

## Introduction:

The Baptist Foundation of California (Foundation or BFC) was organized in June 1952 to raise, manage, and distribute financial resources for the benefit of Baptists' mission and ministry efforts within California, other states, and around the world. The Foundation strives to manage endowments, charitable funds, designated ministry assets, and other planned gifts with the highest level of professionalism, competency, and Christian stewardship.

## Purpose of Investment Policy:

This statement of investment policy for the Common Investment Funds is set forth in order to:

- Establish a clear understanding of the investment policies, objectives, and guidelines that govern Foundation investment activities;
- Offer guidance to all Foundation Investment Managers;
- Establish a basis for evaluating investment results;
- Manage assets according to Christian moral and ethical principles; and
- Manage assets in accordance with the appropriate applicable duty of care established in California Probate Code §16045 et. seq. (Uniform Prudent Investor Act), §18500 et. seq. (Uniform Prudent Management of Institutional Funds Act) and common law.

## Governance:

The Foundation, under the direction and supervision of its Board of Directors, and the Investment Committee of the Board, is a steward and is responsible for directing and monitoring the investment of assets entrusted to its management. As part of its stewardship, the Foundation may retain and terminate relationships with professional advisors in various fields. Certain responsibilities may be delegated to financial services industry professionals, including, but not limited to:

**Investment Consultant:** The consultant may assist the Foundation in establishing investment policies, objectives, and guidelines; selecting investment managers; evaluating such managers' performance, including, but not limited to evaluating their analysis and advice in light of investment performance over time; and other tasks as deemed appropriate.

**Investment Managers:** The investment managers have discretion, subject to the provisions of this policy, to purchase, sell, or retain the specific securities that will be used to meet desired investment objectives. Managers will be held responsible for adherence to these guidelines and shall be accountable to achieve the objectives assigned to them.

**Custodian:** The custodian will physically (or through agreement with a sub-custodian) maintain possession of securities used to meet the investment objectives, 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, sold, or otherwise transferred into and out of the Foundation's accounts.

All expenses for such advisors must be customary and reasonable.

## Assignment of Responsibility:

The responsibility for oversight, management and administration of the assets under management falls into three distinct categories within the Foundation as described below.

**1. Responsibility of the Board of Directors.** California Corporations Code §9241(a) provides that a director of a non-profit religious corporation shall perform the duties of a director, including duties as a member of any committee of the board upon which the director may serve, in good faith, in a manner such director believes to be in the best interests of the corporation and with such care, including reasonable inquiry, as is appropriate under the circumstances. Thus, the full Board of Directors thus is charged with the responsibility for the investment of the assets entrusted to the Foundation.

As part of this responsibility, California Corporations Code §9212 empowers the Board to delegate certain specific responsibilities to a board committee. As outlined below, the Foundation Board created the Investment Committee of the Board for this purpose, which in turn has delegated certain specific responsibilities to the Trust Administrative Committee. In any event, all activities and affairs of the Foundation are managed and all corporate powers are exercised under the ultimate direction of the Board.

With respect to funds which are subject to the “Uniform Prudent Management of Institutional Funds Act” (California Probate Code §18500 et. seq.) the Board through its designated committees, shall discharge its duties solely in the interest of the funds and shall manage and invest the funds in good faith and with the care an ordinarily prudent person in a like position would exercise under normal circumstances.

In exercising its judgment, the Board shall consider the long and short term needs of the participants in carrying out their educational, religious, or charitable purposes, their present and anticipated financial requirements, expected total return on investments, general economic conditions, the appropriateness of a reasonable portion of higher risk investments with respect to institutional funds as a whole, income, growth, and long-term net appreciation as well as the probable safety of funds.

With respect to funds which are subject to the “Uniform Prudent Investor Act” (California Probate Code §16045 et. seq.), the Board, through its designated committees, shall discharge its duties solely in the interest of the Funds’ investors, as a prudent investor would, by considering the purpose, terms, distribution requirements, and other circumstances affecting the Funds with reasonable care, skill, and caution. In exercising its judgment, the Board’s investment decisions respecting the Funds and courses of action must be evaluated, not in isolation, but in the context of the Fund’s portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited for the Funds.

**2. Responsibilities of the Investment Committee.** The committee’s duties related to the investment management of Funds’ assets include:

- Approving the establishment of a family of Common Investment Funds and / or allocation models;
- Reviewing a Disclosure Statement (Information for Participants) that contains investment objectives, permitted investments, and investment profiles of assets;
- Approving protocols for the Trust Administrative Committee's management of Investment Managers, Investment Consultant(s) and Custodian(s) for the purpose of managing the Common Investment Funds; and allocation models;
- Review performance of the assets under management and of the Trust Administrative Committee's administration thereof; and
- Reporting, at least annually, to the full Board of Directors of the Foundation on the investment performance and financial condition of assets managed by the Foundation.

