

**THE  
INVESTMENT FUND  
OF THE  
DIOCESE OF LONG ISLAND**

**Summary of Investment Policy & Guidelines**

**April 2008**

The Trustees of the Estate Belonging to the Diocese of Long Island, Inc.  
36 Cathedral Avenue  
P. O. Box 510  
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# **THE INVESTMENT FUND OF THE DIOCESE OF LONG ISLAND**

## **General Fund Policies**

### **Legal Structure**

The Investment Fund of the Diocese of Long Island (the "**Fund**") was created by the Annual Convention of the Diocese for the purpose of furnishing investments to itself and to any church, parish, congregation, society, chapel, mission, religious, benevolent, charitable or educational institution of the Episcopal Church carrying on its activities wholly or partly in the Diocese of Long Island being the counties of Kings, Queens, Nassau and Suffolk. No shares of the Fund may be offered to individuals. The Fund is exempt from registration under the Investment Company Act of 1940, amended.

### **General**

The Board of Trustees of the Fund consists of eight (8) individuals who have been elected by the Annual Convention of the Diocese as the Trustees of the Estate Belonging to the Diocese of Long Island, Inc. The Board is responsible for the overall supervision of the operation of the Fund and performs the various duties imposed on the directors of investment companies ordinarily subject to registration under the Investment Company Act.

The Board is advised by an Investment Committee, whose mandate is to review from time to time the stated asset allocation, investment objectives and policies of the Fund in light of the purposes of the Fund, market and economic conditions, and generally prevailing investment themes and strategies. In addition, the Investment Committee reviews, monitors, and evaluates the performance of the Fund and its investment advisors in light of available investment opportunities, market conditions, and publicly available indices for the generally accepted evaluation and measurement of such performance.

### **Investment Objectives/Risk Tolerance**

The investment objective of the Fund is maximizing total long-term rate of return with reasonable risk by seeking capital appreciation and, secondarily, income. Up to 5% of the Fund's assets may be used for unconventional investment programs designed primarily to respond to Gospel imperatives as identified by the Fund's Trustees. Monies earmarked for such purpose are invested through financial intermediaries such that they will be placed with other entities that will then make the actual investments.

### **Asset Allocation**

The Board of Trustees is responsible for setting the Fund's long-term asset allocation investment guideline, after taking into consideration the spending needs, risk tolerance, and long-term financial objectives of the participating organizations of the Diocese, as well as expectations for asset class returns and volatility.

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The Fund's assets will be separately managed by professional investment managers or invested in professionally managed investment vehicles. The Fund will be invested in a broadly diversified portfolio, consisting of (a) core investments, to include publicly-traded U.S. and international equity and fixed income securities, and (b) alternative investments, as outlined below.

The primary function of the fixed income allocation is providing liquidity, income, stability, preservation of capital, and a partial hedge against periods of prolonged economic contraction/deflation. This allocation will minimize the possibility that the Fund will need to liquidate equity securities during unfavorable market environments to fund current income needs.

The purpose of the allocation to equities is providing a total return that will not only provide growth in principal and current income sufficient to support current spending requirements, but also help preserve and enhance the purchasing power of the assets over the long-term. Equity investments, historically, have provided superior long-term returns and some protection from increases in the level of inflation.

Allocations to REITs shall be viewed as a hybrid vehicle within the portfolio structure, increasing diversification and providing both an enhancement to the domestic equity allocation through long-term capital gains and an enhancement to the fixed income allocation through ongoing dividend income.

Certain alternative investments are not highly correlated with the public securities markets, and thus these investments can reduce overall volatility while offering attractive returns. Investments in alternative assets for the purpose of diversifying market exposure, lowering correlations to equity and fixed income investments, and/or enhancing returns are allowable. Additionally, low volatility hedge fund of funds can provide an attractive alternative to fixed income exposure within the larger portfolio. Investments in this category will primarily include hedge fund of funds that are typically transacted in a limited partnership structure and may be characterized by limited liquidity and less frequent valuations.

### **Performance Standards**

The investment objective of the Fund is achieving a compound annualized rate of return over a market cycle, including current income and capital appreciation, in excess of 5% after inflation, in a manner consistent with prudent risk-taking. The investment performance of the total Fund will be reviewed quarterly and compared on a rolling three year basis and over other relevant time periods to the following: (a) a composite benchmark comprised of each asset classes' market index benchmarks, weighted by the Fund's long-term policy allocations, and (b) a peer group of other similar size fund sponsors.

The performance of each investment manager will be reviewed quarterly and compared on a rolling three year basis and over other relevant time periods to each individual manager's agreed upon style specific benchmarks and peer group

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universes as specified in the Appendix. Over the longer-term, active managers are expected to lead their respective benchmarks and perform consistently above median, net of fees, annually over a three-year rolling period.

