

CATHEDRAL OF THE SACRED HEART INVESTMENT POLICY STATEMENT

1. Introduction

The Cathedral of the Sacred Heart (CSH) Parish Sustaining Fund (the Fund) is created to provide perpetual financial support to Cathedral of the Sacred Heart Parish. The purpose of this Investment Policy Statement is to establish guidelines for the Fund's Investment Portfolio. This statement also incorporates accountability standards that will be used for monitoring the progress of the Portfolio's investment program.

2. Investment Committee Charter and Role

The Finance Council of CSH shall appoint an Investment Committee which shall consist of persons appointed by the Council from time to time. The exact number of Committee members shall be determined by the Council. The Investment Committee shall act in a fiduciary capacity with respect to the Portfolio, and is accountable to the Finance Council for overseeing the investment of all assets owned by the Portfolio.

- a. This Investment Policy Statement sets forth the investment objectives, distribution policies, and investment guidelines that govern the activities of the Committee and any other parties to whom the Committee has delegated investment management responsibility for Portfolio assets. The Statement shall –
 - i. Identify the criteria against which the investment performance of the Fund will be measured
 - ii. Communicate the objectives to the Council, staff, investment managers, brokers, and funding sources that may have involvement.
 - iii. Serve as a review document to guide the ongoing oversight of the investment management of the Fund.
- b. The investment policies for the Fund contained herein have been formulated consistent with CSH anticipated financial needs and in consideration of CSH's tolerance for assuming investment and financial risk, as reflected in the majority opinion of the Committee.

- c. Policies contained in this statement are intended to provide guidelines, where necessary, for ensuring the Portfolio's investments are managed consistent with the short-term and long-term financial goals of the Fund. At the same time, they are intended to provide for sufficient investment flexibility in the face of changes in capital market conditions and in the financial circumstances of CSH.
- d. The Committee will review this Investment Policy Statement at least once per year. Changes to this Investment Policy Statement can be made only by recommendation of the majority of the Committee, and approval of the Council.

3. Investment Objective and Spending Policy

- a. The Fund is to be invested with the objective of preserving the long-term, real purchasing power of assets while providing a relatively predictable and growing stream of annual distribution in support of CSH Parish.
- b. The long-term objective for the assets under this policy is to achieve, after fees and expenses, a pre-tax average annual return of 4.5% over a full market cycle (3-5 years). The net return target is 3% above inflation.
- c. The distribution of Fund Assets will be permitted to the extent that such distributions do not exceed a level that would erode the Fund's real assets over time. For purposes of making distributions, the Fund will make use of a total-return based spending policy, meaning that it will fund distributions from net investment income, net realized capital gains, and proceeds from the sale of investments. The distribution goal will be 3% over time, meaning that annual distributions may exceed the actual total annual return in any given year at the discretion of the Committee. The Committee will review its spending assumptions annually for the purpose of deciding whether any changes therein necessitate amending the Fund's spending policy, its target asset allocation, or both.

4. Asset Allocation Policy

- a. The Committee recognizes that the strategic allocation of the Portfolio assets across broadly defined financial asset and subasset categories with varying degrees of risk, return, and return correlation will be the most significant determinant of long-term investment returns and Portfolio asset value stability.
- b. The Committee expects that actual returns and return volatility may vary from expectations and return objectives across short periods of time. While the Committee wishes to retain flexibility with respect to making periodic changes to the Portfolio's asset allocation, it expects to do so only in the event of material changes to the Fund, to the assumptions underlying Fund spending policies, and/or to the capital markets and asset classes in which the Portfolio invests.
- c. Fund assets will be managed as a balanced portfolio composed of two major components: an equity portion and a fixed portion. The expected role of Fund equity investments will be to maximize the long-term real growth of Portfolio assets, while the role of fixed income investments will be to generate current income, provide for more stable periodic returns, and provide some protection against a prolonged decline in the market value of Portfolio equity investments.
- d. Cash investments will, under normal circumstances, only be considered as temporary Portfolio holdings, and will be used for Fund liquidity needs or to facilitate a planned program of dollar-cost averaging into investments in either or both of the equity and fixed income asset classes.
- e. Outlined below are the long-term strategic asset allocation guidelines, determined by the Committee to be the most appropriate, given the Fund's long-term objectives and short-term constraints. Portfolio assets will, under normal circumstances, be allocated across broad asset and sub asset classes in accordance with the following guidelines:

<u>CLASS</u>	<u>SUBASSET CLASS</u>	<u>TARGET ALLOCATION</u>	<u>Range</u>
Equity		60%	55% – 65%
	U.S.	45%	
	Non-U.S.	15%	
Fixed Income		40%	35% - 45%
	Investment Grade	30%	
	Below-Investment Grade	5%	
Cash		0%	0% - 5%

- f. The equity component of the Portfolio will generally consist of high-quality equity mutual funds that invest in publicly traded, domestic or international securities traded on either the New York, NASDAQ or American Stock exchanges or broadly traded, passively managed investment vehicles seeking to match the returns on a diversified market index. The funds should be no-load funds without 12(b)(1) charges that maintain an expense ratio consistent with those other funds of similar investment styles as measured by the Lipper or Morningstar rating services. Individual high quality, large capitalization domestic equity securities meeting the above listing criteria are also allowable; however no more than 5% of the equity component shall be invested in the securities of the same issuer.

