Unity of the Valley Legacy of Love Investment Policy Statement

BACKGROUND

Although Unity of the Valley Church has historically maintained both an operating and capital reserve fund, neither fund has been sustained at levels that could ensure sufficient cash flow for existing and emergency needs. The Board has established the intent of creating an Endowment Fund to remedy this situation, and to provide the means to better facilitate the ability to accomplish Church goals and objectives. The Fund will be managed by a Committee of Trustees, appointed by the Board, with both Board and non-Board membership. The program shall be called the Legacy of Love Endowment Fund, and will be funded from primarily willed gifts, although current giving will also occur. The current Trustees are Ed Conrad, Senior Minister; Dennis Chandler, Board President; Bill Hirsh, Board Treasurer; Barbara McKee, member of the congregation and past Board Member and Board Treasurer; and Inge Trantola; licensed Unity minister, member of the Congregation, past Board member, and past Board President. The Trustees shall establish a separate investment committee, to be chaired by Raymond Albano, member of the congregation and independent financial consultant in his professional life.

PURPOSE OF STATEMENT

The purpose of this policy statement is to establish the policies, guidelines, objectives and restrictions for Unity of the Valley's Legacy of Love Endowment Fund, hereinafter referred to as the *Endowment.*

The following are goals of this statement:

1) Establish definitions for receiving, investing and allocating Fund assets

2) Describe the process to be used to receive and invest donations

3) Establish the process to distribute funds from the Fund

4) Identify Trustee's role in managing Fund investments

GENERAL PRINCIPLES OF FUND AND FUND VALUES

The Unity of the Valley of Eugene Legacy of Love Endowment Fund is established to provide a means for members of the Church and the community to make donations to the long term well-being of the Church and its mission, primarily through willed assets.

The Fund will maintain an endowment account. Unless specified otherwise, all donations to the Fund will be added to the principal in the main endowment account. If a donor wishes to specifically direct funds to a certain purpose, the fund rules will obliged as long as the purpose meets the mission of the Church.

Until the Fund has a principal amount of at least $250,000, the Fund will be held in (a) separate account(s) within the Church's financial assets. Once the principal of the Fund has reached $250,000 or more, a separate non-profit may be established for the Fund.

As established by the Church board, principal from the Fund may only be used, for purposes within the mission of the church. The endowment Trustees will only use asset principal of the fund in emergency situations until the fund reaches one million dollars. Net investment income may be used for identified purposes, as follows:

When the Fund principal is less than $250,000, net investment income (NII) may only be used for exceptional reasons, and only when approved by the Unity Board <u>and</u> the Trustees; when the principal is between $250,000 and $1 million, NII should be used to continue to grow the Fund principal and may also be used for identified purposes; when the Fund principal is over $1 million, NII may be used to continue to grow the Fund principal and may also be used for purposes as set by the endowment Trustees. Normally the Trustees shall authorize use of investment income not greater than investment income for the year, or net investment income, <u>whichever is less</u>. Ideally, over time, net investment income will become a substantial number such that the limiting factor on distribution for use for specified reasons will be annual investment income and not NII.

Separate or sub endowment accounts may also be maintained (Youth and Family Ministry, for example). While additional sub endowments are not encouraged for the future, specific situations may arise where such funds are feasible.

ROLE OF TRESURER AND TRUSTEE(S)

The Trustees are the appointed (by the Church board) body responsible for all aspects of the investment and management of all principal, interest, dividends and contributions for the Unity of the Valley of Eugene Legacy of Love Endowment Fund. To carry out these responsibilities the Trustees will establish an investment committee and consider its recommendations. The committee will always have at least 50% membership of Trustees, and ideally, one of the Trustees serving in this capacity will be the Treasurer:

• Develop and maintain an investment policy to provide as an overall guide for investments. Ensure that all investments are consistent with Church values. Provide direction and feedback for the Investment Committee and the investment Advisor. For example, the Trustees could establish a direction that the Fund would not be invested in proven people damaging companies that have no redeemable value (tobacco).

• Decide whether to use an investment manager or self-invest

• Decide when to change investment vehicles

• Review the balances in the cash account and the money market account to determine appropriate levels

Develop and maintain a policy for the future distribution of Funds, subject to all parameters of this Policy, and the following:

The Trustees will develop and periodically review an investment policy outlining how the assets will be invested.

