

Investment Policy Statement

For

**Episcopal Diocese of
Upper South Carolina**

Last Revised: July 30, 2012

Last Approved: July 30, 2012

Equities/US Large Cap:

- Domestic Standard & Poor's 500 Index
- Russell 1000 Growth Index
- Russell 1000 Value Index

Equities/US Mid Cap:

- Russell Midcap Index
- Russell Midcap Growth Index
- Russell Midcap Value Index

Equities/US Small Cap:

- Russell 2000 Core
- Russell 2000 Value Index
- Russell 2000 Growth Index

Equities/International Developed Markets:

- MSCI EAFE Gross

Equities/International Emerging Markets:

- MSCI Emerging Markets Index Gross

Real Assets:

- DJ UBS Commodities
- Goldman Sachs Commodity Index

Statement of Investment Policy, Objectives, and Guidelines Episcopal Diocese of Upper South Carolina

SCOPE OF THIS INVESTMENT POLICY

This statement of investment policy reflects the investment policy, objectives, and constraints of the entire Endowment.

PURPOSE OF THIS INVESTMENT POLICY STATEMENT

This statement of investment policy is set forth by the Investment Committee of the Endowment to:

1. Define and assign the responsibilities of all involved parties.
2. Establish a clear understanding for all involved parties of the investment goals and objectives of Fund assets.
3. Establish a basis for evaluating investment results.
4. Manage Fund assets according to prudent standards as established in common trust law.
5. Establish the relevant investment horizon for which the Fund assets will be managed.

In general, the purpose of this statement is to outline a philosophy and attitude which will guide the investment management of the assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

DELEGATION OF AUTHORITY

The Investment Committee of the Endowment is a fiduciary, and is responsible for directing and monitoring the investment management of Fund assets. As such, the Investment Committee is authorized to delegate certain responsibilities to professional experts in various fields. These include, but are not limited to:

1. Investment Management Advisor and/or Consultant (Advisor). The Advisor shall assist the Investment Committee in establishing an Investment Policy Statement (IPS), objectives, and guidelines; recommending investment/asset managers; reviewing such managers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate. The Advisor will provide investment advice in accordance with the IPS and its ongoing review of the Fund and make recommendations in regard to the Fund directly to the Investment Committee. The Advisor shall take no action with respect to the investment management of the Account without written approval from the Fund's Investment Committee representatives. Signed minutes of the Investment Committee's actions and decisions may represent written approval.

2. **Investment Managers.** The Investment Manager(s) has/have discretion to purchase, sell, or hold the specific securities for those funds under its control and in accordance with the mandate for which the Investment Manager was hired.
3. **Custodian.** The custodian will physically (or through agreement with a sub-custodian) maintain possession of securities owned by the Fund, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Fund accounts. The Committee acknowledges that the Investment Advisory services and Custodial services may be provided by the same institution.
4. **Additional specialists** such as attorneys, auditors, actuaries, retirement plan consultants, and others may be employed by the Investment Committee to assist in meeting its responsibilities and obligations to administer Fund assets prudently.

If such experts employed are also deemed fiduciaries, they must acknowledge such in writing. All expenses for such experts must be customary and reasonable, and will be borne by the Fund as deemed appropriate and necessary.

DEFINITIONS

1. "Fund" shall mean the Endowment.
2. "Investment Committee" shall refer to the governing board established to administer the Fund as specified by applicable ordinance.
3. "Fiduciary" shall mean any individual or group of individuals that exercise discretionary authority or control over fund management or any authority or control over management, disposition or administration of the Fund assets.
4. "Investment Manager" shall mean any individual, or group of individuals, mutual fund, ETF, index fund, real estate investment trust and/or separate account manager employed by the Investment Advisor to manage the investments of all or part of the Fund assets.
5. "Investment Management Advisor and/or Consultant" (Advisor) shall mean any individual or organization employed to provide advisory services, including advice on investment objectives and/or asset allocation, manager search, and performance monitoring.
6. "Securities" shall refer to the marketable investment securities which are defined as acceptable in this statement. This term will include mutual funds, ETFs, index funds, real estate investment trusts and separate account managers.

ASSIGNMENT OF RESPONSIBILITY

RESPONSIBILITY OF THE ADVISOR:

The Investment Advisor must acknowledge in writing its acceptance of responsibility as a fiduciary. The Investment Advisor will provide investment advice and recommendations to the Investment Committee. Specific responsibilities of the Investment Advisor include:

1. Recommendations to buy, sell, or hold securities as well as to recommend changes to the asset allocation within the guidelines established in this statement.
2. Reporting, on a timely basis, quarterly investment performance results.
3. Communicating any major changes to economic outlook, investment strategy, or any other factors which affect implementation of investment process, or the investment objective progress of the Fund's investment management.
4. Informing the Investment Committee regarding any qualitative change to investment management organization: Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.
5. Voting proxies, if requested by the Investment Committee, on behalf of the Fund, and communicating such voting records to the Investment Committee on a timely basis.

