



## **Episcopal Diocese of New York**

### **Investment Policy**

***Adopted by the Trustees of the Diocese on December 1, 2016***

#### **Overview**

This Investment Policy is designed to guide the Trustees (the “Trustees”) of the Episcopal Diocese of New York (“EDNY” or the “Diocese”) and the Investment Committee of the Trustees in prudently overseeing the management of the Diocese’s Investment Portfolio.

In response to the Gospel, to the challenge of responsible stewardship and to the Church’s ethical teachings, the Diocese makes investment decisions taking into consideration both economic and financial factors and social justice and environmental justice factors. The Diocese is a steward of the financial gifts it has received. The Diocese has the responsibility to cultivate these gifts in order to promote the Gospel and to further the mission of The Episcopal Church and the Episcopal Diocese of New York.

It is the investment policy of the Diocese to seek investment return that supports financially the mission of the Diocese and at the same time to consider justice for all humanity, justice for non-human creation, the interests of future generations of humanity, and support for environmental sustainability and justice.

#### **Investment Portfolio**

This Policy applies to the Investment Portfolio of the Episcopal Diocese of New York (the “Portfolio”), which is comprised of all investment funds owned by the Diocese, including donor restricted funds, unrestricted funds, and funds held in reserve and designated for specific purposes by the Trustees.

#### **The Trustees**

The Trustees hold title to and have fiduciary responsibility for all financial assets owned by the Diocese. The Trustees have delegated oversight of the Portfolio to the Investment Committee. Decisions related to investments are to be made consistent with this Investment Policy as approved and adopted by the Trustees.

## **Investment Committee**

The Bishop appoints an Investment Committee to oversee the investment and management of the Portfolio, and to keep the Trustees advised of the status of the investments.

The Committee reports the status of the investments and the actions of the Investment Committee at Trustee meetings.

## **Responsibilities and Authority of the Investment Committee**

The responsibilities of the Investment Committee include: authorization and supervision of the investment of the Portfolio; review of the implementation of the Investment Policy at least semi-annually; establishment and review of an investment strategy consistent with the requirements, guidelines and principles articulated in the Investment Policy; the retention of an Investment Advisor to advise the Investment Committee with respect to its duties and responsibilities when appropriate; the appointment, supervision, and termination of any individuals or entities to whom investment management responsibility is delegated; authorization of the purchase and redemption of collective investment vehicles sponsored and managed by Investment Managers and the monitoring of the performance of those vehicles; prescribing from time to time the place and manner of safekeeping of securities and other investments of the Diocese and the manner of access to and withdrawal of the securities and investments.

The Investment Committee will regularly report to the Trustees material information regarding the Portfolio, including performance, exposure to particular asset classes, any changes that it makes to the investment guidelines, and other relevant information.

The Investment Committee will also present to the Trustees recommendations and resolutions for ratification regarding the engagement or termination of any Investment Advisor or Investment Manager or other consultants; new funds added to the Portfolio; funds withdrawn from the Portfolio; the transfer of funds from one Investment Manager to another, and other actions that require a Trustee resolution and vote.

## **Investment Managers**

In selecting and monitoring Investment Managers, the Investment Committee will consider: the liquidity of the Investment Manager's portfolio of underlying securities; industry exposure and diversification; portfolio volatility, and other measures of portfolio risk; use of borrowing and leverage; transparency of Investment Manager reporting; terms of investment, including fees and lock ups; operational considerations (e.g., custody, brokerage, proxy voting and securities lending); and potential conflicts of interest.

Investment Managers may be granted full investment discretion regarding the purchase and sale of individual securities or investments within their investment style and consistent with the objectives and directions of the Investment Committee. Investment Managers are not permitted to deviate from their investment strategies without the written approval of the Investment Committee. It is in the discretion of the Investment Committee whether to enter into a separate account relationship with a particular Investment Manager or to purchase an interest in a fund vehicle offered by the Investment Manager, based upon the offer of the Investment Manager and other applicable factors.

