INVESTMENT POLICY STATEMENT

THE JAMES F. HODGES DIOCESAN INVESTMENT FUND

Revised May 9, 2017

Investment Objective: BALANCED

The following guidelines, objectives and restrictions have been recommended by the ***INVESTMENT COMMITTEE*** *to establish parameters for the investment management of the* ***THE JAMES F. HODGES DIOCESAN INVESTMENT FUND****. These guidelines are set forth in order that* ***The Board of Directors of the Diocese of Olympia*** *and the* ***Investment Committee*** *have a clear and mutual understanding of the investment objectives and policies for this portfolio.*

I. Background

The James F. Hodges Diocesan Investment Fund (DIF) was organized in 1951 as a co-mingled fund for the endowment funds of the Diocese of Olympia, its parishes, missions and related institutions. The structure allows small endowment funds to be pooled to provide diversification and increased investment opportunity.

II. Definition of Duties

Fiduciary Duty - In seeking to attain the investment objectives set forth in this Investment Policy Statement, the Investment Committee and its members shall exercise prudence and appropriate care in accordance with the Prudent Investor Rule. All investment actions and decisions must be based solely in the interest of the DIF. Fiduciaries must provide full and fair disclosure to the Board of Directors of all material facts regarding any potential conflicts of interests.

The **Board of Directors** has the ultimate fiduciary responsibility for the DIF assets. The Board must ensure that appropriate policies governing the management of the DIF are in place and that these policies are being effectively implemented. To implement these responsibilities, the Board sets and approves the Investment Policy Statement and the hiring of investment advisors and consultants. The Board delegates to the Investment Committee responsibility for implementation of this Investment Policy, and delegates to the Investment Committee certain responsibilities including ongoing monitoring, evaluation, and recommendations. Additionally, the Board is responsible for monitoring and reporting on DIF assets with consideration given to internallyand externally-imposed restrictions, as well as governing laws in the State of Washington, where the Diocese is incorporated.

The **Investment Committee (IC)** also bears fiduciary responsibility for the DIF assets. The IC's responsibilities related to the DIF include:

A. Develop and recommend an investment strategy and Investment Policy Statement;
B. Select and monitor the Custodian;
C. As needed or at the request of the Board, evaluate outside consultants, investment managers, counterparties and recommending to the Board their hiring/dismissal;
D. Monitor performance of the investment portfolio at least quarterly; and
E. Maintain sufficient knowledge about the portfolio so as to be reasonably assured of its compliance with the Investment Policy Statement.

As investment manager for the DIF, the IC is further responsible for all aspects of managing and overseeing the DIF's investment portfolio, as delegated by the Board. IC will also be the primary source of investment education and economic and market information for the Board. On an ongoing basis IC will:

F. Manage and monitor the DIF assets in accordance with this Policy; including security selection, manager selection, asset allocation, and portfolio construction.
G. Vote all proxies;
H. Provide the Board with quarterly performance reports sufficiently in advance of scheduled meetings;
I. Provide annual written reports on investment performance and strategy to the Board and DIF participants in writing, and more frequently as requested by the Board; and
J. Supply the Board, auditors, and other interested parties with reports or information as reasonably requested.

The **Administrator** is responsible for the day-to-day operations of the DIF including calculation of the net asset value of the DIF, preparing annual reports for shareholders, responding to shareholder inquiries, handling purchases and redemptions, maintenance and filing of the DIF's books and records, reconciling holdings, and payment of fund expenses.

The **Custodian(s)** are responsible for safeguarding the assets of the DIF. The custodian will also be responsible for settlement of securities, bought and sold, collecting dividend and interest payments from securities in the portfolio, reporting on securities lending activity, and administering corporate actions as directed by the Administrator or IC. The custodian will also be responsible for providing statements and performance reports no less frequently than quarterly.

III. Time Horizon and Risk Tolerance

The time horizon for the fund is perpetuity. The risk tolerance is considered to be moderate, which is to say that it lies midway between conservative and aggressive. In establishing the risk tolerance for this IPS, the IC considered the effect of inflation on purchasing power, as well as the ability and willingness of DIF shareholders to withstand short- and intermediate- term variability in income and principal. The IC and the Board of Directors understand that U.S. and foreign equities are relatively volatile asset classes, but tolerance of such short-term volatility is required to benefit from higher long-term returns.

IV. Investment Objectives

A. The primary objective of the DIF is to build share appreciation over time.

B. A second but very important objective of the DIF is to seek to provide a stable and rising level of income over time relative to our benchmarks and consistent with the over-all asset allocation guidelines.

C. Additional objectives include:

   a. Maintain liquidity to meet financial obligations; and

   b. Diversify investments among and within asset classes to reduce the impact of losses in single investments.

