. This does not remove the manager's duty to determine the nature and availability of the types of securities in which the account will invest and the brokerage costs (including possible settlement delays) associated with various brokers. The Foundation also acknowledges that to the extent the manager places brokerage transactions; the manager may receive brokerage and research services within the meaning of Section 28(e) of the Securities and Exchange Act of 1934.

2.6.3 <u>Criteria to be Used in Selection of Investment Managers</u>

2.6.3.1 Criteria for Consideration

Managers should meet the following minimum criteria to be considered:

- Be a bank, insurance company, investment management company, or investment adviser as defined by the Investment Advisers Act of 1940 (15 United States Code §80b-1 *et. seq.*) as amended. In the case of managed futures managers, registration with the U.S. Commodity Futures Trading Commission (CFTC) is required.
- Provide historical quarterly performance figures (gross and net) calculated on a time-weighted basis, based on a composite of all fully discretionary accounts of similar investment style.

- Provide performance evaluation reports prepared by an objective third party that illustrate the risk/return profile of the manager relative to other managers of like investment style.
- Provide detailed information on the history of the firm, key personnel, key clients, fee schedule, and support personnel. This information can be a copy of a recent Request for Proposal (RFP) completed by the manager.
- Provide a clearly articulated investment strategy and document that the strategy has been successfully adhered to over time.
- Have no outstanding legal judgments or past judgments which may reflect negatively upon the firm.
- Be audited by a qualified and licensed auditor.

2.6.3.2 Criteria for Selection

Managers should meet the following additional criteria to be considered for selection:

- Correlation to Style or Peer Group
    - The manager's product should be highly correlated to one of the asset classes listed in this Investment Policy and Guidelines. This is one of the most critical parts of the analysis since most of the remaining due diligence involves comparisons of the manager to the appropriate peer group.
- Performance Relative to a Peer Group
    - The product's performance should be above median for the peer group for annual and cumulative periods (1, 3, and 5 year returns).
- Performance Relative to Assumed Risk
    - The product should have above median risk-adjusted performance measured against the manager's peer group – considering the fund's Alpha, Sharpe Ratio, and Sortino Ratio.
- Minimum Track Record
    - The product should have a track record of at least three years, and the same portfolio management team should have been in place for at least the most recent two years.
- Assets Under Management
    - Some managers will be profitable at lower levels of assets under management than others will. A manager must be profitable at the current level of assets under management. Generally, this is considered at least $75 million of assets under management, but may be either higher or lower by varying amounts.
- Holdings Consistent with Style
    - The screened product should have no more than 20% of the portfolio invested in "unrelated" asset class securities. For example, a domestic growth fund should not hold more than 20% between cash, fixed income, and/or international securities.
- Stability of the Organization
    - There should be no perceived organizational problems including but not limited to personnel turnover, regulatory issues, uncontrollable growth in assets, and inability to demonstrate "best price and execution" in trading.

2.6.3.3 Additional Criteria for Selection of Alternative Managers or Investments

The process of evaluating alternative investments will include a review and consideration of:

- Offering documents
- Audit of partnership/investment by qualified and licensed auditor
- Qualifications and background(s) of the general partner(s)
- Stability of general partnership
- Merits of the investment program and structure
- Business history
- Risk return profile
- Transparency of the partnership
- Expenses for managing the partnership
- Liquidity of investment(s) in the partnership.

2.6.4 Monitoring of Investment Managers

Staff, in consultation with the consultant(s), will monitor the performance of the managers, and other issues related to the managers. Whenever issues of concern are identified, these will be reviewed and any corrective action taken on a timely basis by the Committee. Each investment manager will be expected to:

- Outperform a passive, style-specific index, where available, over rolling five-year periods.
- Rank in the top half (top 50 percent) in a style-specific peer group universe over rolling 5-year periods.
    - Note: Specific style benchmarks and peer groups, where available, will be selected for each manager in each investment pool.

The following investment manager guidelines may be used to begin discussions regarding manager probation or termination.

- The manager's adherence to this Investment Policy and Guidelines.
- Three-year relative performance drops below the 50th percentile of the peer group and remains there for the next three consecutive quarters.
- The most recent one-year ranking is in the bottom quartile of the peer group.
- A distinctive and recognizable departure from the investment style and/or philosophy from which the manager was selected.
- Significant organizational events such as a change in the portfolio manager, firm ownership, etc.
- Absence of any extenuating circumstances satisfactory to the Committee to warrant retention.
    - NOTE: Exception(s) to the manager guidelines may exist. Investment manager guidelines are meant to foster discussion and possible action. They are not meant to automatically trigger a termination.

