

Following Presbytery's action at a called meeting on June 9th, to refer the proposed Investment Policy back to the Board of Trustees for further work, the Board has worked to address concerns raised at the called meeting. Proposed changes appear on pages 5, 6, and 8; additions are italicized and underlined, deletions are marked with a strikethrough.

**PRESBYTERY OF YUKON**  
**Proposed Investment Policy Statement**  
**October, 2016**

**EXECUTIVE SUMMARY**

|                              |   |
|------------------------------|---|
| •                            | <b><u>Short Term Working Capital</u></b>  |
| Type of Plan                 | Short Term Working Capital  |
| Current Assets               | 20% of the investable assets under management   |
| Time Horizon                 | 0-5 years   |
| Expected Real Return         | In line or greater than that of current money market instruments                      |
| Recommended Spending Policy: | On a discretionary basis to meet short term needs of operations and capital projects. |

Short-term working capital is defined as those funds required to meet short-term (5 years or less) needs of operations and capital projects. Working capital requires significant liquidity and capital preservation so investments must be conservative and easily liquidated. Funds required for short-term working capital are derived from operations and the General Investment Portfolio in the form of interest income and liquidation of stocks or bonds. Funds needed to replenish working capital will be drawn from the various investment accounts other than the Permanent Fund throughout the year so as to maintain the relative proportions of the accounts.

**Objectives in order of importance**

1. **Safety:** emphasizes capital preservation
2. **Liquidity:** access to capital without unreasonable penalty
3. **Yield:** expected to meet or marginally exceed current money market rate returns

**Investments Allowed for Short Term Working Capital**

Checking Accounts  
Sweep Accounts  
Business Savings  
Government Securities  
Certificates of Deposit  
Money Market Accounts

- |                             |   |
|-----------------------------|---|
|                             | <b><u>General Investment/Income Replacement Portfolio</u></b>   |
| Type of Plan                | General Investment/Income Replacement Portfolio   |
| Current Assets              | 60%   |
| Time Horizon                | 5-10 years  |
| Expected Real Return:       | 2.0% (over the effect of inflation)   |
| Recommended Spending Policy | Thereafter – 4.0% of trailing 3 years Average Market Value (MV)<br>*Or as approved by committee to replenish Short Term Working Capital Portfolio |

**Objectives in order of importance**

1. **Safety:** is emphasized but managed risk is acceptable (see asset allocation)
2. **Liquidity:** principally determined by capital and interest rate expectations
3. **Yield:** is a factor of asset allocation allowed; real rate of return of 4% is expected

**Asset Allocation**

|                             | <u>Lower<br/>Limit</u> | <u>Strategic<br/>Allocation</u> | <u>Upper<br/>Limit</u> |
|-----------------------------|------------------------|---------------------------------|------------------------|
| Domestic Large Cap Equities | 20.00%                 | 45.00%                          | 65.00%                 |
| Core International          | 00.00%                 | 10.00%                          | 15.00%                 |
| Fixed Income                | 20.00%                 | 45.00%                          | 80.00%                 |

The aggregate bond portfolio should be modeled as an income fund and structured as follows:

Investment Grade: 65% + 15  
 High yield bonds: 35% + 15

Investment grade bonds include government securities, preferred stocks, and bonds rated BBB or better. High yield bonds enhance the yield of the aggregate portfolio. The emphasis of bonds held is income. We do not emphasize trading gains, and therefore stress the quality of the bonds we hold. Furthermore, no bond purchase or aggregate holdings of any one company should exceed 10% for B rated bonds. Bonds rated lower than B should be avoided. All bonds actually held in account shall be U.S. dollar denominated.

**Long Term Capital Fund**

|                      |                                     |
|----------------------|-------------------------------------|
| Type of Plan         | Long Term Capital Fund              |
| Current Assets:      | 20%                                 |
| Time Horizon         | 10+ years                           |
| Expected Real Return | 2.5% (over the effect of inflation) |



4. Establish a basis for evaluating investment results.
5. Manage Fund assets according to prudent standards as established in common trust law.
6. Establish the relevant investment horizon for which the Fund assets will be managed.

### **DELEGATION OF AUTHORITY**

The Investment Committee will serve as the point of contact and decision making body between the PRESBYTERY OF YUKON and the Investment Firm/Company with whom they are conducting business. As the Investment Committee, it is under their discretion as to whether they act collaboratively or designate a member of the Investment Committee to act on behalf of the PRESBYTERY OF YUKON as it pertains to portfolio recommendations, changes, disbursements, etc.

The objectives of the Investment Committee is to provide preservation, growth of capital, and liquidity by investing, with reasonable risk. The Investment Committee will act on behalf of the PRESBYTERY OF YUKON and manage PRESBYTERY OF YUKON funds in a manner consistent with the objectives outlined in the Investment Policy Statement. The Committee can seek professional portfolio advice, on a fee basis, for investment purposes. The Committee is prohibited from investing PRESBYTERY OF YUKON funds in high risk or speculative endeavors.