## **Standards for Prudent Investing**

In managing the Portfolio, the Investment Committee shall consider both the purposes of the overall portfolio and the purpose of any specific fund. Management and investment decisions about an individual asset will be made in the context of the portfolio as a whole and as part of an overall investment strategy having risk and return objectives reasonably suited to the Diocese. Except as a donor's gift instrument otherwise requires, and consistent with the New York Prudent Management of Institutional Funds Act (NYPMIFA), the following factors shall be considered by the Committee, if relevant, in managing the Portfolio: general economic conditions; the possible effect of inflation or deflation; the expected tax consequences, if any, of investment decisions or strategies; the role that each investment or course of action plays within the Diocese's overall Portfolio; the expected total return from income and the appreciation of investments; the needs of the Diocese and an asset's special relationship or special value, if any, to the purpose of the Diocese.

### **Investment Objective**

The purpose of the Portfolio is to provide an Endowment in perpetuity for the Diocese and annual income to supplement the budget for the administration and programs of The Diocese.

The funds in the Portfolio, excluding those required for short-term needs, are therefore treated as long-term assets managed to maintain the purchasing power of those assets in the future, while allowing for the cash flow and liquidity required for the administration and programs of the Diocese.

The long-term investment objective is to achieve a rate of return in excess of inflation at an acceptable level of risk for the Portfolio. The overall return will be evaluated against a policy portfolio benchmark consisting of the sum of different asset class benchmarks weighted in accordance with the long-term policy targets.

### **Risk Management**

Portfolio volatility and risk are managed in keeping with pertinent metrics that enhance the Investment Committee's ability to evaluate risk exposure of the Portfolio. Total portfolio risk exposure and risk-adjusted return will be regularly evaluated.

### **Asset Allocation**

The responsibility for establishing the strategic asset allocation for the Portfolio rests with the Investment Committee. The Portfolio will be diversified across asset classes and managers, providing a balance that will enhance the total return of the portfolio while attempting to avoid undue risk concentration. With significant allocations to asset classes that have different risk and return characteristics, the Diocese maintains a highly diversified portfolio that is expected to generate strong returns and reduce volatility over the long term.

The asset allocation guidelines call for a long-term target allocation as well as a range around that target. The targets and ranges in effect as of December 1, 2016 are shown in Exhibit A. The Investment Committee may revise the targets and ranges from time to time. As both the targets and ranges are long term in nature, it is expected that they will change infrequently.

## **Reallocation**

On a periodic basis, at least semi-annually, the Investment Committee determines whether the allocations need to be strategically or tactically re-allocated, and reviews and assesses the asset allocation targets. The Investment Committee will formally review the asset allocation during its annual review of this Investment Policy.

## **Leverage**

The investment funds may be invested with Investment Managers that employ leverage to enhance returns with appropriate risk exposure. The Investment Committee will monitor leverage exposure and related tax considerations.

## **Diversification**

The Investment Committee seeks to ensure an appropriate diversification of the portfolio by asset class, sector, and geographic region.

## **Periodic Reports**

Investment Managers are required to provide quarterly reports that include performance; portfolio characteristics, summarized by key investment factors; portfolio holdings in total; and valuation. In addition, each Investment Manager and Investment Consultant is required to supply an annual report of their firm. Custodians of assets under management by Investment Managers are required to provide monthly custodial reports.

## **Changes in Investment Strategies and Investment Professionals**

Prior to any change in investment strategy by the Investment Managers, such change should be communicated to the Investment Committee. Except with regard to investments that have their own terms relating to changes in management (e.g., alternative investments), significant changes in investment professionals as well as portfolio for the assets under management should be communicated to the Investment Committee.

## **Socially and Environmentally Responsible Investment Strategy**

In evaluating potential investment strategies, priority shall be placed on identifying investments that are aligned with the Diocese's mission of contributing to a more just, sustainable, and peaceful world. In response to the Gospel, to the challenge of responsible stewardship and to the Church's ethical teachings, the Diocese makes investment decisions taking into consideration both economic and financial factors and social justice and environmental justice factors. The Diocese is a steward of the financial gifts it has received. The Diocese has the responsibility to cultivate these gifts in order to promote the Gospel and to support, further and increase the mission of the Diocese.

The Diocese seeks over time to invest in funds that specialize in generating risk-adjusted returns while also incorporating environmental, social, and corporate governance ("ESG") issues and restriction of investments in fossil fuels into investment analysis and decision-making processes.

