

# **Statement of Investment Objectives, Policies and Guidelines For the Lutheran Legacy Foundation**

## **Introduction & Background Information**

This investment policy statement is intended to identify the long-term risk and return objectives and to provide guidelines, limitations, and directions for the investments of the Lutheran Legacy Foundation (LLF).

LLF is organized to provide financial assistance to churches and religious organizations. LLF will establish and manage endowments and other charitable giving instruments for churches, religious organizations, and individuals. LLF will steward permanently and temporarily restricted funds in accordance with the client's charitable requests, and unrestricted funds will be administered to advance the causes of the Lutheran Faith.

The Board designates the Investment Committee (the Committee) as day to day Stewards for the Foundation. The Investment Committee shall be responsible for recommending the investment policy for approval by the Board and for overseeing the management of the investments of the Foundation in accordance with that policy. It is the Committee's intent to review this document on a regular basis as we realize changing circumstances could require modification.

It is the objective of the Committee to make sound and prudent decisions concerning the assets of the Foundation. In accordance with that objective, the Board has employed the services of several professional advisors. Investment managers for Foundation assets are appointed by the Committee and its advisors and shall apply the guidelines listed in this investment policy. This document is intended to clearly establish the roles and responsibilities of the committee, its advisors and investment managers.

It is expected that the assets of the Foundation will be invested by managers with the care, skill, prudence, and diligence under the circumstances that a prudent person acting in a like capacity and familiar with such matters would use in the investment of assets of institutions of like character and with like aims.

The investment policy statement is divided into five sections:

**Section I Investment Responsibilities** These are the responsibilities of the Committee, advisors and the investment manager(s), so that sound and prudent decisions can be made.

**Section II Investment Objectives** The objectives are desired results and ones that cannot be guaranteed. We have focused on investment objectives relative to inflation where possible.

**Section III Investment Policy** Policies can be controlled and monitored. It is through policy selection that we hope to optimize the likelihood of meeting our objectives. The principal component of policy, as we define it, is asset mix or the percentage of assets invested in various classes of securities.

**Section IV Investment Guidelines and Restrictions** These are the parameters within which we, as fiduciaries, and our investment manager(s), will operate in executing the investment policy and monitoring of our program.

**Section V Review Procedures** These policies define the scope and depth of monitoring the Investment Managers against quantifiable objectives as defined in the Investment Policy and Investment Guidelines.

## **SECTION I – INVESTMENT RESPONSIBILITIES**

**Committee** – Lutheran Legacy Investment Committee

**Committee Consultant** – James Jordan Wagner

**Investment Administrator** – Marks Group Wealth Management

**Investment Consultant** – Alpha Investment Consulting Group

It is the common objective of the Committee, its advisors, and the investment manager(s) to make sound and prudent decisions concerning the assets of the Foundation. To this end;

**the Committee believes its responsibilities are to:**

1. Develop reasonable and consistent investment guidelines and objectives for the investment of Foundation assets and to review this policy on an annual basis;
2. Monitor and evaluate investment results on an ongoing basis to assure that the policy guidelines are being adhered to and that the objectives are appropriate;
3. Select service providers (custodian, administrator, investment managers, analysts and/or consultants) to be used, as needed, to assist in carrying out the duties and responsibilities of the Committee and to monitor the fees and performance of service providers;
4. Discharge its duties solely in the interest of the Foundation and its clients
5. Document the decisions of the Committee.

**The Committee Consultant is expected to:**

1. Oversee the Investment Consultant and Investment Administrator to ensure each are meeting their goals and objectives.
2. Serve as the first point of contact for the Investment Consultant and Investment Administrator on behalf of the Committee.

**The Investment Administrator is expected to:**

1. Help in the development and review of the appropriateness of objectives, policies, and guidelines.

2. Exercise investment discretion as it relates to choosing investment managers for the portfolio through the utilization of the Investment Consultant's research and advice.
3. Provide (or procure) custodial services for Foundation assets.
4. Provide the Board with portfolio reporting sufficient to complete and file all tax, legal, or other documents related to the portfolio.

**The investment consultant is expected to:**

1. Help in the development and review of the appropriateness of objectives, policies, and guidelines.
2. Provide objective advice on all investment matters relating to the Foundation.
3. Monitor and evaluate investment managers on an ongoing basis and, when necessary, help in the selection of new managers.
4. Monitor and evaluate fund performance and expenses.
5. Provide regular investment performance reports

**The investment manager(s) is expected to:**

1. Exercise complete investment discretion (within the guidelines) including the selection of securities and the implementation of the purchase and sale of those securities.
2. Communicate frequently and openly with the consultant on all matters of significance regarding changes in management organization/structure.

## **SECTION II – INVESTMENT OBJECTIVES**

The Committee believes the achievement of investment returns should be viewed in a long-term context. It also recognizes that rates of return are volatile on a year-by-year basis and that achievement of the investment objectives will not progress uniformly over time.

