

# Georgia Baptist Foundation, Inc.

## Investment Policy

The Georgia Baptist Foundation, Inc. was incorporated in 1941 to support the ministries and churches of the Georgia Baptist Mission Board with the objective of advancing the gospel of Jesus Christ by serving as the trust agency for the Georgia Baptist Mission Board. The Foundation manages endowments, charitable funds, designated accounts and planned gifts through prudent, dependable, and competitive fiduciary services consistent with the highest ideals of Christian stewardship.

### **Scope of this Investment Policy**

This document establishes the Investment Policy for the Foundation and is designed to assist in effectively supervising, monitoring, and evaluating the investment of the "Funds" under management. The Board of Trustees "Trustees" has arrived at this Investment Policy through careful study of a range of investment strategies in relation to the current and projected distribution requirements of the Funds. This Investment Policy has been chosen as the most appropriate policy for achieving the financial objectives of the Funds which are described in the "Investment Objectives" section of this document; however, the Trustees shall be free to deviate from this Investment Policy when it concludes that it is prudent and in the interest of the Foundation or the ministries it supports to do so and may amend the Investment Policy at any time.

The Trustees have adopted a long-term investment horizon for the Ministry Trust Fund such that the probability and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets.

In addition to the Investment Policy defined herein, the management of the Funds will be in compliance with all applicable laws.

### **Purpose of Investment Policy**

The purpose of this policy is to outline the Foundation's philosophy and worldview that will guide the investment management of the Funds and is set forth by the Trustees to:

- (1) Define and assign the responsibilities of all parties.
- (2) Establish a clear understanding of the Foundation's general investment objectives and principles.
- (3) Establish guidelines for investment advisers and managers.

### **Delegation of Authority**

The Board of Trustees is the fiduciary and is responsible for directing and monitoring the management of the Funds. The specific responsibilities of the Board of Trustees relating to the investment management of the Funds' assets include:

- (1) Establishing an Investment Policy to oversee the management of the Funds; Establishing and reviewing the investment objectives, permitted investments, asset allocations, and risk/reward profile for the Funds;
- (2) Selecting and terminating the relationship with qualified investment professionals to manage the Funds; including Investment Adviser(s), Investment Manager(s), and Custodian(s); establishing the Spending Policy of the Funds.

As such, the Trustees are authorized to delegate certain responsibilities. These include:

## **Investment Adviser**

The Investment Adviser's role is to provide guidance on matters pertaining to the investment of the Funds' assets including investment policy development, asset allocation, investment manager selection and oversight, monitoring the Funds' performance, spending policy distributions, and compliance with the Investment Policy. The Investment Adviser, in carrying out the Investment Policy defined in this document, has authority and responsibility to select appropriate investments in the specific asset classes mandated by this Investment Policy, in accordance with the terms of an investment management agreement between the Foundation and the Investment Adviser. The Investment Adviser acknowledges its fiduciary status as Investment Adviser with discretionary authority to manage all assets of the account and to act directly in the purchase, redemption, or sale of interests in separately managed accounts, mutual funds or private investment funds. The Investment Adviser acknowledges that it is a co-fiduciary with the Foundation with respect to determining asset allocation of the Account and selection of the Separate Account Managers. The Adviser shall not act as co-fiduciary of any managers retained or obtained by the Foundation that do not meet the Advisers compliance requirements. The Investment Adviser shall vote proxies for separate management account assets on behalf of the Foundation.

## **Investment Manager**

The manager has discretion to buy, sell, or hold specific securities used to meet the Fund's objectives. The manager should report to the Investment Adviser any major changes to outlook, strategy, or any qualitative change to the organization (personnel, ownership, philosophy, etc.).

## **Custodian**

The custodian is responsible for the safekeeping of the Funds, and the duties include maintaining separate accounts, providing daily values (whenever possible), collecting dividends and interest, settling all transactions, and providing at least monthly statements.

## **Investment Committee**

The Trustees shall appoint an Investment Committee to act on behalf of the Trustees between the regular scheduled meetings of the Board of Trustees.

## **UPMIFA**

The Trustees and Investment Committee are responsible for managing the investment process in a prudent manner with regard to preserving principal while providing reasonable returns and consistent with the principles articulated in the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") which was enacted in the state of Georgia July 1, 2008. In this regard, the Trustees and Investment Committee will consider, if relevant, the following factors in managing the Funds:

- (1) general economic conditions;
- (2) the possible effect of inflation or deflation;
- (3) the expected tax consequences, if any, of investment decisions or strategies;
- (4) the role that each investment or course of action plays within the overall investment portfolio of the Fund;
- (5) the expected total return from income and the appreciation of investments;
- (6) other resources of the institution;
- (7) the needs of the institution and the Fund to make distributions and preserve capital;
- (8) an asset's special relationship or special value, if any, to the charitable purpose of the institution.

