

# **Investment Policy Statement**

Clark James Foundation, Inc.

April 15, 2019

Revised August 1, 2022

## ***Executive Summary***

- The Clark James Foundation, Inc. (the “Foundation”) based in Wilmington, NC, is a 509(a)(3) supporting organization established to support the mission of Good Shepherd Ministries, Inc. and its subsidiaries (the “Ministry”).
- This Investment Policy Statement (the “IPS”) is established to provide for the prudent and ongoing oversight and management of the Foundation’s long-term investment portfolio (the “Fund”).
- The Foundation Board of Directors (the “Board”) retains overall fiduciary responsibility for the prudent management and oversight of the Fund. It may delegate various of its responsibilities to an Investment Committee, Investment Adviser or Investment Managers.
- The Foundation has adopted a Distribution Policy (the “DP”) which controls how funds of the Foundation will be spent, including the calculation of the Annual Distributable Amount (Distribution). The formula for the calculation of the Distribution is specified in Section 4 b of the DP. The Foundation shall complete the calculation and authorize the Distribution of funds at its January Meeting for the coming four quarters beginning in July of that year. The Foundation shall maintain sufficient liquidity to fund the Distribution irrespective of current conditions in the general economy and financial markets.
- The Fund has a long-term investment horizon . The IPS establishes guidelines for the interim monitoring and evaluation of investment results.
- Asset Allocation is expected to be the primary determinant of long-term investment results. The Fund’s “Policy Asset Allocation” . is presented as a range defined in a Table on page 4 of the IPS. Allowable investments and restrictions are defined in this IPS.
- A designated Investment Adviser will be selected by the Board to provide for the discretionary management of the portfolio in compliance with the provisions and requirements of this IPS.

## **INTRODUCTION**

The Clark James Foundation, Inc. (the “Foundation”) based in Wilmington, NC, is a 509(a)(3) supporting organization established to support the mission of Good Shepherd Ministries, Inc. and its subsidiaries (the “Ministry”).

## ***Purpose***

The Board of Directors has established the Fund for the purposes of aggregating and investing the long-term investment assets of the Foundation and herein establishes this Investment Policy Statement (the “IPS”) to provide for the prudent and ongoing oversight and management of the Fund. The guidelines within the IPS are designed to enhance the probability of achieving the goals and objectives of the Fund in a manner that is consistent with the laws, regulations and policies that govern the prudent management of investment assets in a fiduciary setting. This document is further intended as a reference tool as well as an operating code and communications link between the Board, the Investment Committee and its Investment Adviser and Investment Managers.

The IPS provides guidance regarding the following by:

- Establishing investment goals/objectives and expectations and determining an appropriate overall risk level for the portfolio.
- Defining the roles and responsibilities of the fiduciaries of the Fund including the Board, the Investment Committee, the Investment Adviser and any designated Investment Managers/Funds.
- Establishing a broad asset allocation framework that includes targets for major asset classes and investment guidelines deemed suitable for the portfolio and providing rebalancing guidelines.
- Establishing general investment guidelines.
- Establishing overall operational guidelines regarding the Fund’s spending policy, liquidity, diversification, re-balancing practices, investment selection, fees and expenses.
- Defining benchmarks and monitoring criteria for the Fund, Investment Adviser and designated Investment Managers/vehicles.
- Establishing the process for the periodic review and revision of this IPS.

## **GOALS AND EXPECTATIONS**

### ***Time Horizon***

While the Fund has a perpetual time horizon, its investment program will be managed with a stated long-term **time horizon** (5-10 years). Investment results will be measured over shorter periods of time to ensure that the Policy is being implemented in a manner sufficient to accomplish the Fund’s Investment Objectives.

### ***Investment Objectives***

The purpose of the Fund is to facilitate the Foundation’s ongoing support for its mission while preserving the capital base of the invested assets. The following Investment Objectives are established to guide this pursuit.

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- **Policy Objective** - The primary long term investment objective of the Fund is to attain an average annual return (as measured over rolling three-year periods, net of investment fees) at least equal to the broad market “PolicyBenchmark” of 60% Equities/35% Fixed

Income/5% Cash with the Morgan Stanley Capital International All Country WorldIndex (MSCI ACWI (NET)) being the benchmark for the Equities component, the Bloomberg Barclays U.S. Aggregate Bond Index (SLAB) being the benchmark for the Fixed Income component, and the FTSE Russell U.S. 3-Month TBill Index being the benchmark for the Cash component .