The primary objective is growth relative to the Consumer Price Index (CPI). The Committee expects the Foundation to achieve the following objectives over a complete market cycle. Our investment objectives are as follows:

### **Return Type**

Relative	The investments of the Foundation should produce a total return (net of expenses) meeting or exceeding the median return from a universe of investors with similar asset allocations.
Real	<p>The Foundation's total net return should equal or exceed an average annual "real" rate of return of 5%.</p> <p>The "real" return is defined as a return above the rate of inflation as measured by the CPI.</p>
Benchmark	<p>The total net return of the Foundation is expected to meet or exceed the performance of the composite benchmark on a three- to five-year annualized basis.</p> <p>The components of the benchmark are defined in Section III - Investment Policy. These components will be weighted according to the policy mix also outlined in Section III.</p>

### **SECTION III – INVESTMENT POLICY**

The Committee defines the target policy as something which can be controlled and measured. For the Foundation, the major component of policy is asset mix. The below represent target percentages, there may be occasions when we and/or the retained investment manager(s) feel a significant increase or decrease to any of these or other classes of securities may be warranted based on the current and/or anticipated conditions.

The assets of the Foundation are to be diversified in order to minimize risk of large losses to it by any one or more individual investments. The Committee believes diversification is, in part, accomplished through our selection of asset mix and investment manager(s).

The investment targets for LLF are as follows:

<b><u>Asset Class</u></b>	<b><u>Target Asset Mix</u></b>	<b><u>Range</u></b>
Equities	88%	60-100%
Fixed Income	10%	0-40%
Cash & Equivalents	2%	0-10%

These broad asset classes should be further subdivided as follows and the composite benchmark referenced in Section II should be constructed using the following targets:

<b><u>Asset Class</u></b>	<b><u>Target Asset Mix</u></b>	<b><u>Benchmark Index</u></b>
Small Cap. Equities	10%	Russell 2000
Mid Cap Equities	18%	Russell Mid Cap
Large Cap Equities	30%	S&P 500
Intl Large Cap Equities	20%	MSCI EAFE
Intl Small Cap Equities	5%	MSCI EAFE Small Cap
Emerging Markets	5%	MSCI Emerging Markets
Fixed Income	10%	Barclays 1-5 Yr Corporate Bond
Cash & Equivalents	2%	Citi 90 Day T-Bill

#### **Rebalancing**

The asset allocation will be monitored regularly by the Investment Administrator and Consultant. The Investment Committee recognizes the volatility of the capital markets and without attempting to time the market, reserves the right to re-balance the fund at any time back to the stated targets. On an ongoing basis we will use a trigger of 5% above or below the target as a point to either rebalance or consider rebalancing the portfolio.

## **SECTION IV – INVESTMENT GUIDELINES**

Investment guidelines are the parameters within which the Committee should operate in executing policies and strategies relative to the Foundation. Review procedures represent the manner for controlling this process.

### **Risk Guidelines**

1. For the Foundation as a whole, the portfolio risk level (as measured by standard deviation) should not be greater than 110% of the composite benchmark on a three- to five-year annualized basis.

These guidelines will be monitored by the Committee and the Consultant and are not guidelines for any individual Investment Manager.

### **Asset Restrictions**

Because these accounts are subject to strict regulation under IRC Section 664(c) the following restrictions apply:

1. No assets may be purchased that will generate unrelated business taxable income (UBTI).
2. No investments may be purchased through the use of a margin account, nor may any investments be purchased which use margin accounts.
3. These accounts will not enter into any agreements which could be defined as self-dealing, such as extending credit to or from disqualified persons.
4. The LLF will not directly own real estate, limited partnerships, other illiquid assets, or any investments that generate a K-1. Any such assets contributed in kind to the LLF will only be accepted with written permission from the Board and under normal circumstances will be promptly sold and the resultant monies will be invested in appropriate investment categories as defined by this document.
5. The LLF will not purchase any options, futures, or futures contracts. Nor will the LLF be involved in short sales in any manner.

## **SECTION V – REVIEW PROCEDURES**

On a regular basis, the Committee will meet to discuss for the Foundation:

1. The appropriateness of the objectives, policies and guidelines set forth in this Statement.
2. The achievement of objectives and the adherence to policies and guidelines.
3. Amendments to the objectives, policies, and guidelines presented in this Statement.
4. The reasonableness of vendor fees associated with the Foundation.

Consistent with the objectives, policies, and guidelines as set forth, the Committee will review regularly various comparative information on the investment managers which may include but are not limited to the following:

1. Return vs. Assigned Benchmark
2. Risk vs. Assigned Benchmark
3. Attribution of Return
4. Peer Group Universe Comparisons
5. Style Consistency
6. Significant changes in personnel or organizational structure

Any party may call more frequent meetings if significant concerns arise about any investment manager's performance, strategy, personnel, organizational structure or any other relevant factors relating to the welfare of the Fund.