

# **Presbytery of New York City Investment Policy Guidelines**

*April 2012*

These Investment Policy Guidelines cover the Presbytery's Endowment and other funds managed by the Presbytery. ("the Fund")

## **Introduction**

These guidelines help to maintain a long term perspective despite short-term market movements

## **Background**

The Presbytery Trustees, ever mindful of their stewardship of the Presbytery's assets, have authorized the Investment Committee ("the Committee") to develop and execute policies and guidelines for the effective supervision and management of the assets in the Fund. The Committee shall exercise fiduciary standards of prudence, including the eight statutory factors included in The New York Prudent Management of Institutional Funds Act ("NYPMIFA"), with respect to all investments. These eight factors are:

1. general economic conditions;
2. the possible effect of inflation or deflation;
3. the expected tax consequences, if any, of investment decisions or strategies;
4. the role that each investment or course of action plays within the overall investment portfolio of the Fund;
5. the expected total return from income and the appreciation of investments;
6. other resources of the institution;
7. the needs of the institution and the Fund to make distributions and to preserve capital; and
8. an asset's special relationship or special value, if any, to the purposes of the institution.

The Committee at its discretion retains, and delegates responsibilities to an Investment Advisor to implement, these guidelines, and monitors the implementation and performance of its investments and the performance of any Investment Advisor retained in support of the objectives and policies set forth in these guidelines.

The Fund shall be managed to provide a balance between present and future needs. Present needs will be met through the administration of the spending policy as set forth by the Trustees. Future needs will be addressed by retaining a portion of the Fund's total investment return which, after implementation of the spending policy, is expected to at least exceed long-term inflation over a five year period.

## **Purpose**

The purpose of these guidelines is to establish a clear understanding of the investment goals and objectives and management policies applicable to the Fund. These guidelines will:

- a) establish reasonable expectations, objectives, and guidelines in the investment of the Fund;
- b) create the framework for a well-diversified asset mix that can be expected to generate acceptable long-term returns at an acceptable level of risk;
- c). define the responsibilities of the Committee and the Fund's Investment Advisor; and
- d). assist the Trustees in meeting their fiduciary obligations with respect to the management and investment of the Fund, consistent with applicable laws.

The investment guidelines described herein should be dynamic. Therefore, this document will be reviewed and revised periodically by the Committee to ensure it adequately reflects current circumstances.

## **Objectives**

The Committee's objectives are to:

1. preserve the real purchasing power of the assets in the Fund;
2. provide for long term growth of the Fund;
3. provide a dependable source of assets to cover on-going operating expenses of the Presbytery;
4. minimize the year-to-year volatility of the Fund's value.

An asset allocation has been established by the Committee through these guidelines. The objectives are set in recognition of the fact that any invested portfolio is subject to three major risks: a) capital risk (the risk of a decline in market value of the portfolio); b) reinvestment rate risk (the risk that in the future the assets of the portfolio will be reinvested at a yield lower than the current yield); and c) inflation risk (the risk that inflation will increase at a greater rate than the value of the portfolio, thus reducing the real worth of the assets).

The Committee understands there are costs to hedging risk (e.g., protecting against risk may require that some percentage return be foregone, and/or protection against any one risk may, to some extent, preclude protection against other risks).

In order to meet the Fund's objectives over long time periods, the Committee has determined that the adoption of a total return investment strategy is best.

## Investment Management Standards of Conduct

The following standards will be met in the management of the Fund:

- a). Subject to the intent of a donor expressed in any gift instrument, the Committee, in managing and investing the Fund, shall consider the purposes of the Presbytery and the purposes of the Fund.
- b). In addition to complying with the duty of loyalty imposed by law, each person responsible for managing and investing the Fund shall manage and invest in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances. A person who has special skills or expertise, or is selected in reliance upon the person's representation that the person has special skills or expertise, has a duty to use those skills or that expertise in managing and investing the Fund.
- c). In managing and investing the Fund, the Committee and any Investment Advisor may only incur costs that are appropriate and reasonable in relation to the assets.
- d). The Committee and any Investment Advisor shall make every reasonable effort to verify the facts relevant to the management and investment of the Fund.
- e). Except as otherwise provided by a gift instrument, the following apply:

1. In managing and investing the Fund, the following factors, if relevant, will be considered:

- a). general economic conditions;
- b). the possible effect of inflation or deflation;
- c). any expected tax consequences, if any, of investment decisions or strategies;
- d). the role each investment plays within the overall investment portfolio of the Fund;
- e). the expected total return from income and the appreciation of investments; and
- f). the needs of the Presbytery and the Fund to make distributions and preserve capital.

2. Management and investment decisions about an individual asset must be made, not in isolation, but rather in the context of the Fund's portfolio of investments as a whole and as part of an overall investment strategy having risk and return objectives reasonably suited to the Fund and the Presbytery

3. The Committee and any Investment Advisor shall diversify the investments of the Fund, unless the Trustees determine that, due to special circumstances, the purpose of the Fund is better served without diversification. The Trustees shall review a decision not to diversify as frequently as circumstances require, but at least annually.

4. Within a reasonable time after receiving property, the Investment Advisor shall make and carry out decisions concerning the retention or disposition of the property or to rebalance a portfolio, in order to bring the Fund into compliance with the purposes, terms, and distribution requirements of the Fund.

