

First Presbyterian Church of Cedar Rapids Endowment Investment Policy Statement

PURPOSE

This Investment Policy Statement (IPS) establishes principles and guidelines for managing the investments of the First Presbyterian Church of Cedar Rapids.

Responsibilities

Committee responsibilities are contained in the Endowment Plan of First Presbyterian Church.

Investment Philosophy

The Session's investment philosophy is to exercise ordinary business care and prudence in its investment of assets considering the long and short-term needs of the First Presbyterian Church of Cedar Rapids in carrying out its charitable purposes, its present and anticipated financial requirements, expected total return on its investments, price level trends, and general economic conditions. The Session recognizes that the uncertainty of future events, volatility of investment assets, and the potential loss in purchasing power are present to some degree with all types of investments. While high levels of risk are to be avoided, the assumption of a moderate level risk is warranted and encouraged in order to allow the opportunity to achieve satisfactory results consistent with the objectives and investment philosophy of the First Presbyterian Church of Cedar Rapids.

Modern Portfolio Theory will form the basis of the investment philosophy. Correlation of asset classes will be applied to reduce risk when possible and remain consistent with the portfolio's investment goal. Future variations may occur as new asset classes become available or as the investment advisor makes moderate adjustments.

Investment Guidelines Objective

The overall investment goal is to build capital for future use with the corresponding obligation to support required asset levels for current obligations and future needs. While shorter term investment results will be monitored, adherence to a sound long-term investment policy, which balances short-term spending needs with preservation of the real (inflation-adjusted) value of assets, is crucial to the long-term success of the Church.

Investment objectives should:

- (a.) be achieved within acceptable and prudent levels of risk,
- (b) maximize the principal appreciation plus income and dividends of investment funds, and
- (c) maintain the liquidity needed to support distributions.

Time Horizon

The investment guidelines are based upon an investment horizon of greater than ten years, so that interim fluctuations and economic cycles may be viewed with appropriate perspective. Similarly, the Fund's strategic asset allocation is based on this long-term perspective.

Rebalancing of Strategic Allocation

The percentage allocation to each asset class may vary as much as plus or minus 10%, depending upon market conditions.

When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation of the Fund.

If cash flows are insufficient to bring the Fund within the strategic allocation ranges, transactions may be initiated to bring the strategic allocation within the threshold ranges (Strategic Allocation).

Asset Allocation

Assets shall be diversified across three primary asset classes (domestic equities, foreign equities and fixed income) and within asset classes (e.g. by economic sector, market capitalization and industry). The purpose of diversification is to provide reasonable assurance that no single security or class of securities will have disproportionate impact on the overall asset values and returns.

The following guidelines provide sufficient portfolio diversification and give the approved investment manager(s) full responsibility for security selection and diversification as well as full discretion over their respective portfolio turnover and allocation of holdings among selected securities and industry groups, within the limits described below.

ASSET CLASS	OPERATING RANGE	LONG-TERM OPTIMAL	BENCHMARK
Large/Mid-Cap	25-45%	33%	S&P 500
Small Cap	5-16%	11%	Russell 2000
International Equity	0-20%	11%	MSCI EAFE
Fixed Income	35-45%	40%	Barclays Aggregate
Cash Equivalents	2-10%	5%	T-Bills

A. Equities

Objective: Provide both a growing stream of dividend income and appreciation of principal that more than offsets inflation. It is recognized that these objectives entail market variability and risk. It is understood that risk will be mitigated through diversification among economic sectors and industries.

Goal: Total return, net of fees, greater than or equal to [36% S&P500 + 12% Russell 2000 + 12% MSCI EAFE] with consideration to the level risk assumed to achieve this goal.

Equity investments shall be limited to marketable common and preferred stock, equity mutual funds and equity Exchange Traded Funds (ETFs):

- A single security must not exceed 10% of the equity investments
- A single industry must not exceed 20% of its cap-weight in total US equities
- The ten largest holdings shall not exceed 33% of the total equity investments
- The manager may not engage in short sales or margin transactions.

B. Fixed Income

Objective: Provide a hedge against severe deflation, to offer portfolio stability and diversification, and to produce current income.

Goal: Total return, net of fees, greater than or equal to the Barclays Aggregate Bond Index.

