

UNITED METHODIST FOUNDATION OF NEW ENGLAND
STATEMENT OF INVESTMENT POLICY, OBJECTIVES AND GUIDELINES
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United Methodist Foundation of New England Statement of Investment Policy, Objectives and Guidelines

I. THEOLOGICAL STATEMENT

The biblical imperative of the stewardship of all that God has entrusted to God's children is applicable in many contexts, including financial resources. That imperative does not end with a responsibility for the use and benefit of material blessings in the making of disciples of Jesus Christ, but extends to a responsibility for the careful and responsible growth of those blessings. Just as Jesus spoke of the servant who multiplied the talents of his master, so are Christians to multiply God's blessings through stewardship that is both fiscally sound and socially responsible.

II. DESCRIPTION OF THE FOUNDATION

The vision of the United Methodist Foundation of New England ("UMFNE" or the "Foundation") is to be the leading financial and educational stewardship resource center for United Methodists. The Foundation seeks to energize the ministries of United Methodist churches and related agencies by providing financial services and educational programs that promote faithful stewardship. Among the financial services offered by the Foundation are competitively priced, socially responsible investment solutions for United Methodist churches and related agencies with endowments and other assets to invest. On behalf of all of its participant churches and agencies, UMFNE uses its position as an equity shareholder to promote the Social Principles of the United Methodist Church through shareholder advocacy. In addition, its portfolios are screened for consistency with the Social Principles in accordance with the Book of Discipline of the United Methodist Church.

UMFNE promotes four core values:

- Integrity: Serve faithfully with prudence and loyalty dedicated to the Social Principles of the United Methodist Church.
- Competence: Provide superior educational, investment and financial administration services.
- Christ-centered: Recognize the Foundation's work as a God-given ministry.
- Teamwork: Work with and support the missions of those UMFNE serves.

The Foundation has established and administers a number of collective investment funds (the "Funds") for the investment and reinvestment of funds entrusted to it by United Methodist churches and related agencies. The Funds consist of the Stock Fund, the Fixed Income Fund, the Balanced Growth Fund, the Balanced Income Fund, the Endowment Fund and the Money Market Fund. Each Fund is operated as a common trust fund established pursuant to New Hampshire law of which the Foundation is a trustee, and each church or agency that invests its moneys with the Foundation receives non-transferable units of participation in each Fund in which it invests.

The assets of the several Funds are pooled for investment management purposes in one or more of three asset pools, each of which is professionally managed. These asset pools are the Stock Pool, the Bond Pool and the Money Market Pool. The assets in the Stock Fund, the Fixed Income Fund and the Money Market Fund are invested in the Stock Pool, the Bond Pool and the Money Market Pool, respectively. The assets in the Balanced Growth Fund are invested 60% in the Stock Pool and 40% in the Bond Pool. The assets in the Balanced Income Fund are invested 60% in the Bond Pool and 40% in the Stock Pool. The asset mix in the Endowment Fund is determined annually by the Investment

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Committee in accordance with the investment objectives of the Endowment Fund (between 53% and 67% in the Stock Pool, between 33% and 47% in the Bond Pool).

III. PURPOSE OF STATEMENT

This Statement of Investment Policy, Objectives and Guidelines is intended to:

- A. Outline the investment-related responsibilities of the Board of Directors, the Investment Committee, the President and the providers of investment services retained by UMFNE to assist with the management of its assets.
- B. Establish investment guidelines incorporating prudent asset allocation and realistic total return goals.
- C. Clarify the means by which UMFNE uses its financial resources to support and foster the Social Principles of the United Methodist Church.
- D. Provide a framework for regular constructive communication among the Board of Directors, the Investment Committee, the President and the providers of investment services to UMFNE.
- E. Create standards of investment performance which are historically achievable and by which the investment managers agree to be measured over a reasonable time period.

It is expected that this statement will be reviewed at least annually by the Investment Committee to ensure the relevance of its contents to current capital market conditions and UMFNE needs. If significant changes are necessary, the Investment Committee will make specific recommendations to the full Board of Directors. This statement shall always be subject to the approval by majority vote of the Board of Directors.

IV. RESPONSIBILITIES - BOARD OF DIRECTORS, INVESTMENT COMMITTEE AND PRESIDENT

The Board of Directors is ultimately responsible for all aspects of the management and strategic direction of the Foundation, including its investments. In the performance of these duties and management of UMFNE investments, the Board of Directors is expected to act prudently and in the best long-term interests of the Foundation.

