



## **INVESTMENT POLICY STATEMENT (IPS)** **- Using high and low volatility assets -**

**Effective Date: January 26, 2010**

### **PREFACE**

The Catholic Foundation for the Diocese of Tucson, a not-for-profit organization organized under the laws of the State of Arizona, encourages the solicitation and acceptance of gifts that will help fulfill its mission.

#### **GOAL & MISSION OF ENDOWMENT FUND**

**The Catholic Foundation for the Diocese of Tucson was designed to develop a means by which Church needs could be met on a long-range, planned basis through an endowment program. The Foundation has developed giving programs that allow people interested in making a lasting gift to do so with the assurance that the earnings from their donation will be distributed to religious, charitable and educational programs within the Diocese of Tucson.**

### **PURPOSE**

This statement of investment policy reflects the investment policy, objectives, and constraints of the entire Catholic Foundation Endowment portfolio. The primary fiduciary responsibility of the Finance & Investment Committee, as delegated by the Board of Directors, shall be to manage the invested funds of the organization.

- A. Insure that the principal and the purchasing power of the fund remain intact in perpetuity.
- B. Make available a portion of the investment earnings on fund assets to provide support for the stated purposes of the Fund.
- C. By action of the Board of Directors, a portion of the total return (dividends/capital gains) from the invested funds will be made available each year for support of the annual operating budget.
- D. Set a rate of spending so as to insure that the funds not diminish in real value (i.e., that the value grows to compensate for inflation).

## INVESTMENT PHILOSOPHY

The Board of Directors (“Board”) of the Catholic Foundation for the Diocese of Tucson (“Foundation”) is called to exercise faithful, competent and socially responsible stewardship in how it manages its financial resources. As a Catholic organization, the Board draws the values, directions and criteria which guide its financial choices from the Gospel, universal church teaching and the guidance of our local Bishop. In order to function effectively and to carry out its mission, the Foundation depends on a reasonable return on its investments and is required to operate in a fiscally sound, responsible and accountable manner. The combination of religious mandate and fiscal responsibilities suggests the need for a clear and comprehensive set of policies to guide the Foundation’s investments and other activities related to corporate responsibility. Using the United States Conference of Catholic Bishop’s Socially Responsible Investment Guidelines (November 12, 2003) as its model, the Board has adopted a separate Catholic Values Investment Policy (attached).

## INVESTMENT OBJECTIVES

The principal objective of investments of the Endowment Fund is to support the religious, educational and charitable works in the Diocese of Tucson and, to the degree consistent with specific rate of return objectives, all funds shall be invested to maintain a level of stability and security by managing risk and volatility. The preservation of capital is of principal concern, as is maintaining the long term purchasing power of the assets relative to inflation. The long-term total return is more important than short-term results or market value volatility.

The primary purpose of the Endowment Fund is to support its ongoing programs and to help assure the financial viability of parishes, schools and agencies within the Diocese. Given the significant dependence on income from invested funds for operating and other purposes, there is high importance of assuring both a stable and steady income stream and continued growth of the invested funds.

### **Spending Policy**

The Board of Directors is expected to set spending policy equal to approximately 4% of the Endowment portfolio value. This Endowment Fund places highest emphasis on meeting its grant making obligations. While spending is relatively consistent and predictable, the investment returns from investment portfolios are neither consistent nor predictable.

### **Attitude toward Gifts**

Future giving (contributions) to this Endowment Fund is expected to be inconsistent, and therefore, unpredictable. As a result, the Board of Directors has set an investment strategy with the objective of achieving a Required Return sufficient to maintaining the purchasing power of Endowment Fund assets before consideration of gifts. Accordingly, future giving will serve to increase purchasing power. Therefore, expectations may be expressed by the following equation:

$$\text{Required Return} = \text{Spending} + \text{Inflation} + \text{Expenses}$$

While

$$\text{Future Giving} = \text{Increase in Purchasing Power}$$

Therefore, in order to reduce the likelihood of investment underperformance and excessive deterioration of real principal during such periods, the Investment Advisor shall strive to achieve the Required Return objective of 7.5% (4%Spending + 2.5%Inflation + 1%Expenses) *plus* some level of growth to meet the Foundation’s financial mission. This should be achieved with a diversified portfolio designed to minimize volatility (risk) of returns. The Required Return objective serves as a guideline to determine the appropriate investment mix over the long term (5 years or more). The portfolio should be constructed with as little risk as possible, but enough risk to reasonably expect

that the Required Return will be met over long periods of time. Individual components of the portfolio are expected to perform in accordance with their respective benchmarks, and the total portfolio will be compared against a blended benchmark (as outlined under “Total Fund Performance”) rather than the Required Return objective.

