

*Catholic Diocese of Richmond*

*INVESTMENT POLICY STATEMENT*

*Revised September 2015*

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## **I. Overview**

The Catholic Diocese of Richmond (the “Diocese”) establishes this Investment Policy Statement (the “IPS”) to ensure, through prudent and sound investment management, the preservation of the purchasing power, the safety, and the liquidity of the funds entrusted to the Diocese, The Catholic Community Foundation, and the Defined Benefit Plans that provide pension benefits for the Lay Employees and the Priests, collectively, hereinafter referred to as the “Investment Assets.”

## **II. Relationship among the Bishop, the Diocese, and the Investment Committee**

The Bishop of the Diocese, advised by the Diocesan Finance Council (the “Finance Council”), establishes the IPS for the Investment Assets. The Finance Council has appointed an Investment Committee (the “Investment Committee”) to assist the Finance Council in carrying out its responsibilities. The Finance Council has assigned the Investment Committee the task of advising the Finance Council on these following matters:

- i.** Formulating and recommending investment policies and objectives;
- ii.** Employing consultants and appropriate investment managers, and selecting appropriate funds to carry out these investment policies and objectives; and,
- iii.** Monitoring and reporting on the performance of the Investment Assets.

Prudent investing is required to accomplish these objectives. In making investment recommendations, the Investment Committee, shall consider:

- i.** Diversification by asset classes including cash equivalents, fixed income securities, equity securities, and alternative investments;
- ii.** Proper diversification within each of the categories of securities; and
- iii.** An emphasis on quality of marketable securities.

The Investment Committee will establish the asset allocation strategy and shall review such strategy at least annually to ensure that it is consistent with the investment objectives as stated in this IPS. The current asset allocation strategy is outlined in Appendix A. The Investment Committee shall review the IPS at least annually and suggest any appropriate revisions to the Finance Council.

The Investment Committee shall review the investment performance of the total portfolio and individual performance of the investment managers and funds on a quarterly basis. A summary of the findings from these reviews shall be presented to the Finance Council at each meeting.

Diocesan staff, in consultation with the Finance Council, will inform the Investment Committee of the financial and liquidity requirements of the Investment Assets so that the Investment Committee may appropriately direct the investment process in order to successfully achieve the investment objectives outlined herein.

### **III. Investment Objectives & Uniform Prudent Management of Institutional Funds**

In consideration of the investment goals, demographics (pertaining to the Investment Assets in the defined benefit pension plans), time horizon available, and the overall risk tolerance, an investment objective of long-term growth and income has been adopted. This objective is to be accomplished using a diversified and balanced approach that seeks to grow the value of the assets over the long-term in order to earn returns in excess of a passive set of market indexes representative of the asset allocation of the Investment Assets; and shall employ strategies designed to reduce volatility and the risk of loss.

The Uniform Prudent Management of Institutional Funds Act (UPMIFA), effective July 1, 2008, in the Commonwealth of Virginia, has been interpreted as requiring the preservation of fair value of the original gift as of the date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Diocese classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent

gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Diocese considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- i. The duration and preservation of the funds
- ii. The purposes of the donor-restricted endowment funds
- iii. General economic conditions
- iv. The possible effect of inflation and deflation
- v. The expected total return from income and the appreciation of investments
- vi. Other resources of the Diocese
- vii. The investment policies of the Diocese, included herein.

**Funds with deficiencies** – From time to time, the fair value of assets associated with individual donor-restricted funds may fall below the level that the donor or UPMIFA requires the fund to retain as a fund of perpetual duration. Should the fair value of assets in the endowment fund fall below the level that the donor or UPMIFA requires no distributions from the endowment fund shall be made until such time as the fair value increases to the level specified by the donor or UPMIFA.