The Investment Committee acts as the agent of the Board of Directors in supervising the management of the Foundation's investments. The Investment Committee is expected to report at each meeting of the Board of Directors on the status of the Foundation with respect to its investment objectives, on compliance with the policies and guidelines set forth in this Statement and on other matters relating to investments. If there are urgent or unusual matters requiring the attention of the Board of Directors, the Investment Committee may report to the full board more frequently.

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A. RESPONSIBILITIES OF THE INVESTMENT COMMITTEE

1. Developing investment objectives, guidelines and performance measurement standards which are consistent with the risk, return and policy parameters for UMFNE's funds, and reviewing them on an ongoing basis.
2. Subject to the ranges set forth in this Statement, determining the allocation within the Stock Pool between domestic and international equities and the amount of exposure to emerging markets within the international equities portfolio.
3. Evaluating and selecting investment managers, pooled funds, mutual funds or other appropriate investment vehicles for the UMFNE's portfolios.
4. Communicating the investment objectives, guidelines and standards (including any material changes that may occur) to the investment manager(s) of the UMFNE portfolios.
5. Reviewing and evaluating results of each investment manager or fund in the context of established performance benchmarks at least quarterly.
6. Taking prudent corrective action (hiring or firing an investment manager) if investment results do not meet expectations, significant personnel changes occur at an investment management firm or the application of the manager's investment philosophy is found not to be consistent with its stated philosophy.
7. Monitoring and updating socially responsible investment guidelines.

B. RESPONSIBILITIES OF THE PRESIDENT

1. Ensuring through appropriate staff oversight that the assets of the Foundation are invested in accordance with the liquidity and other financial needs of the Foundation and its investing churches and agencies and in accordance with the objectives and guidelines of this statement.
2. Assisting the Investment Committee in the selection of investment service providers by identifying and screening candidates, performing or overseeing due diligence checks, participating in the interviewing process and serving as an information-gathering conduit for the committee.
3. Periodically analyzing the performance of the Foundation's investments and alternative approaches.
4. Providing staff support to the Investment Committee, including ensuring that appropriate reports are prepared for the committee in a timely fashion.

V. RESPONSIBILITIES – INVESTMENT MANAGERS

Each investment manager, as a fiduciary of the Foundation, must assume the following responsibilities as they pertain to:

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Make recommendations, when deemed appropriate, as to changes in the objectives, guidelines or standards, based upon material and sustained changes in the capital markets, or changes in the goals of the Foundation.

B. MANAGING THE ASSETS

Manage the assets in accordance with this Statement of Investment Policy, Objectives and Guidelines and the investment management assignment.

C. REPORTING

1. Produce a statement for the Foundation at the end of each month describing the portfolio asset class weightings and individual security positions, showing both cost and market value and all principal cash transactions, including all buys and sells.
2. Produce a quarterly statement describing performance in detail, including analysis of the portfolio and returns, asset mix of the portfolio by market capitalization, top ten holdings and country weights for international holdings (for commingled assets, the statement will also include unit position and unit value).
3. Time-weighted returns are to be reported for various periods specified by the Foundation.
4. Returns are to be compared to appropriate benchmark indices specified by the Foundation and a statistical universe of similar institutional portfolios.
5. Benchmark indices are to be analyzed at least quarterly for comparison with portfolio characteristics (*e.g.*, industry sector mix, market capitalization mix, etc.).

D. REVIEW MEETINGS

Each investment manager will be expected to participate in a quarterly review meeting, the agenda to include:

1. A commentary on investment results in light of the appropriate standards of performance.
2. A synopsis of the key investment decisions made by the manager, the underlying rationale and how those decisions could affect future results, where appropriate.
3. A discussion of the manager's outlook, what investment decisions this outlook may trigger and how these decisions could affect future results.

E. COMMUNICATION

Each investment manager is responsible for frequent and open communication with UMFNE personnel on all material matters pertaining to investment policies and the management of the UMFNE's assets. In particular, each investment manager is expected to:

1. Provide immediate written notice to the President of the Foundation of any material changes in their investment outlook, strategy or portfolio structure.

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2. Provide immediate written notice to the President of the Foundation of material changes in its ownership, organizational structure, financial condition, senior staffing or management.

VI. RESPONSIBILITIES - CUSTODIANS

Each custodian must be a federally regulated financial institution with expertise in the area of recordkeeping and safekeeping of assets. In recognition of its role as a fiduciary for the Foundation, each custodian must assume the following responsibilities as they pertain to:

A. SAFEKEEPING OF SECURITIES

Hold all UMFNE deposits in the appropriate accounts and, when applicable, provide highly secure storage of stock certificates and bonds, such that there is essentially no risk of loss due to theft, fire or accident.