Notwithstanding adherence to the Socially Responsible Investment Guidelines, the Board requires that the financial return on the Foundation investments meet the policy benchmarks herein contained.

## **PORTFOLIO ASSET ALLOCATION GUIDELINES**

Diversification is very important to mitigate the variability of investment returns. Accordingly, the Fund shall be invested to provide asset-class diversification in a portfolio of common stocks, bonds, alternative investments, cash equivalents and other investments that may reflect varying rates of return. Investment in one or more diversified commingled funds is appropriate and necessary to create a well-diversified portfolio, incorporating multiple asset classes and investment styles. The overall objective for the portfolio rate of return should be a reasonable rate consistent with the risk levels established by the Board of Directors.

### **TARGET ASSET MIX TABLE (Using high and low volatility assets) (Asset classes, Policy Benchmarks and Target Asset Allocations):**

Asset Category	Policy Benchmark	Minimum	Target	Maximum
<b>High Volatility/Equity</b>		<b>45.00%</b>	<b>55.00%</b>	<b>65.00%</b>
US Large Cap	S&P 500	15.00%	24.80%	65.00%
US Small & Mid Cap	Russell 2000	0.00%	8.30%	20.00%
Intl. Dev. Large Cap	MSCI EAFE	0.00%	13.80%	26.00%
US and Intl. Global Real Estate (REITs)	FTSE EPRA/NAREIT Global REIT	0.00%	5.00%	10.00%
Commodities	Dow Jones – AIG Commodity	0.00%	3.30%	7.00%
Opportunistic – High Volatility		0.00%	up to	10.00%
High Volatility Alternative Investments – Hedge Fund of funds and Private Equity fund of funds		0.00%	up to	15.00%
<b>Low Volatility/Fixed Income</b>		<b>35.00%</b>	<b>45.00%</b>	<b>55.00%</b>
Investment Grade Bonds	Lehman Aggregate Bond	0.00%	45.00%	55.00%
International Bonds	Lehman Global Aggregate ex US	0.00%	up to	10.00%
US High Yield Bonds	Lehman High Yield Bonds	0.00%	up to	10.00%
Money Market Assets	US 90 day T-Bills	0.00%	up to	55.00%
Opportunistic – Low Volatility		0.00%	up to	10.00%
Low Volatility Alternative Investments – Absolute Return hedge fund of funds		0.00%	up to	10.00%
<b>Total</b>			<b>100.00%</b>	

If the Investment Manager feels that the Target Asset Mix table does not allow sufficient flexibility to meet the long term objective of the plan (i.e. Required Return Objective), the Investment Manager must make specific recommendations for changes to (or short term departure from) these guidelines. Such recommendations are subject to board approval.

## **TOTAL FUND PERFORMANCE**

The Investment Advisor will actively manage, review and evaluate investment performance in the context of the prevailing investment environment, and consistent with the long-term investment horizon of the Fund. The performance review at the Portfolio level will evaluate total fund performance versus a Policy Benchmark comprising the various benchmarks and respective Target Asset Allocation weights as listed above. The performance review at the asset class level will evaluate asset class performance versus the respective benchmark. The Investment Advisor will communicate quarterly with the Finance & Investment Committee review fund performance and activity.

### **High Volatility Assets/Equity**

High volatility assets are assets with equity-like volatility that pursue equity-like returns. The expected return source of high volatility assets is typically capital gains generated by beta, superior security selection, or opportunistic timing, but can also include income and/or hedged capital gain, sometimes magnified by leverage.

The purpose of the high volatility allocation is to provide total return from appreciation and dividends that exceeds inflation. It is recognized that equity investments carry greater price variability and risk than other asset classes. Where individual equity securities are employed, the following restrictions apply:

- Permissible individual equity investments include common stocks, ADRs, preferred stocks, and fixed income securities convertible into common stocks.
- Investments in the common stock of any one company may not exceed 5% of its common shares outstanding; no single common stock should exceed 10% of value of the entire stock portfolio, based on market value.