In addition, each person responsible for managing and investing the Funds shall comply with the duty of loyalty imposed by law and manage and invest the Funds in good faith and with the care an ordinary prudent person in a like position would exercise under similar circumstances.

## **Investment Objectives**

The foremost objective is to ensure that investment portfolios overseen by the Foundation are managed in a manner that is consistent with the organization's stated beliefs and values. The Funds' investments will be actively screened and implementation will be overseen by the Investment Advisor. A list of the portfolios' active social screens including prohibited investments will be maintained in the Appendix B.

The investment objective for the Ministry Trust Fund of the Georgia Baptist Foundation is to provide sufficient cash flow from interest, dividends, and realized or unrealized capital gains to meet the spending policy payout as specified from time to time by the Trustees, and to generate enough additional growth of principal to maintain the purchasing power of the income dollar. The specific performance goal for the Ministry Trust Fund is a portfolio that has a high probability of providing a five-year average return of 7.5% over a full market cycle.

The investment objective for the Ministry Reserve Fund of the Georgia Baptist Foundation is to provide capital preservation while growing the principal value over a 2-4 year investment horizon.

## **Asset Allocation**

The asset allocation within the funds is driven by the overall objective of the Foundation, as stated above. Specific equity, fixed income, and alternative investment disciplines that are used in the asset mix, along with the percentage of the portfolio allocated to each, are listed in Appendix A. Such allocations are subject to change upon the recommendation of the Adviser and approval of the Trustees or Investment Committee.

It will be the responsibility of the Adviser to monitor the balance quarterly and notify the CEO of the Foundation if at any time the total imbalance exceeds 2%. It is recognized that market action may cause an imbalance in the interim period but such fluctuations are normal and acceptable.

## **Income Distribution**

### **Ministry Trust Fund**

The Ministry Trust Fund shall distribute income based on the Georgia Baptist Foundation, Inc., Income Spending Policy. The Income Spending Policy payout shall be calculated and distributed as a dividend for each share of the Pool. The Investment Committee of the Board of Trustees will review the dividend annually with the intent of increasing the dividend by 3% each year unless the resulting dollar amount is more than 5.5% or less than 4% of the applicable market value of the Pool. The staff of the Foundation will review the dividend on a quarterly basis to determine if the dividend remains in the 4%-5.5% corridor. If the dividend moves outside the corridor in any given quarter, the Foundation staff will adjust the dividend so that it remains within the corridor.

### **Ministry Reserve Fund**

The Ministry Reserve Fund shall retain all interest minus expenses for capital preservation and growth of the Fund. All income retained shall be divided equally among the shares of the Fund and attributed to each account based on the numbers of shares held by that account.

## **Risk Tolerance and Volatility**

The primary measurement of risk will be the standard deviation of average returns. The desired ratio of return units to risk units shall be such that when average return over the life of the portfolio is divided by standard deviation, the result is greater than one (1). Consistent with the desire for adequate diversification, the Investment Policy is based on the assumption that the volatility of the combined equity investment will be similar to that of the market opportunity available to institutional investors

with similar return objectives. The volatility of fixed income portfolios may be greater than the market during periods when the portfolio duration exceeds that of the market.

Failure to achieve the goal in times of excessive market volatility is not a failure of the strategy, but will trigger an in-depth review and discussion with the Investment Adviser regarding the asset allocation and investment managers to insure that all are performing to expectations and to articulate a forward-looking plan for improvement.

All assets contributed to the Foundation shall be disposed of as soon as practical should they not conform to the established guidelines. In extraordinary circumstances, per Investment Committee approval, assets contributed to the Foundation may not be allocated according to Appendix A and will be dealt with on a case-by-case basis.