- **Portfolio Objective** – On an interim basis (periods less than three years), the Fund portfolio will be expected to generate average annual returns (net of investment fees) at least equal to the “Portfolio” benchmark, defined as the weighted actual allocations of the portfolio to various asset classes times (X) an appropriate and approved benchmark reflecting the market-level returns of such asset classes.

## **ROLES AND RESPONSIBILITIES**

The Board of Directors is the governing body of the Foundation. In this capacity, the Board retains fiduciary responsibility for the prudent management of the Fund. The Board may delegate responsibility for directing and monitoring the investment management of the Fund to an Investment Committee and/or qualified professional experts at its sole discretion. These include, but are not limited to:

- *Investment Committee.* The Investment Committee (the “Committee”) is responsible for the broad design, oversight and implementation of the Foundation’s investment activities. To that end, the Committee retains responsibility for the creation and maintenance of the IPS including the establishment of the Fund’s investment objectives, time horizon, Policy Asset Allocation and other requirements and restrictions as it deems appropriate. The Investment Adviser shall have the authority to set and periodically rebalance the Portfolio Asset Allocation within the Policy Asset Allocation Ranges set forth in the IPS. Further, the Committee will recommend to the Board the selection and engagement of a qualified Investment Adviser to provide discretionary management of the Fund, consistent with the IPS.
- *Investment Adviser.* The Investment Adviser will assist the Committee in establishing investment policy, objectives, and guidelines. The Investment Adviser shall have full discretion regarding the establishment and implementation of the Portfolio Asset Allocation (consistent with the Policy Asset Allocation and broad guidelines provided herein). The Investment Adviser will perform other tasks as deemed appropriate and consistent with such discretion or as otherwise directed by the Committee and/or the Board. (To the extent that the Investment Adviser is deemed to be qualified to act as the Custodian for the Fund assets, the Board may appoint it to perform these functions as a component of a comprehensive services agreement. Otherwise, the Board will designate an independent and qualified Custodian for the holding and safekeeping of Fund assets.)
- *Investment Managers/Funds.* The Investment Managers/Funds selected by the Investment Adviser will have discretion to purchase, sell, or hold the specific securities that will be used to meet the investment objectives of their designated portfolios. They are expected to report to the Investment Adviser on all matters related to the management of their designated portfolios. Further, Investment Managers/Funds will

be responsible for voting proxies of the securities held in their respective portfolios unless this responsibility is duly designated to another party.

The responsibilities of these parties, if designated, are described in more detail in Appendix A of this document.

Additional specialists such as attorneys, auditors, consultants, and others may be employed by the Committee or the Board to assist in meeting the Foundation's fiduciary responsibilities and obligations to prudently administer the Fund. If such experts are also deemed to be "fiduciaries," they must acknowledge such in writing. All expenses for such experts will be customary and reasonable and will be borne by the Fund as deemed appropriate and necessary and directed by the Board.

The Committee, with input from the Investment Adviser and/or other qualified experts, will set specific investment limitations described in this IPS. The Investment Adviser will be held responsible and accountable for managing the Fund portfolio in a manner reasonably designed and executed to achieve the Fund's Investment Objectives. While it is not believed that such limitations will hamper performance, the Investment Adviser should request modifications which they deem appropriate.

## **ASSET ALLOCATION RANGES AND TARGETS**

Investment management of the Fund shall be in accordance with the following "Policy Asset Allocation" guidelines:

<b>Major Asset Class</b>	<b>Minimum (%)</b>	<b>Target (%)</b>	<b>Maximum (%)</b>
<b>Total Equities</b>	50	60	70
<b>Total Fixed Income</b>	25	35	45
<b>Diversifying Assets</b>	0	0	15
<b>Cash</b>	5	5	10

Within the guidelines established in the above Policy Asset Allocation, the Investment Adviser will have discretion to establish the Fund Portfolio Asset Allocation which will be the Adviser's operating target allocations. While the Adviser has discretion to establish and implement the Portfolio Asset Allocation, it will be responsible for updating the Investment Committee no less than quarterly of any changes to that Portfolio Asset Allocation. Furthermore, the Investment Adviser will be responsible for communication to the Committee of return and risk expectations relative to the established Portfolio Asset Allocation and the implementation thereof on an ongoing basis.