2.6.4.1 Hedged Equity, Absolute Return, and Private Capital Investments

To test progress toward the attainment of long-term targets, the ongoing responsibility of Staff, in consultation with the consultant(s), is to monitor the progress of the partnership, and other issues related to these investments.

Whenever issues of concern are identified, these will be reviewed and any corrective action taken on a timely basis by the Committee. In addition, a schedule of periodic performance and other evaluations will be conducted, including:

- Quarterly statements or progress reports, as provided by the alternative investment management firms, will be evaluated.
- The annual audited financial statements provided by a qualified and licensed auditor from each alternative investment will be evaluated to confirm clean audit opinions and estimated valuations provided through quarterly statements.
- At the end of the partnership term, or other wind down of an investment, the dissolution of the partnership will be monitored to ensure that the Foundation's interests are considered.
- Due diligence visits will be conducted by Staff periodically as needed or appropriate including, but not limited to, attendance at annual meetings and meetings in the offices of the managers.
- Report generated and reviewed quarterly of illiquid investments showing the commitment, capital called, amount returned and most recent valuation to provide an overview of the entire portfolio.

2.7 Glossary

2.7.1.1 *<u>Absolute Return</u> refers to investment strategies that aim to produce positive absolute return, as opposed to relative return, regardless of the direction of financial markets. The strategies should have low correlation with both equity and fixed income public market performance.*

2.7.1.2 *<u>Alpha</u> is a measure of performance compared to the return of the benchmark adjusted for the relative riskiness of the security. The excess return of the security relative to the risk adjusted benchmark is called the alpha.*

2.7.1.3 *<u>Alternative Investments</u> refer to investments other than traditional stocks, bonds, and cash; for example, commodities, hedge funds, private equity, real estate.*

2.7.1.4 *<u>Asset Allocation</u> refers to the allocated investment, stated as a percentage, in one or more of the investment pools and/or funds.*

2.7.1.5 *<u>Benchmarks</u> refer to a standard against which the performance of the security or portfolio can be measured. This standard will be a public market index in most all cases.*

2.7.1.6 *<u>Cash Assets</u> refer to those trust assets converted to cash for investment in the Foundation's investment pools.*

2.7.1.7 *<u>Cash Equivalents</u> refer to liquid, generally short-term investments that can be easily converted into cash.*

2.7.1.8 *<u>Co-investment</u> is a minority investment, made directly into an operation company, alongside financial sponsor or other private equity investor. Co-investments are typically passive, non-controlling investments made with the benefit of not being charged a fee or carried interest.*

2.7.1.9 *<u>Commission Recapture</u> is a process whereby the Foundation receives a rebate resulting from brokerage transactions directed by the managers to a brokerage with which the Foundation has a contractual relationship. This rebate represents a portion of commissions charged on the transactions.*

2.7.1.10 *<u>Correlation</u> refers to the measure of co-movement or co-dependence of assets or groups of assets.*

2.7.1.11 *<u>Derivatives</u> refer to synthetic securities whose price and cash flow characteristics are based on the cash flows and price movements of other underlying securities.*

2.7.1.12 Distressed Securities refer to investments in deeply discounted debt, equity, or trade claims of companies in or facing bankruptcy or reorganization.

2.7.1.13 Duration measures the price sensitivity of a fixed income investment, or portfolio of fixed income investments, to the change in interest rates.

2.7.1.14 Equity Investments refer to common stock, convertible preferred stock, and convertible debentures of a corporation, which are traded on recognized stock exchanges.

2.7.1.15 Emerging Markets refer to countries at varying stages of economic development, whose securities markets have only recently met certain standards for stability and are included in one or more index provider's Emerging Markets indices.

2.7.1.16 Eurodollar refers to any U.S. dollar denominated deposits at banks outside of the U.S. These deposits fall outside the jurisdiction of the Federal Reserve and are subject to less regulation than similar deposits within the U.S. The term was originally coined for U.S. dollars in European banks, but it expanded over the years to its present definition. There is no connection with the euro currency.

2.7.1.17 Fiduciary refers to any individual or group of individuals that exercises discretionary authority or control over fund management, or any authority or control over management, disposition, or administration of the pooled investments.

2.7.1.18 Income Oriented Investments refer to securities that yield a fixed rate of interest over the term of the investment.