**Annual Draw**

The spending rate as of December 1, 2016 is 4.5%. The annual draw is calculated by applying the spending rate to the average of market values of the Portfolio at the end of June, for each of the prior three June quarters.

**Conflict of Interest**

Each Trustee, member of the Investment Committee, Officer, and Office of Finance and Operations staff member is required to abide by the Conflict of Interest Policy of the Diocese. In the case of a conflict of interest, the existence and resolution of the conflict shall be documented in the Diocesan records, including in the minutes of any meeting at which the conflict was discussed or voted upon.

**Confidentiality**

Members of the Investment Committee, Diocesan staff and Investment Advisors involved with investments are expected to maintain the confidentiality of information obtained by virtue of their positions. Information obtained solely by virtue of one's position on the Investment Committee, as a member of the staff, or as an Investment Advisor (and not from other sources or relationships) is not to be used for personal financial purposes.

**Exhibit A**  
**Asset Allocation**

<b>Asset Class</b>	<b>12/31/15 Asset Allocation</b>	<b>Target Allocation</b>	<b>Minimum</b>	<b>Maximum</b>
<b>Equity</b>	40%	50%	30%	70%
<b>Fixed Income</b>	16%	30%	20%	40%
<b>Alternatives</b>	27%	15%	15%	30%
<b>Cash</b>	16%	5%	0%	20%

## **Appendix B**

### **Implementation of Investment Policy Including Socially and Environmentally Responsible Investing**

The Diocese invests in funds managed by outside Investment Managers. As of December 1, 2016, those funds were managed by three Investment Managers: Diocesan Investment Trust; Church Investment Group / Hirtle Callaghan; and Fernwood.

The Investment Committee has invested a portion of the Portfolio in the fund vehicle of the Diocesan Investment Trust (the "DIT"), which is overseen by the Trustees of the Estate and Property of the Diocese. The investment vehicle selection, asset allocation, and the spend rate for that portion of the Portfolio are determined by the Trustees of the Estate and Property of the Diocese, not by the Investment Committee or the Trustees of the Diocese.

The Investment Committee and Trustees of the Diocese support and encourage the ongoing substantive review by the Diocesan Investment Trust of its investment policies and practices with regard to adopting ethical guidelines for socially and environmentally responsible investing.

The Investment Committee and Trustees are implementing a socially and environmentally responsible investment policy for its funds overseen by the Church Investment Group / Hirtle Callaghan by the inclusion of the following funds now offered by them (along with funds in other asset classes for which suitable ESG funds are not yet available): The Portfolio is invested in pooled funds managed by outside Investment Managers, which limits the Diocese's ability to unilaterally adopt a new investment policy for the funds.

- Hirtle Callaghan's ESG Growth Fund, which utilizes highly sophisticated third party data and ratings to build in ESG performance through a passive quantitative process. Managed by Mellon Capital and Cadence Capital Management.
- Fixed Income. Sophisticated third party data and ratings enable corporate bond managers to integrate ESG performance into their investment process. Managed by Breckenridge Capital.

The Diocese seeks over time to minimize its exposure to the equity and fixed-income securities of fossil fuel companies, tobacco companies and firearms companies and at this time to reduce such exposure through investing in the CIG/HC ESG Growth Fund and the CIG/HC ESG Core Fixed Income Fund screened to exclude those companies. For this purpose, the screened companies would be companies identified by MSCI as tobacco manufacturers, companies which derive at least 10% of annual revenues from manufacture of firearms and companies in the following MSCI sub-industry classifications: Integrated Oil and Gas, Oil and Gas Exploration and Production, and Coal and Consumable Fuels.

#### **Community Development Investment Strategy**

The Investment Committee continues to explore the possibility of using a portion of the Portfolio's assets for socially responsible investment by providing capital for communities and groups that lack full and equal access to financial resources, thus promoting economic justice.

After further exploration and further discussion with community development financial services groups, the Investment Committee will make its recommendation to the Trustees.

**Periodic Review**

The Investment Committee shall review this socially and environmentally responsible investing strategy at least annually. Periodic review of Investment Managers will take into account the financial performance as well as the ESG screening capability and expertise of the Investment Managers and the investment funds they offer.