

UNITARIAN CHURCH IN CHARLESTON
ENDOWMENT INVESTMENT BOARD
POLICIES AND PRACTICES

November 6, 2023

INTRODUCTION

The goal of the Endowment Investment Board (the EIB), as defined by the Constitution of the Unitarian Church in Charleston (the Church), is that the donated principal value of gifts and bequests should be invested and permanently maintained. This “protected” principal value will be adjusted annually, as described in “Protected Principal”. This ensures that all gifts and bequests will be maintained at their original value (inflation-adjusted) in perpetuity.

Assets attributed to gifts and bequests in the Endowment Fund can be distributed to the Church as set forth and to the extent described in “Distributions” but only for capital improvements or other special projects to advance the mission of the Church. Except in rare circumstances outlined in the Constitution, such distributed funds are not to be used to fund the annual operations of the Church.

The EIB is responsible for carrying out its duties according to the following policy.

OVERVIEW

The Endowment Investment Board (the EIB) was formally established by the Constitution of the Unitarian Church in Charleston (the Church) and oversees the investment of, and distributions from, the Church’s Endowment Fund. In performing its duties, the EIB must (i) define guiding principles for the investment of assets held in the Endowment Fund; (ii) establish goals and objectives for use in the investment of assets in the Endowment Fund; (iii) recommend to the Vestry Board annually a financial advisor to the EIB; and (iv) establish criteria for the evaluation of investment performance.

All investment and operational policies and practices must be established and may from time to time be revised upon the recommendation of a majority of the EIB and approval by a majority of the Church’s Vestry Board. A majority of the Vestry Board may also recommend modifications of policies and practices to the EIB. If the Vestry Board and EIB fail to agree on recommended modifications, the Vestry Board may submit the proposed modifications to the Congregation for approval by at least a majority of those voting at an officially called meeting of the Congregation. Recommended changes to the EIB policies and practices must be consistent with the Constitution of the Church

This statement of EIB Policies and Practices supersedes all previous EIB statements of policies.

MISSION

The mission of the EIB is to (i) accept, prudently invest and manage gifts and bequests which are to be used for the long-term vitality and financial health of the Church and (ii) to distribute assets of the Endowment Fund within the scope and for the purposes described herein.

The funds provided by the Endowment Fund to the Church are to be used to advance the mission of the Church and (except in the case of emergency conditions as described in Section 3.3 of Article XIII of the Constitution) not to be used to fund the annual operations of the Church. Permitted uses would include, to the extent approved by the Congregation: (i) pledging all or a portion of the Endowment Fund (including the Protected Principal) as security for loans, (ii) repayment of loans or mortgages for capital improvements, (iii) making direct loans to the Church for permitted uses and (iv) providing funds for servicing interest obligations on loans from Church members.

The EIB oversees the investment of the Endowment Fund to provide a reasonable balance of safety, liquidity, yield and growth. In so doing the EIB must make every effort to exercise faithful, competent and responsible stewardship of assets in the Endowment Fund. The EIB must also utilize socially responsible environmentally sensitive strategies that are consistent with Unitarian Universalist principles.

MEMBERSHIP AND OFFICERS

The EIB consists of 5 voting members, a non-voting *ex-officio* investment advisor and such additional non-voting advisors as the EIB by majority vote of all voting members may appoint. Four voting members of the EIB are elected by the Congregation from among its membership for staggered 3-year terms. The Vestry Board will appoint a fifth voting member from the Vestry Board.

- An individual may serve no more than two consecutive terms; after a one-year hiatus, an individual may once again serve up to two consecutive terms. This cycle of service and hiatus can be repeated.
- At the first meeting of the EIB following the Annual Meeting of the Congregation, the members of the EIB, acting by majority vote, shall elect a Chair and a Secretary to record minutes of the EIB's proceedings and to perform such other duties as the Chair shall request. In the case when the Chair is unavailable, the Secretary shall act as temporary Chair.
- The Chair of the EIB will be any voting member except the appointee of the Vestry Board.
- The members serving shall continue in those positions until their respective successors are elected as provided above.

OPEN MEETINGS

Members of the Church Congregation may attend meetings of the EIB according to Congregational Attendance Procedures established by the EIB and approved by the Vestry Board.

GENERAL OBJECTIVES

The general objectives, in priority order, of all investment activities undertaken by the EIB are safety, liquidity, yield and growth.

1. Safety

Safety of principal is the foremost objective of the EIB's investment efforts. Investments must be undertaken in a manner that seeks to assure the preservation of capital in the Endowment Fund. The objective is to mitigate both credit risk and interest rate risk.

2. Liquidity

The Endowment Fund must remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This must be accomplished by structuring the investments credited to the Endowment Fund so that the securities mature concurrent with the cash needed to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the investment portfolio credited to the Endowment Fund must consist largely of securities with active secondary or resale markets.

3. Yield

The investment of the Endowment Fund must be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account investment rate constraints and liquidity needs. Return on investment is, however, of less importance compared to the safety and liquidity objectives described above.

4. Growth

The EIB must select investments designed to provide reasonable growth of the portfolio value.

PRUDENCE STANDARD OF CARE

The standard of prudence used by the EIB is the “prudent person” standard and must be applied in the context of managing an overall portfolio. Members of the EIB must act with due diligence in accordance with these Policies and Practices, and if they do so shall be relieved of personal responsibility for an individual security’s selection and performance.