2.7.1.19 Growth refers to a company growing its earnings or revenue faster than its industry or overall market.

2.7.1.20 Hedge Funds are defined by how they differ from traditional investment funds. Key hedge fund differences include:

- Hedge funds generally focus on delivering absolute returns versus "relative returns" measured by a market benchmark or index. Hedge funds strive to generate positive returns regardless of whether equity, bond, or other markets are rising or falling.
- Hedge funds have flexibility to employ a wider range of strategies including short selling and the use of leverage and derivatives.
- Hedge fund manager compensation is often tied to fund performance through an incentive fee.
- Hedge fund managers typically make substantial personal investment in their funds.
- Hedge funds enable active management of downside risk.

2.7.1.21 Inflation Oriented Investments refer to securities that protect a portfolio against a rise in the cost of living. These assets are expected to rise in value if there is a rise in the cost of living. An example might include real estate or precious metals.

2.7.1.22 Investment Advisers Act of 1940 refers to a United States federal law that requires investment advisors and firms that provide investment advice to register with and adhere to the guidelines of the Securities and Exchange Commission.

2.7.1.23 Investment Horizon refers to the time period over which the investment objectives, as set forth in this Investment Policy and Guidelines, are expected to be met. Unless otherwise stated, the investment horizon for assets administered according to this policy is in excess of five (5) years.

2.7.1.24 Investment Policy Statement refers to a list of goals and objectives, as well as constraints and requirements, prepared for an account that provides direction on how the assets are to be invested.

2.7.1.25 Large-Cap refers to corporations whose market capitalizations reflect the size of those found in the Russell 1000 index, unless otherwise stated within this Investment Policy and Guidelines.

2.7.1.26 Leverage refers to using given resources in such a way that the potential positive or negative outcome is magnified and/or enhanced. This generally refers to using borrowed funds.

2.7.1.27 Market Capitalization refers to the total dollar value of all outstanding shares of a corporation's stock. It is computed by multiplying the number of outstanding shares by the current market price.

2.7.1.28 Market Timing refers to the strategy of making buy or sell decisions on financial assets by attempting to predict future market price movements.

2.7.1.29 Mid-Cap refers to corporations whose market capitalizations reflect the size of those found in the Russell 2500 index, unless otherwise stated within this Investment Policy and Guidelines.

2.7.1.30 Mutual Fund refers to a company that raises money from sale of its shares, invests in, and professionally manages a diversified portfolio of securities. Mutual funds, created by the Investment Company Act of 1940, are registered with the Securities and Exchange Commission and must distribute nearly all of their net income and realized gains to investors at least annually.

2.7.1.31 Natural Resources refer to investments in industries including energy (oil and gas), land (including farmland), forest products (timber), mining, and metals.

2.7.1.32 Pooled Investments refer to those assets that have been pooled to reduce diversifiable investment risk, and to generate cost efficiencies from economies of scale.

2.7.1.33 Private Equity refers to investments in transactions such as acquisitions, leveraged buyouts, management buyouts, recapitalizations, reorganizations, privatizations, restructurings, and spin-offs.

2.7.1.34 Private Placement Securities are securities not registered as public offerings that have been sold directly to a small group of investors, usually institutions.

2.7.1.35 Prudent Investor Rule refers to a guideline for professional money management requiring that those with a duty to invest money for others should act with prudence, discretion, intelligence, and consideration for the safety of income and capital.

2.7.1.36 Real Estate refers to an investment whose objective is to hold real estate-related assets through mortgages, construction and development loans, or equity interests.

2.7.1.37 Return refers to the gain or loss on an investment expressed as a percentage.

2.7.1.38 Risk is the possibility that an investment's return may be different from expected. Generally, this is the potential for loss of capital.

2.7.1.39 Sharpe Ratio is used to measure risk adjusted performance by using standard deviation and excess return to determine reward per unit of risk. A higher Sharpe ratio typically indicates that the fund has better historical risk adjusted performance.

2.7.1.40 Short Selling refers to the practice of selling a financial instrument that is borrowed and not owned. The seller must then purchase the same security in the future to repay the lender. The practice is not allowed under this policy, except hedge funds may utilize this practice.

2.7.1.41 Small-Cap refers to corporations whose market capitalizations reflect the size of those found in the Russell 2000 index, unless otherwise stated within this Investment Policy and Guidelines.

2.7.1.42 Sortino Ratio measures the risk-adjusted return of an investment asset, portfolio, or strategy. It is a modification of the Sharpe ratio that penalizes only those returns falling below a user specified target, or required rate of return, while the Sharpe ratio penalizes both the upside and downside volatility equally.