Investments in one or more diversified commingled active or passively managed funds may be appropriate and necessary to create a well-diversified portfolio, incorporating multiple asset classes and investment styles. This may include allocations to incorporate International, Small Cap, or sector specific vehicles where company specific risk would be otherwise difficult to manage.

### **Low Volatility Assets/Fixed Income**

Low volatility assets are assets with bond-like volatility or less where investors accept lower returns than from higher volatility assets. The expected return source is normally income or hedged capital gain, and often is related in some fashion to the risk-free rate. Low volatility assets have a high probability of generating positive returns over the short to intermediate time horizon.

The purpose of the low volatility fund is to provide current income, provide a stable component of return and to reduce the overall volatility of the Fund. Where individual fixed income securities are employed, the following restrictions apply:

- The bond portfolio may be invested in Preferred Stock; Taxable Municipal Bonds; securities issued by the U.S. Treasury; an agency of the U.S. Government; or a corporation or sovereign issuer rated investment grade by Moody's or Standard and Poor's
- Investments in the debt securities of any one company or issuer may not exceed 10% of value of the entire Fixed Income portfolio, based on market value, except that a portion of the portfolio invested in U.S. Treasury or U.S. Government agency obligations

Investments in one or more diversified commingled active or passively managed funds may be appropriate and necessary to create a well-diversified portfolio, incorporating multiple asset

classes and investment styles. This may include allocations to incorporate International, High Yield, or sector specific vehicles where company specific risk would be otherwise difficult to manage.

The percentage of total assets allocated to Money Market instruments should be sufficient to meet disbursements and general operational expenses of the Fund. Cash equivalents may also be used as an alternative to other investments when the Investment Advisor feels that other asset classes carry higher than normal risk.

#### **Alternative Investments & Derivatives**

In order to enhance portfolio results, the Investment Advisor may elect to invest in alternative asset classes including, but not limited to: Real Estate, Commodities, Hedge Funds, and Private Equity. These investments may be either high or low volatility assets and are intended to raise portfolio returns and/or lower total portfolio volatility. Such investments will be implemented via diversified “fund of funds” vehicles or a commingled vehicle designed to replicate the general characteristics of the broader asset class. Direct Investments shall not be made in commodities, commodity contracts, oil, gas, mineral leases, mineral rights or royalty contracts. Margin transactions, short sales, options, puts, calls, straddles, spreads and futures contracts shall not be used except by specific approval of the Investment Committee as strategy to reduce the overall risk of the portfolio.

## **CHANGES TO INVESTMENT POLICY STATEMENT**

The Finance Committee with the approval of the Board of Directors of CATHOLIC FOUNDATION ENDOWMENT may amend this resolution from time to time. No amendment may be adopted which will have the effect of terminating the Fund, except that the Fund may be terminated if: (i) the assets of the Fund are transferred to a separate Endowment Fund established to replace such Fund; or (ii) CATHOLIC FOUNDATION ENDOWMENT is liquidated, in which case the Fund will be distributed for one or more exempt purposes within the meaning of Section 501(c) (3) of the Internal Revenue Code (or a corresponding section of any future Federal tax code), i.e. for charitable, educational, religious or scientific purposes, or will be distributed to a state or local government for a public purpose.

**Approved by Finance & Investment Committee on this 17th day of November, 2009.**

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Maryann Hockstad, Chairman

**Approved by Board of Directors on this 26th day of January 2010.**

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Most Rev. Gerald F. Kicanas, Chairman

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Linda S. Tansik, President

**Accepted by Harris Private Bank on this 26th day of January, 2010**

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Name:

Title:

# Catholic Values Investment Policy

## Introduction

The Board of Directors (“Board”) of the Catholic Foundation for the Diocese of Tucson (“Foundation”) is called to exercise faithful, competent and socially responsible stewardship in how it manages its financial resources. As a Catholic organization, the Board draws the values, directions and criteria which guide its financial choices from the Gospel, universal church teaching and the guidance of our local Bishop. In order to function effectively and to carry out its mission, the Foundation depends on a reasonable return on its investments and is required to operate in a fiscally sound, responsible and accountable manner. The combination of religious mandate and fiscal responsibilities suggests the need for a clear and comprehensive set of policies to guide the Foundation’s investments and other activities related to corporate responsibility. Using the United States Conference of Catholic Bishop’s Socially Responsible Investment Guidelines (November 12, 2003) as its model, the Board has adopted the following Catholic Values Investment Policy.