### **Delegated Decision-Making Authority**

The Committee may retain one or more Investment Advisors to the Fund. Any Investment Advisor's role shall be that of a discretionary manager of the assets of the Fund. Any Investment Advisor's actions concerning the investment management of the Fund shall be consistent with the investment objectives, policies, guidelines and constraints as established in these guidelines. In selecting, continuing or terminating an Investment Advisor, the Committee shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, including assessing the Advisor's independence including any conflicts of interest such Advisor has or may have.

In addition, any Investment Advisor shall have the following responsibilities:

1. Periodically reviewing the investments with the Committee for adjustment of commitments to various asset classes. This includes rebalancing the Fund so that the asset allocations set forth in these guidelines are achieved;
2. Monitoring and evaluating investment performance and compliance with these guidelines; and
3. Exercising reasonable care, skill and caution to comply with the scope and terms of the delegation.

### **Time Horizon**

The investment time horizon applicable to these guidelines is seven to ten years. This time horizon will generally be used for making decisions about asset allocation; however, such decisions may be reviewed and revised whenever warranted by general economic conditions or the investment performance of specific asset classes. The performance of the Fund will be monitored regularly and typically be judged for periods equal to the lesser of a full market cycle or 60 months.

### **Spending Policy**

Spendable income is that portion of current total return, as well as portions of unspent total return of prior years, as allocated by the Trustees for spending in any fiscal year. The target annual distribution rate shall be between four and five percent of the average market value of the endowment for the preceding 12 quarters. It should be noted that that

under NY PMIFA, an appropriation of an amount greater than seven percent of the fair market value of a specific endowment fund, calculated on the basis of market values determined at least quarterly and averaged over a period of not less than five years immediately preceding the year in which the appropriation for expenditure is made, creates a rebuttable presumption of imprudence.

## Risk

In general, the term "risk" as used in these guidelines will mean the degree of exposure to unacceptable outcomes from the investment program. Major unacceptable investment outcomes are:

1. Prolonged negative (total investment program) returns for periods longer than 3 to 5 years.
2. For the Fund as a whole, greater than 30% market value decline over a period of 24 months.
3. Disproportionately high volatility-to-expected return ratio.

Investment theory and historical capital market return data suggest that, over long periods of time, there is a relationship between the level of risk assumed and the level of return that can be expected in an investment program. In general, higher risk (e.g., volatility of return) is associated with higher return.

Given this relationship between risk and return, a fundamental step in determining the investment policy for the Fund is the determination of an appropriate risk tolerance. The three primary factors that affect this determination are a) the financial ability to accept risk (specifically, dramatic negative short term performance), b) the psychological ability to accept risk, and c) the long term investment return requirements.

## Asset Allocation

The Committee has adopted the following asset classes and ranges which were selected to implement the overall portfolio objective. These ranges are reviewed regularly and may change over time.

Asset Allocation	Minimum	Maximum
Fixed Income and Cash	20.0%	45.0%
Equities	30.0%	60.0%
Alternative Investments	15.0%	35.0%

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## Benchmarks

The Fund will be managed in an attempt to meet the returns of the capital markets and earn an average return that exceeds the Presbytery's spending policy plus inflation. In addition, investment returns may also be compared to a total fund benchmark which will be calculated by applying the asset class guideline percentages to the respective asset class index returns, less investment management fees.

Asset Classes	Benchmarks
Domestic Fixed Income	Barclays Capital Aggregate
International Fixed Income	Citigroup WGBI
Cash	91 Day T-Bills
Domestic Equities	S&P 500
International Equities	MSCI ACWI ex US
Hedge Funds	HFRI Index
Liquid Real Assets	DJ UBS Commodity Index

The total performance of the Fund shall be measured against a composite benchmark consisting of a weighted average of the various benchmarks as represented by the then current asset allocation of the Fund.

### Prohibited Transactions:

Investments in the common stocks of the following corporations are prohibited:

- a) that are among the ten leading military contractors;
- b) that are among the one hundred leading military contractors and are dependent on military contracts for more than 25% of their sales;
- c) that make the key nuclear components for nuclear weapons;
- d) that engage in the manufacturing and/or distribution of tobacco or liquor products
- e) that operate gambling casinos.

However, investment in a mutual fund or Exchange-Traded Fund (ETF) that may contain securities of one of these businesses as a small percentage of the mutual fund or ETF is permissible.

The Committee will also take into consideration the PC USA's MRTI guidelines in its investment decisions.

### **Unacceptability of Market Timing**

The Committee has taken into account considerable evidence that a stable and prudent asset allocation, combined with the passage of time, is likely to provide a favorable outcome to an investment portfolio. The Committee further recognizes the return objectives and level of risk exposure outlined in these guidelines could be negatively impacted if the asset allocation guidelines are not followed. Therefore, the introduction of short term judgments, either to inject unplanned risk, or conversely, to reduce intended market exposure should be discouraged.

### **Rebalancing**

Because different asset classes will perform at different rates, the Committee and any Investment Advisor shall keep close scrutiny on the asset allocation shifts caused by performance. Accordingly, the Committee and any Investment Advisor will review the relative market values of the asset segments of the Fund, and will have the discretion to rebalance as needed.

### **Performance Evaluation**

The Fund is expected to generate returns that are comparable to the returns in the capital markets. The Committee shall measure the performance at quarterly intervals. Performance will be calculated on a time-weighted total return basis. Meetings of the Committee will be held at least semi-annually to discuss the Fund's performance and any new developments that should be factored into these guidelines.