## **Investment Guidelines**

### **Equity Manager Guidelines**

- (1) Cash equivalent holdings in excess of withdrawal needs (approximately 5%) should be avoided. However, managers may increase cash assets in the portfolio if, in their professional judgment, market conditions so warrant. The manager shall inform the Adviser of this decision.
- (2) Equity Holdings - Diversification and Quality Criteria
  - a) The market value of any one company holding shall not exceed 10% of the total market value of equities held in the portfolio of a specific manager.
  - b) Diversification by industry is expected such that no single industry generally exceeds 25% of the total market value of the portfolio of a specific manager.
  - c) Securities which are broadly classified as institutional quality issues - regardless of whether or not they are listed on a recognized stock exchange - are eligible for inclusion in the portfolio.
  - d) Convertible issues are suitable for use as investment vehicles if the quality rating conforms to the intent of these guidelines.
- (3) Equity Holdings - Turnover

If performance results meet objectives, the rate of turnover will not be a factor in manager evaluation.
- (4) Equity Holdings - Universe
  - a) The following security categories are permissible equity investments:
  - b) Common stocks;
  - c) Securities convertible into common stock;
  - d) Common stocks of foreign companies, if listed on a major U.S. securities exchange;
  - e) Equity securities of foreign companies listed on any U.S. or foreign securities exchange (applies only to foreign equity managers);
  - f) ADRs, EDRs, and GDRs;
  - g) ETFs;
  - h) REITs;
  - i) Preferred stocks;
- (5) The following are not permitted unless approved in writing by the Foundation (except as

permitted for the alternative managers)

- a) Short sales;
  - b) Put and Call Options.
  - c) Margin purchases, or borrowing or lending money;
  - d) Letter stock, private placement, or direct placements;
  - e) Commodities or futures of any type;
  - f) Real estate or mortgages, except to the extent directed by the Board of Trustees;
  - g) Common stock of foreign companies, except as permitted in Para. 4.e (applies only to domestic equity managers).
- (6) Securities of the investment adviser, investment manager, the custodian, their parent, or subsidiaries are not permitted unless approved in writing by the Foundation.
- (7) Performance measurement will include the following:
- a) Each equity manager will be measured against an appropriate index as well;
  - b) Each equity manager will be ranked against a universe of managers using the same investment style;
  - c) A list of appropriate equity manager benchmarks will be maintained in the Appendix C.

## **Fixed Income Manager Guidelines**

- (1) Fixed Income Holdings - Bond Diversification and Quality Criteria
- a) Marketable issues are desired so that the portfolio can be actively managed;
  - b) Bonds with maturities of one year or more should be of an original issue size in excess of \$50 million;
  - c) Bond holdings are expected to be well diversified across the permitted universe;
  - d) Quality: 90% of the portfolio will be Bank Investment Grade; the remaining 10% must have a Moody's or Standard & Poor's rating no lower than B2 or B.
- (2) Fixed Income Holdings - Turnover
- a) Bonds may be actively managed;
  - b) Active management is meant to include altering the average coupon yields, shifting maturity schedules, "swapping", and such other prudent strategies which enhance the income or quality of the portfolio or decrease the risk.
- (3) Fixed Income Holdings - Bond Investment Universe
- a) The following security categories are generally permissible investments for the fixed income portion of the portfolio:
  - b) Debt securities issued or guaranteed by the United States Government or its agencies (including U.S. Government Agency mortgage-backed securities and Small Business Administration securities);
  - c) Corporate bonds, debentures, and other forms of corporate debt obligations, including equipment trust certificates;
  - d) Indexed notes;

- e) Yankee Bonds;
  - f) Debt securities issued by foreign governments provided they meet the quality criteria of Para. 1;
  - g) U.S. Municipalities;
  - h) AAA - rated Asset Backed Securities are permitted with a maximum duration of 3 years;
  - i) Student Loan backed securities including Sallie Mae bonds are not permitted.
- (4) Cash Equivalent Holdings – Diversification
- a) Excluding debt obligations of the U.S. Government or its agencies, or the Master custodian short-term reserve fund, no single issue may exceed 10% of the market value of the total account.
- (5) Cash Equivalent Holdings - Universe
- a) The following short term investment vehicles are acceptable:
  - b) All obligations issued or guaranteed by the U.S. Government or its agencies;
  - c) Commercial paper rated A1 by Standard & Poor's and P1 by Moody's;
  - d) Certificates of Deposit - only of banks or savings and loan institutions with listed deposits in excess of \$500 mm (excluding the custodian bank) in the United States in terms of total assets;
  - e) Custodian bank short term reserve funds which meet the diversification and quality criteria set forth by the Controller of the Currency;
  - f) No-load money market mutual funds;
  - g) Euro-dollar CD's;
  - h) Bankers Acceptances.
- (6) Securities of the investment adviser, investment manager, the custodian, their parent, or subsidiaries are not permitted unless approved in writing by the Foundation (excluding short term reserve funds).
- (7) Performance measurement will include the following:
- a) Each fixed income manager will be measured against an appropriate index as well;
  - b) Each fixed income manager will be ranked against a universe of managers using the same investment style;
  - c) A list of the appropriate fixed income manager benchmarks will be maintained in the Appendix C.

