

GROWING YOUR CHURCH'S ENDOWMENT: STRATEGIES FOR SUCCESS

Church of the Holy Cross, Hilo HI
Hawaii Conference UCC, Honolulu HI

March 23 & 25, 2017



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Today's Agenda



- Introduction to United Church Funds
 - UCF's role in the UCC
 - A Unique Investment Approach
- Socially Responsible Investing
 - Passive vs. Active Strategies
 - Key Initiatives
- Building an Endowment
 - Governance Structure
 - Gift Acceptance Policy
 - Investment Policy
 - Distribution Policy
- Planned Giving
- Questions & Answers

United Church Funds — Overview

- A trusted investment partner of over 1,000 local churches and ministries of the United Church of Christ
- Approximately \$750 million in assets under management
- Thirteen investment funds with socially responsible fund options
- Experienced leadership in the development, management and governance of endowments



UCF Investment Process — Management



UCF's Family of Funds

- UCF offers 13 funds —
 - Six actively managed funds with exposure to fixed income, domestic equity, international equity, and alternatives
 - Six funds of funds providing managed allocations with varying risk profiles
 - A money market fund
- UCF uses recognized benchmarks relevant to each fund's asset class, and creates custom benchmarks for our funds of funds, to track the performance of our funds against the market.
- UCF works to help each investor understand their risk tolerance so that they can choose funds consistent with their long-term objectives.



Overview of Fiduciary Standards

Who is an Investment Fiduciary?

*Someone who is managing the assets of another person/entity
and stands in a special relationship of trust, confidence, and/or legal responsibility.
– Fi360.com*

- 80% of liquid assets invested in US markets are managed by people with fiduciary responsibilities.
- Approximately 5 million investment fiduciaries in the US
- Duty of Care/Loyalty vs. Suitability Standard
- Conflicts of Interest - Obligation to avoid or manage/disclose

Overview of Fiduciary Standards

3 Groups of Investment Fiduciaries

1. Investment Stewards

- Trustees, investment committee members, etc.;
- Hold all fiduciary responsibilities unless delegated to another party;
- Most are untrained and unaware of fiduciary responsibilities.

2. Investment Advisors

- “Prudent Experts” giving comprehensive and continuous advice to Stewards;
- Most untrained on fiduciary duties despite having fiduciary responsibilities.

3. Investment Managers

- “Prudent Experts” who act with investment discretion over assets.
- Mutual Fund Managers, SMA managers, etc.

SRI & the UCC – A History

- **1969** – The UCC's Council on Financial Investments is created, with a focus on SRI.
- **1971** – UCC helps found the Interfaith Center on Corporate Responsibility (ICCR), with the stated goal of "...achieving socially beneficial change in corporate practice through...ownership of stock in such corporations." For over 4 decades, ICCR has been recognized as the vanguard of socially responsible investing practitioners.
- **2001** – The Covenanted Ministries of the UCC invests assets with UCF, becoming UCF's largest investor and assists in establishing SRI benchmarks and practices.
- **2006** – UCF collaborates with partners to found the Ecumenical Action Group for a Just Peace in Palestine/Israel.
- **2014** – UCF supports and responds to the 2013 GS Resolution on Climate Change with the creation of the Beyond Fossil Fuels Fund.
- **2015** – UCF co-sponsors 2015 GS Resolution on Socially Responsible Investing.

Social Responsibility - a Multi-Faceted Approach



- **Corporate Engagements & Resolutions**
Encouraging better policies & practices from companies in which UCF is a shareholder
- **Collaboration with Key Partners**
Amplifying our voice by partnering with other faith-based asset managers
- **Investor Initiatives**
Providing feedback to the market place
- **Proxy Voting**
Consistent with UCC values & goals
- **Screened Portfolios**
Excluding tobacco, alcohol, gambling, military weapons, coal and tar sands companies, and human rights violators in Occupied Palestinian Territories