Allowable investments within each of these Major Asset Classes are defined in Appendix B of this Policy. Prohibited securities and transactions are also defined in Appendix B.

## **GENERAL INVESTMENT GUIDELINES**

The following criteria should be followed to guide the Fund investments:

- Investments shall be made solely in the interest of the Fund and “in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances.”
- Investments of the Fund shall be diversified as to prudently accept risk while pursuing the return objectives stated herein.
- Cash is to be employed productively, by investment in short-term cash equivalents to provide safety, liquidity, and return unless otherwise directed by the Board.
- Consistent with their respective investment styles and philosophies, investment advisers and managers should make reasonable efforts to preserve capital over the long-term, understanding that losses may occur in individual securities.
- Understanding that risk is present in all types of securities and investment styles, the Board recognizes that the prudent assumption risk is necessary to produce long-term investment results that are sufficient to meet the Fund’s objectives. However, the Portfolio Asset Allocation will be evaluated regularly by the Investment Adviser to ensure that the risk assumed is commensurate with the given investment objectives and restrictions stated herein.
- The Investment Adviser will be expected to manage the portfolio with heightened sensitivity to the fees incurred in implementing the portfolio. Decisions to employ “active” managers or funds should be made with a focus on the likelihood of the risk adjusted returns justifying the cost of such strategies.

## **OPERATIONAL ISSUES**

### ***Distribution Policy***

The Distribution Policy has been adopted by the Board. The Investment Committee shall prepare the calculation of the Distribution as detailed in the Distribution Policy and present the calculation to the Board for approval at the Board’s first Meeting of the calendar year. The Board shall inform the Ministry of the amount of the Distribution immediately following its January Meeting in order that the Ministry may include the Distribution as Income in its Budget for its Fiscal Year beginning on July 1. Historically, the Foundation Distributions have represented 5% of the average of the trailing year-end total Portfolio value for the most recent three years.

### ***Liquidity***

All Fund investments will be limited to marketable and highly liquid securities.

The Asset Allocation specifies that a minimum of five percent of the total Asset Value shall be maintained in cash or cash alternatives sufficient to fund the coming four quarterly Distributions. The Investment Committee has the authority to expand this amount up to 10% of the total Asset Value, sufficient to fund the coming eight quarterly Distributions.

## ***Diversification/Risk Management***

Thoughtful diversification across and within asset classes is the primary means by which the Committee expects the Fund to accomplish the stated return objectives and avoid undue risk of large losses over long periods of time. To protect the Fund against unfavorable outcomes within an asset class due to the assumption of large risks, the Investment Adviser will manage risk through thoughtful application of asset allocation, diversification, and rebalancing in accordance with prudent fiduciary practices. Short-term volatility (absolute and relative to Policy and Portfolio Objectives) will generally be expected, though extended periods of negative absolute returns or greater-than-market volatility in periods of negative market returns will be cause for specific review.

## ***Re-Balancing***

Because different asset classes will perform at different rates, the Investment Adviser will monitor the asset allocation shifts of the Fund caused by performance and report the Fund balances by Asset Class to the Investment Committee at its quarterly meeting. When allocations are below minimum or in excess of maximum levels specified in the Policy Asset Allocation, rebalancing will be the responsibility of the Investment Adviser to implement and will be accomplished no less frequently than quarterly.

## ***Selection of Investment Managers/Products/Funds***

The Committee has delegated responsibility for the selection of Investment Managers/Funds, investment products and investment vehicles to the Investment Adviser. All such allocations will be compared to an appropriate benchmark index. The quantitative and qualitative factors to be considered by the Investment Adviser in selecting such providers or products should include, but are not necessarily limited to:

- Total firm assets under management and assets specific to the product of interest.
- Stability and quality of the investment firm and its personnel.
- Fund manager's tenure with the specific product of interest.
- Historical performance of the Investment Manager's specific product of interest.
- Risk adjusted performance of the product as measured by industry standard metrics.
- Consistency and correlation of the product's investment style.
- Overlap of investment style and/or fund holdings with other Investment Managers.
- Expense ratios and fees, an analysis of which will be provided by the Investment Adviser to the Investment Committee on a quarterly basis.

## ***Fees and Expenses***

All fees and expenses incurred in the management and oversight of the Fund will be limited to those deemed by the Board to be reasonable and necessary to accomplish the prudent management of the portfolio. Fees will be approved by the Committee in advance and reviewed by the Board no less frequently than annually.

