

## ***Endowments***

### **OFFICE OF THE BISHOP**

From: Bishop Pierre DuMaine

Date: November 2, 1993

At the Joint Meeting of my Board of Consultors and Financial Council on Tuesday, October 19, 1993, the following guidelines for parish endowment funds throughout the Diocese were unanimously recommended to me for adoption and promulgation. I am pleased to present them to you as an instrument of stewardship for the gifts that our people place in our trust for furthering the work of the Gospel. Should you have any questions about the guidelines or their implementation, please do not hesitate to contact the Vicar General for assistance.

#### **1. Establishment**

- A. Any endowment fund for a parish or its school must be established by a written document approved by the Bishop and maintained in both the parish and diocesan archives. The document will detail:
  - 1. that the parish is the sponsoring entity;
  - 2. the permitted purposes for which the income of a given fund may be used are to be explicitly stated and must include, as a minimum, the purpose "general operations";
  - 3. the tax exempt character of the sponsoring entity, i.e., The Roman Catholic Bishop of San Jose, a (California) corporation sole;
  - 4. procedures for operation; and
  - 5. a plan for distributing the corpus of the endowment according to canonical procedures should the parish or entity for which the endowment was established cease to exist.
  
- B. Specific gifts or bequests for endowment purposes may be accepted, and insofar as possible, conformed to paragraph A.
  
- C. A parish will be permitted to establish an endowment fund either for itself or its school from undesignated funds only on the following conditions:
  - 1. The parish and school are both current on all obligations;
  - 2. The parish is making annual deposits to the Deposit and Loan Fund and/or expenditures for maintenance equal to at least two-and-a-half percent (2.5%) of the insured value of its fixed assets.

- D. Endowment Funds established prior to the publication of these guidelines are to be brought into conformity with the guidelines as soon as practicable provided that doing so does not conflict with either the known intent of donors or published solicitation materials.

## 2. Operation

- A. Once an endowment fund is established, a parish may solicit gifts for or commit undesignated funds to it only if the tests for establishment were met in the previous fiscal year.
- B. Only the income from an endowment fund may be used unless the parish or school ceases to exist.
- C. The income of any endowment fund will be disbursed at the direction of the Pastor upon advice from the appropriately established financial council and/or school board.
- D. All gifts and funds committed to endowment will be invested in the Diocese of San Jose's Investment Pool. Transfers to the Pool are to be made on a quarterly basis.

# **THE DIOCESE OF SAN JOSE INVESTMENT POOL**

## **STATEMENT OF INVESTMENT POLICY**

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**STATEMENT OF INVESTMENT POLICY**

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**INTRODUCTION**

The purpose of The Diocese of San Jose Investment Pool is to provide current income while safeguarding the asset value of Pool participants. The Pool has been organized to provide a vehicle for parishes, schools and agencies to secure professional management for their long term assets other than real estate. The Bishop has delegated the authority to appoint an investment manager and adopt an investment policy to the Financial Council.

**SECTION 1 – INVESTMENT POLICY**

**1.1 Asset Allocation**

The Council has determined the following asset allocation limits. These limitations are consistent with the desired objectives and risk tolerances of the Pool.

**Summary of Asset Allocation**

Asset Class	Policy Index	Allocation Bands		Target Benchmarks
	Target	Low	High	
<b>Equities:</b>	<b>60%</b>	<b>30%</b>	<b>70%</b>	<b>Blended, based on actual allocation</b>
U.S. Equities		30%	70%	S & P 500 Index
Non-U.S. Equities		10%	50%	MSCI EAFE
<b>Fixed Income:</b>	<b>40%</b>	<b>30%</b>	<b>70%</b>	<b>Barclays Government/Corporate Index</b>
<b>Cash &amp; Cash Equivalents:</b>	<b>0%</b>	<b>0%</b>	<b>20%</b>	<b>90-Day T-Bills</b>
<b>Total Portfolio:</b>	<b>100%</b>			

**1.2 Exception**

The above limitations may be altered to either reduce market risk or optimize opportunities to capitalize on expected market movement. Such strategic decisions may not be made without the Council's prior approval.