Prohibited equity investments include: initial public offerings, restricted securities, private placements, derivatives, options, futures and margined transactions.

Exceptions to the prohibited investment policy may be made only when assets are invested in mutual funds that periodically utilize prohibited strategies to mitigate risk and enhance returns.

- g. The fixed income component of the Portfolio will consist of high-quality fixed income mutual funds investing in publicly traded, domestic or international securities traded on either the New York, NASDAQ or American Stock exchanges, investment-grade (Baa or

higher) corporate or government bonds that possess a liquid secondary market, or broadly traded, passively managed funds seeking to match the returns on a broadly diversified market index.

5. Diversification Policy

Diversification across and within asset classes is the primary means by which the Committee expects the Portfolio to avoid undue risk of large losses over long time periods. To protect the Portfolio against unfavorable outcomes within an asset class due to the assumption of large risks, the Committee will take reasonable precautions to avoid excessive investment concentrations. Specifically, the following guidelines will be in place:

- a. With the exception of fixed income investments explicitly guaranteed by the U.S. government, no single investment security shall represent more than 5% of total Portfolio assets.
- b. With the exception of passively managed investment vehicles seeking to match the returns of a broadly diversified market index, no single investment pool or investment company (mutual fund) shall comprise more than 20% of total Portfolio assets.
- c. With respect to fixed income investments, for individual bonds, the minimum average credit quality of these investments shall be investment grade (Standard and Poor's BBB or Moody's Baa or higher).

6. Rebalancing

It is expected that the Portfolio's actual asset allocation will vary from its target allocation as a result of the varying periodic returns earned on its investments in different asset and subasset classes. The Portfolio will be rebalanced to its target normal asset allocation under the following procedures:

- a. The Portfolio custodian will use incoming cash flow or outgoing money movements of the Portfolio to realign the current weightings closer to the target weightings for the Portfolio.
- b. The Portfolio custodian will review the Portfolio quarterly to determine the deviation from target weightings. During each quarterly review, the following parameters will be applied:

- i. If any subasset class within the Portfolio is +/-5 percentage points from its target weighting, the Portfolio will be rebalanced.
 - ii. If any fund within the Portfolio has increased or decreased by greater than 20% since the prior quarter-end, the fund will be rebalanced within the asset/subasset class.
 - iii. The Portfolio custodian shall act within a reasonable period of time to evaluate deviation from these ranges.
- c. The Portfolio custodian may provide a rebalancing recommendation at any time.

7. Other Investment Policies

- a. Unless expressly authorized by the Council, the Committee and its advisors are prohibited from:
 - i. Purchasing securities on margin or executing short sales.
 - ii. Pledging or hypothecating securities.
 - iii. Purchasing or selling derivative securities for speculation or leverage.
 - iv. Engaging in investment strategies that have the potential to amplify or distort the risk of loss beyond a level that is reasonably expected, given the objectives of their Portfolio.
- b. In making equity or fixed income investment selections, the Committee shall follow the “Socially Responsible Investment Guidelines” prescribed by the United States Conference of Catholic Bishops. Investments which generally conform to these Guidelines are any number of mutual funds and exchange traded funds designed specifically for socially responsible investing or that follow faith based investment criteria and securities issued by individual companies which meet those Guidelines. In addition, most funds investing principally in government bonds meet those criteria.

8. Monitoring Portfolio Investments and Performance

The Committee will monitor the Portfolio’s investment performance against the Portfolio’s stated investment objectives. At a frequency to be

decided by the Committee, it will formally assess the Portfolio and the performance of its underlying investments as follows:

- a. The Portfolio's absolute long-term real return objective. This evaluation should be done on an annual basis and also over a suitably long-term investment horizon, generally across full market cycles or on a rolling five-year basis.
- b. Asset Class performance should be reviewed quarterly compared to a composite benchmark consisting of the following unmanaged market indexes weighted according to the expected target asset allocation stipulated by the Portfolio Asset Allocation guidelines.
 - i. U.S. Equity: Wilshire 5000 Total Market Index
 - ii. Non-U.S. Equity: MSCI EAFE + EM index.
 - iii. Investment Grade Fixed Income: Barclays Capital U.S. Aggregate Bond Index
 - iv. Non-Investment Grade Fixed Income: Barclays Capital U.S. Corporate High Yield Bond Index
 - v. Cash: Citigroup 3 Month T-Bill Index.
- c. Individual funds within asset classes should be reviewed quarterly to determine that the fund ranked at or above the 50th percentile of similarly managed funds on a rolling three-year basis. Funds that fail to meet this criteria for three consecutive quarters should be considered for replacement.
- d. Investment reports shall be provided by the Portfolio custodian on a quarterly basis or as more frequently requested by the Committee. The Portfolio custodian is expected to be available to meet with the Committee once per quarter to review portfolio structure and investment performance.