

# LCM Church Building and Loan Fund

## Investment Policy Statement

### **Overview**

#### **Mission**

The mission of CB&LF is to assist congregations younger than 30 years, as well as renewing congregations of any age, who are planning to buy either a first house of worship or a land site, or who want to build, renovate, or refinance their church building, meeting house, school, parsonage and other church buildings.

#### **History**

CB&LF is the oldest church building loan fund in the United States. Through its predecessor entities to the present day, CB&LF has aided in the planning and financing of thousands of church real estate projects since 1853. CB&LF is the successor organization to the building societies of our predecessor denominations (the Congregational, Christian, Evangelical and Reformed Churches). Our mission calls us to serve United Church of Christ (“UCC”) congregations and any Christian church regardless of sect or denominational affiliation.

#### **Guiding Principles and Values**

CB&LF’s predecessor entities were founded by congregations and leaders who were intentional about the role and purpose of these first building societies: to leverage financial assets to advance the mission and ministry of the church. They envisioned that the tangible, public evidence and measurable impact of these leveraged financial assets would be vital congregations with qualified, well-compensated clergy leadership and committed lay leadership operating dynamic ministries and advancing the Gospel mission in church-owned buildings.

A core guiding principle for CB&LF today is to expand upon this tradition of leveraging assets for tangible, public, measurable impact in the advancement of mission and ministry. Aligning our investment strategy with the mission and values of CB&LF and the United Church of Christ creates greater leverage for impact by bringing all of CB&LF’s assets to bear in the advancement of mission.

In alignment with the mission of our predecessor entities, the mission of CB&LF encompasses the following guiding principles and values:

- Commitment to expanding the reach and presence of the Church;

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- Belief that church building projects thrive best when a congregation is enmeshed in a vibrant network of covenantal relationships within the denomination (local congregations, the Conference, the national setting) and the broader community; and that the health of these relationships may be measured by congregational financial commitment, active participation, and distinct initiatives that advance community development and transformation;
- Belief that the church has a distinctive and necessary role in the pursuit of justice, and that systemic justice issues are best addressed through cross-sectoral partnerships and/or hybrid solutions, leveraging market forces and institutional mission where possible;
- Commitment to leveraging as many aspects of CB&LF's structure and activities as possible to maximize impact;
- Commitment to assessing the holistic impact of our work; understanding that redemption of all creation is not tangential to, but is a vital dimension of Christian ministry and spirituality, and that the Church is called and uniquely gifted to engage in advocacy and economic/community development as it relates to eradicating poverty, advancing social equity, relieving conditions of suffering, improving health and/or enhancing the environment ( the "Social Gospel");
- Commitment to an entrepreneurial approach of taking measured risks in order to achieve significant impact; by taking a strategic portfolio approach and a focused approach on results and metrics; by being innovative and challenging the status quo;
- Commitment to transparency, accountability, and open source sharing of information.

### **Purpose of the Investment Policy Statement**

The purpose of this Investment Policy Statement ("IPS") is to document the Local Church Ministries Church Building and Loan Fund's ("CB&LF" or "the Fund") goals, objectives and guidelines for the investment of its assets, including the requirements for a successful integration of Impact Investments. This Policy guides CB&LF's Board, Investment Committee, Investment Manager, Custodian, and/or

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any other Specialists to effectively invest, monitor, evaluate and manage Fund assets.

### **Duties**

The Board of Directors (the “Board”) and/or its investment committee has developed an Investment Policy Statement to document:

- The objectives of the Fund,
- The responsibilities of the Committee,
- The responsibilities of the Investment Managers,
- The criteria for selecting the particular investments,
- The method by which the Committee will monitor performance, and
- The investment objective, style and performance benchmarks.

### **Duties of the Board**

Local Church Ministries Church Building & Loan Fund and its Board of Directors (“the Board”) hold all funds as a fiduciary. The Board is the guarantor of the Fund’s mission and values.

Primary responsibilities of the Board include:

- Ensuring that investments align with mission and values,
- Delegating an Investment Committee,
- Approving the IPS and changes to it,
- Monitoring and evaluating implementation of the IPS.

The Board has delegated authority over its investment affairs to the Finance Committee. The Finance Committee has assigned investment management to the following three officers (convening as the Investment Committee (“IC”) of the Board), the Local Church Ministries Executive Minister, the Local Church

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Ministries Church Building & Loan Fund Executive Director, and the Local Church Ministries Controller/Treasurer (other Board members may serve on the IC at the discretion of the Board). The Executive Director of CB&LF is designated as the Investment Manager.

