

# Bruton Parish Church Endowment Fund, Inc.

## Investment Policy Statement

Approved February 19, 2015

### **A. Introduction**

This Investment Policy Statement has been approved by the Directors of the Bruton Parish Church Endowment Fund, Inc. (the "Endowment") for the purpose of guiding the investment of the Endowment's assets.

### **B. Purpose of Investment Policy Statement**

This Investment Policy Statement provides a framework for the investment management of the Endowment. One of its primary purposes is to clearly define the roles and responsibilities, as they relate to the Endowment's management, of the Directors, the staff, and the investment advisor. This Investment Policy Statement will also establish broad asset allocation ranges, performance standards and liquidity guidelines. The Directors recognize that changing economic and market conditions may make it difficult for the Endowment to precisely mirror all aspects of this Investment Policy Statement at any point in time and, as such, this document is to serve primarily as a general framework within which the Endowment is to be managed.

### **C. Investment Philosophy**

The Endowment will be invested with the objective of achieving consistent asset and income growth over a long-term investment horizon (10 years or greater). The Endowment's investment philosophy emphasizes the preservation of capital as well as the assumption of limited, manageable risk to drive real returns.

### **D. Endowment Objectives**

1. The primary objective of the Endowment Fund is to provide relief to the Church for costs incurred due to its national prominence, location in the restored area of Colonial Williamsburg and heavy visitor traffic. A secondary but related goal of the Endowment Fund is to continue the Fund's support of the ministry and music program of the Church, particularly for costs over and above those costs normally incurred by a Church which does not enjoy the national prominence of Bruton Parish.
2. The primary investment objective of the Endowment is to earn an average annual real total return<sup>1</sup> (net of all fees) of at least 6.0% over the long term (rolling 10-year periods). It is recognized that the real return objective may be difficult to achieve in every 10-year period, but

---

<sup>1</sup>Real total return is the sum of capital appreciation (or loss) and current income achieved in the form of dividends and interest adjusted for inflation as measured by the CPI (*U*) index.

should be achievable over a series of 10-year periods.

3. The Endowment Fund limits annual expenditures to an amount designed to preserve the principal value of the Fund. It does this by limiting the total of annual administrative costs and grants to Bruton Parish Church to not more than 4.5% of the average of its NAV over the preceding three years. This three year average may be adjusted to reflect the impact of extraordinary gifts, expenditures, or market activity.

#### **E. Asset Allocation and Risk Management**

1. To achieve its investment objective, the Endowment shall be invested in five broad asset classes: equity securities, private equity, real assets, bonds and cash.

The resulting asset allocation guidelines are summarized below.

	<u>Policy Target</u>	<u>Policy Range</u>
Equity Securities	75%	55%-85%
Private Equity	0%	0%-5%
Real Assets	8%	0%-10%
Bonds	15%	5%-30%
Short-Term	<u>2%</u>	0%-5%
Total Portfolio	100%	

2. The purpose of equity securities, private equity and real assets is to provide an engine of real total return sufficient to drive the Endowment's performance to meet its investment objective. The Directors recognize that pursuit of this objective will entail investment in securities with significant price variability. Volatility shall be controlled by investing in a diverse array of asset classes with equity-like return potential and low return correlation.
3. The equity securities component of the portfolio will contain traditional, long-only security investments (common stocks) as well as hedging investments. The investment objective for equity securities is to outperform, net of fees, the MSCI All-Country World Index IMI with comparable or lower risk. The Directors recognize that risk mitigation may cause performance to lag the stock benchmark during periods of rising markets and conversely, exceed the stock benchmark during periods of declining stock markets. In addition, the performance of each equity manager will be measured against an appropriate equity index (e.g., the S&P 500 Index for domestic large cap managers and the MSCIEAFE Index for foreign, developed country managers) and against an appropriate manager peer group.
4. The purpose of private equity is to allow investments in privately held companies where doing so provides an investment return significantly above that of more liquid equity securities. Over a market cycle, private equity is expected to achieve an internal rate of return (IRR) of MSCI ACWI +3% per annum, net of fees.

5. The purpose of real assets is to allow investments in privately held companies that add value from operations involving oil, gas, minerals, timber, or real estate. Over a market cycle, real asset investments are expected to provide an internal rate of return (IRR) of S&P GSCI + 3% per annum, net of fees. In addition, real assets are meant to provide a hedge against inflation.
6. The primary purpose of bonds and short-term is to serve as a source of liquidity over the short term. During periods of market decline, bonds may be liquidated to support spending until other less liquid market-hedging investments can be liquidated. In addition, the bond allocation is meant to provide diversification for the Endowment, especially in deflationary environments.
7. The investment objective for bonds is to outperform, net of fees, the Barclays US Aggregate Bond Index. To ensure that this objective is met, the performance of the bond managers will be measured against such index and against an appropriate bond manager universe. The average quality of the bonds shall be "A+" or higher. Investments in non-investment-grade securities shall be limited to 15% of the bond component. Non-investment-grade securities include securities rated lower than "BBB-" by Standard and Poor's. In order to limit currency risk, foreign currency exposure shall be limited to 50% of the bond component.
8. The Directors understand that the Endowment will be exposed to risk, knowing that only by accepting a certain level of risk can the Endowment achieve the return necessary to meet its objectives. Risk will be managed and diversified so that any individual risk or combination of risks will have a very low likelihood of permanently damaging the Endowment's ability to achieve its objectives. To ensure adequate diversification, no individual security may represent more than 10% of the Endowment's total market value. All securities in the Endowment shall be well diversified with respect to type, industry, and issuer.

#### **F. Liquidity Guidelines**

To provide general control over illiquidity, the following are the minimum allocations that must be preserved to various levels of liquid investments.

Able to liquidate within:	<5 years
Proportion of Endowment market value:	Minimum 75%

#### **G. Roles and Responsibilities**

1. The Directors are responsible for evaluating and approving the Policy. Once approved, this Policy shall remain in effect until modified by the Directors. The Directors will review the objectives and guidelines set forth in the Policy at least annually for their continued appropriateness. The Directors are charged with reviewing and monitoring Endowment performance to ensure that Endowment assets are being managed by the Investment Advisor in

a manner consistent with the guidelines outlined in this Policy. The Directors shall select and oversee the Endowment's Investment Advisor.

2. The Investment Advisor is responsible for managing the Endowment within the guidelines established by this Policy, including initiating transactions and managing cash flows. The Investment Advisor shall not initiate investments that would cause a violation of this Policy, and if changes in investment valuations cause a violation of this Policy, the Investment Advisor shall report the violation to the Directors. The Investment Advisor shall also assist the Directors with development of the Policy, provide monthly and quarterly reporting to monitor performance and compliance with the Policy, and assist with other issues of importance to the Directors.