### **Alternative Manager Guidelines**

The investment objective of the Alternative Manager is to produce returns comparable to those of the equity markets over a full market cycle targeting substantially less volatility (standard deviation) than equities by investing in a concentrated portfolio of long/short hedge funds. The hedge funds will focus on fundamentally-based research whereby they attempt to generate returns through superior security selection rather than through market timing, leverage or purely statistical investment methodologies. Manager strategies will typically have a long-bias to the capital markets and include long/short equity and event driven strategies. Qualitative and quantitative due diligence will be actively performed on hedge funds, their managers and strategies. Some of the factors influencing investment weights will

include the expected volatility and the expected prospective risks and returns of each hedge fund, as well as qualitative and liquidity considerations. As such, it is expected that weightings to strategies and hedge funds will vary over time; provided, that any Investment Manager directed change to the weightings will require Investor approval. Due to the private nature of alternative investments the Foundation may be limited in its ability to administer the screening guidelines listed in Appendix B for assets placed with alternative managers.

The Investment Policy is subject to modification at the discretion of the Board of Trustees of the Georgia Baptist Foundation. Adopted by the Board of Trustees of the Georgia Baptist Foundation at its regularly scheduled meeting held on February 4, 2016.

# Appendix A

Asset Allocation effective 12/31/2015

## Georgia Baptist Foundation Ministry Trust Fund

Fixed Income	30%
International Equity	15%
Large Cap Growth	15%
Large Cap Value	14%
Large Cap Core	10%
Small Cap Growth	4%
Small Cap Value	4%
Alternative	8%

## Georgia Baptist Foundation Ministry Reserve Fund

Short-Duration Fixed Income	100%
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# Appendix B

## Screening Guidelines

As Christians, we are in the world but not of the world. Our goal as believers is to avoid the things of the world, while knowing that perfect avoidance is impossible until we stand before God.

In the same way, the Georgia Baptist Foundation strives to invest in such a way that we do not profit from the immorality of the world, yet knowing that in the complexities of the world, perfect avoidance is impossible.

We commit to using the investment guidelines listed below to generally prohibit stocks and bonds of companies that significantly profit from the immorality of the world.

Category	Selection
Adult Entertainment	10% Revenue Threshold
Gambling	10% Revenue Threshold
Alcohol	
Manufacturing/Marketing/Branding	10% Revenue Threshold
Suppliers/Inputs	10% Revenue Threshold
Retailers	10% Revenue Threshold
Tobacco	
Manufacturing/Branding	10% Revenue Threshold
Supplier	10% Revenue Threshold
Retailers	10% Revenue Threshold
Life/Choice	
Manufacturing/Marketing/Licensing of Abortifacients or Contraceptives	10% Revenue Threshold
Abortion Medical Facilities and Providers	Restrict All

# Appendix C

## Investment Strategy Benchmarks

### Equity Benchmarks

- (1) Large-cap growth managers will be measured against the Russell 1000 Growth Index
- (2) Large-cap value managers will be measured against the Russell 1000 Value Index
- (3) Large-cap core managers will be measured against the Russell 1000 Index
- (4) Small-cap growth managers will be measured against the Russell 2000 Growth Index
- (5) Small-cap value managers will be measured against the Russell 2000 Value Index
- (6) International Equity managers will be measured against the MSCI ACWI ex US Index

### Fixed Income Benchmarks

- (1) Intermediate Duration Fixed Income manager will be measured against the Barclays US Govt/Credit Index
- (2) Short Duration Fixed Income managers will be measured against the Barclays 1-3 Year US Treasury Index
- (3) Dual mandate Fixed Income portfolio will be measured against a composite index blend of 67% of the Barclays US Govt/Credit Index and 33% of the Barclays 1-3 year US Treasury Index

### Alternative Benchmarks

- (1) Traditional Long/Short equity managers will be measured against the Barclay Equity Long/Short Index.
- (2) SPC Long/Short Equity Fund will be measured against a composite index blend of 50% of the return of the MSCI World Equity Index and 50% of the Bank of America ML 90 Day US T-Bill Index