Because the board treasurer shall always be one of the Trustees, the board treasurer shall always serve as the Fund treasurer and will receive all cash donations to the Foundation. Whether or not to received non cash gifts will be evaluated on a case by case basis by the Trustees. Upon receipt of each cash donation the Treasurer will:

1) Confirm the intentions of the person making the donation as to whether the gift is to be added to the main endowment or used for a specific purpose. Written confirmation indicating the purpose of the gift is preferred when the gift is restricted. If there is no reasonable way to ascertain the intent of the donor(s) as to main Fund or sub-Fund, or if a gift is given without specific intent, the gift shall be treated as an unrestricted contribution.

2) Write or cause to have written, a "thank you letter" to the donor stating the amount of the gift.

3) Deposit, or cause to deposit, the donation to the cash account.

4) Record, or cause to record, the donation in the Fund records.

5) Present the list of donations made to the Fund at a Trustees meeting and recommend and confirm investment instructions.

6) As agreed by the Fund or Board or by standing investment policy, the Treasurer will periodically transfer funds from the cash account to longer-term investments.

7) Provide a full accounting of the Fund to the Trustees, at least semi-annually, or upon request. Provide a full accounting of the Fund to the board at least annually, or upon request. Provide a full accounting of the Fund to the Trustees' Investment Committee at least quarterly, or upon request.

USE OF FUND ASSETS

The Fund shall not be used to substitute for a portion of the Church's normal operating budget. It is expected that all future Church boards will act responsibly to adopt and operate with balanced annual budgets, and will maintain adequate operating and capital reserve accounts. (Given the fluctuations in giving that have been seen in the years preceding the establishment of the Fund, the 2010 Unity Board has established a goal of maintaining an operating reserve of approximately 25% of the Church's annual budget). However, there are times when unexpected drops in revenue, or unexpected expenses would be cause for consideration for use of a portion of Fund earnings. Over a period of time (say one year or more) a consistent drop in revenue, or increase in expenses would create a pattern and would no longer be consider unexpected. However, not withstanding the above, once minimum required levels of the Fund are established, the Trustees may make a one-time or regular distribution to the Church operating income, not-to-exceed 20% of the annual investment income of the Fund, or 5% of the Church's annual operating gross income, whichever is less.

1. The Fund may be used to fund special Church or community projects, including capital expenses other than expected maintenance and periodic replacement.
2. The Fund may be used to fund local, regional, national, or world-wide spiritual or humanitarian efforts.
3. As donations are made to the Fund, no tithe will be made upon those donations, the principal in the Fund, or investment income. All distributions from the Fund, other than to the Church, shall be considered tithes by the Fund. Such tithes by the Fund are not intended to replace tithing by the Church on its operating income. Distributions to the Church shall be considered income to the Church, and the Church may make (10%) tithes on such income subject to the then current Board policy on tithing.

SELECTION AND INSTRUCTIONS OF AN INVESTMENT MANAGER

Church Trustees will select, review and meet with an asset manager when appropriate. .

This statement will outline an overall philosophy that is specific enough for An investment manager to know what is expected, but sufficiently flexible to allow for changing economic and market conditions. The Foundation will provide realistic risk policies to guide the investment manager toward standards for evaluating investment restrictions to be placed upon the investment manager.

The Foundation will also outline the procedures for policy and performance reviews.

Lastly, this statement will require review and possibly revision periodically to insure that it continues to reflect the Foundation's attitudes, expectations and Objectives.

INVESTMENT POLICIES AND OBJECTIVES

The investment funds of the Foundation are maintained to provide total return through appreciation, dividends and interest income from the fund's. assets. The careful management of the assets is designed to insure a return necessary at least to preserve and, it is hoped, enhance (in real dollar terms) the principal of the funds, and at the same time support the activities of Unity of the Valley. The management philosophy of this plan should be disciplined and consistent, taking into consideration all those events and occurrences considered reasonable and probable. Extreme positions and opportunistic styles do not fit the general philosophy and tone of this fund and are not acceptable. The overall investment direction is to maximize the return consistent with the risks that the endowment is willing to accept as stated herein. The endowment recognizes that risk (i.e., the potential for variability of asset values), and the potential of loss in purchasing power (due to inflation) are present to some degree with all types of investment vehicles. An investment manager will be required to comply with all applicable laws, rules and regulations. The investment manager will be given full discretion in managing the funds within this investment statement. The investment guidelines and constraints listed herein, the portfolio should be diversified so as to provide reasonable assurance that no single class of investment will have a disproportionate impact on the total portfolio.