2.7.1.43 Total Return refers to yield (interest and dividends) and capital appreciation/depreciation (realized and unrealized gains/losses) earned on pooled investments.

2.7.1.44 Traditional Investments refer to stocks, bonds, and cash.

2.7.1.45 Value refers to stocks that appear to be undervalued for reasons besides earnings growth potential. These stocks are usually identified based on high dividend yield, low price-to-earnings ratios, or low price-to-book ratios.

2.7.1.46 Venture Capital refers to the investment in early-state, high-growth private companies, principally in information technology and life sciences.

2.8 Adoption and Revision

Adopted: December 10, 2010
Last Revised: October 27, 2017

Version #	2010.1
Date of Adoption:	December 10, 2010
Authors:	David Depuy, Brooke Mowery
Revisionary Synopsis:	Complete revision of format. Expansion of policy to include investment of non-endowment assets. General updating of language

Version #	2010.2
Date of Adoption:	April 27, 2012
Authors:	David Depuy, Brooke Mowery
Revisionary Synopsis:	Revision of manager guidelines proposed by consultant after hiring LCG Associates. Other general updating of language

Version #	2010.3
Date of Adoption:	December 12, 2014
Authors:	David Depuy, Brooke Mowery
Revisionary Synopsis:	Elimination of the Investment Subcommittee. Allow for direct private placement investments in the Spending Policy Pool. Eliminate generic benchmark listing. Modify composite benchmarks for pools and models, specifically adding the EAG target and eliminating the style benchmarks. Add Entity CBL Investment Pool to the Investment Pool Guidelines.

Version #	2010.4
Date of Adoption:	October 28, 2016
Authors:	David Depuy

Revisionary Synopsis: Modify Policy and Guideline exception and approval language to require guidelines changes to be approved by full Board and not just Committee in line with other Foundation policies. Addition to Socially Responsibility Guideline allow the Foundation to deem a violation of a company whose products, services, or activities are recognized as being incompatible with Foundation's ethical posture without specifically tripping other screens.

Date of Adoption: December 14, 2018

Authors: David Depuy

Revisionary Synopsis: Eliminate the Investment Model Guidelines for both the Entity CBL Investment and Balanced Pools and modified the purpose statement for the Cash Equivalent Pool state simply that the fund's purpose is to provide capital preservation and income. Renamed the Donor Advised Fund name to be Giving Fund to be consistent across all Foundation policies.

Date of Adoption: January 25, 2019

Authors: David Depuy

Revisionary Synopsis: Modify the committee name to Asset Management Committee. Renamed the Giving Fund name to be Donor Advised Fund to be consistent across all Foundation policies. Add Non-U.S. Developed Market Debt as an acceptable investment option for Income Oriented Investments. Increase allowed allocation to Direct Investment of Private Assets from 1% to 2.5%. Change name from Church Building loan to Church Extension Fund throughout the entire policy and guidelines.

Date of Adoption: April 26, 2019

Authors: David Depuy

Revisionary Synopsis: Modify the Third-Party Administrator terms as they relate to socially responsible investing to specifically deem mutual funds and/or exchange traded funds acceptable if they are not publicly recognized as being incompatible with the moral and ethical posture of the Foundation.

Date of Adoption: October 25, 2019

Authors: David Depuy

Revisionary Synopsis: Modify the Income Oriented Investment guidelines to allow core plus strategy to be implemented. Specifically, the changes include adding convertible bonds to the list of acceptable securities, and allowing purchase of non-rated fixed income securities (limited to 25% of portfolio.

2.9 Investment Pool & Model Guidelines

The following guidelines have been developed for all investment pools and models maintained by the Foundation. These guidelines are an appendix to and not a part of the Investment Policy and Guidelines. They may be altered from time to time by the Committee. However, this alteration does not imply a change to the Investment Policy and Guidelines and therefore does not need to be approved by the Board.

2.9.1 Spending Policy Pool (SPP)

2.9.1.1 Purpose

The purpose of the SPP is to provide capital appreciation and income from a diversified portfolio of equity, income oriented, and inflation-oriented investment instruments with a long-term investment horizon by holding a carefully designed combination of existing funds and pools. This pool is to be used exclusively for endowment trusts and custodial accounts that are managed under the Foundation's Spending Policy.