Faithful, competent and socially responsible stewardship directs the actions of the Board of Directors of the Catholic Foundation with dual and inseparable purposes: 1) to achieve a reasonable rate of return of invested financial resources in order for the participating parishes, schools, and diocesan ministries to strengthen their efforts of evangelization, education, service and pastoral care; and, 2) to employ socially responsible strategies and investments based on Catholic moral principles.

The Catholic Foundations' Investment Objectives for achieving a reasonable rate of return on investments are found in a separate document titled "Investment Policy Statement." The following statements form the Policies of the Catholic Foundation for socially responsible strategies and investments:

Achieving a reasonable rate of return and employing socially responsible investment strategies work together to encourage the Board and its professional advisors to identify investment opportunities that meet both the financial needs and the social criteria. These purposes are carried out through the following strategies:

### **1) Do no harm (avoid evil)**

This Fund involves two possible courses of action: 1) refusal to invest companies whose products and/or policies are counter to the values of Catholic moral teachings; 2) divesting from such companies. The decision to avoid or divest must be done prudently to minimize the financial impact and possible other negative consequences.

### **2) Active Corporate Participation**

The Foundation, through its investment manager, will exercise normal shareholder responsibilities such as casting informed votes on proxies, dialoguing with corporate leadership, initiating or supporting shareholders’ resolutions, and working with other religious groups who are advocating for corporate responsibility. This approach enables the Foundation to deal effectively with the reality of “mixed investments”. One way for the Foundation to act as a socially responsible investor is to set limits for corporations engaged in questionable or objectionable activities, to hold a minimal position in those companies that fall under the threshold, and then to use our position as shareholders to work actively to influence or redirect the activities of the corporation toward activities and policies which are socially beneficial and serve the common good.

### **3) Positive Strategies: (Promote the Common Good)**

This could include two possible courses of actions: 1) supporting policies and initiatives in companies owned by the Foundation that promote the values of Catholic moral and social teachings; 2) investing in companies that promote community development, which, in some cases, may result in a lower rate of return, but which are chosen because they give expression to the Church’s preferential option for the poor or produce some significant social good.

**In light of the above strategies the Board of Directors of the Catholic Foundation instructs its professional investment advisors in these specific areas:**

**I. Protecting Human Life**

**A. Abortion**

The Foundation advocates *absolute exclusion* of investment in companies whose activities include direct participation in or support of abortion. Direct participation in abortion may include, but not be limited to companies involved in the manufacture of abortifacients and publicly held health-care companies that perform abortions when not absolutely required by federal or state law.

**B. Contraceptives**

In view of the Church's clear teaching on the immorality of contraceptive intercourse, the Foundation will not invest in companies that manufacture contraceptives or derive a significant portion of its revenues from the sale of contraceptives, even if they do not manufacture them.

**C. Embryonic Stem Cell/Human Cloning**

The Foundation will not invest in companies that engage in scientific research on human fetuses or embryos that (1) results in the end of pre-natal human life; (2) makes use of tissue derived from abortions or other life-ending activities; or (3) violates the dignity of a developing person. Specific activities covered by the policy will include:

1. Embryonic stem cell research (ESCR);
2. Fetal tissue research or stem cell research derived from embryos; and
3. Human cloning.

Because this field of research is dynamic, new forms of research, or products and services derived from such research, will be evaluated on a case-by-case basis.

**II. Promoting Human Dignity**

**A. Human Rights**

The Foundation will actively promote and support shareholder resolutions directed towards protecting and promoting human rights. For example, USCCB could join efforts to influence corporations that are engaged in extractive industries or are operating in countries with significant human rights concerns. The Foundation will use selected shareholder resolutions and other means to encourage companies to provide sufficient wages, working conditions and other social benefits that enable their employees and families to meet basic human needs. The Foundation will seek means to encourage efforts by companies to promote a respect for fundamental human rights, especially in those countries in which these companies operate that have documented practices that deny or violate the human rights of their citizens.

