

# INVESTMENT POLICY STATEMENT - OCIO



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# INVESTMENT POLICY STATEMENT - OCIO

## OVERVIEW

### BACKGROUND

The Catholic Foundation - Diocese of Austin (the "Foundation") serves as fiduciary of all assets (the "Assets") entrusted to it pursuant to the applicable endowment fund agreements. The Foundation supports the mission of the Catholic Diocese of Austin (the "Diocese") and its related parishes, schools, agencies, ministries and goals in perpetuity. The Foundation, through prudent and sound management, endeavors to both (i) preserve value and (ii) provide investment and income growth to meet the needs of beneficiaries of the Foundation.

### PURPOSE

The Diocese is a part of the Roman Catholic Church charged with the spiritual care of the faithful in Central Texas. Its mission, through the Word and Eucharist, prayer, formation, education, social ministries, and advocacy is to embrace diverse cultures throughout the Diocese so that together as the Catholic Church it can continue the mission of Christ in the world today. The Diocese is organized under the direction of the Bishop of Austin (the "Bishop").

The primary investment objective of the Foundation is to achieve an annualized total return (net of fees and expenses), through appreciation and income, equal to or greater than the rate of inflation plus any distributions and administrative expenses thus, at a minimum, maintaining the purchasing power of the Foundation. The Assets are to be managed in a manner that is designed to meet the primary investment objective over time, while attempting to limit volatility in year-to-year distributions. While shorter-term investment results will be monitored, adherence to a sound long-term investment policy, which balances short-term spending stability with preservation and enhancement of the real (inflation-adjusted) value of assets, is crucial to the long-term success of the Foundation.

### SCOPE

This Investment Policy Statement (the "IPS") applies to all assets that are included in the Foundation's investment portfolio for which the Investment Advisor has discretionary, investment authority.

### FIDUCIARY DUTY

This IPS of the Foundation sets forth criteria and objectives to guide prudent investment of the Assets. The Foundation will invest the Assets in a manner reasonably expected to both preserve such assets and provide income and investment growth to support the future needs of the Diocese. The IPS is guided by the Uniform Prudent Management of Institutional Funds Act as enacted by the State of Texas (the "TUPMIFA"), which provides guidance for investment management and enumerates a more detailed set of rules for investing in a prudent manner.

All investment actions and decisions must be based solely in the interest of the Foundation. Fiduciaries must provide full and fair disclosure to the Investment Committee of all material facts regarding any potential conflicts of interest.

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## DEFINITION OF DUTIES

### FOUNDATION BOARD

The governing body of the Foundation (the “Board”) is established in accordance with the Bylaws of the Foundation. The Board is the ultimate fiduciary of the Foundation with authority over the Assets.

Responsibilities of the Board include:

- Establish and adopt, including this IPS (as amended from time to time), governing the investment and management of the Assets;
- Delegate implementation and oversight responsibility to the Investment Committee, which will report directly to the Board;
- Inform the Investment Committee of the financial requirements of the Foundation so that the Investment Committee may appropriately direct the investment allocation of the Assets; and,
- Engage an Investment Advisor to advise the Investment Committee and the Foundation with respect to these duties.

### INVESTMENT COMMITTEE

The Investment Committee, as established by the Board, will (i) adhere to the applicable provisions of this IPS, (ii) review the IPS at least annually, and (iii) propose any changes to the IPS for the Board’s approval.

Additional responsibilities of the Investment Committee include:

- Monitor performance of the investment portfolio, allocation, and Investment Advisor on a periodic basis;
- Report to the Board on a periodic basis regarding the status of the Assets;
- Recommend the selection, monitoring, and termination of the Investment Advisor to the Board;
- Possess sufficient knowledge about the portfolio and its Investment Advisor so as to be reasonably assured of their compliance with the IPS; and,
- Appoint and terminate the custodian.

### STAFF

The Investment Committee delegates responsibility for executing policies and procedures as outlined in this IPS to the Executive Director of the Foundation. The Executive Director and Chair of the Investment Committee will serve as the primary contacts for the Foundation’s custodian and Investment Advisor.

The Executive Director acts on the recommendations of the Investment Committee.

### INVESTMENT ADVISOR

The Investment Advisor is responsible for managing the Foundation’s Assets consistent with this IPS.