### Duties of the Investment Committee

- Ensuring that investments align with mission and values,
- Complying with all applicable state and federal laws as well as those regulations concerning prudent investing,
- Determining the Fund's projected financial needs,
- Developing sound and consistent investment policy guidelines that the Investment Manager can use in making investment decisions,
- Establishing reasonable Investment Objectives,
- Expressing the Fund's risk tolerance level,
- Monitoring and evaluating performance results to ensure that Policy guidelines are adhered to and objectives are met,
- Selecting qualified custodian(s) of the assets,
- Reviewing the investment policy annually.

### Goals & Objectives

**CB&LF's primary investment goal is to align 100% of its portfolio with the CB&LF mission, guiding principles and values by 2020 ("100% Mission-Focused").**

In the implementation of 100% Mission-Focused, CB&LF recognizes that in light of the systemic social, environmental and economic justice issues of our time, fiduciary responsibility, as interpreted by the United Church of Christ, must begin with the mission of advancing the Gospel of Jesus Christ (including the Social Gospel as defined in UCC tradition), the mission and goals of the United Church of Christ, and then proceed with prudent financial management, maximizing financial return and minimizing risk integrated with principles of justice, environmental stewardship,

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community transformation, and corporate accountability to board members, loan partners and stakeholders alike.

### **Investment Philosophy & Approach**

In pursuit of 100% Mission-Focused, CB&LF seeks long-term income generation and capital appreciation and an enhanced market rate of return consistent with the following objectives:

1. The Fund invests its assets with a 100% Mission-Focused goal for the purpose of ensuring the ability of the Fund to advance its mission in perpetuity.
2. While proceeding toward the investment goal of 100% Mission-Focused, the Fund maintains that investing in accordance with commonly held negative screening standards (as defined by Socially Responsible Investing “SRI” practices) is a minimum requirement for all of its investments. CB&LF embraces SRI as a necessary first step toward 100% Mission-Focused and therefore, the Fund shall make no investment in the securities of companies that engage in the production or sale of alcohol or tobacco, or that are involved with gambling, or predatory lending.
3. In addition to its commitment to SRI, the Fund fully supports the resolution adopted by the UCC national setting at General Synod 29, i.e., enhanced shareholder engagement in fossil fuel companies, an intensive search for fossil fuel-free investment vehicles, the identification of "best in class" fossil fuel companies by General Synod 2015, and by June 2018, a plan to divest UCC funds in any fossil-fuel company, except for those identified as "best in class".
4. In recognition that 100% Mission-Focused may lead the Fund to choose from a range of investments, the Fund seeks to invest through advisors, intermediaries and/or investment vehicles that will carry out the Fund’s investment goals and objectives in accordance with this definition of impact investments: *investments which have a stated ministry, mission and/or social justice (which includes social justice and/or economic justice) and/or environmental return objective in conjunction with a financial return objective. Impact Investments seek to achieve the holistic notion of a ‘blended’ return, i.e., a combination of ministry, mission,*

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*social justice, environmental, and financial returns. Impact investments may be market rate (“Financial First”) or below market rate (“Impact First”).<sup>1</sup>*

5. To take a portfolio view of the Fund’s investment in the attainment of 100% Mission-Focused, i.e. in the pursuit of the blended return defined above, the Fund will aim toward a healthy combination of *Impact First Investments* and *Financial First Investments*.
6. To provide for prudent diversification of investments in order to minimize credit and market risk exposure;
7. To pursue capital gain generating opportunities as appropriate within the above objectives.

### **Investment Objectives**

While return on invested assets is vital to the long-term viability of the Fund, investment objectives are to be measured first by the performance of the portfolio in the context of the advancement of the Fund’s mission and then in the context of asset benchmarks. Success of the mission is paramount, and therefore the diversity and quality of investments as well as investment objectives shall be measured accordingly.

CB&LF considers its invested assets as a contingency source of funds. Investment performance shall be monitored to ensure the balancing of near-term needs of the Fund and the desire for a perpetual fund that maintains its real value.

### **Return Objectives**

#### **Primary return objective**

Toward the goal of 100% Mission-First by 2020, the primary return objective of the Fund will be to maintain the real value of the Fund, through a healthy combination of Impact First and Financial First Investments, achieving a rate of return in excess of inflation, spending, and investment management fees.

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<sup>1</sup> **Impact First Investments** seek to optimize social and/or environmental returns as their primary objective, with a financial floor. **Financial First Investments** seek to optimize financial returns with a social and/or environmental impact floor. All Financial First Investments seek financial returns approximating the average risk adjusted returns of similar investments made without regard to sustainability, mission or social considerations.