Duration: Consideration shall be given to the current yield environment and the maturities of bonds currently held. Target rate/duration criteria should closely mirror a ladder using an appropriate aggregate index like Bloomberg/Barclays

The fixed income investment portfolio shall move toward the following permissible criteria :

- No more than 5% invested in any single issuer, with the exception of U.S. Government or its agencies.
- Bond maturities shall be distributed so that the maturities are not constrained to certain periods of time. In consultation with the Endowment Committee regarding the weighted duration, the manager should seek a weighted average life target.
- The following permissible qualities:
 - U.S. Government and its agencies
 - Municipal and state government securities
 - Certificates of deposit and other money instruments
 - Domestic corporate bonds and debentures
 - Purchase of any tax advantaged security must be approved by the Endowment Committee. In general, tax advantaged securities are not permissible. International sovereign and corporate debt restricted to the following:
 - Permissible in bond funds which are composed primarily of domestic bonds

- Not permissible as individual bond holdings

Investment rating standards:

- Individual bonds must be of investment grade with ratings no lower than Moody's rating of Baa3 and no lower than Standard & Poor's rating of BBB-, except for high-yield bond investments noted below. In the case of a split rating, the higher rating shall apply. If a downgrade causes a violation of these guidelines, such downgraded security may be held at the manager's discretion with notification to the Endowment Committee.
- Maximum of 10% of the market value of the assets in the total portfolio can be invested in high-yield bond mutual funds.
- Non-investment grade bonds are permitted in mutual funds or ETF's provided the percentage of the portfolio of non-investment grade bonds is less than 20% and holding such securities is not a primary objective of the fund.

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The manager may not engage in short sales or margin transactions.

C. Mutual and Index Fund Management

For index funds, the return and standard deviation should closely track the appropriate index.

Mutual funds at the time of purchase should have a Morningstar rating of at least 3 stars, unless approved by the Endowment Committee.

D. Cash Equivalent Investments

Objective: Maximize the total rate of return while preserving principal and liquidity.

Goal - exceed the return of the average of money market funds.

Allowable:

- Instruments issued or fully guaranteed by the U.S. Government, federal agencies, sponsored agencies or sponsored corporations
- Repurchase agreements secured by U.S. Government or Agency bonds
- Money Market Funds of domestic investment grade banks or major investment advisors
- Obligations of U.S. banks with investment grade ratings

E. Other Asset Classes

The following are prohibited without the prior written approval of the Endowment Committee:

Individual issues of foreign government and foreign commercial bonds, private placements, unregistered issues, options, futures, derivatives and direct investment in real estate and commodities.

F. Issuer Limits

Except for mutual funds or EFTs that are well diversified, no more than 5% of the portfolio may be invested in any single issuer.

G. Fees

Fees should be reasonable when considering the expected duration of the specific investment. Low fees are preferable, but allowance for higher fees would be tolerated for more illiquid investment classes and strategies.

Selection of Money Manager

The Investment Consultant will select appropriate money managers to manage the Fund assets. Managers must meet the following minimum criteria:

- (1) Be a bank, insurance company, investment management company, or investment adviser as defined by the Registered Investment Advisers Act of 1940.
- (2) Provide historical performance numbers calculated on a time-weighted basis, based on a composite of all fully discretionary accounts of similar investment style, and reported gross of fees.
- (3) Provide performance evaluation reports prepared by an objective third party that illustrate the risk/return profile of the manager relative to other managers of like investment style.
- (4) Provide detailed information on the history of the firm, key personnel and fee schedule.
- (5) Clearly articulate the investment strategy that will be followed and document that the strategy has been adhered to over time.
- (6) Selected firms shall have no known outstanding legal judgments or past judgments which may reflect negatively upon the firm.

Mutual funds utilized to manage Fund assets must meet the following minimum criteria:

- (1) Funds must correspond to the asset classes outlined in this Investment Policy Statement (IPS). For example, the growth component of the IPS must be implemented with a mutual fund invested in growth stocks.
- (2) It is desired the fund's manager have been in place for three years or more.
- (3) The funds must have been following the same investment strategy for at least three years.

- (4) The fund must have sufficient assets under management so that any single client does not represent more than 10% of the fund.
- (5) It is desired that shares be purchased and sold at Net Asset Value (NAV).