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Responsibilities of the Investment Advisor include:

- Implement and monitor the overall Investment Strategy, including the asset allocation and the selection and termination of the Foundation's holdings;
- Have full investment discretion regarding product and/or security selection;
- Have full discretion to establish, maintain, and modify benchmark(s) that are aligned with the strategic targets;
- Provide the Investment Committee with quarterly performance reports;
- Assist the Investment Committee periodically with a review of the IPS, including an assessment of investment objectives, asset allocation ranges, and illiquidity targets;
- Supply the Investment Committee with other reports or information as reasonably requested;
- Notify the Investment Committee in writing of any material changes in the investment outlook, portfolio structure, ownership or senior personnel; and,
- Vote proxies and share tenders in a manner that is in the best interest of the Foundation.

## **CUSTODIAN**

The custodian is an integral part of managing and overseeing the Foundation's Assets. Any custodian will promptly provide to the Executive Director and Investment Advisor all information reasonably necessary for compliance, implementation, and monitoring purposes.

The custodian shall:

- Be of institutional quality;
- Provide monthly transaction and asset reports in a timely manner; and,
- Promptly communicate any errors, irregularities or concerns regarding portfolio transactions or valuation.

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## OBJECTIVES

### OVERVIEW

Responding to the Foundation's fiduciary oversight obligations and to the Gospel challenge of responsible stewardship, the IPS is based on economic and financial factors within a moral framework. The investments chosen by the Foundation must reflect reasonable efforts to conform to the moral principles of the Catholic Church (e.g., they should do no harm and avoid evil). Consequently, the Foundation and Investment Committee shall endeavor, where possible given the nature of the investments and available alternatives, to select investments that promote the social and moral well-being of the community in a manner consistent with the guidelines established by the United States Conference of Catholic Bishops (the "USCCB").

The Foundation's investments will be guided by the following objectives:

- Responsible investment in companies whose business conduct is consistent with objectives of the Foundation, and the business activities of such companies are not inconsistent with Catholic social and moral teaching,
- When making recommendations, the Investment Advisor will consider the Foundation's objectives and preference for investments that are aligned with the USCCB's guidelines, and whenever possible, will avoid recommending investment managers and companies known to materially participate in businesses deemed inappropriate by the Board,
- Whenever reasonably practical, given the nature of the investments and available alternatives, avoid investments in the equity or bond securities of any company known to be involved in the manufacture and distribution of abortifacients and contraceptive substances and devices, or any company known to be substantially involved in the manufacture and distribution of biological and chemical weapons, arms designed or regarded as first-strike nuclear weapons, and indiscriminate weapons of mass destruction, all within the guidelines published by the USCCB from time to time.
- The Investment Committee will review investments and performance at least quarterly. The Investment Committee will use all reasonable efforts to ensure that the Foundation's investments are consistent with the objectives set forth in this IPS. The Investment Committee may evaluate potentially non-compliant securities and/or investment managers on a case-by-case basis and approve or restrict investment therein; such decisions will be made in accordance with the provisions of this IPS.

### STRATEGY

The Board and Investment Committee agree that the philosophy upon which investment decisions are based is founded on a set of beliefs that when utilized can help achieve the investment objective.

These philosophical beliefs are as follows:

- Investment decisions should be made with a long-term perspective;
- Portfolios should be constructed to achieve diversification by global risk factors;
- Investment decisions consider a variety of factors including valuation, fundamentals and sentiment; and,

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- Skillful active management has the potential to add value.

## ASSET ALLOCATION

Asset allocation will likely be the key determinant of the Foundation's returns over the long-term. Therefore, diversification of investments across multiple markets that are not similarly affected by economic, political, or social developments is highly desirable. A globally diversified portfolio, with uncorrelated returns from various assets, should reduce the variability of returns across time. In determining the appropriate asset allocation, the inclusion or exclusion of asset categories shall be based on the impact to the total Foundation, rather than judging asset categories on a stand-alone basis.

The target asset allocation seeks to provide an expected total return aligned with the primary objective of the Foundation, while avoiding undue risk concentrations in any single asset class or category, thus reducing risk at the overall portfolio level.

Investments will generally fall into one of four asset categories. Each category serves a specific role within a portfolio. An allocation to all four categories can provide diversification to major market risk factors and provides a simple framework to review the exposures within the portfolio.

