

Mid-Kentucky Presbytery

Investment Policy

Finance Committee

Approved June 14, 2005

## **I. Purpose**

The Finance Committee of Mid Kentucky Presbytery is charged in the presbytery's by-laws with directing the investment of the presbytery's funds. Section 7.4.1 of the Mid-Kentucky Presbytery Standing Rules (effective 2/16/2002) states, The Presbytery "Shall be responsible for oversight and coordination of all fiscal matters for the Presbytery.

The Finance Committee shall direct the investment of all funds held by the presbytery, having as its objective the safety and productivity of the funds. The Committee shall strive to exercise Christian social responsibility through its investment policy by observing the guidelines approved by the presbytery.

## **II. Ethical Guidelines**

The Finance Committee recognizes that the presbytery's primary ministry is to serve Jesus Christ by assisting its member churches and ministers in answering and following God's call through mission, education, congregational development, worship, prayer and stewardship.

The presbytery recognizes its connection with the Presbyterian Church (U.S.A.) and its responsibility to follow General Assembly guidelines and the Book of Order. At the same time, the presbytery affirms its responsibility under its Articles of Incorporation to use its best judgment in assessing how Christian ethical principles might be applied to its investments.

In carrying out its responsibility to manage the presbytery's investments, the Finance Committee is guided by a theology of stewardship based on the biblical affirmation of the goodness of God's creation and the summons by God to use the gifts entrusted to us for the sake of the mission of the Church and the preservation and enhancement of the created world. The Finance Committee further recognizes that its stewardship includes the trust placed in the presbytery by its member churches to use the resources of the presbytery for developing God's ministry within the geographical bounds of the presbytery and beyond.

The theological basis for the Finance Committee's management of the presbytery's funds are the Book of Confessions, the Book of Order (chapters 1-4) and The Directory for the Service of God chapter S-6.0500.

The portfolio managers and investment professional investment advisors will be advised that the Finance Committee and the presbytery advises them to invest in companies that behave as responsible citizens in all communities in which they serve or operate; for example companies that:

- a) Produce products or services that preserve the environment in which people live
- b) Support the economic development of women and disadvantaged minorities
- c) Development programs that treat all employees equally with regard to opportunities for advancement
- d) Produce and sell products and/or services primarily for civilian markets
- e) Provide full and fair disclosure to its employees, customers, shareholders, and the public at large
- f) Create an environment where not only adherence to the letter of the law is demanded but also faithfulness to the spirit of the law
- g) Protects the health of its employees and its neighbors

The Finance Committee will supplement its own investment guidelines with the ethical guidelines of the following strategies:

- a) If more than 10% of the value of the portfolio holdings or the holdings of any one investment manager is ethically problematic either to the presbytery or the Presbyterian Church (U.S.A.), the Finance Committee will communicate its concern to the appropriate manager or investment advisor.
- b) In the event that the Finance Committee fails to receive an acceptable response, the Finance Committee could change investment advisors or portfolio managers. The Finance Committee shall review its investments at least two times a year near the middle and end of each calendar year.

### **III. Investment Objectives**

The Finance Committee shall manage two or three investment funds or portfolios, which could include a growth fund or portfolio, a value fund or portfolio, and a fixed income fund or portfolio as described below. The Finance Committee shall engage the services of an independent investment advisor or portfolio manager as it deems appropriate, to advise, direct, and prescribe investments for the presbytery's funds. The Finance Committee may give the investment advisors or portfolio managers discretion in the selection of securities within the parameters of this policy.

#### **Growth**

A fund or portfolio that seeks to provide capital appreciation by investing primarily in stocks of companies believed to offer above average growth potential. This fund or portfolio may invest in large, medium or small companies.

#### **Value**

A fund that seeks to enhance the inflation adjusted principle value of the principal of the assets and to provide a stable

and increasing stream of earnings. This portfolio will invest in larger companies that produce increasing dividends.

## Fixed Inc

A fund that seeks to maximize cash income while preserving the principal value in nominal terms. This portfolio will consist of fixed income instruments including but not limited to corporate bonds, US treasury bills, notes, and bonds, real estate investment trusts, foreign government and corporate debt, and preferred stocks.