GENERAL INVESTMENT PRINCIPLES

1. Investments shall be made solely in the interest of the Fund.
2. A fiduciary shall exercise the judgment and care under the circumstances then prevailing, and within the context of South Carolina Uniform Prudent Management of Institutional Funds Act. In making investment decisions, a fiduciary shall consider the general economic conditions, the anticipated tax consequences of the investment, the anticipated duration of the fiduciary account and other prevailing circumstances.
3. Investment of the Fund shall be so diversified as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.
4. The Investment Committee and/or the Investment Advisor may employ one or more investment managers of varying styles and philosophies to attain the Fund's objectives.
5. Cash is to be employed productively at all times, by investment in short-term cash equivalents to provide safety, liquidity, and stability of market value.

INVESTMENT MANAGEMENT POLICY

1. Preservation of Capital - Consistent with their respective investment styles and philosophies, investment managers should make reasonable efforts to preserve capital, understanding that losses may occur in individual securities and/or funds.

2. Risk Aversion - Understanding that risk is present in all types of securities and investment styles, the Investment Committee recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Fund's objectives. However, the investment managers are to make reasonable efforts to control risk, and will be evaluated regularly to ensure that the risk assumed is commensurate with the given investment style and objectives.
3. Adherence to Investment Discipline - Investment managers are expected to adhere to the investment management styles for which they were hired. Managers will be evaluated regularly for adherence to investment discipline.

INVESTMENT OBJECTIVES

In order to meet its needs, the investment strategy of the Endowment is to emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income.

Specifically, the primary objective in the investment management for Fund assets shall be:

Investment Objective Balanced

Balance in emphasis between current income and longer-term capital appreciation. Assets are primarily invested in equity and fixed-income securities and in real assets (commodities) with a moderate to strong emphasis on capital appreciation and current income. This objective can be considered appropriate for Funds with an average risk tolerance and intermediate to longer-term time horizons, in which to grow principal.

SPECIFIC INVESTMENT GOALS

The investment goals above are the objectives of the aggregate Fund, and are not meant to be imposed on each investment account (if more than one account is used). The goal of each Investment Advisor, over the investment horizon; defined as a typical capital market cycle, shall be to:

1. Meet the market index, or blended market index, selected and agreed upon by the 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

DEFINITION OF RISK

The Investment Committee realizes that there are many ways to define risk. It believes that any person or organization involved in the process of managing the Endowment assets understands how it defines risk so that the assets are managed in a manner consistent with the Fund's objectives and

investment strategy as designed in this statement of investment policy. The Investment Committee defines risk as:

The unpredictability of investment returns

LIQUIDITY

To minimize the possibility of a loss occasioned by the sale of a security forced by the need to meet a required payment, the Investment Committee will periodically provide investment counsel with an estimate of expected net cash flow. The Investment Committee will notify the Investment Advisor in a timely manner, to allow sufficient time to build up necessary liquid reserves.

To maintain the ability to deal with unplanned cash requirements that might arise, the Investment Committee requires that an appropriate level of Fund assets shall be maintained in cash or cash equivalents, including money market funds or short-term U.S. Treasury bills.

MARKETABILITY OF ASSETS

The Investment Committee requires that all of Fund assets be invested in liquid securities; defined as securities that can be transacted quickly and efficiently for the Fund, with minimal impact on market price.

INVESTMENT GUIDELINES

ALLOWABLE ASSETS

1. Cash Equivalents
 - Treasury Bills
 - Money Market Funds
 - STIF Funds
 - Commercial Paper
 - Banker's Acceptances
 - Repurchase Agreements
 - Certificates of Deposit
2. Fixed Income Securities
 - U.S. Government and Agency Securities
 - Corporate Notes and Bonds
 - 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
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.
 5. Other Assets
 - GIC's
 - REITS

DERIVATIVE INVESTMENTS

The Investment Committee does not permit the direct investment in or use of derivative or complementary strategy types of investments which are generally described as financial instruments whose price and value derive from the value of assets underlying them such as options, futures, forwards, swaps, linked notes, exchange funds, hedge funds, private equity, and private debt.