**B. Racial Discrimination**

The Foundation will divest from those companies whose policies are found to be discriminatory against people of varied ethnic and racial backgrounds that have been historically disadvantaged. The Foundation will actively promote and support shareholder resolutions directed towards equal opportunities for minorities. The

Foundation as a shareholder will actively work for the inclusion of minorities on corporate boards.

**C. Gender Discrimination**

The Foundation will divest from those companies whose policies are found to be discriminatory against women. The Foundation will direct its investment advisors to invest in companies that actively promote corporate policies on equal pay and promotion opportunities for women, and accommodation of legitimate family needs. The Foundation will exercise its responsibility as shareholder to promote the active participation of women in the life of the company, particularly in terms of policy and decision-making, and inclusion in corporate leadership positions.

**D. Access to Pharmaceuticals (e.g. HIV/AIDS)**

The Foundation will encourage companies to undertake or participate in programs designed to make life-sustaining drugs available to those in low-income communities and countries at reduced, affordable prices, consistent with our Catholic values. The Foundation will actively encourage and support shareholder resolutions directed towards making life-sustaining drugs more available and affordable to low-income communities and nations.

**E. Curbing Pornography**

The Foundation will not invest in a company that derives a significant portion of its revenues from products or services intended exclusively to appeal to a prurient interest in sex or to incite sexual excitement. These would include, but not be limited to, sexually explicit (X-rated) films, videos, publications, and software; topless bars and strip clubs; and sexually oriented telephone and Internet services. The Foundation will promote and support initiatives, including in some cases, shareholder resolutions, to promote responsible and family-oriented program content development by media companies.

**III. Reducing Arms Production**

**A. Production and Sale of Weapons**

The Foundation, through its investments as well as its advocacy, seeks to discourage any nuclear and conventional arms race and to limit the distortions in the U.S. and global economy resulting from disproportionate military spending. The Foundation will, therefore, avoid investment in firms primarily engaged in military weapons production or the development of weapons inconsistent with Catholic teaching on war (e.g., biological and chemical weapons, arms designed or regarded as first-strike nuclear weapons, indiscriminate weapons of mass destruction, etc.) The Foundation will support shareholder actions to limit weapons production, to limit foreign sales of weapons and to convert corporate capacity to non-military uses.

**B. Antipersonnel Landmines**

The Foundation will not invest in companies that are directly involved in the manufacture, sale, or use of anti-personnel landmines.

**IV. Pursuing Economic Justice**

**A. Labor Standards/Sweatshops**

The Foundation will actively promote and support shareholder resolutions directed

towards avoiding the use of sweatshops in the manufacture of goods. The Foundation will promote and support shareholder resolutions to promote generous wage and benefit policies and adequate worker safety guidelines.

**B. Affordable Housing / Banking**

The Foundation will not deposit funds in a financial institution that receives less than a "satisfactory" rating from federal regulatory agencies under the Community Reinvestment Act. The Foundation, through private correspondence and appropriate shareholder action, will encourage the financial institutions where it deposits its resources to undertake programs and implement policies to secure an "outstanding" rating under the act. The Foundation will communicate, where appropriate, to its financial institutions our support for their positive performance under the Community Reinvestment Act.

**V. Protecting the Environment**

The Foundation will actively promote and support shareholder resolutions which encourage corporations to act "to preserve the planet's ecological heritage, addressing the rampant poverty in the poorest nations, redirecting development in terms of quality rather than quantity in the industrial world, [and] creating environmentally sensitive technologies." (***Renewing the Earth, 1991***) The Foundation will encourage policies and business that "undertake reasonable and effective initiatives for energy conservation and the development of alternate renewable and clean energy resources... [and offering] incentives to corporations to reduce greenhouse gas emissions and assistance to workers affected by those policies." (***Global Climate Change, 2001***)

**VI. Encouraging Corporate Responsibility**

The Foundation will encourage companies to report on social, environmental, as well as financial performance, as well as, promote and support shareholder resolutions directed towards adoption of corporate social responsibility guidelines within companies.