B. SETTLEMENT OF TRADES

Arrange for timely and business-like settlement of all purchases and sales made for the Foundation. Transactions shall be on a delivery-versus-payment basis unless provided for in writing by the President of the Foundation.

C. COLLECTION OF INCOME

Provide for receipt and prompt crediting of all dividend and interest payments received as a result of the UMFNE's portfolio holdings. Monitor receipts to ensure that income is received when due and institute investigative processes to track and correct late or insufficient payments, including reimbursement for any interest lost due to tardiness or shortfall. Accounting for accrued interest on bonds purchased, sold or held in the portfolio will be performed.

D. CASH SWEEP

Sweep excess cash daily into interest-bearing accounts featuring a high degree of liquidity and safety of principal.

E. REPORTING

Provide on-line access, as well as monthly reports, showing individual asset holdings with sufficient descriptive detail to include units, unit price, cost, market value, CUSIP number (where available) and any other information requested by the President of the Foundation. Principal cash transactions, including dividends and interest received, deposits and withdrawals, securities purchased, sold and matured, accrued interest, gains, losses and fee payments are also to be listed. Additional reporting systems such as accounting and performance may be utilized for the UMFNE. These reports should be distributed in a timely manner.

F. TRANSFER

At the direction of authorized Foundation staff, expeditiously transfer funds into and out of specified accounts.

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G. PROXY MATERIALS

Promptly forward all proxy materials received to the appropriate designated proxy voting service.

VII. GENERAL INVESTMENT PRINCIPLES

- Investments shall be made solely in the interest of the beneficiaries of the Funds and in compliance with the Social Principles of the United Methodist Church.
- The Funds shall be invested with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the investment of a fund of like character and with like aims.
- Investment of the Funds shall be so diversified as to minimize the risk of loss, unless under the circumstances it is clearly prudent not to do so.
- The Investment Committee may employ one or more investment managers of varying styles and philosophies to attain the Fund's objectives.
- Cash is to be employed productively at all times, by investment in short-term cash equivalents to provide safety, liquidity and return.

VIII. SOCIAL RESPONSIBILITY GUIDELINES

The Foundation, responding to the biblical challenge of responsible stewardship, is committed to a policy of conscious investment decisions that further the principles of economic and social justice contained in the Book of Discipline and Social Principles of the United Methodist Church. In accordance with the Social Principles, the Foundation's investment objectives are to be pursued with consideration for the moral and social implications of investing. The Foundation intends to encourage those corporations that promote the common good and to avoid those companies whose corporate activities are inconsistent with the Book of Discipline and Social Principles of the United Methodist Church. In particular, investments are to be avoided in companies that derive significant revenues from the promotion of gambling, production of alcohol or tobacco, production of weapons of indiscriminate mass destruction or production or promotion of pornography.

The Investment Committee shall designate screening tools for investment managers to utilize in furtherance of these goals, including the social screens maintained by the General Board of Pension and Health Benefits of the United Methodist Church and computerized screening tools available in the marketplace, *e.g.*, software supplied by the Investor Responsibility Research Center or KLD Research & Analytics. From time to time, the Investment Committee may direct an investment manager as to a specific investment or type of investment considered to be inappropriate for the Foundation (*e.g.*, South Africa-related investments during the apartheid era).

The Investment Committee may approve *de minimis* indirect investment in international equities in emerging markets (not to exceed 5% of the Stock Pool) without regard to social responsibility guidelines, if and to the extent the Investment Committee determines that it would be impracticable to administer such guidelines in that context.

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The Foundation is also committed to shareholder advocacy in furtherance of these goals, including the active voting of proxies. The Foundation has adopted a separate socially responsible proxy policy based on one developed by the General Board of Pension and Health Benefits of the United Methodist Church.

IX. INVESTMENT OBJECTIVES

GENERAL

- The investment strategy of the Foundation is to emphasize total return, *i.e.*, the aggregate return from capital appreciation and dividend and interest income.
- Understanding that some level of risk is inherent in any long-term investment strategy, the Foundation will endeavor to employ investment strategies involving an assumption of risk that is commensurate with the specific investment goals of the Fund.

STOCK POOL

The objective of the Stock Pool is long-term growth of capital, with relatively low current income -- specifically, a total rate of return that exceeds the rate of inflation (as measured by the Consumer Price Index) by 4%.

BOND POOL

The objective of the Bond Pool is to provide current income and preservation of nominal principal.