D. The portfolio shall be well diversified across asset classes, sectors, and industries.

V. Asset Allocation / Asset Mix

A. Strategic Target and Ranges: This asset allocation has been developed as a long-term strategy for the management of this investment portfolio. The Strategic Target represents the target asset allocation that reflects the DIF's circumstances and objectives given normal long-term relationships between asset classes. The percentage weighting to each asset class will be allowed to vary within a reasonable range of +/- 10% of the Strategic Target. For example, if the target for Equity is 65%, the range is 55% to 75%. The actual asset mix may vary from the Strategic Target within the stated ranges due to short-term market fluctuations. The Investment Committee may also allow or cause the actual portfolio to deviate from the Strategic Target within the stated ranges based on its outlook for relative returns or during periods of market stress or anomalies.

B. Sub-Classes: Within the major asset classes (equity, fixed income, real assets) the committee will manage the allocation to sub-classes, styles and strategies. Sub-classes include but are not limited to: large, medium and small U.S. stocks; developed and emerging market stocks; commodities and real estate. From time to time the Committee may cause the allocation to small sub-classes and those that present abnormal risks (for example, emerging market, small stocks, commodities, and real estate) to be zero.

C. Rebalancing Policy: The portfolio will generally be rebalanced when major asset class allocations (Cash, Fixed Income or Equity) deviate by more than 10% from the Strategic Target. When necessary and/or available, cash inflows and outflows will be deployed in a manner consistent with the then-current portfolio strategy. IC may, at its discretion, stage the investment of material contributions or changes in the Strategic Allocation over periods of three or more months to mitigate the impact of market volatility.

Asset Class	Strategic Target	Allocation Range
Cash	**5.0%**	**0 - 10%**
Fixed Income	**30.0%**	**20 - 40%**
Equity	**65.0%**	**55 - 75%**
Domestic Equity	80.0%	
Foreign Equity	20.0%	
Real Assets/Other	**0.0%**	**0 - 3%**
Total	**100.0%**	

VI. Quality of Investments

Cash and Cash Equivalents – Cash is not a strategic asset of the portfolio, but is a residual to the investment process and used to meet short-term liquidity needs and rebalancing requirements. Cash equivalent reserves will be held in securities of investment-grade quality, which may include money market funds, U.S. Treasury Bills, master notes, and repurchase agreements. The Citigroup 3-month Treasury Bill Index is a representative benchmark for Cash Equivalents.

Fixed Income – Only investment-grade bonds will be purchased. Acceptable types of fixed-income securities include US Treasury securities, US Government Agency securities, corporate bonds, taxable municipal securities, and convertible bonds. The fixed income portfolio will be diversified by sector and maturity. Exposure to corporate bonds, mortgage-backed securities and other sectors will primarily be achieved through mutual funds or exchange-traded funds as discussed below. No individual non-US Treasury/Agency fixed income security or issuer should exceed 5% of the fixed income target allocation. High yield or junk bonds are not appropriate. Funds that primarily invest in bonds that are below investment grade or in foreign bonds are also not appropriate. The Bloomberg Barclays Intermediate Government/Credit Index is a representative benchmark for Fixed Income.

Equities – The Large Cap U.S. equity allocation is oriented to individual common stocks, preferred securities, and sector exchange-traded funds considered high quality and exhibiting a strong potential for growth in capital value and income. Companies and funds that do not currently pay dividends may be considered for investment. Exposure to midcap, small-cap, foreign and emerging market stocks will primarily be achieved through mutual funds and exchange-traded funds as discussed below. The S&P 500 Index, the S&P 400 Index, and the Russell 2000 Index are representative benchmarks for large, medium and small US Equities. The MSCI EAFE Index and MSCI Emerging Markets Index are representative benchmarks for Foreign and Emerging Markets Equities.

Funds – Mutual funds and exchange-traded funds may be used in lieu of individual securities to diversify the portfolio and/or invest in complementary asset classes such as corporate bonds, international stocks or small stocks. In the selection of funds, attention is given to the quality and consistency of fund management, historic performance, low fees, credit risk of the issuer (in the case of exchange-traded notes), and other relevant characteristics.

VII. Additional Considerations

Liquidity – There are no known near-term liquidity needs. The Comptroller of the Diocese should provide the Investment Committee with periodic updates on anticipated cash requirements. The portfolio will be invested in alignment with these forecasts, but will typically hold up to 5% in money market funds for periodic distributions. In the case of significant contributions or withdrawals, the cash level may exceed this level for a period of time as the Investment Committee dollar-cost-averages into or out of the markets to achieve the targeted asset allocation.

Income – Net income is distributed. Capital gains are reinvested. The Investment Committee may, at each January meeting and at its sole discretion, declare a year-end extra dividend which shall not exceed one-third of the per share value increase during the preceding year, or exceed a total dividend payout of 6% of the year's beginning share value. Shareholders have the option of not taking this extra dividend in cash. The Comptroller of the Diocese will offer shareholders the option of reinvesting the year-end extra dividend or taking it in cash before the checks for any year-end extra dividend are mailed to shareholders.