INVESTMENT GUIDELINES

Ideally, the goal will be to achieve a 6-8% average annual real rate of return on the Foundation's assets. Minimally, at times of flat C.P.I., the goal would be to achieve 5%. The objective shall be measured over an annualized, rolling five and ten year time frame in order to preserve the principal value of the assets and to appreciate the total value of the portfolio over time, exclusive of growth derived from non-investment sources.

The maximum (loss) risk acceptance level of this plan is 10% at any point in time and not over a market cycle. For practical purposes the compliance with this risk standard will be reviewed quarterly and computed as loss in portfolio since the last quarter with a positive return.

ASSET ALLOCATION

Asset mix is the primary determinant of the Foundation's portfolio performance. Asset mix may be changed from time to time, strategically or tactically, based on the economic and securities markets outlook, as well as income requirements. The overall risk level of the assets in terms of potential for price fluctuation should not be extreme.

Ideally funds will be invested in a cross-section of different investment types, so that the normal cycle of investment ebb and flow will be smoothed out over time, resulting in minimal major downside fluctuation to the entire Fund.

FIXED INCOME
Fixed income investments should provide a highly predictable and dependable source of income, reduce volatility of the market value of the total portfolio, and provide funds for alternative investments. The investments shall be limited to government securities, government agencies, and mortgage backed securities or other similar investments such as REITS, Leases, Corporate Bonds and other asset backed securities deemed by the manager and trustees to be appropriate. The maximum maturity should be ten years and the maximum average duration should be fifteen years. The credit rating of all fixed income investments must be at least BBB by Standard and Poor's or Baa2 by Moody's. An average rating of AA- or better should be maintained.

EQUITIES
Equity investments should primarily provide appreciation of principal as well as current dividend income and growth of income, with the recognition that this requires the assumption of greater market volatility and risk. Industry and company investments shall be based upon demonstrable analysis of prospects for above average return over a three-year period.

Investments shall be primarily in well-seasoned, quality companies whose securities enjoy marketability adequate for the portfolio.
Investments shall be chosen from the New York Stock Exchange, the American Stock Exchange, regional exchanges, and the National Over-the-Counter Market that continually provide liquidity and are of good standing in the investment community. No privately held stocks or letter stock shall be included outside of the alternative investment allocation without the approval of the endowment board.

ALTERNATIVES
Generally, the world of alternatives includes private equity, hedge funds, managed futures, and real estate. Alternative investments offer risk/return profiles that may differ from traditional investments such as publicly-traded stocks, bonds, and cash. Additionally, alternative investments may offer low to no correlation to traditional investments.

CASH

Cash equivalent short-term investments may also provide current income, but their main purpose is to store purchasing power when appropriate to fund long-term investments.
Negotiable certificates of deposit shall be limited in principal amount to FDIC or FSLIC insurance ceilings (currently $100,000.00).
Cash reserves should be invested in interest-bearing securities, free of risk or loss, fluctuation, and should be instantly saleable.

CREDIT QUALITY AND RISK

All assets must have readily ascertainable market value.
Only mutual funds ranked average or above average by Morningstar may be considered. Preferred stocks must be rated a minimum of A3 by Moody's Investor's Service, Inc., or A- by Standard & Poor's Corporation at the time of purchase. Convertible securities can be appropriate when they appear to offer a better risk/return ratio than other equity securities. The same policies and standards of investment quality apply to both common stocks and convertible stocks.

INVESTMENT RESTRICTIONS

Investment restrictions include the following and shall be strictly adhered to unless waived by the Board. Such waiver shall require the unanimous approval of every Board member. .:

- All investments must be U.S. dollar denominated.
- Commercial paper must be rated in the two highest quality classes by Moody's Investor's Service, Inc. (P1 or P2) or Standard & Poor's Corporation (A1 or A2).
- Not more than 5% of the voting securities of a corporation may be owned.
- No securities may be purchased on margin or leverage.
- No short sale transactions.
- Transactions in financial futures are prohibited.
- No more than 25% of the portfolio shall be invested in any one industry at cost.
- No more than 5% of the portfolio shall be invested in the securities (including debt and equities) of one corporation at cost.
- No foreign securities shall be purchased - with the exception of listed ADRs.
- No privately held securities shall be included in the portfolio.
- Investment in structured notes is prohibited.
- No unlisted investments in real estate shall be made.
- Option trading is prohibited.
- Commodity trading including all futures contracts is prohibited.

