

Comprehensive Financial Policies  
Christ Evangelical Lutheran Church in Pacific Beach

**Appendix A Investment Policy Guidelines**

Adopted: 2/3/19

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3 **I. PURPOSE**

4 The objective of this policy is to assure a reasonable return for Christ Evangelical Lutheran Church  
5 in Pacific Beach (CELC)'s invested capital which ultimately will further our mission. This policy is set  
6 forth by CELC's Church Council in order to:

7 A. Define and assign the responsibilities of all involved parties.

8  
9 B. Establish a clear understanding for all involved parties of CELC's investment goals and  
10 objectives.

11  
12 C. Establish relevant Investment Horizons

13  
14 D. Offer guidance and limitations regarding investment of CELC assets.

15  
16 E. Establish a basis for evaluating investment results.

17  
18 F. Manage CELC assets in accordance with California law and with prudent standards as  
19 established in the Uniform Prudent Management of Institutional Funds Act (UPMIFA), "in good  
20 faith and with the care an ordinarily prudent person in a like position would exercise under  
21 similar circumstances." <sup>1</sup>

22  
23 In general, the purpose of this statement is to outline a philosophy and attitude which will guide  
24 investment management of CELC assets. It is intended to be sufficiently specific to be meaningful,  
25 yet flexible enough to be practical.

26  
27 **II. DEFINITIONS**

28 A. "Plan" shall refer to those assets outside of CELC's annual operating funds specifically and  
29 formally identified as such by the Church Council.

30  
31 B. "Finance Committee" shall refer to the governing committee established by the Church  
32 Council to administer Plan assets.

33  
34 C. "Investment Horizons" shall be the time periods over which the investment objectives set  
35 forth in this statement are expected to be met. Two *Investment Horizons* are used in this Plan:  
36 **Long Term** defined as three to five years (a typical market cycle) and **Short Term** defined as  
37 three years or less.

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39 D. "Fiduciary" shall mean any individual or group of individuals that exercises discretionary  
40 authority or control over Plan management or any authority or control over management,

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<sup>1</sup> California law always takes precedence over UPMIFA

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41 disposition or administration of the Plan assets.

42  
43 E. "Custodian" shall mean a specialized financial institution such as a brokerage or bank.

44  
45 F. "Securities" shall refer to the marketable investment securities which are defined as  
46 acceptable in this statement.

47  
48 G. "FINRA" shall mean the Financial Industry Regulatory Authority, an independent, non-  
49 governmental regulator for all securities firms doing business with the public in the United  
50 States, authorized by Congress to protect America's investors by making sure the securities  
51 industry operates fairly and honestly.

52  
53 **III. DELEGATION OF AUTHORITY**

54 The Finance Committee of CELC is responsible for directing and monitoring the investment  
55 management of CELC assets. As such, the Finance Committee is authorized at its discretion to  
56 delegate certain responsibilities to paid professional experts in various fields. If such experts are  
57 employed and deemed to be fiduciaries, they must acknowledge such in writing. All expenses  
58 deemed appropriate and necessary for such experts must be customary and reasonable, and will  
59 be borne by CELC.

60  
61 **IV. ASSIGNMENT OF RESPONSIBILITY**

62 The Church Council in consultation with the Finance Committee shall designate which funds are to  
63 be invested in the Plan and which are short-term and which long-term. They shall also project the  
64 financial needs (cash flows) of the Plan.

65  
66 The Finance Committee has responsibility for policy regarding management of Plan assets. The  
67 Finance Committee shall discharge its duties solely in the interest of the Plan, with the care, skill,  
68 prudence and diligence under the circumstances then prevailing, that a prudent person, acting in a  
69 like capacity and familiar with such matters, would use in the conduct of an enterprise of a like  
70 character with like aims. The specific responsibilities of the Finance Committee relating to  
71 investment management of Plan assets include:

72 A. Communicating the Plan's risk tolerance and *Investment Horizons* to appropriate parties.

73  
74 B. Establishing reasonable and consistent investment objectives, policies and guidelines which  
75 will direct investment of Plan assets.

76  
77 C. As deemed necessary, prudently and diligently selecting and employing qualified  
78 investment advisors and other professionals, using FINRA and other resources.<sup>2</sup>

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<sup>2</sup> Should CELC elect to employ active fund manager(s), this policy statement shall first be modified to describe said manager(s) responsibilities, constraints, objectives and performance evaluation criteria.