Taxes – Based on the the tax exempt status of the Diocese of Olympia, an emphasis on taxable fixed income investments is appropriate. Investments that generate unrelated business income or that may compromise the tax exempt status of the DIF are not suitable.

Special Constraints and Investment Parameters –

A. The fund may not purchase more than 10% of the outstanding voting securities of any one non-U.S. Government issuer.

B. The Fund will normally invest at most 5% of the equity allocation (i.e. 3% of the total account) in the securities of any one non-US Government issuer. However, positions may be permitted to exceed 5% of the equity allocation at the discretion of the Investment Committee.

C. Securities of companies primarily involved in the tobacco industry are not permitted.

D. From time to time the Board of Directors may direct the IC to vote proxies or sell securities based on social, religious or other factors consistent with the mission and values of the Diocese of Olympia and/or the Episcopal Church.

VIII. Communication, Evaluation and Review

The Custodian will provide the Investment Committee investment performance reports at least quarterly. This Investment Policy Statement will be reviewed by the IC at least every three years and will be updated as needed. The Board of Directors may communicate to the Investment Committee verbally or in writing any significant changes relevant to these guidelines, including but not limited to expected distributions and risk tolerance. The Investment Committee intends to meet with the Board and shareholders bi-annually, depending on their level of interest. The Chairman of the Investment Committee or his/her representative will report to the Diocese of Olympia Board annually, or more frequently as needed. Additionally, the Investment Committee will provide an annual written report to shareholders that may include investment performance and commentary, share price and dividend information, a statement of holdings, and an operational cash flow statement. The Investment Committee will be evaluated based on consistency of investment discipline, investment results in context with the DIF's goals, objectives and policies, and comparative performance figures.

Asset Class	Benchmark	POLICY
Cash	90 Day T-bill	5.0%
Bonds	Bbg Barclays Intermediate Government/Credit	30.0%
Equity	DIF Blended Equity Benchmark	65.0%
Large US Stocks	*S&P 500 Total Return*	
Midcap US Stocks	*S&P Midcap 400 Total Return*	
Smallcap US Stocks	*Russell 2000 Total Return*	
Developed Markets	*MSCI Developed EAFE USD Total Return Gross*	
Emerging Markets	*MSCI Emerging Markets USD Total Return Gross*	
Total		**100.0%**

The Blended Benchmark is a static benchmark that reflects the target asset allocation of the portfolio. The asset mix in the portfolio will fluctuate over time commensurate with the portfolio's investments, but the benchmark mix will remain static until the target allocation is changed. The Subclass Blended Benchmark will reflect the underlying asset allocation of the portfolio as of each beginning month (i.e. it will be dynamic).

IX. Acceptance and Adoption

We have reviewed, approved and adopted this Investment Policy Statement which recommends the policies, practices and procedures for management of this fund.

Acknowledged by: ______________________________ Date: ________________

Michelle Rubesch, Chair, DIF Investment Committee

Acknowledged by: ______________________________ Date: ________________

Steve Faust, Secretary, DIF Investment Committee

Addendum to the Investment Policy Statement dated May 9, 2017:

Notes:

In the May 8, 2017 meeting the Investment Committee approved the following changes:

1. Added inflation risk in Section III: "the IC considered *the effect of inflation on purchasing power, as well as* the ability and willingness…"
2. Added variability in principal as a risk in Section III: "…short- and intermediate- term variability in income *and principal* ~~from the DIF~~"
3. Deleted "and to provide a return that exceeds the level of inflation" from Section IV(A) – Primary Objective
4. Deleted a sentence that described why income is important to shareholders from Section IV(B): "This income is important to some of the shareholders to help meet their budgetary and construction needs."
5. Changed the benchmark for fixed income to the Intermediate Government/Credit Index from the Aggregate Index

Addendum to the Investment Policy Statement dated July 25, 2013:

In the 1/24/13 meeting the Investment Committee approved the following changes:

1. Strategic Target changed from 5/35/60 to 5/30/65
2. Add Real Assets with a 0% strategic target and a range of 0-3%
3. Change Domestic from 85% to 80% of Equity
4. Change Foreign from 15% to 20% of Equity
5. Sub-class allocations (small, mid, large, developed, emerging) will be deliberately managed by the committee, but targets at the sub-class level are not necessary for the IPS. The current targets are:
    a. Domestic 80%: 65% Large, 7.5% Mid, 7.5% Small
    b. Foreign: 15% Developed, 5% Emerging

The committee agreed to permit the fund to be allowed to have zero exposure to the smaller or riskier sub-classes (emerging, small, mid, real assets).

There was also extensive discussion about the Definition of Duties and the Investment Objectives.