### **RESPONSIBILITY OF THE INVESTMENT COMMITTEE**

- Develop and make changes to the investment policy.
- Select one or more investment consultants, custodians and investment managers.
- Monitor the performance of the parties to whom duties have been delegated.
- Control investment and administrative expenses, ensuring that they are reasonable in amount and appropriate given the required operations of the Fund.
- Provide for quarterly review of investment performance.
- Render all decisions by consensus or through a designated committee member(s).
- Retain other professional services and legal counsel, as required.

Net of spending, the objective is to grow the aggregate portfolio value at the rate of inflation over the General Investment and the Long Term Capital Fund's investment horizon. The Fund's specific investment objectives are stated above in this document.

**Total Return = Spending + Inflation + Expenses,**

**While Giving = Increase in Purchasing Power**

### **SPECIFIC INVESTMENT GOALS**

Over the investment horizon established in this statement, it is our goal to exceed **an absolute rate of return of 5%.**

The investment goals above are the objectives of the aggregate fund, and are not to be imposed on each investment account (if more than one account is used). The goal of each investment manager, over the investment horizon, shall be to:

1. Meet or exceed the market index, or blended market index, selected and agreed upon by the “supplies, services, or capital improvements” Investment Committee that most closely corresponds to the style of investment management.
2. Display an overall level of risk in the portfolio, which is consistent with the risk associated with the benchmark specified above. Risk will be measured by the standard deviation of quarterly returns.

### **INVESTMENT GUIDELINES (Appendix “A” for Definitions)**

*“Consistent with the Fifth Great End of the Church, investments should promote social righteousness.”*

#### **ALLOWABLE ASSETS**

1. Cash Equivalents
  - Treasury Bills
  - Money Market Funds
  - Short Term Investment Funds (STIF Funds)
  - Commercial Paper A1, P1
  - Banker’s Acceptances
  - Repurchase Agreements
  - Certificates of Deposit
2. Fixed Income Securities
  - U.S. Government and Agency Securities
  - Corporate Notes and Bonds (Investment Grade)
  - Mortgage Backed Bonds
  - Preferred Stock
  - Fixed Income Securities of Foreign Governments and Corporations
  - Planned Amortization Class Collateralized Mortgage Obligations (PAC CMOs) or other “early tranche” CMOs.
  - Emerging Market Debt (not to exceed 5% of portfolio value)
  - High Yield Debt (below investment grade) not to exceed 5% of portfolio value
3. Equity Securities
  - Common Stocks
  - Convertible Notes and Bonds
  - Convertible Preferred Stocks
  - American Depository Receipts (ADRs) of non-U.S. companies
  - Stocks of Non-U.S. Companies (Ordinary Shares)
4. Mutual Funds
  - Mutual Funds, which invest in securities as allowed in this statement.
  - Other assets
  - GIC’s (Guaranteed Investment Certificates)

Master Limited Partnerships  
Real Estate Properties

**PROHIBITED ASSETS**

Prohibited investments include, but are not limited to the following:  
Commodities and Futures Contracts  
Options  
Venture-Capital Investments  
Interest-Only (IE), Principal-Only (PO), and Residual Tranche CMOs

**PROHIBITED TRANSACTIONS**

Prohibited transactions include, but are not limited to the following:  
Short Selling  
Margin Transactions

**SELECTION OF INVESTMENT MANAGERS**

The “supplies, services, or capital improvements” Investment Committee’s selection of Investment Manager(s) must be based on prudent due diligence procedures\*. A qualified investment manager must be a registered investment advisor under the Investment Advisors Act of 1940, or a bank or insurance company, based upon the Trustees exercising prudent due diligence procedures to select such an advisor or advisors.

~~\*At minimum “due diligence” incorporates reviewing three managers per asset class.~~

**INVESTMENT POLICY REVIEW**

To assure continued relevance of the guidelines, objectives, financial status and capital market expectations as established in this statement of investment policy, the Board of Trustees plans to review the investment policy at least annually.

**ADOPTION OF POLICY STATEMENT**

The PRESBYTERY OF YUKON adopts this statement of investment policy on \_\_\_\_\_, 2016.

|                    |                       |
|--------------------|-----------------------|
| _____<br>Signature | _____<br>Printed Name |
| _____<br>Title     |                       |
| _____<br>Signature | _____<br>Printed Name |
| _____<br>Title     |                       |

## APPENDIX A

### INVESTMENT GUIDELINES

The investment decisions of the PRESBYTERY OF YUKON must consider the following.

**Risk** – the degree of uncertainty

**Rate of return** – the net cash returned, usually measured as an annual percentage of the amount invested. Generally, the higher the rate of return, the higher the risk.

**Diversity** - mixing placement to shelter the total portfolio from any one investment causing a disaster and to minimize fluctuations in the overall rate of return.

**Short-term goals** – plans requiring the use of capital within the next two years, current profitability, tax implications and contingencies.