**1.3 Liquidity**

Investment Manager needs to maintain sufficient liquidity in order to meet quarterly disbursements of earnings.

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**SECTION 2 - INVESTMENT OBJECTIVES**

**2.1 Objectives**

- (a) The fund should experience long term growth in fund assets.
- (b) Additions should be invested in accordance with prudent fiduciary practice.
- (c) That growth in assets should be experienced with reasonable levels of risk and volatility of return compared to the "target benchmarks" in Section 1.1.
- (d) The long term investment rate of return should equal or exceed the prudent returns as measured by the "target benchmarks" in Section 1.1.
- (e) The short term investment rate of return should exceed the "target benchmarks" in Section 1.1 measured over any three to five year period or a market cycle, defined as one in which is included both a rising market (bull market) and a declining market (bear market).

**2.2 Monitoring**

These objectives will be monitored and reviewed quarterly by the Council (See Section 4).

**SECTION 3 - INVESTMENT MANAGEMENT GUIDELINES**

**3.1 Fixed Income Securities**

(a) Quality

Only marketable debt issues should be held for fixed income investment. (Only investment grade convertible securities will be considered Fixed Income Securities for the purpose of this document.) Issues held should have a minimum quality rating of "A" as designated by either Moody's Investors Service (Moody's) or Standard and Poor's Corporation (S & P). Commercial paper should be investment grade.

For purpose of pooled funds offered by insurance companies or banks, the institution offering the fund must have the highest rating in its industry, as defined by a recognized rating service.

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(b) Maturity

The average maturity date of the portfolio may range from three years to ten years.

(c) Selection

The selection of these issues is the responsibility of the Investment Manager.

(d) Limitation

The maximum investment in anyone fixed income security will be limited to 5% of the fixed income portfolio, at actual cost value (government guaranteed issues are excluded from this concentration limit).

**3.2 Equities**

Equities include common stocks, mutual funds, and exchange traded funds.

(a) Quality

(i) The security must be traded daily on one or more major exchanges, or be a qualified mutual fund or equivalent.

(ii) Not more than 15% of the equity portfolio (at cost) shall be invested in companies having \$50 million or less of market capitalization; or companies which do not have at least five years of (publicly held) earnings history either as a stand-alone company, or as a separately identifiable subsidiary, division, or line of business; or have not been profitable in at least 3 of the last five years.

(iii) Stockholder rights should be sufficient for the reasonable exercise of ownership prerogatives.

(b) Selection

The selection of these issues is the responsibility of the Investment Manager.

(c) Limitation

The maximum investment in anyone equity security will be limited to 5% of the total portfolio at market value.

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**3.3 Commingled Vehicles**

When commingled vehicles, such as mutual funds, bank common trust funds, or insurance company separate investment accounts and guaranteed interest contracts, are used for investment purposes, the relevant quality criteria in 3.1 or 3.2 above shall apply to the overall portfolio, not anyone specific holding.

**3.4 Social Responsibility**

No assets shall be invested in securities of any organization that does not meet the standard for socially responsible investment established by the US Council of Bishops and communicated separately in writing to the Investment Manager (Cf Attachment A).

**3.5 Conflicts of Interest**

The Investment Manager shall not cause the Pool to engage in any transaction which is prohibited by Section 4975 of the Internal Revenue Code, such as the following:

- (a) Purchases or sales of assets between the Pool and the Investment Manager or any affiliate.
- (b) Loans of property between the Pool and the Investment Manager or any affiliate.
- (c) Purchases, sales, or other transactions in connection with which the Investment Manager or any affiliate receives any payment for its own account, whether as underwriter, investment banker, or broker.
- (d) Exemptions

The transactions described above should generally be avoided. However, a transaction may be entered into with the prior written consent of the Council and subject to satisfaction of any requirements of the exemption (such as notice, limitations on compensation received, or retention and availability of records).