MONEY MARKET POOL

The objective of the Money Market Pool is to provide as high a level of current income as is consistent with liquidity and the preservation of capital.

ENDOWMENT FUND

The objective of the Endowment Fund is to provide long-term preservation of the purchasing power of the investment principal (as measured by the Consumer Price Index) plus reasonable current income.

X. ASSET ALLOCATION

A. STOCK POOL

The asset allocation of the Stock Pool is 65%-80% domestic equities and 20%-35% international equities, determined with reference to an index-based investment strategy involving two broadly diversified equity indices which have been screened according to the Foundation's social responsibility guidelines, and consistent with the Asset Guidelines set forth below.

The index forming the basis of the domestic equity portfolio is the Russell 3000 Index, which covers approximately 98% of the available market capitalization of the U. S. equity market, and includes the

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full range of growth and value stocks and large-, mid- and small-cap stocks. The socially screened replica of the Russell 3000 Index constituting the Foundation's domestic equity portfolio is expected to include approximately 600 names (rather than the 3000 names in the full Index) but to track the performance of the Index within 0.57%.

The index forming the basis for the bulk of the international equity portfolio is the MSCI (Morgan Stanley Capital International Inc.) EAFE Index, which comprises 21 MSCI country indices representing the developed markets outside of North America: Europe, Australasia (Australia, New Zealand and neighboring islands) and the Far East. Each country index is designed to cover approximately 85% of the market capitalization of each industry group within its country. Japan and the United Kingdom are the largest weights in the index, making up close to half of the portfolio. The index contains over 1000 names and has a total market capitalization of over \$10 trillion. The Foundation's socially screened replica of the EAFE Index captures the essence of this well diversified international benchmark, even though limited to American Depository Receipts traded on U. S. exchanges (thereby excluding locally listed ordinary shares) and containing approximately 170 names, with an expected tracking error of 2.45% vs. the performance of the full EAFE Index.

A portion of the international equity portfolio, not to exceed 5% of the entire equity portfolio, may be allocated by the Investment Committee to emerging markets, utilizing such investment strategies as the committee may deem appropriate.

B. BOND POOL

The target allocation of the Bond Pool is to be fully invested in fixed-income securities, consistent with the Asset Guidelines set forth below, though up to 10% of the externally managed Bond Pool may be invested in cash and cash equivalents from time to time. (The Foundation's Loan Program, which is internally managed, is also accounted for by the Foundation as a part of the Bond Pool. Under current Loan Program guidelines, which are subject to modification by the Investment Committee, loans may be outstanding in an aggregate amount equal to 10% of total Fund assets under management when secured by real estate or other assets, with an additional 5% available for loans secured by liquid financial assets held by the Foundation.)

XI. ASSET GUIDELINES

A. FIXED INCOME

The following guidelines pertain to the actively managed investment portfolio, and are not applicable to any bond commingled trust.

1. Diversification

- a. No more than 10% of an investment manager's bond portfolio at cost shall be invested in the securities of any one issuer (when aggregated across all portfolios). There shall be no limit on U.S. Treasury securities. Government National Mortgage Association (GNMA) securities, or collateralized mortgage obligations (CMO's) that are collateralized entirely by GNMA securities, shall be limited to 50% of the total fixed income assets for each investment manager.
- b. No more than 35% of an investment manager's bond portfolio at cost shall be invested in securities issued by the Federal National Mortgage Association,

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Federal Home Loan Mortgage Corporation, Federal Farm Credit Agency or other securities of federal agencies not fully guaranteed by the U.S. Government.

- c. This bond diversification guideline is independent of the cash diversification guideline discussed in section XI.C.

2. Quality

Any issue may be held whose rating is considered at least “investment grade” by either Standard & Poor’s Corporation (BBB) or Moody’s Investors Service (Baa) or higher. No more than 6% of the bond portfolio shall be in issues rated BBB or Baa, with no more than 0.5% in any one issue.

3. Duration and Maturity

The weighted average duration of the core bond portfolio shall not exceed six years, and no security may bear an absolute maturity of more than 30 years at time of purchase.

4. Volatility

The volatility of returns for the fixed-income component shall be considered. In addition, the alpha (risk-adjusted performance) is expected to be positive.