Social Responsibility - Leveraging Partnerships



- Faith-based investors collaborating for just capital systems, representing more than \$100B AUM
- The United Church of Christ is recognized as a founding member of ICCR, UCF continues to take an active part in the governance of ICCR



- Global investors and servicers representing \$59T AUM
- United Church Funds is a longtime signatory of the United Nations Principles for Responsible Investment, and received an "A" on its overarching approach in its most recent UNPRI assessment



- USSIF provides a vital avenue for investors to make sure that responsible investors' interests are protected, from a regulatory and legislative perspective
- United Church Funds' membership in USSIF provides us access to large US investors, consultants and servicers focused on responsible investment

Social Responsibility - Sample Engagements & Initiatives

- **Emissions Reduction** Encouraging companies to lessen CO2 emissions and increase energy efficiency to keep global warming under 2-degrees Celsius.
- **Responsible Lending** Financial institutions must evaluate whether their lending practices are predatory
- **Reasonable Drug Pricing** Life-saving drugs for diseases like malaria, TB, and HIV should be priced for the common good. How can pharmaceutical companies continue to evaluate their pricing policies?

Recent Win

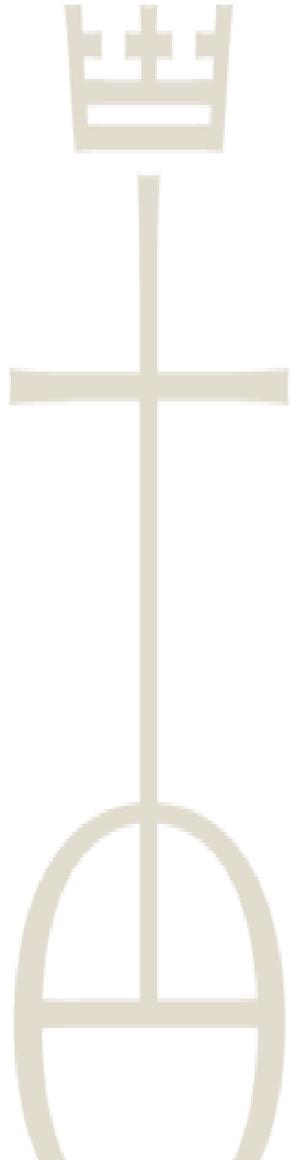
UCF is proud to have been part of a coalition of investors seeking that Marathon Petroleum update its policies to be inclusive of the rights of indigenous people. Marathon Petroleum intends to be a partner organization in the Dakota Access Pipeline. Improper risk assessments for pipelines and other projects can lead to work stoppages and losses. Holistic human rights policies and assessments can help prevent such losses.

UPMIFA & Investor Conduct

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- **Duty of Loyalty** - acting solely for the organization's benefit
 - **Delegation** - Responsibility of Stewards to prudently select and monitor Investment Advisors and Managers.
 - **Fees** - Obligation to manage costs as "fair and reasonable" for the services provided, but not necessarily to rely on the least expensive management option
 - **Portfolio Oversight**
 - Standards for risk-adjusted performance
 - Asset Allocation Guidelines
 - Diversification and Re-balancing requirements
 - Utilizing investments that suit the portfolio (SRI)

An institution shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances.

7 Precepts of Fiduciary Excellence



1. Know the standards, laws, and applicable trust provisions
2. Diversify assets to match the risk/return profile in the Investment Policy Statement
3. Prepare the Investment Policy Statement
4. Delegate to 'Prudent Experts', and document due diligence on selection of same
5. Control and account for investment expenses
6. Monitor the activities of "Prudent Experts", and document due diligence and actions on reviews.
7. Avoid conflicts of interest when possible, and always avoid prohibited transactions. If conflicts of interest are unavoidable, document in detail and communicate to all parties.