### Asset Mix as a % of Market Value

	Target	Permissible Range
Growth	40 %	30-60%
Value	20	10-30
Fixed Income	33	25-45
Cash	7	5-10

#### IV. Investment Universe

Investments may be made by portfolio managers and investment advisors in the following categories: U.S. common stock, American Depository Receipts (ADR's), preferred stock, convertible stock, corporate bonds, debt securities issued or guaranteed by the U.S. government, its agencies, or instrumentalities, asset-backed securities, mortgaged backed securities, certificates of deposit, short term loans to banks, and short term money market instruments.

International securities can represent no more than 20% of the portfolio.

Investments may not be made in margin purchases, hedging, short sales, options, commodities, oil, gas or mineral leases, mineral rights royalty, contracts, letter stock purchases, privately placed securities, real estate mortgages, leaseback's, land loans, or equity real estate.

The Finance Committee may pursue other investments not specifically excluded in this section it considers appropriate for the presbytery's funds.

#### V. Diversification

Investments in each fund or portfolio shall be diversified geographically, across industries, and business sectors. International investments shall be diversified

across political regions, with particular attention paid to the political stability of the governing bodies and the region.

The securities of any other issuer (other than debt securities issued or guaranteed by the U.S. government, its agencies or instrumentalities) shall not represent more than 10% of the market value of assets under any manager's or advisor's supervision.

Total investment in any industry as defined by Standard & Poor's shall not exceed 25% of the total market value of a fund.

Total investment in any company shall not exceed 10% of the total market value of a fund.

## **VI. Restrictions**

- a) There shall be no restrictions on the purchase of fixed income securities if the United States Treasury or an agency of the United States Government issues those securities.
- b) Corporate bonds rated below investment grade "A" as measured by Moody's or "a" by Standard and Poor's shall not represent more than 10% of the value of the portfolio.
- c) Short term securities shall be limited to those issued by the United States Treasury, an agency of the United States Government, commercial paper rated not lower than P-2 by Moody's or A-2 by Standard and Poor's, negotiable certificates of deposit, short term loans to banks, and bank time deposits of the 50 largest banks in the United States with a rating not lower than "AA" by Moody's or Standard & Poor's, or of other banks in the United States when such certificates of deposit, bank loans, or time deposits are fully insured by an agency of the federal government, and repurchase agreements covering above securities.
- d) The average maturity of the bond and the U.S. Government portions of any of the investment funds managed by the presbytery shall be between 1 and 15 years.

## **VII. Supervision**

- a) The Finance Committee shall have direct responsibility for the oversight and management of all funds, and for the establishment of investment policies and procedures.
- b) The Finance Committee shall have the power to engage or discharge investment managers, advisors, custodians, or other fiscal agents.
- c) The performance of the investment managers shall be reviewed at least quarterly by the Finance Committee or the Asset Management Sub-Committee appointed by the Finance Committee. The Asset

Management Sub-Committee shall report to and review the investments with the Finance Committee at least twice annually. Investment managers who fail to meet the following guidelines over rolling three year fiscal periods shall be subject to review for retention by the Asset Management Committee:

#### Growth/Value Investments

- a) Over three consecutive quarters, the performance is expected to rank in the top one-third of its universe composed of managers following a similar investment style:
- b) The performance of the portfolio after management fees is expected to exceed the Standard and Poors 500 by 1% per year; (3) The volatility of the returns, as measured by the standard deviation of quarterly returns, should not be greater than the Standard and Poors 500. (4) The R-Squared Ratio should be at least 70% of its peer group.

#### Fixed Income

- a) Over three consecutive quarters, the performance is expected to rank in the top one-third of its universe composed of portfolios with a similar investments, maturity periods and quality;
- b) The R-Squared Ration should be at least 70% of its peer group.

#### Cash Reserves

The cash reserves rates of return, after management fees, are expected to exceed the returns of one half of the rates of returns for cash reserve funds.

## **VII. Amendments**

This policy can be amended or replaced by a majority vote by the Finance Committee and as directed by Mid Kentucky Presbytery.

The Investment Policy shall be reviewed at least annually by the Asset Management Committee.