5. Holdings Not Permissible Without Investment Committee Prior Written Approval

The fixed-income investment managers shall not utilize derivative securities to increase the actual or potential risk posture of the portfolio. Subject to other provisions in this Statement, the use of primary derivatives, including, but not limited to, Structured Notes*, lower class tranches of Collateralized Mortgage Obligations (CMO’s)**, Principal Only (PO) or Interest Only (IO) Strips, Inverse Floating Securities, margin trading and such other specialized investment activity is prohibited. Moreover, the investment managers are precluded from using derivatives to effect a leveraged portfolio structure (if options and futures are specifically approved by the Investment Committee, such positions must be offset in their entirety by corresponding cash or securities).

The Investment Committee must explicitly authorize the use of such derivative instruments in each separately managed portfolio, and shall consider certain criteria including, but not limited to, the following:

- i. Manager’s proven expertise in such category.
- ii. Value added by engaging in derivatives.
- iii. Liquidity of instruments.
- iv. Actively traded by major exchanges (or over-the-counter positions, executed with major dealers).
- v. Manager’s internal procedures to evaluate derivatives, such as scenario and volatility analysis and duration constraints.

* Investments in “conservative” structured notes which are principal guaranteed, unleveraged, and short to intermediate duration are permitted.

** Lower class defined by Federal Financial Institutional Examination Council (FFIEC).

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B. EQUITIES

1. Diversification

No more than 10% of each manager's equity portfolio at market value and 5% of the aggregate equity portfolio shall be invested in the securities of any one company. Each equity manager should have at least 20 positions in the equity portion of the portfolio. Each equity manager is expected to target their cash position to less than 2% of its portfolio, focusing on maintaining a fully invested portfolio at all times. All exceptions shall be discussed with the President of the Foundation.

2. Portfolio Turnover

There shall be no specific guidelines with regard to portfolio activity. By not restricting turnover, the managers are given the flexibility to adjust their asset mix and security selection to changes in the target indices.

3. Holdings Not Permissible Without Investment Committee Prior Written Approval

- a. Margin purchases or borrowing funds.
- b. Letter stock, private or direct placements.
- c. Commodities.
- d. Securities of the investment manager, the custodian, their parent or subsidiaries (excluding money market funds).
- e. Stock loans.
- f. Non-marketable securities.

C. CASH AND CASH EQUIVALENTS

All cash and equivalent investments should be made with concern for quality. To that end, investments will be limited to commercial paper rated "A-1" by Standard & Poor's or "P-1" by Moody's, certificates of deposit of the 100 largest U.S. banks, securities issued or guaranteed by the U.S. Government and perfected repurchase agreements. The maximum amount of cash to be invested in the commercial paper or certificates of deposit of any one issuer will be 10% of the total portfolio. This diversification requirement does not pertain to investments in the short-term investment fund of the custodial bank or a money-market mutual fund, and is independent of the bond diversification guideline discussed in Section XI.A.1.

D. BROKERAGE SERVICES

Each investment manager is expected to use its best judgment to obtain brokerage services based upon consideration of the objectives of the best execution of trades and the lowest cost to the Foundation.

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E. VOTING OF PROXIES

It shall be the responsibility of the Investment Committee and its designee(s) to provide oversight and coordination of the voting of the proxies in a manner consistent with the mission and purpose of the Foundation.

XII. PERFORMANCE STANDARDS

A. TIME HORIZON

The attainment of investment rate-of-return objectives should be measured over a full market cycle. Because market cycles have historically differed markedly in length, and because there is no standardized measure for the term of a market cycle, the Investment Committee expects to measure investment performance over a five-year rolling period. Shortfalls relative to the return objectives for the Foundation may be tolerated over portions of this time period; however, the Investment Committee reserves the right to evaluate the investment strategy chosen and to make changes to the strategy based on the availability of viable alternative strategies.

B. RETURN GOAL

The total annualized rate of return for the Foundation is expected to meet or exceed a customized benchmark index over a five-year rolling period net of all investment management costs. This index will be constructed for each investment strategy by combining, as appropriate, the returns of the appropriate benchmark indices. The weighting for each of the components of this customized index will equal the corresponding target weightings for the relevant asset classes.

C. BENCHMARK INDICES

| <u>Asset Class</u> | <u>Benchmark Index</u> |
|---------------------------|--|
| U.S. Equity | S&P 500, Russell 3000, Domini Social 400 |
| International Equity | MSCI EAFE |
| Domestic Fixed Income | Lehman Brothers Intermediate Government Credit |
| Total Equity Portfolio | 80% Russell 3000 and 20% MSCI EAFE |
| Cash and Cash Equivalents | T-Bills and Money Market Index |

D. RISK-ADJUSTED PERFORMANCE

The Sharpe ratio divides the excess return (portfolio return less risk-free return) by the variance of total return, and will be the measure of risk-adjusted performance.