

**IN-KY Synod, ELCA  
Investment Policy**

**Background:** The Indiana Kentucky Synod, ELCA (the Synod) has received various endowment gifts over the years. Some of these monies have been permanently restricted by the donor in which case the Synod is required to retain the original historic gift value (the principal). A portion of the endowment is unrestricted but has been designated by the Synod Council as quasi endowment. It is the Synod's intent to retain the principal (historic gift value) over the long term of both the permanently restricted and quasi endowment. In managing its endowment the Synod shall balance short and long term needs by adhering to prudent investment strategies and sustainable endowment spending. The Synod's Investment Committee (or Finance Committee acting as the Investment Committee) is responsible for managing the Synod's endowment within the parameters of this policy.

**Objectives:** The objectives of the Synod's investment program are:

- to maximize total investment returns within reasonable and prudent levels of risk over the long term,
- to ensure that current and future spending requirements are supported,
- and to maintain the real purchasing power of the endowment.

**Spending:** The annual endowment draw shall be determined by applying a 5.0% rate on the 36-month average market value for the period ending December 31, one month prior to the beginning of the fiscal year (the measurement date), i.e., fiscal year 2007-08 measurement date is December 31, 2006. The Endowment Spending Policy defines in greater detail the metric to be used for budgeting and actual draw purposes.

**Authority:** The finance committee may delegate its authority to carry out day-to-day management of the portfolio to an investment manager.

**Asset Allocation Guidelines:** Studies have indicated that anywhere from 85% to 93% of a portfolio's investment performance over longer periods of time can be attributed to how assets are allocated among various security classes, not how asset managers add value through their security selection or timing decisions. The finance committee recognizes the importance of asset diversification and its impact on portfolio volatility and returns.

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The following asset allocation guidelines shall apply.

<u>Asset Class</u>	<u>Target</u>	<u>Range</u>	
		<u>Minimum</u>	<u>Maximum</u>
Domestic equity	48.0%	40.0%	60.0%
Small cap equity	20.0%	10.0%	25.0%
International equity	<u>12.0%</u>	<u>5.0%</u>	<u>25.0%</u>
<b>Subtotal equity</b>	<b>80.0%</b>	<b>60.0%</b>	<b>80.0%</b>
Investment grade fixed	7.5%	5.0%	35.0%
High yield	7.5%	0.0%	10.0%
Cash	<u>5.0%</u>	<u>0.0%</u>	<u>15.0%</u>
<b>Subtotal fixed</b>	<b>20.0%</b>	<b>20.0%</b>	<b>40.0%</b>
<b>Grand Total</b>	<b>100.0%</b>		

**Rebalancing:** The finance committee, with assistance from the investment manager, will be responsible for monitoring asset class exposures within the portfolio on a quarterly basis. It is the intent of the finance committee to rebalance to targets on a quarterly basis. In consultation with the investment manager, the finance committee *may* forego rebalancing except that it *shall* rebalance if any asset class lies outside the established minimum or maximum. The investment manager shall keep the portfolio balanced within the above ranges without prior approval from the finance committee. The investment manager shall e-mail the treasurer and copy the financial consultant and bookkeeper after rebalancing takes place.

**Controls:** The following procedures must be followed in order to maintain controls over inflows and outflows: (1) All transfers out of the investment accounts shall be done by wire transfer into the designated Synod checking account. No other transfers are authorized. (2) The investment manager shall send to the treasurer and Synod bookkeeper all trade confirmations. (3) All transfers out of the investment account shall be authorized in writing by a Synod staff member who authorized to conduct banking business.

**Performance Evaluation and Benchmarks:** While performance is measured over both short and long term periods, the focus and emphasis of performance evaluation is on long time periods. The portfolio is comprised of various mutual funds. Performance will be measured:

- by individual mutual fund,
- by asset class,
- and for the total portfolio.

The time period for assessment will be over an entire market cycle, generally three to five years.

Individual mutual funds will be measured against indices that represent the style of each fund. Each asset class will be measured against the component of the

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blended index that represents the asset class. The total portfolio performance will be measured against the following weighted index.

<u>Index Name</u>	<u>Weight</u> x	<u>Index Performance</u> = <u>Blended Index</u>
S&P 500	48.0%	
S&P 500 Small Cap	20.0%	
MSCI World Equity	<u>12.0%</u>	
<b>Total Equity</b>	<b>80.0%</b>	
Lehman Bros Aggregate Bond	7.5%	
Lehman Bros High Yield	7.5%	
U.S. T Bill 3 Mos	<u>5.0%</u>	
<b>Total Fixed</b>	<b>20.0%</b>	
<b>Total Portfolio</b>	<b>100.0%</b>	

**Liquidity:** The portfolio will be managed to accommodate quarterly endowment draw withdrawals per the spending policy.

**Restrictions:** The following securities and transactions are not authorized:

- unregistered securities,
- short sales and margin transactions,
- derivatives,
- and other securities not mentioned in this policy except by finance committee approval.

**Review of this Policy:** This investment policy will be reviewed annually to determine whether it remains effective and appropriate. It is not expected that this policy will change frequently. In particular, short term changes in the financial markets should not requires adjustments to this policy.

Our signatures below indicate that we have reviewed this policy and agreed to abide by it.

\_\_\_\_\_  
Kate Knoerzer, Synod Treasurer

Date: \_\_\_\_\_

\_\_\_\_\_  
David Thurman, LINSICO Investment Manager

Date: \_\_\_\_\_