SELECTION OF INVESTMENT MANAGERS

The endowment, with the assistance of the Investment advisor will select appropriate investment managers to manage Plan assets.

Managers must meet the following minimum criteria:
1) Be a bank, insurance company, investment management company, or investment adviser as defined by the Registered Investment Advisers Act of 1940. Be in good standing with all state regulatory requirements.
2) Provide historical quarterly performance numbers calculated on a time weighted basis, based on a composite of all fully discretionary accounts of similar investment style. Furthermore, performance data shall:
a) Be of sufficient duration to include a variety of economic and capital market environments. For equity and fixed income managers, sufficient duration will be defined as five years of verifiable quantitative performance data reported by an objective and competent third party. The board retains the option to waive the minimum performance history requirements in certain cases where other attributes warrant further consideration of a specific manager.
b) Demonstrate a long-term record of performance superiority within the top quartile of institutional managers in their area of specialty.
c) Demonstrate a long-term record of performance superiority over applicable general market indices.
3) Provide performance evaluation reports prepared by an objective third party that illustrate the Risk/Return profile of the Manager relative to other managers of like investment styles.
4) Provide detailed information on the history of the firm, key personnel, key clients, fee schedule, and support personnel. This information can be a copy of a recent Request for Proposal (RFP) completed by the Manager.
5) Clearly articulate the investment strategy that will be followed and document that the strategy has been successfully adhered to over time.
6) Selected firms shall have no outstanding legal judgments or past judgments that may reflect negatively on the firm.

CONTROL PROCEDURES

Duties and Responsibilities of the Investment Manager

The duties and responsibilities of the Manager retained by the Unity of the Valley Endowment. Trustees include:
1) Managing the Plan assets under its care, custody, and/or control in accordance with the IPS objectives and guidelines set forth herein, and also expressed in separate written agreements when deviation is deemed prudent and desirable by the Trustees.
2) Exercising investment discretion (including holding cash equivalents as an alternative) within the IPS objectives and guidelines set forth herein.
3) Promptly informing the Trustees in writing regarding all significant

and/or material matters and changes pertaining to the investment of Plan assets, including, but not limited to:

a) Investment strategy
b) Portfolio structure
c) Tactical approaches
d) Ownership
e) Organizational structure
f) Financial condition
g) Professional staff
h) Recommendations for guideline changes
i) All legal, material, SEC, and other regulatory agency proceedings affecting the firm.

4) Promptly voting all proxies and related actions in a manner consistent with the long-term interests and objectives of the Plan set forth herein. The Manager shall keep detailed records of said voting of proxies and related actions and will comply with all regulatory obligations thereto.
5) Utilize the same care, skill, prudence, and due diligence under the circumstances then prevailing that experienced, investment professionals acting in a like capacity and fully familiar with such matters would use in like activities for like Irrevocable Trusts with like aims in accordance and compliance with ERISA and all applicable laws, rules, and regulations from local, state, federal, and international political entities as they pertain to fiduciary duties and responsibilities.
6) Acknowledge and agree in writing to their fiduciary responsibility to fully comply with the entire IPS set forth herein, and as modified in the future.

Monitoring of Investment Managers

Quarterly performance will be evaluated to test progress toward the attainment of longer-term targets. It is understood that there are likely to be short-term periods during which performance deviates from market indices. During such times, greater emphasis shall be placed on peer-performance comparisons with managers employing similar styles.

On a timely basis, but not less than once every other year, the Trustees will meet to review:

1) Manager's adherence to the IPS guidelines.
2) Material changes in the Manager's organization, investment philosophy, and/or personnel.
3) Comparison of the Manager's results to appropriate indices and peer groups.

The risk associated with Manager's portfolio, as measured by the variability of quarterly returns (standard deviation), should not exceed that of the benchmark index and the peer group without a corresponding increase in performance above the benchmark and peer group.