#### **IV. Investment Consultant**

An Investment Consultant (the “Consultant” or “Consultants”) may be retained by the Investment Committee to be responsible for the following:

- i. Asset allocation modeling to include asset allocation study, return requirements and funding schedule, understanding risk/return implication of asset mixes, examine return forecasts of asset classes, and recommend

additional asset classes as appropriate.

- ii. Investment manager research and due diligence to include the utilization of experienced research analysts, ongoing qualitative and quantitative manager research, conduct research on all asset classes, and assess operations and compliance processes.
- iii. Fiduciary investment analysis and advice to include recommendations for portfolio construction optimization, ongoing monitoring and rebalancing, strategic and tactical asset allocation, cash flow, and monitoring managers and making recommendations for replacement as appropriate.
- iv. Customized reporting to include market commentary and economic research, provide white papers/special commentary, and senior consultant to meet in-person quarterly.

## V. **Investment Performance**

The Investment Committee, with the assistance of its Consultants, will monitor the performance of the Investment Assets on a quarterly basis and will evaluate each investment manager's contribution toward meeting these investment objectives over a three- to five-year time period.

**Primary Benchmark** – It is desired that the Investment Assets produce a level of return in excess of the “market,” as represented by a benchmark index or mix of indexes reflective of the asset allocation. This benchmark or Policy Index is outlined in Appendix B.

**Secondary Benchmark** – The Defined Benefit Plans' Investment Assets are expected to meet or exceed the actuarial investment rate return assumption on an average annualized basis after the deduction of investment management fees over three- to five-year rolling time periods.

For the Diocese and Catholic Community Foundation, the average annualized return on Investment Assets are expected to equal or exceed inflation as measured by the “CPI-U,

US City Average, All Items,” plus the annual spending rate after the deduction of investment management fees over three- to five-year rolling time periods.

**Comparison Time Horizon** – Comparison with these standards may not be favorable in any single quarter, semi-annual, or annual basis. It is expected, however, that the comparison will be favorable over a full market cycle, generally considered to be a three-to-five-year period. It is expected that each active manager will generate returns in excess of their primary benchmark and rank in the top 50% of their respective peer group over a three- and five-year period. Any manager or fund that is not earning the minimum returns will be put "on watch" for a six month review. In this context, the analysis of performance should always be made within the framework of the prevailing investment environment.

## **VI. Rebalancing Procedures**

The allocations to each asset class and sub-asset classes as outlined in Appendix A are expected to remain stable over most market cycles. Since capital appreciation, depreciation, or trading activity in an individually managed portfolio can result in a deviation from the overall asset allocation, the asset allocation will be monitored by the Investment Committee and shall be rebalanced to the target allocation on a periodic basis. To achieve the rebalancing, the Investment Committee may re-direct contributions or disbursements from individual investment managers as appropriate, may direct interest and dividends to be reinvested or distributed, in addition to shifting assets from one asset class to another.

Deviations from the asset allocation range may be authorized by the Investment Committee when they determine that the aggregate deviation does not constitute a material departure from the asset allocation strategy for more than a six-month period. Material departures, those of more than five percentage points (5.0%) outside the range that last longer than six-months, are to be reviewed with the Finance Council at the next schedule quarterly meeting.

## **VII. Investment Manager Responsibilities**

Each investment manager is expected to manage the assets in a manner consistent with the investment objectives, policies, guidelines, including the Catholic socially responsible guidelines outlined herein, and constraints outlined in this IPS; and, in accordance with any other applicable laws. This would include discharging responsibilities with respect to the Investment Assets consistent with “Prudent Expert” standards, and all other fiduciary responsibility provisions and regulations.

Each investment manager shall at all times be registered as an investment advisor under the Investment Advisors Act of 1940 (where applicable), and shall acknowledge in writing that they are a fiduciary of the Funds with respect to the assets they manage.

Each investment manager shall supply the Investment Committee a copy of their SEC form ADV Part 2 on an annual basis. If the investment manager is exempt from filing an annual ADV, the investment manager shall provide appropriate documentation to the Investment Committee upon request.