Components of An Endowment Policy Statement (EPS)

Endowment Policy Statement

Section 1: Governance

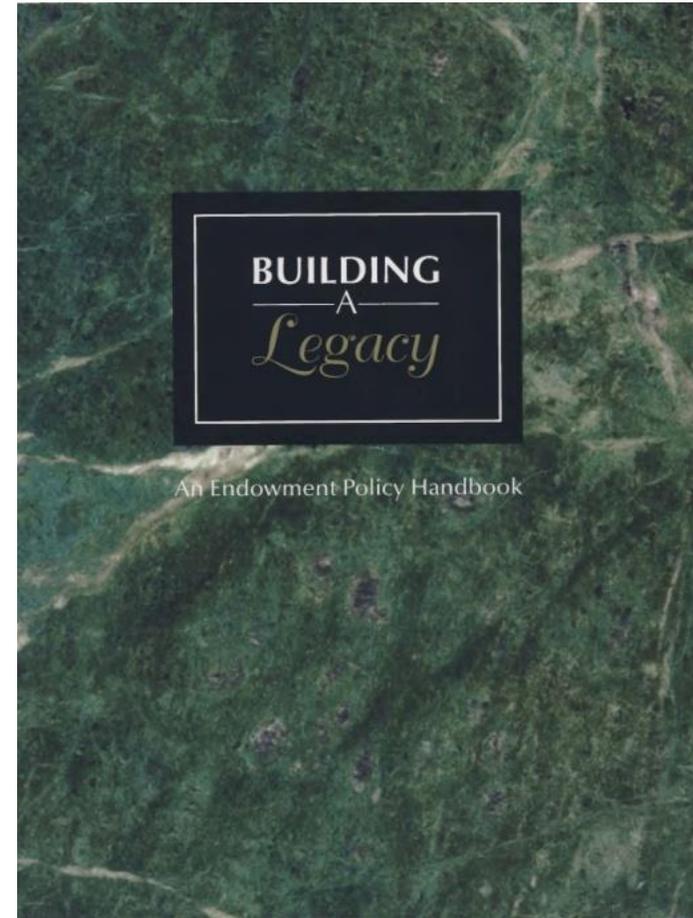
Section 2: Gift Acceptance Policy

Section 3: Investment Policy

Section 4: Distribution Policy

Resources

- Endowment Policy Handbook
- Sample templates from UC Funds
- Planned giving (beginning 2015)
- *ucfunds.org*



Building an EPS - Good Governance & Fiduciary Responsibility

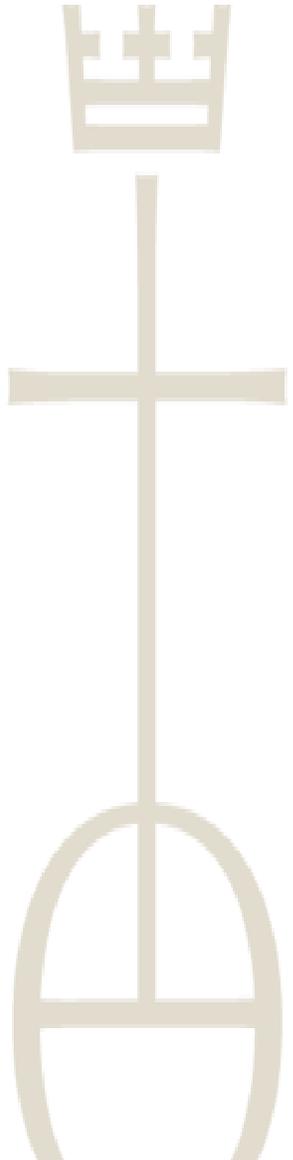


Section 1: Governance of Assets

- What documents govern activities?
 - Charter, By-Laws, Laws, Trust Documents
- What committee is tasked with managing the endowment or the long-term investable assets of your church or ministry?
 - Endowment / Investment / Stewardship Committees
 - Church Council, in appointing members, inherits fiduciary responsibility
- How are people elected/appointed to this committee?
 - Terms of service
- What skills do you look for in church members (or others) who comprise the governing committee?

