

Martin Methodist College Endowment

Statement Of Investment Policy

Objectives & Guidelines

October 23, 2003

Statement of Investment Policy, Objectives, and Guidelines

SCOPE OF THIS INVESTMENT POLICY

This statement of investment policy reflects the investment policy, objectives, and constraints of the entire Martin Methodist College Endowment.

PURPOSE OF THIS INVESTMENT POLICY STATEMENT

This statement of investment policy is set forth by the Investment Committee of the Martin Methodist College Endowment in order to:

1. Define and assign the responsibilities of all involved parties.
2. Establish a clear understanding for all involved parties of the investment goals and objectives of Fund assets.
3. Offer guidance and limitations to all Investment Managers regarding the investment of Fund assets.
4. Establish a basis for evaluating investment results.
5. Manage Fund assets according to prudent standards as established in common trust law.
6. Establish the relevant investment horizon for which the Fund assets will be managed.

In general, the purpose of this statement is to outline a philosophy and attitude which will guide the investment management of the assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

CASH FLOW EXPECTATIONS

Although the Investment Committee has not determined what the annual cash contribution will be, it is expected that contributions to the Martin Methodist College Endowment will remain constant over the next several years.

The Investment Committee expects distributions to equal approximately 5.5% of assets annually. It is anticipated that Fund distributions will remain constant over the next several years. Distributions from the Fund are to be generated from principal or income and are expected to occur on a quarterly basis.

ACTUARIAL INFORMATION

The following information was provided by the Fund's actuarial firm, and is published in the most recent actuarial valuation report.

Actuarial valuation of assets: \$6,667,350.23
Actuarial valuation of liabilities: \$0
Date of Evaluation: October 23, 2003

DELEGATION OF AUTHORITY

The Board of Trustees of Martin Methodist College Endowments as fiduciary, has delegated the Investment Committee to be responsible for directing and monitoring the investment management of Fund assets. As such, the Investment Committee is authorized to delegate certain responsibilities to professional experts in various fields. These include, but are not limited to:

1. Investment Management Consultant. The consultant may assist the Investment Committee in: establishing investment policy, objectives, and guidelines; selecting investment managers; reviewing such managers over time; measuring and evaluating investment performance; and other tasks as deemed appropriate.
2. Investment Manager. The investment manager has discretion to purchase, sell, or hold the specific securities that will be used to meet the Fund's investment objectives.
3. Custodian. The custodian will physically (or through agreement with a sub-custodian) maintain possession of securities owned by the Fund, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian may also perform regular accounting of all assets owned, purchased, or sold, as well as movement of assets into and out of the Fund accounts.
4. Co-Trustee. The Investment Committee may appoint an outside individual or entity, such as a bank trust department, to be co-trustee. The Co-trustee will assume fiduciary responsibility for the administration of Fund assets.
5. Additional specialists such as attorneys, auditors, actuaries, retirement plan consultants, and others may be employed by the Investment Committee to assist in meeting its responsibilities and obligations to administer Fund assets prudently.

The Investment Committee will not reserve any control over investment decisions, with the exception of specific limitations described in these statements. Managers will be held responsible and accountable to achieve the objectives herein stated. While it is not believed that the limitations will hamper investment managers, each manager should request modifications which they deem appropriate.

If such experts employed are also deemed to be fiduciaries, they must acknowledge such in writing. All expenses for such experts must be customary and reasonable, and will be borne by the Fund as deemed appropriate and necessary.

DEFINITIONS

1. "Fund" shall mean the Martin Methodist College Endowment.
2. "Investment Committee" shall refer to the governing board established to administer the Fund as specified by applicable ordinance.
3. "Fiduciary" shall mean any individual or group of individuals that exercise discretionary authority or control over fund management or any authority or control over management, disposition or administration of the Fund assets.
4. "Investment Manager" shall mean any individual, or group of individuals, employed to manage the investments of all or part of the Fund assets.
5. "Investment Management Consultant" shall mean any individual or organization employed to provide advisory services, including advice on investment objectives and/or asset allocation, manager search, and performance monitoring.
6. "Securities" shall refer to the marketable investment securities which are defined as acceptable in this statement.
7. "Investment Horizon" shall be the time period over which the investment objectives, as set forth in this statement, are expected to be met. The investment horizon for this Fund is 7-10 years.