## PERFORMANCE REVIEW

The Foundation acknowledges that fluctuation in rates of return characterize the capital markets, particularly during short-term time periods. Recognizing that short-term fluctuations may cause variations in performance, the Foundation intends to evaluate the Investment Adviser performance with a focus on rolling three-year and five-year periods. The Committee may engage the services of an independent third-party service to facilitate this review and to provide relevant performance and asset allocation peer comparisons.

### ***Investment Adviser Performance Review and Evaluation***

The Committee will conduct an annual review and evaluation of the Investment Adviser and will report its findings and conclusions to the Board. This review will be both quantitative and qualitative in nature.

#### **Areas of quantitative assessment include:**

- Overall portfolio performance relative to the Fund's investment objectives.
- Relative performance from tactical asset shifts within the portfolio.
- Relative performance of investment management strategies directed by the Investment Adviser.
- Overall ability of the Investment Adviser to monitor existing managers and process to identify new managers/strategies.
- Overall risk and return of the portfolio relative to Organizational, Policy and Fund Objectives and peers.
- Full disclosure of all fees paid to the Investment Adviser as well as those paid to Investment Managers and those implicit in investment products and vehicles employed in the management of the Fund.

#### **Areas of qualitative assessment include:**

- Clear and consistent communication with the Board regarding Portfolio implementation and investment process.
- Overall service level.
- Responsiveness to Committee requests and need.
- Overall value of advisory services.
- General support of the Foundation's mission.

Further, the Committee will conduct a detailed review of the Investment Adviser no less frequently than every five years. At its discretion, the Committee may recommend to the Board the pursuit of a comprehensive Request for Proposal process toward the objective of replacing the Investment Adviser and will exercise due diligence in overseeing this process.

## **INVESTMENT POLICY REVIEW**

To assure continued relevance of the guidelines, objectives, and capital markets assumptions as established in this IPS, the Committee will review this IPS every three years, or more frequently as it deems appropriate, and will recommend revisions or updates to the Board for approval. It is not expected that the policy will change frequently. It is anticipated that short-term changes in the financial markets will not require adjustments to the IPS.

### **APPENDIX A**

#### ***Responsibilities of the Investment Committee***



The Committee maintains the responsibility for creating and maintaining the IPS and selecting and engaging the services of a qualified Investment Adviser to provide discretionary management of the Fund, consistent with the IPS (subject to Board approval). Specifically, the Committee has responsibility for the following:

- Overseeing the management of the Fund investment assets.
- Creating, maintaining, reviewing and revising the IPS.
- Determining Fund tolerance and capacity for risk.
- Preparing the Distribution calculation contained in the Distribution Policy and presenting the calculation to the Board at its first meeting of the calendar year.
- Establishing an appropriate Policy Asset Allocation for the Fund and establishing restrictions and limitations for the effective investment of such.
- Selecting, engaging and overseeing a qualified Investment Adviser.
- Reviewing reports from the Investment Adviser on the status of the Fund investment assets.
- Reviewing investment performance and asset allocation with the Investment Adviser on a quarterly basis to provide for compliance with the IPS.
- Reviewing and approving all investment related expenses provided with respect to the Fund investment assets.
- Monitoring compliance and adherence with the Foundation's Conflict of Interest Policy as related to the Fund's investment activities.

### ***Responsibilities of the Investment Adviser***

The Investment Adviser will advise the Committee regarding the overall structure of the investment program and will provide discretionary implementation to the Fund's investments as specified herein. Investment advice and implementation concerning the investment management of the Fund will be consistent with the Investment Objectives, policies, guidelines and constraints as established in this IPS. Specific responsibilities of the Investment Adviser include:

- Providing discretionary investment management including decisions to engage Investment Managers/Funds and buy, sell, or hold investment funds, investment products and investment vehicles. Further, the Investment Adviser will have discretion to establish and alter the Portfolio Asset Allocation consistent with the Policy Asset Allocation and within the guidelines established in this IPS. The Investment Adviser will provide the Committee with specific documentation as to the status of such Portfolio Asset Allocation at least quarterly.
- Monitor the asset mix and allocate assets of each investment strategy, on a discretionary basis, in full and continuous compliance with the provisions of the IPS and the broad Asset Allocation strategy.
- The Advisor will have responsibility and discretionary authority, as defined in the IPS, to affect any portfolio manager/fund allocations and/or investment transactions, including portfolio rebalancing as necessary to maintain compliance with the Broad Asset Allocation Strategy.
- Communicating matters of policy, performance, risk and process to the Committee

including return and risk expectations relative to the established Portfolio Asset Allocation and the implementation thereof on an ongoing basis.