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80 **V. RESPONSIBILITY OF INVESTMENT ADVISORS(S)**

81 An Investment Advisor's role is that of a non-discretionary certified advisor to the Finance  
82 Committee. Advisors shall provide investment advice consistent with the investment objectives,  
83 policies, guidelines and constraints described in this statement. Specific responsibilities of  
84 Investment Advisors include:

85 A. Assisting in the development and periodic review of investment policy.

86  
87 B. Providing ongoing analysis of the global capital markets and consequential advice on overall  
88 plan structure and investment recommendations.

89  
90 C. Reviewing Plan investment history, historical capital markets performance and the contents  
91 of this investment policy statement with any newly appointed member(s) of the Finance  
92 Committee upon request.

93  
94 **VI. GENERAL INVESTMENT PRINCIPLES**

95 A. Investments shall be made solely in the interest of the beneficiaries of CELC.

96  
97 B. The Fund shall be invested with the care, skill, prudence, and diligence under the  
98 circumstances then prevailing that a prudent person acting in like capacity and familiar with  
99 such matters would use in the investment of a Fund of like character and with like aims.

100  
101 C. Investment of long-term funds shall be diversified so as to minimize the risk of large losses,  
102 unless under the circumstances it is clearly prudent not to do so.

103  
104 D. Investment of short-term funds shall employ the use of short-term cash equivalents and  
105 fixed income securities maturing in three years or less which provide safety (preservation of  
106 capital), liquidity, and return.

107  
108 E. Separate accounts shall be used for short-term and long-term funds.

109  
110 **VII. INVESTMENT MANAGEMENT POLICY**

111 A. Preservation of Capital - Investments shall be selected making reasonable efforts to  
112 preserve capital, understanding that losses may occur in individual securities.

113  
114 B. Risk Aversion - Understanding that risk is present in all types of securities and investment  
115 styles, the Finance Committee recognizes that some risk is necessary to produce long-term  
116 investment results sufficient to meet CELC's objectives.

117  
118 C. Withdrawals - Authority to withdraw from short-term funds and earnings from long-term  
119 funds is delegated to the Council and Finance Committee. Authority to withdraw principal from  
120 long-term funds shall require congregational approval.

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**VIII. SOCIAL RESPONSIBILITY**

The Finance Committee recognizes CELC’s unique role as a Christian stewardship resource for our church members and the Evangelical Lutheran Church in America. We choose to invest in institutions and corporations which make a positive contribution toward the realization of goals outlined in the Social Principles of our Church<sup>3</sup>.

**IX. INVESTMENT OBJECTIVES**

- A. Short-term investment objectives:  
Preservation of Principal and Purchasing Power - Minimize risk of capital loss while seeking returns meeting or exceeding the rate of inflation over the Investment Horizon.
  
- B. Long-term investment objectives:  
Income and Growth - To achieve a balanced return of current income and growth of capital commensurate with Investment Horizon and assumed risk.

**X. VOLATILITY OF RETURNS**

Church Council and Finance Committee understand that in order to achieve the objectives for Plan assets, the Plan will experience volatility of returns and fluctuations of market value. For short-term investments, we support an investment strategy that minimizes the probability of principal loss. However, for long-term investments we understand that the Plan’s long-term return objectives are its primary concern.

**XI. LIQUIDITY**

To minimize the possibility of loss occasioned by an unplanned sale of a security forced by the need to meet an unplanned expense, the Church Council shall no less frequently than semi-annually provide the Finance Committee with an estimate of expected net cash flow in order to allow sufficient time to build up necessary liquid reserves.

**XII. INVESTMENT GUIDELINES**

Allowable Assets <sup>4</sup>

- A. Cash Equivalents
  - Treasury Bills - US Government debt obligations with maturities less than one year.
  - Money Market Funds - portfolios comprised of high-quality debt and monetary instruments with maturities less than one year.
  - Commercial Paper - unsecured, short-term debt instruments issued by corporations, typically to finance accounts receivable, inventories, and short-term liabilities.
  - Banker's Acceptances - short-term credit investment created by a non-financial firm

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<sup>3</sup> *SOCIAL CRITERIA INVESTMENT SCREEN* APPROVED by the ELCA Church Council- November 2016 [CC16.11.46n]  
<sup>4</sup> Suggested standards for these guidelines include: the Advisors Act of 1940 and/or criteria included within Financial Accounting Standards Board (FASB) standards.