The categories are as follows:

<b>GLOBAL EQUITY</b>	Intended to be the primary source of long-term growth for the portfolio, as equities historically have produced high real rates of return. While having higher expected returns, they also have higher volatilities. Includes both domestic and international, long-only equities and private equity
<b>GLOBAL FIXED INCOME/CREDIT</b>	Intended to offset the volatility of equities, particularly during market downturns, as well as provide deflation protection. These investments are comprised primarily of fixed income (debt) securities and can be further categorized as interest rate sensitive and credit sensitive. Includes private debt and special situations.
<b>REAL ASSETS</b>	Intended to insulate the portfolio from inflation shocks and to provide a source of non-correlated returns with other asset categories. Includes both public and private real estate, natural resources, and commodities.
<b>DIVERSIFYING STRATEGIES</b>	Intended to provide diversification from systematic market risk, as the primary determinant of returns is typically manager skill (alpha) rather than market return (beta). Includes directional and non-directional strategies that seek low correlations to the public equity and fixed income markets.

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## STRATEGIC RANGES

To achieve the Foundation's objectives, the asset allocation will be based on strategic ranges. The following ranges govern the asset allocation of the Foundation (see Appendix).

ASSET CATEGORY	MINIMUM	MAXIMUM
Global Equity: <sup>1</sup>	40%	90%
Domestic Equity	30%	60%
International Equity	10%	30%
Fixed Income	10%	40%
Real Assets	0%	10%
Diversifying Strategies	0%	10%

<sup>1</sup> Includes a 10% target to private equity.

## REBALANCING

The Investment Advisor will actively manage the Assets on an ongoing basis but seek to remain within the minimum and maximum ranges at all times.

At its discretion, the Investment Advisor will rebalance the portfolio. Cash flows may also prompt the Investment Advisor to rebalance the portfolio within the strategic ranges.

Should any category move out of acceptable range due to market fluctuations, the Investment Advisor will use prudence in rebalancing the portfolio in a timely fashion.

## DISTRIBUTION POLICY

The Foundation seeks to provide a reliable source of income to be used in a manner consistent with each donor's stated interests and the Foundation's obligations to prudently pursue its long-term investment goals. The Foundation is to be managed in a manner consistent with the Investment Committee's fiduciary responsibility, emphasizing real growth in excess of inflation, administrative, and investment expenses. The Board and the Investment Committee shall manage distributions from the Foundation in accordance with this IPS.

Allowable distributions will be calculated using generally accepted, foundation spending policies. The Foundation's current distribution rate is up to 4.0% of the 12-quarter rolling average of the endowment fund and may be changed by the Board from time to time.

Each November, the Investment Committee will recommend a distribution rate to the Board based upon this IPS, as well as prevailing market conditions and the Foundation's ability to provide sustainable support.

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## LIQUIDITY RANGES

With prior approval of the Investment Committee, the Investment Advisor shall maintain the flexibility to invest in any liquid, semi-liquid, private, or illiquid investment (see Appendix). Ranges are based upon fair market value.

CLASSIFICATION	RANGE	LIQUIDATION <sup>1</sup>
Liquid	At least 70% of the Assets	≤ Monthly
Semi-Liquid	No more than 20% of the Assets	> Monthly to ≤ 12 Months
Illiquid <sup>2</sup>	No more than 20% of the Assets	> 12 Months

<sup>1</sup> Excludes any initial, lock-up period or redemption gate.

<sup>2</sup> For illiquid investments, market movements could cause the Assets to move outside the ranges, in

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which case, rebalancing will not be necessary, but future illiquid commitments may need to be adjusted.

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## PERFORMANCE MEASUREMENT

### TIME HORIZON

The Investment Committee seeks to achieve the investment objectives over a full market cycle. The Investment Committee does not expect that all investment objectives will be attained in each year and recognizes that over various time periods, the portfolio may produce significant over or under performance relative to the broad markets. For this reason, long-term investment returns will be measured net of fees over a full market cycle.

### PRIMARY OBJECTIVE

The primary objective of the Foundation is to achieve a total return, net of fees, equal to or greater than the level of distributions, administrative fees, and inflation.

- The primary objective over a full-market cycle is:

DESCRIPTION	FACTOR
Inflation Factor <sup>1</sup>	+ 2.3%
Distribution Policy	+ 4.0%
Administrative Fees	+ <u>1.0%</u>
Total Return	≥ 7.3%

### PERFORMANCE BENCHMARKING

Performance will be measured relative to a Target Weighted Benchmark composed of each asset category benchmark (or appropriate substitute) weighted by its strategic target. The Investment Advisor, at its discretion, is responsible for updating the Target Weighted Benchmark to coincide with any changes to strategic targets (see Appendix).