The investment manager shall hold sufficient fidelity bonds, fiduciary liability or other insurance that would protect the interests of the Diocese in the event of a breach of fiduciary duty and provide proof of such insurance and amounts of coverage to the Investment Committee upon request.

**Security Selection/Asset Allocation** – Each investment manager shall have the discretion to determine their portfolio’s individual securities selection subject to the guidelines in this IPS.

Investment managers are expected to operate within an overall strategy consistent with the specific asset class for which they have been selected to manage.

**Diversification Requirements** – To minimize the risk of large losses, each investment manager shall maintain adequate diversification in their portfolio as outlined in this IPS



section below. Subject to the constraints outlined in this IPS, and in their investment agreement with the Diocese, each investment manager shall have the discretion to determine their portfolio's individual security selection.

Transactions or unanticipated market actions that cause a deviation from these policy guidelines should be brought to the attention of the diocesan Chief Financial Officer (the "CFO") and the Investment Committee by the investment manager prior to the executing transactions, when practical. Such deviations may be authorized in writing by the CFO, after consulting with the Investment Committee, when they determine that the deviation constitutes a material departure from the these policy guidelines.

**Investment Transactions** – Each Investment Manager's primary responsibility shall be to seek to obtain best net price and execution. In evaluating execution capability, price and overall effectiveness shall be considered, along with the commission rate.

**Meetings and Communication with the Investment Managers** – As a matter of course, each Investment Manager should keep the Investment Committee and/or the Consultant apprised of any material changes in the Investment Manager's outlook, investment policy, and tactics;

- i. Each Investment Manager should meet with the Investment Committee or Consultant upon request to review and explain their portfolio's investment result. In-person meetings will be scheduled as needed and deemed appropriate. The Investment Manager should disclose to the Investment Committee or through the Consultant any significant changes in corporate or capital structure and brokerage affiliation or practices;
- ii. Each Investment Manager should be available on a reasonable basis for telephone communication when needed;
- iii. Any material event that effects the ownership of each Investment Management firm must be reported promptly to the Investment Committee and the Consultant, as applicable.

**Proxy Voting** – Absent delegation to another service provider, each investment manager is responsible and empowered to exercise all rights, including voting rights, as are acquired through the purchase of securities, where practical. The investment managers shall vote proxies according to their established Proxy Voting Guidelines and in accordance with the Catholic socially responsible investment guidelines as stated herein. A copy of the investment manager’s guidelines, and/or summary of proxy votes shall be provided to the Investment Committee upon request.

### **VIII. Investment Guidelines**

It is the intention of the Investment Committee to utilize separately managed accounts with various investment management firms, mutual funds, ETF’s, or other funds to implement the investment strategy. For mutual funds, ETF’s, and other funds, the prospectus or other documents of the fund(s) will govern the investment policies of the fund investments. In addition, the following guidelines will apply:

**Permitted Securities** – The securities purchased should be registered with the Securities and Exchange Commission, and traded on a recognized U.S. stock exchange or over-the-counter market.

#### **Equity Portfolio(s)**

- i. Equities should be broadly diversified by market capitalization;
- ii. To provide for diversification in the portfolio, investments in any one individual equity security should not exceed approximately 8% of the market value of the investment manager’s portfolio;
- iii. For investment managers, the maximum allocation to any single economic sector should not exceed the greater of 15% of the market value of the portfolio or 200% of the sector’s weighting in the investment manager’s primary equity policy index.

Sector definitions shall be according to the investment manager's own classifications, which should be provided to the Investment Committee upon request.

- iv. Holdings in any single issue in this portfolio should not exceed more than 5% of the total outstanding common stock of any one company.
- v. Equity securities include: Common stocks, REITs, securities that are convertible into the common stock of U.S.-based companies, and sponsored and unsponsored American Depository Receipts (ADR's) or American Depository Shares (ADS's), Exchange Traded Funds (ETF's) or other U.S. dollar denominated depository securities of foreign companies traded in the U.S.