PROHIBITED ASSETS

Prohibited investments include; but are not limited to, **direct** investment in the following:

1. Private Placements
2. Options
3. Limited Partnerships
4. Venture-Capital Investments
5. Real Estate Properties
6. Interest Only (IO), Principal-Only (PO), and Residual Tranche CMOs

PROHIBITED TRANSACTIONS

Prohibited transactions include; but are not limited to, **direct** investment in the following:

1. Short Selling
2. Margin Transactions

Some investments in the Fund may generate unrelated business taxable income (“UBTI”). The receipt of UBTI can have adverse tax consequences for certain types of tax-exempt entities. Investment Advisor will not knowingly recommend investment in assets that generate more than a de-minimus amount of unrelated business taxable income (“UBTI”).

ASSET ALLOCATION GUIDELINES

Investment management of the assets of the Endowment shall be in accordance with the following asset allocation guidelines:

1. Aggregate Fund Asset Allocation Guidelines (at market value)

	<u>Lower Limit</u>	<u>Strategic Allocation</u>	<u>Upper Limit</u>
Fixed Income	15%	40%	45%
Cash and Equivalents	0%	2%	5%
Investment Grade (Short, Intermediate & Long)	15%	35%	45%
High Yield	0%	3%	5%
Equities	42%	58%	75%
US Large Cap Equities	20%	27%	40%
<i>Growth Style</i>	10%	13.5%	20%
<i>Value Style</i>	10%	13.5%	20%
US Mid Cap Equities	5%	7%	10%
US Small Cap Equities	3%	5%	8%
International Developed Markets Equities	9%	12%	18%
International Emerging Markets Equities	5%	7%	10%
Real Assets	0%	2%	5%
Commodities	0%	2%	5%

Evaluation Benchmark: The Investment Committee seeks to achieve a total return to exceed the performance of a policy index based upon the strategic asset allocation of the Fund to various broad asset classes. Specifically, the policy index will be a weighted index selected from the following:

Fixed Income Investment Grade:

- Barclays 1-3 Year Government Index
- Barclays 1-3 Year Government/Credit Index
- Barclays Aggregate Index

Fixed Income/High Yield:

- Barclays High Yield Corporate Index

Fixed Income/Cash:

- B of A Merrill Lynch 3-Month US Treasury Bill Index

Equities/US Large Cap:

- Standard & Poor's 500 Index
- Russell 1000 Growth Index
- Russell 1000 Value Index

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2. The Investment Committee may direct the Investment Advisor to employ Investment Managers whose investment disciplines require investment outside the established asset allocation guidelines. However, taken as a component of the aggregate Fund, such disciplines must fit within the overall asset allocation guidelines established in this statement
3. The Investment Advisor shall recommend to the Investment Committee a rebalancing of the portfolio periodically to remain consistent with the established asset allocation. At a minimum, the Fund's assets, governed by this policy, shall be reviewed quarterly. Asset allocation does not assure or guarantee better performance and cannot eliminate the risk of investment losses.

DIVERSIFICATION FOR INVESTMENT MANAGERS

The Investment Committee does not believe it is necessary or desirable that securities held in the Fund represent a cross section of the economy. However, in order to achieve a prudent level of portfolio diversification, the securities of any one company, government agency or industry should not exceed a disproportionate percentage of the total fund.

GUIDELINES FOR FIXED INCOME INVESTMENTS AND CASH EQUIVALENTS

1. Fixed income maturity restrictions are as follows:
 - Maximum maturity for any single security is 30 years.
 - Weighted average portfolio maturity may not exceed 15 years.
2. Money Market Funds selected shall contain securities whose credit rating at the absolute minimum would be rated investment grade by Standard and Poor's, and/or Moody's. Investments in commercial paper must be rated A1 (or equivalent) or better.

SELECTION OF INVESTMENT MANAGERS

The Investment Committee selection of Investment Manager(s) must be based on prudent due diligence procedures. A qualifying investment manager must be a registered investment advisor under the Investment Advisors Act of 1940, or a bank or insurance company. The Investment Committee requires that each investment manager provide in writing, acknowledgment of fiduciary responsibility to the Endowment.

PERFORMANCE REVIEW AND EVALUATION

Performance reports generated by the Investment Consultant shall be compiled at least quarterly and communicated to the Investment Committee for review. The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The Investment Committee intends to evaluate the portfolio(s) over at least a three-year period, but reserves the right to terminate a manager for any reason including the following:

1. Investment performance which is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
2. Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.
3. Significant qualitative changes to the investment management organization.

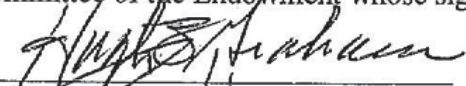

Investment managers shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

INVESTMENT POLICY REVIEW

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

(For committee driven accounts)

This statement of investment policy is adopted on July 30, 2012 by the Investment Committee of the Endowment whose signatures appear below.

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