ASSIGNMENT OF RESPONSIBILITY

Responsibility of the Investment Manager(s)

Each Investment Manager must acknowledge in writing its acceptance of responsibility as a fiduciary. Each Investment Manager will have full discretion to make all investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this statement. Specific responsibilities of the Investment Manager(s) include:

1. Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this statement.
2. Reporting, on a timely basis, quarterly investment performance results.
3. Communicating any major changes to economic outlook, investment strategy, or any other factors which affect implementation of investment process, or the investment objective progress of the Fund's investment management.
4. Informing the Investment Committee regarding any qualitative change to investment management organization: Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.

5. Voting proxies, if requested by the Investment Committee, on behalf of the Fund, and communicating such voting records to the Investment Committee on a timely basis.

Responsibility of the Investment Consultant(s)

The Investment Consultant's role is that of a non-discretionary advisor to the Investment Committee of the Martin Methodist College Endowment. Investment advice concerning the investment management of Fund assets will be offered by the Investment Consultant, and will be consistent with the investment objectives, policies, guidelines and constraints as established in this statement. Specific responsibilities of the Investment Consultant include:

1. Assisting in the development and periodic review of investment policy.
2. Conducting investment manager searches when requested by the Investment Committee.
3. Providing "due diligence", or research, on the Investment Manager(s).
4. Monitoring the performance of the Investment Manager(s) to provide the Investment Committee with the ability to determine the progress toward the investment objectives.
5. Communicating matters of policy, manager research, and manager performance to the Investment Committee.
6. Reviewing Fund investment history, historical capital markets performance and the contents of this investment policy statement to any newly appointed members of the Investment Committee.

GENERAL INVESTMENT PRINCIPLES

1. Investments shall be made solely in the interest of the beneficiaries of the Fund.
2. The Fund shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in like capacity and familiar with such matters would use in the investment of a fund of like character and with like aims.
3. Investment of the Fund shall be so diversified as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.
4. The Investment Committee may employ one or more investment managers of varying styles and philosophies to attain the Fund's objectives.
5. Cash is to be employed productively at all times, by investment in short term cash equivalents to provide safety, liquidity, and return.

INVESTMENT MANAGEMENT POLICY

1. Preservation of Capital - Consistent with their respective investment styles and philosophies, investment managers should make reasonable efforts to preserve capital, understanding that losses may occur in individual securities.
2. Risk Aversion - Understanding that risk is present in all types of securities and investment styles, the Investment Committee recognizes that some risk is necessary to produce long-term investment results that are sufficient to meet the Fund's objectives. However, the investment managers are to make reasonable efforts to control risk, and will be evaluated regularly to ensure that the risk assumed is commensurate with the given investment style and objectives.
3. Adherence to Investment Discipline - Investment managers are expected to adhere to the investment management styles for which they were hired. Managers will be evaluated regularly for adherence to investment discipline.

GOAL OF COLLEGE

The Investment Committee feels that grants to be made in the future are as important as grants made today. This is consistent with the philosophy that this Endowment is to exist in perpetuity, and therefore, should provide for grant making in perpetuity. To attain this goal, the overriding objective of this college is to maintain purchasing power. That is, net of spending, the objective is to grow the aggregate portfolio value at the rate of inflation over the Endowment's investment horizon. The Endowment's specific investment objectives will be established later in this document.

ATTITUDE TOWARD GIFTS

Future giving (contributions) to this Endowment is expected to be relatively consistent, and therefore, somewhat predictable. However, the Investment Committee has set an investment strategy with the objective of maintaining purchasing power of Endowment assets before consideration of gifts. Accordingly, future giving will serve to increase purchasing power. Therefore, expectations may be expressed by the following equation:

$$\begin{aligned} \text{Total Return} &= \text{Spending} + \text{Inflation} + \text{Expenses,} \\ \text{while Giving} &= \text{Increase in Purchasing Power} \end{aligned}$$

SPENDING POLICY

This Endowment places highest emphasis on meeting its grant making obligations. As such, the Investment Committee regards spending in dollar terms from year to year as inflexible. While spending is inflexible, and therefore relatively consistent and predictable, expected investment returns from "riskier" portfolios are not consistent and predictable. Therefore, in order to reduce the likelihood of underperformance and excessive deterioration of real principal during such periods, this Endowment must tend toward a more "conservative" investment strategy than might be the case if grant making from year to year were more flexible. **The Investment Committee will set spending equal to 5.5% of the portfolio value.**