#### **Fixed Income Portfolio(s)**

- i. The overall rating of the portfolio should be BAA/BBB or higher.
- ii. Fixed income securities of a single issuer, issue, or asset pool, with the exception of U.S. Government and Agency securities, are limited to no more than 10% of the market value of the fixed income portfolio.
- iii. No more than 30% of the market value of the investment manager's portfolio may be invested in a single sector of the corporate fixed income market.
- iv. The maximum effective maturity of any single security should not exceed 30 years. The market-value weighted average effective duration of the portfolio should be within +/- 20% of the market value-weighted average effective duration of the Investment Manager's policy index.

**Alternative Assets - Hedge Funds and Hedge Fund of Funds** – The alternative asset component is comprised of marketable alternatives (primarily hedge and commodities investments which under normal circumstances can be converted to cash in a year or less) typically in the form of hedge funds and hedge fund of funds partnerships. Alternative investments may be used to diversify the total portfolio and to enhance risk-adjusted returns. It is understood that hedge funds have limited liquidity (typically annual redemption) and are private partnerships with high variability of returns. The Investment Committee shall

consider certain criteria including, but not limited to, the following in its evaluation of a fund:

- i. Tenure and track record of management as a team;
- ii. Expertise in targeted areas of investment;
- iii. Diversification relative to other investments;
- iv. Use of leverage;
- v. Liquidity of investments;
- vi. General Partner investment, fees and potential conflicts of interest.

Under no circumstances will these funds comprise more than 10% of the portfolio. The Diocese will only invest in offshore fund of funds limited partnership shares (to avoid "Unrelated Business Taxable Income" (UBTI)) or fund of funds in a mutual fund wrapper that adhere to all constraints listed here and its investment will not comprise more than 10% of any individual partnership's assets. On-shore, ERISA compliant funds will be used for the Defined Benefit plans.

**Cash and Equivalents** – It is generally expected that the investment manager will remain fully invested; however, it is recognized that cash reserves may be utilized from time to time to provide liquidity or to implement equity strategies. Cash reserves should be held in the custodian's money market fund, short-term maturity Treasury securities, insured savings instruments or commercial banks and savings and loans.

No more than 10% of the portfolio shall be invested in cash and cash equivalents at any one time without prior notice to the diocesan CFO. Cash accounts associated with any fund held by the Diocese or any trustee, in contemplation of immediate use, will not be included under this guideline.

## **IX. Catholic Socially Responsible Investment Guidelines**

The Diocese is called to exercise faithful, competent and socially responsible stewardship in how it manages its financial resources. Catholic Socially Responsible Investment (the

“SRI”) strategies based on Catholic moral principles recognizes the reality that socially undesirable or even immoral activities are often inextricably linked in the products produced and the policies followed by individual corporations. Given the realities of mergers, buyouts, and conglomeration, it is increasing likely that investments will be in companies whose policies or products make the holding of their stock a “mixed investment” from a moral and social point of view. Nevertheless, by prudently applying traditional Catholic moral teaching and employing traditional principles on cooperation and toleration, as well as the duty to avoid scandal, the Diocese can reflect moral and social teaching in investments for actively managed funds. A portion of the Investment Assets will employ passive investment strategies through the use of index funds, mutual funds, and ETF’s. When such passive investment strategies are utilized, the Catholic SRI guidelines are hereby waived as it would be impractical to apply such constraints to passively managed funds, and unnecessary in order to accomplish the overall spirit of Catholic SRI. The diocesan socially responsible investment guidelines cover the following areas: protecting human life; promoting human dignity; reducing arms production; pursuing economic justice; protecting the environment; and encouraging corporate responsibility.