**3. Responsibilities of the Trust Administrative Committee (TAC).** The TAC is responsible for the following aspects of managing and administering the Funds' assets:

- Work in consultation with the Investment Consultant who shall act as a non-discretionary advisor, rendering advice concerning the investment management of the Fund's assets, which shall be consistent with the investment objectives, policies, guidelines and constraints as established in this statement.
- Reviewing investment reports regarding Investment Managers;
- Regularly evaluating the performance of the Investment Manager(s) to assure adherence to policy guidelines and monitoring investment objective progress;
- Rebalancing and reallocating assets;
- Developing and enacting proper control procedures
- Prudently, diligently and continually evaluating the relationship with the Investment Consultant
- Reporting, at least semi-annually to the Investment Committee; and
- Conducting such other responsibilities as may be assigned from time to time by the Investment Committee.

### **General Investment Principles:**

As a general matter, consistent with its mission and fiduciary responsibilities, the Foundation manages assets with a long-term time horizon. Often, the assets managed are multi-generational or intended to be perpetual assets. As such, the investment objective is to emphasize total return; that is, the aggregate return from capital appreciation and dividend and interest income. It should be noted that often the Foundation has an obligation to operate and manage assets in accordance with legal documents specifically dictating the investment objectives to satisfy the charitable intent. The Foundation reserves the right to create custom allocations in consultation with a client and in response to their particular needs.

- Investments shall be made solely in the interest of the investors and, where administratively possible, in assets invested in enterprises consistent with Christian

moral and ethical principles. The Investment Management Consultant shall not use investment managers that are affiliated with the Investment Management Consultant.

- Assets shall be invested and managed as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the Funds. In satisfying this standard, the Foundation shall exercise reasonable care, skill, and caution. Investment and management decisions respecting individual assets and courses of action should be evaluated not in isolation, but in the context of the Funds' portfolios as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the Funds.
- Investment of the Funds shall be so diversified as to minimize the risk of loss, unless under the circumstances it is clearly prudent not to do so, or unless, pursuant to California Probate Code §18503(e)(1)(H), the invested asset has some special relationship or special value to the charitable purpose of the institution.
- The Foundation may employ one or more Investment Managers of varying styles and philosophies to attain the Funds' objectives.
- Cash is to be employed productively at all times, by investment in short-term cash equivalents to provide safety, liquidity, and return.
- When purchasing and selling assets, the most efficient breakpoints shall be used.

### **Diversification and Asset Allocation:**

Diversification and asset allocation across multiple assets classes are important aspects of building investment portfolios designed to meet investor's objectives. Generally, many long-term portfolios consist of investments in more than one Common Investment Fund. Investments designated for shorter time periods may utilize less.

The following Common Investment Funds maintained by the Foundation have their own asset allocation, as follows:

**Cash Fund:** 100% in Cash Equivalents, as outlined herein. Liquidity and stability of principal plus modest income.

**Church Funds:** In keeping with the Foundation's mission, the Foundation historically maintained a number of funds that were invested primarily in church related investments. Due to the changing economic conditions, the Foundation is diversifying its pooled church fund investments. During the period of diversification, the following guidelines will provide primary guidance:

**Short-Term Income Fund:** Moderate current income and preservation of principal with investment horizons of less than three (3) years, but with limited protection against inflation.

**Mid-Term Income Fund:** High current income and preservation of principal with investment horizons of more than three (3) years, but with limited protection against inflation.

**Endowment Income Fund:** High current income and preservation of principal for endowment accounts.

**Arizona Income Fund:** High current income and preservation of principal for Arizona investments.

**Charitable Income Fund:** High current income and preservation of principal for charitable trusts.

**Stock Fund:**

Long-term growth of capital, but with relatively low current income and higher relative volatility. The Stock Fund shall be invested up to 100% in Equity Securities, as outlined herein, and shall be allocated as follows:

Domestic Equities:	50% ± 25%
International Equities:	30% ± 20%

**Liquid Alternatives Fund:**

This fund is designed to provide diversification that complements equity and fixed income allocations. This is an opt-in fund that is only provided to sophisticated constituent investors.

**Illiquid Alternatives Fund:**

This fund is designed to provide diversification that complements equity and fixed income allocations. This is an opt-in fund that is only provided to sophisticated constituent investors.

**Rebalancing:**

It is expected that the portfolios actual asset allocation will vary from its target asset allocation as a result of the varying periodic returns earned on its investments in different asset and sub-asset classes. The portfolio will be rebalanced to its target normal asset allocation using incoming cash flows (contributions) or outgoing money movements (disbursements) of the portfolio to realign the current weightings closer to the target weightings for the portfolio.