CONTROL PROCEDURES

Duties and Responsibilities of the Money Managers

The duties and responsibilities of each Fund manager within the Endowment portfolio include the following:

- (1) Managing the Fund assets under its care, custody and/or control in accordance with the IPS objectives and guidelines set forth herein and may also be expressed in separate written agreements when deviation is deemed prudent and desirable.
- (2) Exercising investment discretion (including holding cash equivalents as an alternative) within the IPS objectives and guidelines set forth herein.
- (3) Promptly informing the Endowment Money Manager in writing regarding all significant and/or material matters and changes pertaining to the investment of Fund assets, including, but not limited to:
 - a. Investment strategy
 - b. Portfolio structure
 - c. Tactical approaches
 - d. Ownership
 - e. Organizational structure
 - f. Financial condition
 - g. Professional staff
 - h. Recommendations for guideline changes
- (4) The money manager(s) of direct investments in individual equity issues (i.e. excluding mutual and exchange-traded funds) shall make a good-faith effort to vote all proxies and related actions in a manner consistent with the long-term interests and objectives of the Fund and in a manner consistent with First Presbyterian Church Endowment's objectives. Each manager shall keep detailed records of said voting of proxies and related actions and will comply with all regulatory obligations related thereto
- (5) Utilize the same care, skill, prudence and due diligence under the circumstances then prevailing that experienced, investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like retirement Funds with like aims in accordance and compliance with applicable laws, rules and regulations from local, state, federal entities as it pertains to fiduciary duties and responsibilities.

Performance Objectives

Investment performance will be reviewed at least annually to determine the continued feasibility of achieving the investment objectives and the appropriateness of the IPS for achieving those objectives.

It is not expected that the IPS will change frequently. In particular, short-term changes in the financial markets should not require adjustments to the IPS.

Comparisons of the fund's/manager's results to appropriate indices and peer groups, specifically:

MONITORING OF FUNDS/ MONEY MANAGERS

Performance will be evaluated to test progress toward the attainment of longer-term targets. It is understood that there are likely to be short term periods during which performance deviates from appropriate indices and benchmarks. During such times, greater emphasis shall be placed on peer-performance comparisons with funds/managers employing similar styles.

On a timely basis, but not less than annually, the Committee will meet to focus on:

- Money manager's adherence to the IPS guidelines;
- Material changes in the fund's/manager's organization, investment philosophy and/or personnel; and,
- Comparisons of the Money manager's results to appropriate indices and peer groups.

The risk associated with each Money manager's portfolio should not exceed that of the benchmark index and the peer group without a corresponding increase in performance above the benchmark and peer group.

The Committee is aware that the ongoing review and analysis of Money manager is just as important as the due diligence implemented during the fund/manager selection process.

Accordingly, a thorough review and analysis of a Money manager will be conducted, should:

- A Money manager performs in the bottom quartile (75th percentile) of their peer group over 3 consecutive annual periods.
- A Money manager falls in the southeast quadrant of the risk/return scatter plot for a 5-year time period.
- A Money manager has a 5-year risk adjusted return fall below that of the median within the appropriate peer group.

Furthermore, performance which may require the replacement of a Money manager includes:

- Money manager that consistently perform below the median (50th percentile) of their peer group over rolling 3 years.
- Money manager which perform below the median (50th percentile) of their peer group over 5 years.

- Money manager with negative alphas (compared to an appropriate benchmark) for 5 years.

Major organizational changes also warrant immediate review of the fund/manager, including:

- Change in professionals
- Significant account losses
- Significant growth of new business
- Change in ownership

Regular Review

Minimum reporting expectations from the Money Manager:

1. Semi-annually: In-person meeting with committee. All documents, exhibits and other written material for use at this meeting shall be submitted by the investment management consultant at least seven business days in advance of the conference(s).
2. Quarterly: Performance reports: total return net of all fees compared to applicable benchmarks; additions and withdrawals from the account, current holdings at cost and market value, and purchases and sales. Performance reports should include at least periods of 1, 3 and 5 years.
3. Communication concerning investment strategy and outlook.
4. As needed: Other reports or information as appropriate or requested
5. Assist with policy review
6. Assist with assessment of asset allocation and investment objectives
7. Compliance reports. Standard reports as required by the SEC and other regulatory agencies.

Conflict of Interest

Administrative officers, Session members, and members of the Endowment Committee shall disclose in writing at least annually any financial or personal relationship with any manager or any investment held or being considered.