In addition to the information covered during the quarterly reviews, the Trustees will meet at least annually to review:

1) The Manager’s performance relative to managers of like investment style or strategy (peer group). The Manager is expected to perform in the top half of the Manager’s respective style universe.
2) The Plan’s investment performance results compared to the Manager’s overall composite performance figures to determine unaccounted for dispersion between the Manager’s reported results and the Plan’s actual results.
The Trustees are aware that the ongoing review and analysis of investment managers is just as important as the due diligence implemented during the manager selection process. Accordingly, a thorough review and analysis of the Manager will be conducted if:
1) The Manager performs in the bottom quartile of his or her peer group over a quarterly or annual period.
2) The Manager falls in the southeast quadrant of the Risk/Return for three- and/or five-year time periods.
3) The Manager has a five-year risk-adjusted return fall below that of the median manager within the appropriate peer group.
Furthermore, performance that may require the replacement of the Manager includes:
1) The Manager consistently performs below the 50% percentile of his or her peer group over rolling three-year periods.
2) The Manager consistently performs below the 50% percentile of his or her peer group over a five-year period.
3) The Manager produces a negative alpha for three- and/or five-year periods.
Major organizational changes also warrant immediate review of the Manager, including:
1) Change in professionals.
2) Significant account losses.
3) Change in ownership.

DISTRIBUTION POLICY

As stated earlier in this document, distributions from principal of the Fund will not be made unless there is at least $1 million in principal. Distributions from NII will be made only for exceptional reasons if the Fund principal is less than $250,000. Such distribution must be approved by the Trustees and the Board.

Distributions based on the criteria of this policy will be authorized by the Trustees and generally determined at the end of a calendar year.

Dollar amounts stated in this document have been established in the middle of 2010, at a time of relatively flat economic growth and approximate 0 C.P.I. It is anticipated that inflation will occur over the ensuing years, and future Trustees and Boards are authorized to increase the dollar amounts stated in this document to remain consistent with the intent of this document relative to the buying power of the dollar and the amount of the Church’s annual budget.

APPENDIX

Definitions:

• Interest - Earnings on investments typically designated as "interest income" and received as a cash payment.

• Dividend - Earnings on investments typically designated as "dividend income" and normally received as a cash payment.

• Beginning market value - The market value of all assets by endowment or sub endowment at the beginning of the calendar year (January 1, or nearest business date).

• Ending market value - The market value of all assets by endowment or sub endowment at the end of the calendar year (December 31).

• Market value growth - The change in market value of an investment from the beginning market value to the ending market value, adjusted for contributions and distributions.

• Unrestricted Contribution - A donation made to the Fund and added to the principal balance of the main endowment.

• Restricted Contribution - A donation made to the Fund for a specific, stated purpose. The donation can be added to a specific sub endowment. A separate account need not be established, but record-keeping shall be sufficient to ensure that the co-mingled funds are accounted for by separate accounts.

. Base Principal Amount. The total amount of (liquid) contributions to the Fund. Does not include investment income.

. Fund Principal Amount. Shall be determined by February 15th of every year, so that a reporting can be done at the Church's annual meeting. All reporting shall be done on a calendar year basis. All distribution of investment income or principal shall be done within 3 weeks of the end of the year, i.e., by January 21st of the ensuing year. In this manner the annual report can be completed by February 15th.

• Net Investment Income. The Fund Treasurer shall ensure that a record of all gifts and contributions (i.e., other than investment income) to the Fund are accurately reported. The total of all such contributions shall constitute the base principal amount of the Fund. Net investment income shall always be computed on the basis of investment earnings assessed against the base principal amount. For example, if $100,000 has been received in donations, and the fund earns 6% in the first calendar year, the net investment income would be $6,000. Any part of the $6,000 could be used for exceptional reasons if so deemed appropriate by the Board and Trustees. Assume this is not done and $6,000 is added to the principal at the end of the year. The new Principal amount is $106,000. Assume the following year the market declines, and the Fund balance goes down to $90,000. The net investment income would be -$10,000. (i.e., the base principal amount of $100,000 less $10,000) Assume the third year, the market goes up, and $9,000 (10% of the principal at that point) is earned in investment income. The Fund would now have $99,000, or $1,000 less than all original contributions. Although the annual income is $9,000, net investment income is -$1,000, and no distribution could be made based.