2.9.1.2 Management

- Staff is authorized to move funds between strategies within the lower and upper limits of the strategic allocation as directed by the Committee.
- Staff is authorized to invest or withdraw funds from strategies within the lower and upper limits of the strategic allocation to accommodate the cash flow needs of the pool. Such action will be taken in a manner to either fully or partially eliminate deviations from the approved strategic allocation.
- Additions or elimination of strategies or strategic allocations must be approved by the Committee.
- Additions or terminations of managers or funds must be approved by the Committee.

2.9.1.3 Strategic Target Asset Allocation

Asset Class	Lower Limit	Strategic Allocation	Upper Limit
Equity Oriented	**60.0%**	**70.0%**	**80.0%**
Developed Markets Long-Only		20.0%	
Defensive Equity		5.0%	
Emerging Markets Long-Only		10.0%	
Private Equity		25.0%	
Passive Overlay		10.0%	
Income Oriented	**10.0%**	**20.0%**	**30.0%**
Total Return Bonds		5.0%	
Church Extension Fund Investments		2.5%	
Direct Lending		7.5%	
Alternative Income		5.0%	
Inflation Oriented	**5.0%**	**10.0%**	**15.0%**
Real Assets		2.5%	
Real Estate		7.5%	
		100.0%	

2.9.1.4 Benchmark

- To achieve a return, net of all fees, of 8 percent (at least CPI plus the Foundation's spending rate over a full market cycle (typically 5 years)).
- Equity Among Generations ("EAG") target shall be comprised of the (1) actual distribution, (2) actual Foundation fee, and (3) actual CPI (All Urban Consumers, not seasonally adjusted). Sum of monthly components are geometrically linked to produce trailing period benchmark.
- The following is the composition of the public market benchmark. This benchmark will be referred to as the "Passive Spending Policy Pool Benchmark". The percentages below add to 100%.

Percentage	Benchmark
70.0%	**MSCI AC World Index**
20.0%	**Barclays Aggregate Index**
10.0%	**Bloomberg Commodities Index**

- Notes on benchmarks:
  - In the event of a significant change in asset allocation, the Committee may specify an alternative weighting scheme to be used during a transition period.

2.9.2 General Investment Pool (GIP)

2.9.2.1 Purpose

The purpose of the GIP is to provide capital appreciation and income from a diversified portfolio of equity, income oriented and inflation-oriented instruments with a long-term investment horizon by holding a carefully designed combination of existing investment funds and pools. The GIP is designed for trusts that are not subject to the Spending Policy but that desire an asset allocation that is proportionately similar to the equity, income oriented and inflation-oriented components of the SPP.

2.9.2.2 Management

- Staff is authorized to move funds between strategies within the lower and upper limits of the strategic allocation as directed by the Committee.
- Staff is authorized to invest or withdraw funds from strategies within the lower and upper limits of the strategic allocation to accommodate the cash flow needs of the pool. Such action will be taken in a manner to either fully or partially eliminate deviations from the approved strategic allocation.
- Additions or elimination of strategies or strategic allocations must be approved by the Committee.
- Additions or terminations of managers or funds must be approved by the Committee.

2.9.2.3 Strategic Target Asset Allocation

Asset Class	Lower Limit	Strategic Allocation	Upper Limit
Equity Oriented	**60.0%**	**70.0%**	**80.0%**
Developed Markets Long-Only		47.5%	
Defensive Equity		10.0%	
Emerging Markets Long-Only		7.5%	
Emerging Markets Long/Short		0.0%	

Private Equity		0.0%	
Passive Overlay		5.0%	
Income Oriented	**10.0%**	**20.0%**	**30.0%**
Total Return Bonds		7.0%	
Church Extension Fund Investments		6.0%	
Alternative Income		7.0%	
Inflation Oriented	**0.0%**	**10.0%**	**20.0%**
Real Assets		10.0%	
		100.0%	

2.9.2.4 Benchmark

- The following is the composition of the public market benchmark. This benchmark will be referred to as the "Passive General Investment Pool Benchmark". The percentages below add to 100%.

Percentage	Benchmark
70.0%	**MSCI AC World Index**
20.0%	**Barclays Aggregate Index**
10.0%	**Bloomberg Commodities Index**

- Notes on benchmarks:
  - In the event of a significant change in asset allocation, the Committee may specify an alternative weighting scheme to be used during a transition period.

2.9.3 Total Equity Pool (TEP)

2.9.3.1 Purpose

The TEP shall be comprised of a diversified blend of each of the traditional equity funds utilized by the SPP and the GIP. The pool has a growth discipline and an objective to maximize diversification across the equity market. This pool is to be used primarily by Church Funds Management accounts and other custodial accounts that choose to have equity exposure in their asset allocations.