Any person serving on the governing committee has a fiduciary responsibility under UPMIFA

Building an EPS - Funds Governed by Your Policy



- **Temporarily Restricted**
- **Permanently Restricted**

Donor or organization imposes restrictions on timeframe, distribution use, or investments

- **Unrestricted Funds**
 - Operating
 - Reserves
 - Board-designated

Membership or board makes decisions limited only by legal requirements of 501c3 status

Donor restrictions must be written instructions accompanying the gift, or in the solicitation materials used to raise money (eg, campership or building fund campaigns)

Building an EPS - Gift Acceptance Policy



Section 2: Gift Acceptance

We joyfully accept your gift, but we reserve the right to manage the types of gifts we receive and the methods by which we receive them.

➤ Donor Communication

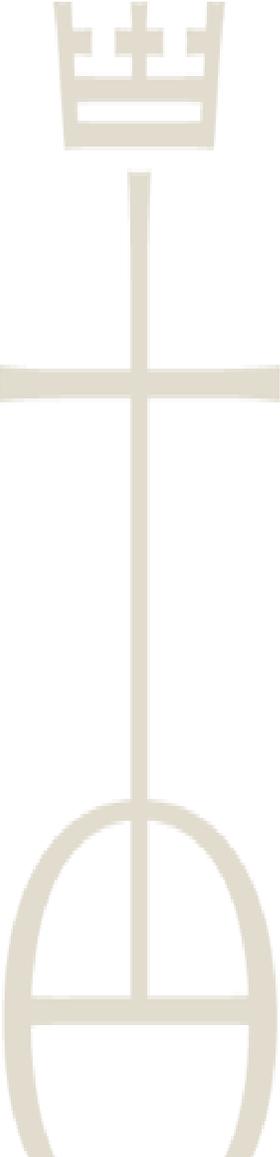
- Expresses to potential donors the types of gifts most useful to the organization
- Creates opportunities to fund specific missions and ministries.
- Sets rules for amounts to qualify for naming or restrictions.

➤ Fiduciary Protections

- Gifts of non-liquid assets may require excessive resources to liquidate or transition to meet the requirements of the IPS.
- Some gifts require too much effort to manage relative to the value, or place restriction not suitable to the core mission.

Building an EPS - Investment Policy

Section 3: Investment Policy Statement (IPS)

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- The Business Plan of the Portfolio - The most important function of a Steward is to build and review the IPS
 - Must contain sufficient detail to define, implement, and monitor the investment strategy, but...
 - Not so detailed as to require constant revisions or;
 - Become impossible to implement by Investment Advisors and Investment Managers
 - Look to the 7 Global Precepts of Fiduciary Excellence for a Guide

Benefits of an Investment Policy Statement

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- **Donor Communication**
 - Provides implementation guidance on estate planning
 - Re-assures potential donors of investment stewardship
 - **Fiduciary Protections**
 - Prevents “Monday Morning Quarterbacking” by future investment committees
 - Keeps the investment process and strategy intact during volatile markets
 - The Fiduciary File – meeting minutes, details on discussions and actions taken related to the portfolio.

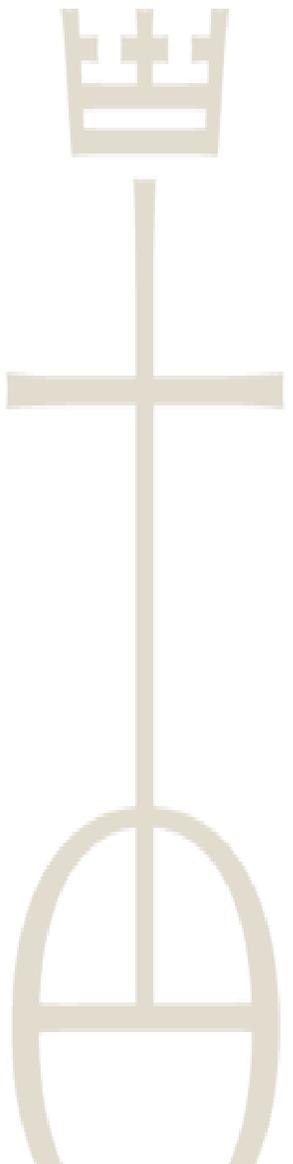
Building an EPS – Sample Outline of an Investment Policy