**3.6 Diversification**

The purpose of diversification is to provide that no single investment, security, class of investments of industry group will have a predominate position in the portfolio of investments.



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(a) Equities and Fixed Income

In order to minimize the risk of large losses in individual security positions, the portfolio will be constructed to attain diversification in both equity and fixed income investments with no material concentration of plan assets in any single security or industry group, with the exception of U.S. Government obligations.

(b) Limitations

With respect to limitations on positions held, refer to the relevant limitations in Section 3.1(d) and 3.2(c).

(c) Industry

With regard to industry diversification, it is expected that the Investment Manager will invest in a variety of industry groups to ensure diversification, not to exceed 2 ½ times the industry weighting.

## **SECTION 4 - REVIEW PROCEDURES**

### **4.1 Review of Investment Policy**

This Statement of Investment Policy, or any part thereof, will be reviewed by the Financial Council whenever, in its opinion, circumstances change to the extent that the policy or any part thereof is ineffective or inappropriate.

### **4.2 Performance Review**

(a) Quarterly Reports

The CFO expects to consult quarterly with the Investment Manager to review investment results and will present that information to the Investment Committee of the Diocesan Finance Council, or in its absence, directly to the Diocesan Finance Council.

The performance review will focus on:

- (i) Adherence to investment policies and guidelines.
- (ii) Comparison of results against the Pool's index fund as described in 4.2 below.

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(b) Investment Performance Reports

Independent Investment Performance Reports will be provided quarterly. Investment Manager performance will be compared to the objectives in Section 1.1.

The Investment Manager's performance will be compared to the performance of a composite plan objective measurement index ("plan index fund") created from the separate classes of investment or indices in Section 1.1. The purpose of the "plan index fund" is to compare the Investment Manager's composite performance to the performance the plan would be experienced had investments been made in the "plan index fund" instead of in the securities selected by the Investment Manager.

Although quarterly reports will be used as interim guideposts, returns over rolling three year periods are considered more meaningful and both the consistency and average characteristics of the portfolio will be considered.

**4.3 Investment Manager Report**

(a) Other Reports and Notices

- (i) Actual and prospective changes in investment philosophy and investment strategy.
- (ii) Economic and market analysis.
- (iii) Other reports the manager decides are relevant.

(b) Investment Strategy or Process

The Investment Manager should articulate his specific approach or strategy in advance and advise the Diocesan Finance Council of any revisions or changes in his process. (For example, if the manager has a "balanced fund strategy" it should be explained in detail).

**4.4 Tenure**

While the relationship with the Investment Manager is expected to be ongoing, the Council reserves the right to terminate the plan's relationship with the Investment Manager at any time it deems it necessary to do so, as provided in the Investment Management Agreement.

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**SECTION 5 – DISTRIBUTION POLICY**

**5.1 Purpose**

The Purpose of the distribution policy is to apply a disciplined and rational approach to moving money from the endowment to the operating budgets and making sure that it is done on a predictable, consistent basis for Endowment Funds and non-Endowment Funds.

**5.2 Distribution Policy for Endowment Funds**

Distributions from Endowments will be based on the current Payout Rate multiplied by the average market value of the Fund over the previous 12-quarters. Distributions are not required and distributable amounts may be retained in the Investment Pool. Distributions may be scheduled on a quarterly, on a pro-rated basis.

**5.3 Payout Rate**

The Payout Rate will be determined annually by the Investment Committee of the Diocesan Finance Council and approved by that Council. This rate should be set no later than March of each year. The Payout Rate should be maintained between a 5% spending cap and a 3% floor to help moderate distributions during particularly volatile periods.

**5.4 Distribution Policy for non-Endowment Funds**

Distributions from non-Endowment Funds held in the Investment Pool may be made at any time based on written request from the owner of the funds. Owners of non-Endowment Funds may request distributions be based on the same basis as that used for Endowment Funds.