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and guaranteed by a bank.

- Repurchase Agreements - government securities dealers sell securities to investors, usually on an overnight basis, and buy them back the following day.
- Certificates of Deposit - savings certificates with fixed interest rates and maturity dates.

**B. Fixed Income Securities**

- U.S. Government Notes and Bonds - US Government debt obligations with maturities greater than one year.
- Government-Sponsored Enterprise (GSE) Bonds - debt obligations explicitly or implicitly backed by the U.S. Government, issued by entities such as Fannie Mae, Freddie Mac, Sallie Mae, and the Federal Home Loan Banks.
- Treasury Inflation-Protected Securities (TIPS) - Treasury note or bond that, like other Treasuries, pays interest every six months and pays the principal when the security matures. The coupon payments and principal are automatically increased to compensate for inflation as measured by the consumer price index (CPI).
- Corporate Notes and Bonds - debt obligations issued by private companies.
- Foreign Bonds - government and corporate debt obligations issued in markets outside the U.S.
- Preferred Stock - class of corporate ownership with a higher claim on assets and earnings than common stock. Preferred stock generally has a fixed dividend that must be paid out before dividends to common stockholders.

**C. No Load Mutual Funds** are the preferred investment instruments for CELC especially those passively managed to reflect broad market indexes. These are funds which invest in equity securities as allowed in this statement. Mutual funds are products of investment companies that sell shares in a pool of assets and invest the proceeds in other assets, usually stocks and bonds.

**D. Equity Securities**

- Exchange Listed Common Stocks - securities that represent ownership in corporations.
- Convertible Bonds - bonds that may be converted into a predetermined amount of common stock at certain times, usually at the discretion of the bondholder.
- Convertible Preferred Stocks - preferred stocks that may be converted into a predetermined amount of common stock at certain times.
- American Depository Receipts (ADRs) of Non-U.S. Companies - certificate issued by a U.S. bank representing shares in a foreign stock traded on a U.S. exchange.
- Real Estate Investment Trusts - securities that sell like stocks on the major exchanges and invest in real estate directly, either through properties or mortgages.

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E. Derivatives – not allowed.

**XIII. ASSET ALLOCATION GUIDELINES**

Investment management of the assets of CELC shall be in accordance with the following asset allocation guidelines:

A. Long-Term Asset Allocation Guidelines (at market value) shall be:

Asset Class	Min.	Max.	Preferred
Equities	80%	90%	85%
Fixed Income	10%	20%	15%
Real Assets	0%	0%	0%
Cash & Equivalents	0%	5%	0%

B. Short-Term Asset Allocation Guidelines (at market value) shall be:

Asset Class	Min.	Max.	Preferred
Equities	0%	0%	0%
Fixed Income	0%	80%	65%
Real Assets	0%	0%	0%
Cash & Equivalents	0%	100%	35%

C. Rebalancing - Actual Plan allocations shall be reviewed at least semi-annually and when the portfolio is in violation of its specific guidelines, action shall be taken as promptly and prudently as possible to bring the portfolio into compliance.

**XIV. FIXED INCOME INVESTMENTS AND CASH EQUIVALENT GUIDELINES**

Average credit quality should be A (or equivalent) or better

Fixed income maturity restrictions are as follows:

- Weighted average portfolio maturity:
  - Long Term, may not exceed 10 years
  - Short Term, may not exceed 3 years
  
- Weighted average portfolio duration:
  - Long Term, may not exceed 7 years
  - Short Term may not exceed 2 years
  
- Money Market Funds selected shall contain securities whose credit rating at the absolute minimum would be rated investment grade by Standard and Poors and/or Moody's.

**XV. INVESTMENT POLICY REVIEW**

To assure continued relevance of the guidelines, objectives, financial status and capital

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231 markets expectations as established in this statement of investment policy, the Finance  
232 Committee and Church Council shall review this investment policy at least annually. Should  
233 CELC elect to employ active fund manager(s), this policy statement shall first be modified to  
234 describe said manager(s) responsibilities, constraints, objectives and performance evaluation  
235 criteria.