2.9.3.2 Management

- Staff is authorized to move funds between strategies within the lower and upper limits of the strategic allocation as directed by the Committee.
- Staff is authorized to invest or withdraw funds from strategies within the lower and upper limits of the strategic allocation to accommodate the cash flow needs of the pool. Such action will be taken in a manner to either fully or partially eliminate deviations from the approved strategic allocation.
- Additions or elimination of strategies or strategic allocations must be approved by the Committee.
- Additions or terminations of managers or funds must be approved by the Committee.

2.9.3.3 Strategic Target Asset Allocation

Asset Class	Lower Limit	Strategic Allocation	Upper Limit

Equity Oriented	**100.0%**	**100.0%**	**100.0%**
Developed Markets Long-Only		70.0%	
Defensive Equity		10.0%	
Emerging Markets Long-Only		20.0%	
Emerging Markets Long/Short		0.0%	
Private Equity		0.0%	
Passive Overlay		0.0%	
		100.0%	

2.9.3.4 Benchmark

- The following is the composition of the public market benchmark. This benchmark will be referred to as the "Passive Total Equity Pool Benchmark". The percentages below add to 100%.

Percentage	Benchmark
100.0%	**MSCI AC World Index**

- Notes on benchmarks:
    - In the event of a significant change in asset allocation, the Committee may specify an alternative weighting scheme to be used during a transition period.

2.9.4 Cash Equivalent Pool (CEP)

2.9.4.1 Purpose

The purpose of the CEP is to provide capital preservation and income.

2.9.4.2 Management

- Staff is authorized to move funds between strategies within the lower and upper limits of the strategic allocation as directed by the Committee.
- Staff is authorized to invest or withdraw funds from strategies within the lower and upper limits of the strategic allocation to accommodate the cash flow needs of the pool. Such action will be taken in a manner to either fully or partially eliminate deviations from the approved strategic allocation.
- Additions or elimination of strategies or strategic allocations must be approved by the Committee.
- Additions or terminations of managers or funds must be approved by the Committee.

2.9.4.3 Strategic Target Asset Allocation

Asset Class	Lower Limit	Strategic Allocation	Upper Limit
Cash Equivalents	**0%**	**100%**	**100%**
Church Extension Fund Investments	**0%**	**0%**	**100%**
		100.0%	

2.9.4.4 Benchmark

- The following is the composition of the public market benchmark. This benchmark will be referred to as the "Passive Cash Equivalent Pool Benchmark".

Percentage	Benchmark
100%	**90 Day T-Bills**

2.9.5 Gift Annuity Model (GAM)

2.9.5.1 Purpose

The model has a low volatility, absolute return objective. This model is to be used by Gift Annuity accounts where the Foundation is obligated to make payment to income beneficiaries and the remainder in the account is held as endowment on the death of the income beneficiaries.

2.9.5.2 Management

- Staff is authorized to move funds between strategies within the lower and upper limits of the strategic allocation as directed by the Committee.
- Staff is authorized to invest or withdraw funds from strategies within the lower and upper limits of the strategic allocation to accommodate the cash flow needs of the pool. Such action will be taken in a manner to either fully or partially eliminate deviations from the approved strategic allocation.
- Additions or elimination of strategies or strategic allocations must be approved by the Committee.
- Additions or terminations of managers or funds must be approved by the Committee.

2.9.5.3 Strategic Target Asset Allocation

Asset Class	Lower Limit	Strategic Allocation	Upper Limit
Equity Oriented	**40.0%**	**50.0%**	**60.0%**
Developed Markets Long-Only		25.0%	
Defensive Equity		12.5%	
Emerging Markets Long-Only		5.0%	
Private Equity		0.0%	
Passive Overlay		7.5%	
Income Oriented	**40.0%**	**50.0%**	**60.0%**
Total Return Bonds		10.0%	
Church Extension Fund Investments		25.0%	
Alternative Income		15.0%	
		100.0%	

2.9.5.4 Benchmark

- The following is the composition of the public market benchmark. This benchmark will be referred to as the "Passive Gift Annuity Pool Benchmark". The percentages below add to 100%.

Percentage	Benchmark
50.0%	MSCI AC World Index
50.0%	Barclays Aggregate Index

- Notes on benchmarks:
  - In the event of a significant change in asset allocation, the Committee may specify an alternative weighting scheme to be used during a transition period.