### **Protecting Human Life**

**Abortion** – In view of the nature of abortion, it is the policy of the Diocese to absolutely exclude investment in companies whose activities include direct manufacture of abortifacients and publicly held health-care companies that perform abortions when not absolutely required by federal or state law.

**Contraceptives** – In view of the Catholic Church’s clear teaching on the immorality of contraceptive intercourse, the Diocese will not invest in companies that derive a significant portion of its revenues from the manufacture of or the sale of contraceptives.

**Embryonic Stem Cell/Human Cloning** – The Diocese will not invest in companies that engage in scientific research on human fetuses or embryos that (1) results in the end of pre-natal human life; (2) makes use of tissue derived from abortions or other life-ending activities; or (3) violates the dignity of a developing person; such

scientific research to include human cloning.

### **Promoting Human Dignity**

**Human Rights** – The Diocese will actively promote and support shareholder resolutions directed towards protecting and promoting human rights.

**Racial Discrimination** – The Diocese will divest from those companies whose policies are found to be discriminatory against people of varied ethnic and racial backgrounds that have been historically disadvantaged.

**Gender Discrimination** – The Diocese will divest from those companies whose policies are found to be discriminatory against women.

**Access to Pharmaceuticals (e.g. HIV/AIDS)** – The Diocese will encourage companies to undertake or participate in programs designed to make life-sustaining drugs available to those in low-income communities and countries at reduced, affordable prices, consistent with our Catholic values.

**Curbing Pornography** – The Diocese will take every means to avoid participation in investments related to companies whose purpose is to appeal to a prurient interest in sex or to incite sexual excitement.

**Reducing Arms Productions and the Production and Sale of Weapons** – The Diocese will avoid investment in firms primarily engaged in military weapons production or the development of weapons inconsistent with Catholic teaching on war (e.g., biological and chemical weapons, arms designed or regarded as first-strike nuclear weapons, indiscriminate weapons of mass destruction, anti-personnel landmines, etc.)

### **Pursuing Economic Justice**

**Labor Standards/Sweatshops** – The Diocese will actively promote and support shareholder resolutions directed toward avoiding the use of sweatshops in the manufacture of goods.

**Affordable Housing / Banking** – The Diocese will not deposit funds in a financial institution that receives less than a satisfactory rating from federal regulatory agencies

under the Community Reinvestment Act.

**Protecting the Environment** – The Diocese investment policy will actively promote and support shareholder resolutions which encourage corporations to act “to preserve the planet’s ecological heritage, addressing the rampant poverty in the poorest nations, redirecting development in terms of quality rather than quantity in the industrial world and creating environmentally sensitive technologies. The Diocese’s will encourage investment in companies whose policies and business are consistent with the Church’s teaching on global climate change, for example, companies that undertake reasonable and effective initiatives for energy conservation, the development of alternate renewable and clean energy resources; and those that seek to reduce greenhouse gas emissions.

**Encouraging Corporate Responsibility** – The Diocese will encourage companies to report on social, environmental, as well as financial performance.

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**X. Approval**

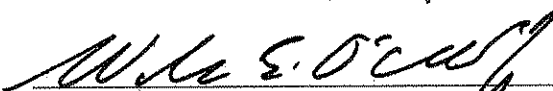
Deviations from the investment policies and constraints outlined in this IPS and Addendum may be authorized in writing by the CFO, in consultation with the Investment Committee, when they determine that the aggregate deviation does not constitute a material departure from the spirit of this investment policy.

**The Catholic Diocese of Richmond - Signatures**

  
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Chair – Diocesan Finance Council

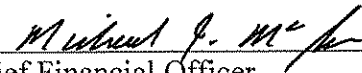
Nov 7, 2015  
Date

Print Name: W. Berry

  
\_\_\_\_\_  
Chair – Investment Committee of the  
Diocesan Finance Council

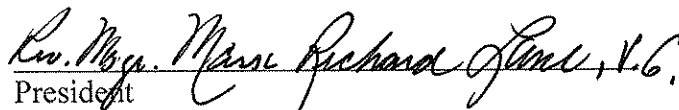
11/7/15  
Date

Print Name: William E. O'Connell, Jr.