### **Rebalancing**

The Committee will monitor the asset allocation of the Fund on a quarterly basis to ensure that the portfolio remains within the range of targeted asset allocations. Active rebalancing of the portfolio will be considered annually, or more often as the committee deems appropriate.

### **General Fund Guidelines**

- No more than 25% of the Fund at market value invested by each investment manager.
- No more than 20% of the Fund at market value invested in one general industry.
- No more than 10% of the Fund at market value invested in the securities of one company.
- There are no limits on the use of U.S. government, agency or guaranteed issues.
- The Diocese holds the investment managers responsible for voting proxies.
- The Diocese may specify use of specific brokerage firms subject to best execution and competitive commissions.
- Equity investment managers may use cash equivalents and high quality fixed income securities if they judge these to provide expected returns superior to common stock.

### **Equity**

The domestic equities category shall include common and preferred stocks, American Depository Receipts "ADR's", and issues convertible into common stock (such as warrants or rights). All holdings must be publicly traded on U.S. markets with no single issue exceeding 10% of the Total Fund portfolio nor 5% of each individual manager portfolio at cost or 10% at market value.

The international equities category shall include American Depository Receipts "ADR's" in addition to the common stocks of other than U.S. companies (ordinary shares). Convertible bonds are also acceptable up to 10% of portfolio assets.

- All holdings must be publicly traded on national exchanges with no single issue exceeding 10% of the Total Foundation portfolio nor 5% of each individual manager portfolio at cost or 10% at market value.
- Forward purchases or sales of currencies, including cross currency hedges, are permitted to protect or enhance the U.S. dollar value of the account.
- The use of derivative instruments such as currency futures or options shall also be permitted upon completion of any necessary disclosure or other documentation.
- No speculative hedging will be permitted.

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## Fixed Income

The fixed income category shall include all U.S. dollar-denominated bonds having an investment grade rating at the time of purchase.

- At no time shall unrated bonds be purchased.
- At no time shall the Total Fund portfolio nor each individual manager portfolio hold more than 10% of its fixed-income investment in the securities of any one issuer.
- This limitation does not apply, however, to securities issued by the U.S. Treasury, Federal Agencies or U.S. Treasury guaranteed obligations.
- No more than 10% of the investment manager's portfolio at market value may be invested in Interest Only (IOs) or Principal Only (POs) strips, inverse floaters or residual tranches of Collateralized Mortgage Obligations (CMOs), including those in closed-end bond funds.
- No one position in any of these securities should exceed 2% of the market value. No more than 20% of the investment manager's portfolio at market value invested in 144A securities.

The fixed income category may also include, to a limited extent, non-U.S. dollar denominated bonds of similar characteristics and the use of derivatives to hedge the related foreign currency exposure back to the U.S. dollar.

- No more than 20% of the investment manager's portfolio at market value shall be in total foreign securities, including a maximum of 5% at market value in issues other than Canadian, U.K., Japanese, Australian, Scandinavian or European monetary systems (EMS) bloc governments and their agencies and supra-national borrowers in local currency or ECU.
- Emerging markets debt denominated in US dollars is permissible within the 5% limit, with a maximum 2% position.
- The use of forwards, futures and options for interest rate and currency hedging is permitted but not for speculative purposes or to the extent that a leveraged position is established.

## Structured Notes

- All notes must be guaranteed by the issuer to return 100% of principal.
- There can be no leveraging of principal.
- Minimum issuer credit rating must be AA/Aa or higher.
- The maximum final maturity for any issue must be two years or less.
- No commodity based notes are permitted (e.g. notes linked to oil, precious metals or commodity index prices and currency); all notes must be based on interest rates within developed markets.

## Futures and Options

- Futures and options must be used for hedging purposes only.
- Naked option writing is not permitted.
- Long futures positions may be used in place of cash market securities (e.g. Treasury futures purchased in place of buying long Treasury bonds).

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### Cash equivalents

- Cash shall include all U.S. dollar-denominated money market instruments with a maturity of one year or less at the time of purchase. All short-term funds shall be rated P-1 by Moody's Investor Services or A-1 by Standard & Poor's.

### **Hedge Fund of Funds Investment Manager Policies**

#### General:

- May be utilized within the Fund as low volatility means of providing a consistent, absolute return.
- Only "fund of funds" vehicles are permissible.
- Within the total fund structure, the Fund uses allocations to low volatility hedge fund of funds strategy as a low-volatility return component of the fixed income allocation.
- No direct investment in hedge fund limited partnerships allowed.
- Strategies may include, but are not limited to, relative value (long vs. short positions), event driven (deal arbitrage, distressed debt), equity hedges (long biased), global asset allocation, short selling and leverage.