**Biblically responsible Investing (BRI):**

The Foundation believes the Bible calls for all Christians to fully understand the implications of their investment decisions. The Foundation, as is operationally feasible, intends to encourage corporations that promote the common good and to avoid companies whose principal business activities are inconsistent with Christian moral and ethical principles such as:

- Promotion of gambling;
- Production of alcoholic beverages or tobacco;
- Production, sale or promotion of pornography;
- Abortion and fetal tissue research resulting from abortions; and

- Promotion of homosexual or similar lifestyles.
- Promotion or production of cannabis.

### **Investment Guidelines:**

#### Allowable Assets

##### Cash Equivalents:

- Treasury Securities with Maturities 12 Months or Less
- Money Market Funds
- Commercial Paper
- Bankers Acceptances
- Repurchase Agreements
- Insured Certificates of Deposit

##### Fixed Income Liquid Securities:

- U.S. Government and Agency Securities
- Corporate Notes and Bonds
- Mortgage Backed Bonds, Notes and Loans
- Preferred Stock
- Fixed Income Securities of Foreign Governments and Corporations
- Collateralized Mortgage Obligations
- Asset-Backed Obligations
- Mutual Funds / ETFs

##### Missional Impact Investments:

- Debentures
- Mortgage Backed Notes and Loans
- Mortgage Backed Bonds

##### Equity Securities:

- Common Stocks
- Convertible Notes and Bonds
- Convertible Preferred Stocks
- American Depository Receipts (ADRs) of Non-U.S. Companies
- Stocks of Non-U.S. Companies (Ordinary Shares)
- Mutual Funds / ETFs
- Real Estate Investment Trusts (REITs)
- Managed Futures

### **Guidelines for Missional Impact Investments (Church Paper):**

Church and non-profit loans and bonds purchased for the Common Investment Funds shall meet the following requirements with the caveat that loans originated by the Foundation can exceed the percentage limitations by 5% with TAC Approval. Any loan participation will be evaluated on the merits of the full loan.

- Positions under \$500,000:
  - Church financial records must verify that the debt to income ratio does not exceed 33%.
  - An opinion of value obtained on the property securing the debt must support that the loan to value ratio does not exceed 75%.
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- Positions above \$500,000:
  - A compilation or equivalent of church financial records by a Certified public accountant must verify that the debt to income ratio does not exceed 33%.
  - An MAI appraisal obtained on the property securing the debt must support that the loan to value ratio does not exceed 75%.
- Positions exceeding \$2,000,000:
  - Audited church financial records must verify that the debt to income ratio does not exceed 33%.
  - An MAI appraisal obtained on the property securing the debt must support that the loan to value ratio does not exceed 75%.
- Additional subjective criteria to be evaluated and noted in the minutes of the Trust Administrative Committee meeting when a church investment is made include:
  - Purpose of issue;
  - Type of entity;
  - Leadership: stability, nepotism;
  - Church affiliation: preference for Southern Baptist;
  - Sources of income;
  - Income fluctuation last 3 years;
  - Membership fluctuation last 3 years; and

### **Selection of Investment Managers:**

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

### **Monitoring Portfolio Investments and Performance:**

Performance reports shall be compiled by the Asset Management and Trust Division staff and communicated to the Investment Committee and the Trust Administrative Committee for review. Investment performance 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.

In keeping with the portfolio's overall long term financial objective, the Investment Committee will evaluate the portfolio and manager performance over a suitably long-term investment

horizon, generally across full market cycles, or, at a minimum, on a rolling five-year basis, but reserves the right to terminate a manager for any reason including the following:

- Investment performance that is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results;
- Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements;
- Significant qualitative changes to the Investment Manager organization; and
- Investment managers shall be reviewed regularly 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.

Investment Managers for the BFC portfolios shall be reviewed by the Investment Consultant and the Trust Administrative Committee on the following qualitative aspects:

- Adherence to Investment style/strategy
- Consistency of implementation of strategy
- Business evaluation, including assets under management relative to strategy
- Retention of key personnel

Investment Managers for the BFC portfolios shall be regularly reviewed on the following quantitative aspects:

- Investment Performance in excess of the specified relative benchmark over rolling 5-year time frames.
- Volatility levels displayed with consistency with the specified relative benchmark

**Other Investment Policies:**

Exceptions to this policy must be approved by the Investment Committee. To ensure continued compliance and consideration of the guidelines, objectives, financial status and capital markets expectations as established in this statement of investment policy, the Investment Committee may review the investment policy periodically, but at least annually and recommend revisions as may be required to keep the policy current and effective. This investment policy and any amendments hereto shall be approved by the Investment Committee of The Baptist Foundation of California.