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### **Performance Benchmark**

There is not an industry benchmark that provides an exact fit for the quality, sector, and maturity structure of the Fund's portfolio. Therefore, for the sake of general reference, performance comparisons will be made in both yield and total return vs. the Merrill Lynch 1-3 year Gov/Corp A or Better index as well as the iMoneyNet Government Institutional peer group. In addition, the Fund will seek out impact investment indices that provide metrics to evaluate Impact First and Financial First Investments.

### **Investment Guidelines and Restrictions**

#### **Asset Allocation**

In order to minimize credit and market risk exposure to any one maturity, industry, or type of issuer no more than 5% of the portfolio shall be invested in one issuer at time of purchase, except where a pre-refunded municipal bond is secured by 100% U.S. Treasuries.

#### **Credit Quality**

The Investment Manager will continually monitor the creditworthiness of the instruments in the portfolios.

- Regularly published rating services, primarily Moody's Investor Services (Moody's), Standard and Poor's Corporation (S&P) and other available resources (i.e. prospectuses, annual reports, Bloomberg, etc.) will be used to verify investment ratings.
- At times, different rating services may arrive at different ratings based on their own independent evaluation of the security – this is known as split rating. In these situations, the lower rating applies.
- Money Market Funds will require a prospectus to be on hand prior to an investment being made, have at least a five-year history and be no-load.
- The minimum average credit rating of the overall portfolio shall be Aa3/AA. No security shall be rated below NA2 at the time of purchase. In the case of a split rating, the lower rating shall apply

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### **Duration Restrictions**

- No security shall have a maturity date more than ten years from the date of purchase.
- At least \$1,000,000 shall always be kept in cash equivalents or securities maturing within 60 days.

### **Denomination**

All investments shall be in U.S. dollars.

### **Broker Dealers**

The use of specific brokers/dealers will be at the discretion of the Investment Manager.

### **Duties of the Investment Manager**

- The Investment Manager is expected to observe the specific limitations and guidelines stated in this policy. As a fiduciary, the Investment Manager has the responsibility to execute every transaction in the best interests of the Fund.
- The Investment Manager, acting in consensus with the Investment Committee, is responsible for making all investment decisions within the guidelines of the stated investment policy on a discretionary basis regarding all assets placed under its management and will be held accountable to the standards indicated in this Policy. The discretionary decision making extends to tactical asset allocation, rebalancing, and oversight.

### **Communications**

- The Investment Manager will keep the Committee informed of any major changes in its investment outlook, investment strategy and any other matters affecting their investment policies and philosophy.
- The Investment Manager is expected to communicate to the Committee, in writing, any suggested alterations or deletions to the Policy, on a quarterly basis.
- The Investment Manager is expected to meet with the Investment Committee at least annually to review the portfolio.

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### **Monitoring and Reporting**

- Investments will be reviewed quarterly for their adherence to the investment standards.
- Investment performance will be evaluated based on alignment with the Fund's mission, advancement of the Fund's mission, efficacy of impact, and annualized returns.
- The Investment Manager is expected to provide timely reporting of the portfolio's investments and its performance.

### **Duties of the Custodian**

The Custodian will maintain possession of the investments owned by the Fund. Monthly reports summarizing these holdings will be provided to the Investment Manager, and available for review by the Investment Committee. In addition, a bank or other depository arrangement may be used to accept and hold cash prior to allocating it to an investment strategy or manager, and to invest such cash in liquid, interest-bearing instruments.

### **Duties of Other Specialists**

Additional specialists such as attorneys, auditors, subject experts and others may be employed, retained or asked to serve in a voluntary capacity to assist the Investment Committee in meetings its responsibilities and obligations to administer investment assets in accordance with the Investment Policy.

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**Signature Page**

This document is adopted as the Investment Policy Statement for  
The Local Church Ministries Church Building and Loan Fund

By: \_\_\_\_\_  
Name: Patrick G. Duggan  
Title: LCM Church Building & Loan Fund Executive Director  
Date: October 30<sup>th</sup>, 2013

By: \_\_\_\_\_  
Name: J. Bennett Guess  
Title: Local Church Ministries Executive Minister  
Date: October 30<sup>th</sup>, 2013

By: \_\_\_\_\_  
Name: Kathy Houston  
Title: Local Church Ministries Treasurer/Controller  
Date: October 30<sup>th</sup>, 2013