Sample Investment Policy Outline

1. Executive Summary
2. Roles & Responsibilities
 - Investment Committee
 - Investment Advisor / Consultant
 - Custodian
 - Investment Managers (if SMAs are used)
3. Asset Allocation & Re-Balancing Parameters
 - Time Horizon
 - General Investment Strategy
 - Risk Profile
 - Return Expectations
 - Socially Responsible Investing strategies

Building an EPS – Sample Outline of an Investment Policy (cont'd)



Sample Investment Policy Outline (continued)

4. Due Diligence Procedures
 - Selection Process for Prudent Experts
 - Assessments of Delegated needs and services
5. Monitoring Guidelines for Prudent Experts
 - Review Process for performance and services
 - Watch-List parameters
6. Attachments and Addendums
 - Relevant documents

All Due Diligence processes for selecting and monitoring of Prudent Experts should be:

- The same for selection and monitoring, and consistently applied
- Quantitative and Qualitative

Building an EPS - Distribution Policy

Section 4: Distribution Policy

A spending policy outlines the parameters by which funds are distributed to mission, ministry or other purposes.

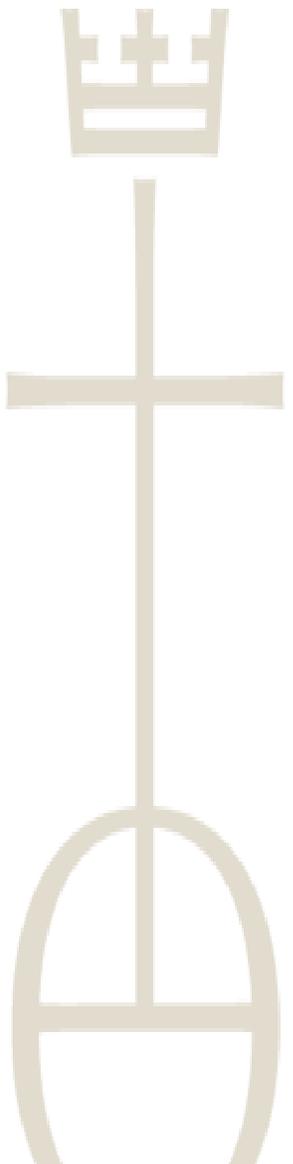
➤ Donor communication

- Educates potential donors on opportunities to fund core ministries
- Communicates the prudent distribution method
- Sets parameters for spending patterns and distribution uses.

➤ Fiduciary Protection

- Disbursements are made in accordance with the spending policy, not the wishes of the governing committee.
- Policies must be reasonable relative to the market and consistent with the Investment Policy's anticipated return.
- Prevents excessive distributions and fiduciary liability

Building an EPS - Review and Summary



As a Fiduciary and Steward, you should:

1. Follow the 7 Precepts of Fiduciary Excellence
2. Consistently apply practices, grounded in principles and guided by laws and governing documents
3. Delegate to prudent experts, but know that delegation doesn't equate to a release of full fiduciary responsibility
4. Don't be afraid to self-assess, or use UCF as a resource for outside assessment
5. Be an ambassador for your endowment and fiduciary practices in order to grow your assets through new gifts

"Leadership is practical not so much in words as in attitudes and actions."

– Harold S. Geneen

Building a Legacy — Supporting Planned Giving

- Unlike a commercial broker or bank, UCF stands ready to be your trusted partner to grow your endowment by helping your church create new gift opportunities
- UCF supports local churches and ministries as they develop endowment programs, providing educational resources and assisting churches as they grow their legacies
- Since the inception of the UCC's planned giving program, United Church Funds has served as the fiscal agent of the program



Mahalo!

United Church Funds appreciates the opportunity to present our hope and desire to share in and support your mission and ministry!