SOCIAL RESPONSIBILITY

With regard to socially responsible investing, the Investment Committee characterizes the investment management process as one of *alternative* investing; that is, the Investment Committee believes that it will be meeting the needs of the Martin Methodist College Endowment and society by investing in securities of companies that strive to do good for society in one or more ways. This process is similar to the *avoidance* method in that the universe of securities in which to invest is reduced by those companies with socially undesirable characteristics, but goes further by screening for specific companies to evaluate for inclusion in the portfolio based on socially desirable characteristics. However, since the Investment Committee's first priority in the investment management process is to meet the needs of the Fund, investment quality should not be sacrificed in order to find an alternative investment which is believed to have socially desirable characteristics.

INVESTMENT OBJECTIVES

In order to meet its needs, the investment strategy of the Martin Methodist College Endowment is to emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income.

Specifically, the primary objective in the investment management for Fund assets shall be:

Preservation of Purchasing Power After Spending - To achieve returns in excess of the rate of inflation plus spending over the investment horizon in order to preserve purchasing power of Fund assets. Risk control is an important element in the investment of Fund assets.

The secondary objectives in the investment management of Fund assets shall be:

Preservation of Purchasing Power - To achieve returns in excess of the rate of inflation over the investment horizon in order to preserve purchasing power of Fund assets. Risk control is an important element in the investment of Fund assets.

Preservation of Capital - To minimize the probability of loss of principal over the investment horizon. Emphasis is placed on minimizing return volatility rather than maximizing total return.

Long-Term Growth of Capital -To emphasize long-term growth of principal while avoiding excessive risk. Short-term volatility will be tolerated in as much as it is consistent with the volatility of a comparable market index.

Income and Growth - To achieve a balanced return of current income and modest growth of principal.

High Current Income - To maximize the generation of investment income (interest and dividends) while avoiding excessive risk.

Liquidity - To ensure the ability to meet all expected or unexpected cash flow needs by investing in securities which can be sold readily and efficiently.

SPECIFIC INVESTMENT GOALS

Over the investment horizon established in this statement, it is the goal of the aggregate Fund assets to exceed:

An absolute rate of return of 8 - 10%.

An absolute real return (excess of inflation) of 6 - 8%.

The investment goals above are the objectives of the aggregate Fund, and are not meant to be imposed on each investment account (if more than one account is used). The goal of each investment manager, over the investment horizon, shall be to:

1. Meet or exceed the market index, or blended market index, selected and agreed upon by the Investment Committee that most closely corresponds to the style of investment management.
2. Display an overall level of risk in the portfolio which is consistent with the risk associated with the benchmark specified above. Risk will be measured by the standard deviation of quarterly returns.

Specific investment goals and constraints for each investment manager, if any, shall be incorporated as part of this statement of investment policy. Each manager shall receive a written statement outlining his specific goals and constraints as they differ from those objectives of the entire Fund.

DEFINITION OF RISK

The Investment Committee realizes that there are many ways to define risk. It believes that any person or organization involved in the process of managing the Martin Methodist College Endowment assets understands how it defines risk so that the assets are managed in a manner consistent with the Fund's objectives and investment strategy as designed in this statement of investment policy. The Investment Committee defines risk as:

The probability of not maintaining purchasing power over the Fund's investment time horizon.

The probability of not meeting the Fund's liabilities or cash flow requirements.

The probability of losing money over any time period.

The probability of losing money over the Fund's investment time horizon.

The probability of not meeting the Fund's objectives.

VOLATILITY OF RETURNS

The Investment Committee understands that in order to achieve its objectives for Fund assets, the Fund will experience volatility of returns and fluctuations of market value. It states that the Fund could tolerate a maximum loss of 5-10% over any one year period, and a maximum loss of 5-10% over the investment horizon. Therefore, the Investment Committee supports an investment strategy that minimizes the probability of losses greater than stated above. However, it realizes that the Fund's return objective is its primary concern. There is, of course, no guarantee that the Fund will not sustain losses greater than those stated herein.

LIQUIDITY

To minimize the possibility of a loss occasioned by the sale of a security forced by the need to meet a required payment, the Investment Committee will periodically provide investment counsel with an estimate of expected net cash flow. The Investment Committee will notify the investment consultant in a timely manner, to allow sufficient time to build up necessary liquid reserves.