**Long-term goals** – same as short-term goals, but for plans that are longer-term in nature (greater than two years).

**Time value of money** - recognition of the fact that a dollar in hand today is worth more than a dollar to be received tomorrow.

**Corporate strengths and weaknesses** – availability of competent advice and monitoring, ability of funds, natural resource base, and advantages offered by location, etc.

The key is to balance all of the above considerations within a framework wherein each investment contributes to the overall, long-term success of the PRESBYTERY OF YUKON. This guideline proposes such a framework, yet allows the PRESBYTERY OF YUKON the flexibility to react to opportunities as they arise. This framework is comprised of two components:

- Risk assessment for each investment
- A flexible allocation model for the PRESBYTERY OF YUKON total investment portfolio.

Further delineation of these components is on the following pages. In considering investment options for the PRESBYTERY OF YUKON, it is important to keep in mind the items noted above, and to realize that the disbursement of any money is an investment, be it for the purchase of supplies, services, or capital improvements, and that the disbursement of that money must have an expected “return,” however, the return may be defined or measured.

General considerations for assessing the risk of each specific investment are as follows:

**CREDIT RISK** – the ability of a company to meet its obligations as they become due. For example, most bonds issued by a company are rated by rating agencies (Moody’s and Standard & Poor’s) for their creditworthiness. In addition, almost all deposits up to \$100,000 in a financial institution, even CD’s, are fully insured by either the FDIC or other similar organizations. Bonds rated AAA or fully insured deposits have virtually no credit risk. Where available, ratings by independent agencies must be fully considered in the evaluation of all investments.

**BUSINESS RISK** - the component of a company's overall risk that is associated with its ability to compete in the marketplace. Companies that are well established, sell essential products and are in industries that are in the middle part of their product life cycles have lower business risk than otherwise. Also called market risk.

**INTEREST RATE RISK** - the impact on market values of investments due to fluctuation in the market interest rate. This risk is interrelated to the next risk, Time risk, in that the longer the investment's holding period, the greater the impact that market interest rate fluctuations will have on the investment's market value. Long-term fixed interest rate debt securities or investment in industries that are very interest rate sensitive (e.g. utilities) have higher degrees of interest rate risk than otherwise.

**TIME RISK** - uncertainty increases with increases in the length of time in the maturity or required holding period of an investment.

**MARKETABILITY** – investments that can be regularly traded have less risk than an investment that cannot be traded, all other things being equal. This is also referred to as liquidity.

**INFLATION/TAXATION RISKS** – these risks are commonly grouped and referred to as the 'loss of buying power' risks. Certain investments may be able to minimize, to a degree, these risks.

**FEES AND COMMISSIONS** – investments with high fees and/or commissions are less desirable as they reduce the rate of return and reduce the amount of money that is actually "working" to produce earnings.

**OPPORTUNITY COSTS** - the opportunities are given up or not pursued when a course of action is taken. At a minimum, all of our monies can make money market interest rates and be liquid and fully insured. An alternative investment must produce benefits that are better than this for the investment to be justified.

No single investment should be more than 10% of PRESBYTERY OF YUKON total investment portfolio, unless the investment is in U.S. debt securities. This *will* help prevent any one investment from causing a catastrophic loss to the PRESBYTERY OF YUKON.

On at least a semi-annual basis, the actual return on investment should be measured against their expected return. Significant variances must be investigated and appropriately analyzed, and corrections made where necessary. The actual versus expected holding periods must also be analyzed in a similar fashion.

Considerations specific to investment types are as follows:

**DEBT INVESTMENTS (LENDING)**

Can be virtually risk free, but can also be the riskiest. Returns are primarily in the form of interest and, to a lesser degree; appreciation in value involves a promise to repay principal as well as interest. Can be very short-term [money market funds or very long-term (bonds)]. With the exception of internal loans, such as the Hillcrest Loan Program, for loans to concerns that are not rated by either Moody's or Standard & Poor's (private placements), the PRESBYTERY OF YUKON shall be in a first lien position and the loan to value ratio shall not exceed 75%.

**EQUITY INVESTMENTS (Denotes indirect ownership in one form or another)**

Generally, higher degree of risk than debt securities. Returns are primarily in the form of dividends (distribution of profits) and appreciation in value. Generally longer term in nature, usually a minimum of five years, but no set

maturity date. Prices (and values) generally more volatile, tax implications can be complex and generally, more oversight is required.

**ACTIVE EQUITY INVESTMENTS (DIRECT OWNERSHIP AND MANAGEMENT)**

Generally, the highest degree of risk and the return on the investment must be better than the return on the capital displacement to purchase this investment. Need to have in-house management expertise in the business in which the active investment is engaged. Regional economic impact and shareholder jobs are desired residuals, but neither of these factors shall be the principal purpose for selecting the investment. Joint-venture partners may be acceptable, but only if the partner has similar goals and interests (specifically, the success partner should not have conflicting interests) and is successful in similar operations. It is not required that the corporation practice dollar cost averaging.