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<sup>1</sup> Based upon FEG's 2022 capital market assumption.

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## GUIDELINES AND RESTRICTIONS

### **CATHOLIC VALUES SCREENING**

The Investment Advisor may consider investments in socially screened vehicles such as socially responsible S&P 500 funds that invest in the broad S&P 500 list with deletions of certain companies with prohibited activities. Such socially screened investments shall generally satisfy the fiduciary, financial stewardship responsibilities of the Foundation. With any socially screened investment product, the Investment Advisor will consider whether returns are reasonably correlated with the market (less management fees).

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## ACKNOWLEDGEMENT

The Investment Committee will review this IPS annually, after consideration of the advice and recommendations of the Investment Advisor. This IPS will remain in effect until modifications are proposed by the Investment Committee. All modifications to this IPS will be in writing and approved by the Board prior to implementation.

*Scott Whitaker*

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Executive Director

Catholic Foundation – Diocese of Austin

Jan 18 2023

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Date

*Rick Grzymajlo*

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Fund Evaluation Group, LLC

Investment Advisor

Jan 20 2023

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Date

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## REVISIONS AND APPROVAL

Amended and approved by the Investment Committee: August 2019

Amended and approved by the Board: September 2019

Amended and approved by the Investment Committee: May 2022

Amended and approved by the Board: June 2022

Amended and approved by the Investment Committee: November 2022

Amended and approved by the Board: December 2022

# APPENDIX

## OVERVIEW

This section is provided for operational purposes and may be amended, modified, or deleted by the Investment Committee (or as otherwise directed). Amendment, modification, or deletion of this section does not require any Board permission, review, or approval.

### STRATEGIC TARGETS

To achieve the Foundation's objectives, the asset allocation will be based on strategic targets (and ranges). Targets are guidelines, rather than explicit rules, and will be updated by the Investment Advisor as needed to allow the strategy to meet the Foundation's objectives.

The following are targets to each of the broad asset categories that represent the Investment Advisor's current understanding of the appropriate asset allocation for achieving the Foundation's objectives.

ASSET CATEGORY	MINIMUM	TARGET	MAXIMUM
Global Equity: <sup>1</sup>	40%	65%	90%
Domestic Equity	30%	45%	60%
International Equity	10%	20%	30%
Fixed Income	10%	25%	40%
Real Assets	0%	5%	10%
Diversifying Strategies	0%	5%	10%

<sup>1</sup> Includes a 10% target to private equity.

### PERFORMANCE BENCHMARKING

Performance will be measured relative to a Target Weighted Benchmark composed of each asset category benchmark (or appropriate substitute) weighted by its strategic target. The Investment Advisor, at its discretion, is responsible for updating the Target Weighted Benchmark to coincide with any changes to strategic target(s). Component indices and weights are subject to updates at the discretion of the Investment Advisor.

WEIGHT	INDEX	ASSET CATEGORIES
45%	MSCI USA	Domestic Equity
20%	MSCI All Country World ex-US	International Equity
25%	Bloomberg Barclays US Aggregate Bond	Fixed Income / Credit
5%	S&P Real Assets Equity	Real Assets
5%	HFRX Global Hedge Fund	Diversifying Strategies

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## LIQUIDITY TARGETS

With prior approval of the Investment Committee, the Investment Advisor shall maintain the flexibility to invest in any liquid, semi-liquid, private, or illiquid investment based upon the following targets (and ranges). Targets (and ranges) are based upon fair market value. Targets are guidelines, rather than explicit rules, and will be updated by the Investment Advisor as needed to allow the strategy to meet the Foundation's objectives.

The following are targets that represent the Investment Advisor's current understanding of the appropriate amount of liquidity for achieving the Foundation's objectives.

CLASSIFICATION	TARGET	RANGE	LIQUIDATION <sup>1</sup>
Liquid	90%	At least 70% of the Assets	≤ Monthly
Semi-Liquid	0%	No more than 20% of the Assets	> Monthly to ≤ 12 Months
Illiquid <sup>2</sup>	10%	No more than 20% of the Assets	> 12 Months

<sup>1</sup> Excludes any initial, lock-up period or redemption gate.

<sup>2</sup> For illiquid investments, market movements could cause the Assets to move outside the ranges, in which case, rebalancing will not be necessary, but future illiquid commitments may need to be adjusted.





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