To maintain the ability to deal with unplanned cash requirements that might arise, the Investment Committee requires that a minimum of 0% of Fund assets shall be maintained in cash or cash equivalents, including money market funds or short-term U.S. Treasury bills.

MARKETABILITY OF ASSETS

The Investment Committee requires that all of Fund assets be invested in liquid securities, defined as securities that can be transacted quickly and efficiently for the Fund, with minimal impact on market price.

INVESTMENT GUIDELINES

Allowable Assets

1. Cash Equivalents
 - Treasury Bills
 - Money Market Funds
 - STIF Funds
 - Commercial Paper
 - Certificates of Deposit

2. Fixed Income Securities
 - U.S. Government and Agency Securities
 - Corporate Notes and Bonds
 - Mortgage Backed Bonds
 - Preferred Stock

3. Equity Securities

Common Stocks

Convertible Notes and Bonds

Convertible Preferred Stocks

American Depository Receipts (ADRs) of Non-U.S. Companies

Derivative Investments

Derivative securities are defined as synthetic securities whose price and cash flow characteristics are based on the cash flows and price movements of other underlying securities. Most derivative securities are derived from equity or fixed income securities and are packaged in the form of options, futures, CMOs (PAC bonds, IOs, POs, residual bonds, etc.), and interest rate swaps, among others. The Investment Committee feels that many derivative securities are relatively new and therefore have not been observed over multiple economic cycles. Due to this uncertainty, the Investment Committee will take a conservative posture on derivative securities in order to maintain its risk averse nature. Since it is anticipated that new derivative products will be created each year, it is not the intention of this document to list specific derivatives that are prohibited from investment, rather it will form a general policy on derivatives. **Unless a specific type of derivative security is allowed in this document, the Investment Manager(s) may not invest Fund Assets in derivative investments.**

Asset Allocation Guidelines

Investment management of the assets of the Martin Methodist College Endowment shall be in accordance with the following asset allocation guidelines:

1. Aggregate Fund Asset Allocation Guidelines (at market value)

<u>Asset Class</u>	<u>Minimum</u>	<u>Maximum</u>	<u>Preferred</u>
Equities	40%	80%	70%
Fixed Income	20%	60%	30%

2. The Investment Committee may employ investment managers whose investment disciplines require investment outside the established asset allocation guidelines. However, taken as a component of the aggregate Fund, such disciplines must fit within the overall asset allocation guidelines established in this statement. Such investment managers will receive written direction from the Investment Committee regarding specific objectives and guidelines.

Diversification for Investment Managers

The Investment Committee does not believe it is necessary or desirable that securities held in the Fund represent a cross section of the economy. However, in order to achieve a prudent level of portfolio diversification, the securities of any one company or government agency should not exceed 10% of the total fund. Industry or sector weights of the portfolio should not exceed more than 1-1.5 times the weight of the underlying benchmark/index.

Guidelines for Fixed Income Investments and Cash Equivalents

1. Fund assets may be invested only in investment grade bonds rated A (or equivalent) or better.
2. Fixed income maturity restrictions are as follows:
 - Maximum maturity for any single security is 30 years.
 - Minimum maturity for any single security is 5 years.
 - Weighted average portfolio maturity may not exceed 25 years.
 - Weighted average portfolio maturity may not be less than 5 years.
3. Money Market Funds selected shall contain securities whose credit rating at the absolute minimum would be rated investment grade by Standard and Poors, and/or Moody's.

SELECTION OF INVESTMENT MANAGERS

The Investment Committee's selection of Investment Manager(s) must be based on prudent due diligence procedures. A qualifying investment manager must be a registered investment advisor under the Investment Advisors Act of 1940, or a bank or insurance company.

INVESTMENT MANAGER PERFORMANCE REVIEW AND EVALUATION

Performance reports generated by the Investment Consultant shall be compiled at least quarterly and communicated to the Investment Committee for review. The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The Investment Committee intends to evaluate the portfolio(s) over at least a three year period, but reserves the right to terminate a manager for any reason including the following:

1. Investment performance which is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
2. Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements.
3. Significant qualitative changes to the investment management organization.

Investment managers shall be reviewed quarterly regarding performance, personnel, strategy, research capabilities, organizational and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.