  
\_\_\_\_\_  
Chief Financial Officer  
Catholic Diocese of Richmond

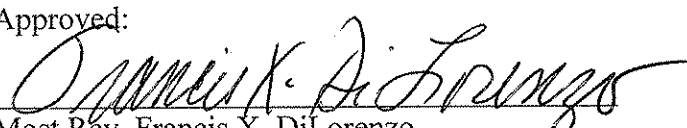
Nov 7, 2015  
Date

Print Name: Michael J. McGee, CFO

  
\_\_\_\_\_  
President  
Catholic Community Foundation

11/7/15  
Date

Print Name: \_\_\_\_\_

Approved:  
  
\_\_\_\_\_  
Most Rev. Francis X. DiLorenzo  
Bishop of Richmond

11/13/15  
Date



Asset Allocation of Investment Assets

ASSET CLASS	TARGET	RANGE	BENCHMARK (INDEX)	PEER UNIVERSE
<b>EQUITIES</b>	<b>72.5%</b>	<b>62.5% - 82.5%</b>		
Domestic Large Core	38.7%	25% - 50%	S & P 500	Morningstar Large Cap
Domestic Mid Cap	7.7%	0% - 15%	Russell Mid Cap	Morningstar Mid Cap
Domestic Small Cap	7.7%	0% - 15%	Russell 2000	Morningstar Small Cap
Non-US Developed Equity	5.8%	0% - 10%	MSCI EAFE	Morningstar Foreign
Non-US Developed Small Cap Equity	5.8%	0% - 10%	MSCI EAFE Small Cap	Morningstar Foreign Small / Mid Core
Emerging Markets Equity	6.8%	0% - 12%	MSCI Emerging Markets	Morningstar Diversified Emerging Markets
<b>ALTERNATIVES</b>	<b>5.0%</b>	<b>0% - 10%</b>		
Hedged Equity	2.0%	0% - 7%	HFRI Equity Hedge	N/A
Diversified Hedge	3.0%	0% - 8%	HFRI Fund of Funds Diversified	N/A
<b>FIXED INCOME</b>	<b>21.5%</b>	<b>17.5%-38.5%</b>		
Core Fixed	10.2%	5% - 25%	Barclays US Aggregate Bond	Morningstar Intermediate Term Bond
High Yield	4.5%	0% - 10%	B of A ML Hi-Yield Master	Morningstar High Yield Bond
Non-US Debt	6.8%	0% - 10%	JPM GBI EM Global TR	Morningstar Foreign Bond
<b>CASH</b>	<b>1.0%</b>	<b>0% - 5%</b>		
Cash Equivalents	1.0%	0% - 5%	B of A ML U.S. 3-month T-Bill	N/A

Index Composition

<b>POLICY INDEX</b>	
<b>ASSET CLASS</b>	<b>PERCENT</b>
Russell 3000	52.0%
MSCI ACWI ex US	20.0%
HFRI Fund of Funds Diversified	5.0%
Barclays US Aggregate Bond	22.0%
B of A ML U.S. 3-month T-Bill	1.0%

<b>TARGET POLICY INDEX</b>	
<b>ASSET CLASS</b>	<b>PERCENT</b>
S & P 500	38.7%
Russell Mid Cap	7.7%
Russell 2000	7.7%
MSCI EAFE	5.8%
MSCI EAFE Small Cap	5.8%
MSCI Emerging Markets	6.8%
HFRI Equity Hedge	2.0%
HFRI Fund of Funds Diversified	3.0%
Barclays US Aggregate Bond	10.2%
B of A ML Hi-Yield Master	4.5%
JPM GBI EM Global TR	6.8%
B of A ML U.S. 3-month T-Bill	1.0%