- Maintaining a program of due diligence consistent with its fiduciary responsibility to identify, select, monitor, retain and/or terminate (if/as designated) Investment Managers, investment funds, investment products/funds and investment vehicles within the guidelines established in this document.
- Informing the Board regarding any qualitative change to the Investment Adviser's organization. Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.
- Provide the Committee with reports (e.g., asset allocation studies, investment research and education) or information as reasonably requested and as appropriate to facilitate the Committee's effective design, implementation and oversight of the Foundation's investment program.
- Provide the Committee with reporting/support as specified in the IPS including:
  - Quarterly Portfolio, Investment Performance and Fee Analysis.
  - Quarterly Meeting with Investment Committee and the Board (as requested)
  - Quarterly submission of performance and asset allocation data to the Foundation's third-party performance review service provider (ClearView Fiduciary Alliance) in a form and schedule as customarily required by such provider.
  - Annual reporting as necessary to the Foundation's tax preparer as directed by the Foundation to facilitate the Foundation's annual Form 990(PF) preparation.
  - Assist the Committee with the periodic review and revision (as necessary) of the IPS.

### ***Responsibilities of the Investment Manager/Fund(s)***

Investment Managers/Funds will have full discretion to make all investment decisions for the assets placed under their management, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in their respective investment management guideline document and/or prospectus.

Specific duties and responsibilities of the Investment Manager(s) include:

- Managing designated Fund assets on a discretionary basis.
- Reporting, on a timely basis, quarterly investment performance results.
- Communicating any major changes to economic outlook, investment strategy, or any other factors which affect the designated Fund portfolio.
- Informing the Investment Adviser regarding any qualitative change to the investment management organization. Examples include changes in portfolio management personnel, ownership structure and investment philosophy.

## **APPENDIX B**

### ***Allowable Investments***

Except as otherwise approved by the Investment Committee and the Board, the Fund's

investments will be limited to the following securities and instruments:

- **Equities** - The **equity allocation** has an investment objective of at least matching the performance of an appropriate benchmark index, although performance will be monitored quarterly. The **equity allocation's** purpose is to produce a proportionately greater contribution to total return than the fixed income portion of the portfolio, although it is recognized that this involves the assumption of greater risk and return variability. The **equity allocation** will be broadly diversified regarding geography, economic sector, industry, number of holdings, and other investment characteristics.
- **Fixed Income** - The **fixed income allocation** has an investment objective of at least matching an appropriate benchmark, although performance will be monitored quarterly. The purposes of the **fixed income allocation** are 1) to contribute to overall return, 2) to provide cash flow in support of the Fund's anticipated disbursements in support of the Distribution Policy, 3) to control overall portfolio risk, and 4) to provide a hedge against prolonged economic contraction. Money market instruments as well as bonds may be held in the **fixed income allocation**.
- **Diversifying Assets** - Allocations to **diversifying asset** classes may not otherwise be defined as Equities, Fixed Income or Cash, so long as they are publicly traded, and the Investment Committee has been fully informed regarding their investment merits and risks. In aggregate, the objective of these investments will be to avail the Fund portfolio of opportunities to dampen short-term volatility and/or enhance total return while pursuing the Organizational Objective. Utilization of these investments should support the pursuit of the Policy Objective, with the Adviser having the authority to determine the extent to which they are employed and the Investment Adviser has the discretion to select individual investments, subject to the guidelines established in this IPS.

#### ***Prohibited Assets/Transactions:***

The provisions of this IPS establish prudent fiduciary standards with regard to the discretionary management of the Fund by a qualified Investment Adviser. The Investment Adviser will agree, in writing and as a "fiduciary," to conduct all matters related to the investments of the Fund in compliance with this IPS and generally accepted practices and standards of prudent portfolio management.

The Investment Adviser will be responsible for ensuring that the investments of the Fund are managed to these standards and for defining, documenting (for Committee approval) and enforcing a list of any securities, assets and transactions that are expressly prohibited in the management of the Fund.