### **Absolute Restrictions for Investment Managers**

The following strategies/instruments may not be used: short sales; options (puts, calls, or straddles); unbundled stock units; margin purchases or other use of lending or borrowing money; letter stock; private or direct placements; commodities; venture capital; private equity; management buyout; short-term securities of the custodian bank, investment managers or affiliated companies; securities lending; purchase or other direct interest in gas, oil, or other mineral exploration or development programs.

### **Separate Agreements with Investment Managers**

Absolute restrictions and portfolio guidelines apply to all investment managers unless separate provisions are made through written agreement between The Episcopal Diocese of Long Island and the investment manager.

Assets invested in commingled funds, mutual funds, and fund of funds cannot be bound by these guidelines, however, the funds will be evaluated and selected within the context of the objectives of the Foundation and will generally be aligned with the spirit of this document.

### **Role of the Investment Consultant**

As deemed appropriate by the Committee, an external investment consultant may be engaged to provide advice on investment policy, asset allocation, manager structure, investment manager selection, performance analysis and monitoring, and education.

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Performance analysis and monitoring provided by such consultant shall include quarterly reporting on the performance of the Fund and a report on the results of each individual manager versus appropriate benchmarks and peer universes as well as a review of asset allocation versus targets.

### Communications

The Board of Trustees requires a continual awareness of the Fund's activity and position, both on an absolute and relative basis. To accomplish this, the following should be sent to Board of Trustees or representative there of:

**Monthly:** Summary transaction registers and asset valuations provided by the custodian(s).

**Quarterly:** Summary transaction registers and asset valuations provided by the custodian.

Written report in sufficient detail and commentary so that the Board of Trustees is apprised of Fund status and any changes in philosophy or investment strategy.

**Annually:** Contact with each investment manager to discuss performance results, economic outlook, investment strategy, organizational changes and other pertinent matters.

**Other:** Investment managers are expected to notify the Fund's Investment Consultant immediately (within 48 hours) of any organizational changes (mergers/acquisitions, senior professional departures, etc.), modifications to investment philosophy or investment structure or other pertinent information regarding the management of the Fund's assets.

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**SUMMARY**

**Summary Asset Allocation Policy**

<b>ASSET CLASS</b>	<b>GUIDELINE RANGE</b>	<b>TARGET % OF TOTAL</b>	<b>STYLES</b>	<b>LONG TERM BENCHMARK</b>
<b>DOMESTIC EQUITY</b>	30 - 50%	40%	14% Large Cap Growth 18% Large Cap Value 8% Small Cap Core	Russell 1000 Growth Russell 1000 Value Russell 2000
<b>INTERNATIONAL EQUITY</b>	15 - 35%	25%	15% Developed Markets 10% Emerging Markets	MSCI EAFE MSCI EMF
<b>FIXED INCOME</b>	10-35%	15%	Core Plus	BCI Aggregate
<b>REITS</b>	4 - 12%	10%	7% Domestic REITs 3% International REITs	MS REIT NAREIT Global ex-US
<b>ALTERNATIVES</b>	5 - 15%	10%	Diversified Hedge Fund of Funds	BCI Aggregate

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**Investment Management Structure & Objectives**

**SUMMARY**

MANAGER	INCEPTION DATE	STYLE	PRIMARY INDEX /SECONDARY INDEX	PRIMARY UNIVERSE
<b>DOMESTIC EQUITY</b>				
JP Morgan	6/1979	Large Cap Value	Russell 1000 Value	Large Cap Value Universe
Montag & Caldwell	6/2002	Large Cap Growth	Russell 1000 Growth	Large Cap Growth Universe
Columbus Circle	1/2007	Large Cap Growth	Russell 1000 Growth	Large Cap Growth Universe
Frontegra Ironbridge	10/2004	Small Cap Core	Russell 2000	Small Cap Core Universe
<b>INTERNATIONAL EQUITY</b>				
Artio	1/2008	Foreign Equities	MSCI All Country World ex. US	International Equity Universe
GlobeFlex	5/2008	Foreign Equities	MSCI EAFE	International Equity Universe
Rexiter	3/2005	Emerging Markets Equities	MSCI Emerging Markets	Emerging Markets Equity Universe
<b>REITS</b>				
AEW	5/2005	Domestic REITs	MS REIT	Domestic REIT Universe
Cohen & Steers	12/2007	International REITs	NAREIT ex-US	International REIT Universe
<b>FIXED INCOME</b>				
Pimco Total Return Fund 35	8/2008	Core Plus Fixed Income	BCI Aggregate	Core Fixed Income Universe
<b>ALTERNATIVES</b>				
Crestline Partners	6/2005	Hedge Fund of Funds	BCI Aggregate	Low Volatility HFOF Universe
Silver Creek	1/2008	Hedge Fund of Funds	BCI Aggregate	Multi-Strategy HFOF Universe
OffitHall Capital	6/2005	Hedge Fund of Funds	BCI Aggregate	Multi-Strategy HFOF Universe