DUTIES OF THE EIB

1. Recommend annually for approval by the Vestry Board, a professional investment advisor and broker dealer to serve as an *ex-officio* member of the EIB.

In making its recommendation to the Vestry Board, the EIB must act in good faith, in the absence of a conflict of interest and with the care with which ordinary prudent persons in like positions would exercise in (i) selecting, continuing or terminating the use of any financial advisor and broker dealer, including assessing independence and any conflicts of interest the advisor and broker dealer has or may have; (ii) establishing the scope and terms of the delegation of responsibility to such entity, including determining any compensation to be paid; and (iii) monitoring such entity’s performance and compliance with the scope and terms of the appointment.

2. Establish and maintain investment goals and objectives for the Endowment Fund in consultation with the investment advisor.

Such goals and objectives must be intended to provide reasonable assurance that the Endowment Fund will obtain a market average rate of return that would be typical in a market/economic environment of stable interest rates and economic environment and address at least the following factors: (i) general economic conditions; (ii) the possible effects of inflation or deflation; (iii) the role which each investment or course of action may play within the overall investment strategy set for the Endowment Fund; (iv) the expected total return from the income and appreciation of the contemplated investment; (v) the needs of the Church; (vi) the need of the Endowment Fund to preserve and grow capital and maintain liquidity; and (vii) the investment’s special relationship or value, if any, to the Church and its purposes.

3. **Authorize only Permitted Investments, and prohibit Prohibited Investments, as listed below.**
4. **Require the financial advisor to report on and review with the EIB the investment performance** of the Endowment Fund, including a listing of all investments and the return thereof, at least quarterly or more often if requested.
5. **Prepare an annual report** of the Endowment Fund to be included with any annual reports of the committees of the Church.
6. **In furtherance of its accountability to the Congregation**, following every meeting of the EIB, the EIB shall submit to the Vestry Board and Minister a report of:
 - The status of the Endowment Fund, including changes in investment strategies;
 - Any determination regarding requested or determined distribution of assets from the Endowment Fund and its rationale therefor; and
 - A statement regarding its assessment of alignment of its investment and other policies and actions with the mission and principles of the Church.

Furthermore, upon the request of the Vestry Chair, the EIB shall present a Congregational forum at a designated time and location to report on the foregoing topics and to respond to related questions and comments.

7. **Confirm or change current \$50,000 criteria** for designated restricted gifts and bequests; and allocate restricted gifts and bequests, as appropriate, to allocated accounts meeting EIB criteria. Maintain separate accounting for the restricted gifts that will be invested within the Endowment Fund.
8. **At the first meeting of the EIB in February of each fiscal year,**
 - determine the amounts, if any, above the Protected Principal of restricted and unrestricted funds which are available and designated for distribution to the Church; and
 - review these Policies and Practices for the purpose of verifying compliance and the need or advisability for any amendments.
9. **To the extent not liquidated by or at the direction of the Minister, convert all gifts, donations or bequests of tangible personal property, real property or non-publicly traded stocks, bonds or notes to cash** at the earliest practical date in order to minimize administrative monitoring and management responsibilities.

INVESTMENTS

1. Permitted Investments

- (i) Bank accounts that mature in less than one year that are insured by federal deposit insurance.
- (ii) Securities and Exchange Commission-registered mutual funds, open-end funds, closed-end funds, unit investment trusts, index funds, balanced equity and fixed income funds, money-market funds, bond funds and exchange traded funds;
- (iii) Debt securities issued by, or backed by the full faith and credit of, the U.S. Government; and
- (iv) Cash and cash equivalents.

2. Prohibited Investments

The Endowment Fund must not be invested in individual securities, private placements or private equity transactions, initial public offerings, restricted offerings, commodities, precious metals, options, real estate, financial futures contracts, foreign-denominated indebtedness, short term financial instruments with speculative characteristics, synthetic currencies, personal loans, venture capital funds or hedge funds. The Endowment Fund must not invest in derivatives of instruments, whether or not such instruments are permitted investments. Any such Prohibited Investments included in the Endowment Fund as a result of a gift or bequest must be liquidated as soon as prudently practicable.

3. Investment Parameters

- (i) Diversification: Investments of amounts credited to the Endowment Fund must be diversified so as to minimize risks due to possible issuer defaults, marketplace changes or other risks resulting from an over-concentration of assets in a specific issuer, geographic distribution, investment style, business sector or class of securities.
- (ii) Maturities: To the extent possible. The EIB must attempt to match the investment of amounts credited to the Endowment Fund with the cash flow requirements identified by the Minister.
- (iii) In general, the following are the targets for investment of the Endowment Fund. These targets are general guides only and must never replace prudent considerations of economic, market and other conditions and trends impacting investment performance and consistent with the “General Objectives” set forth above.

- Equity securities: 50-80% of the total portfolio, including Other Funds; and
 - Fixed income, cash and cash equivalents, in aggregate: 20-50% of the total portfolio, including Other Funds.
- (iv) While no specific aspirational target is established for a percent of the total portfolio to be invested in socially responsible funds of securities for which environmental, social and governance factors consistent with Unitarian Universalist principles are integrated into the investment process, the overall goal of the EIB is to achieve the highest percentage of the portfolio invested in such funds, consistent with the financial needs of the Church.

PROTECTED PRINCIPAL

Distributions from the Endowment Fund must be managed in a manner that protects the principal value at the time received on an inflation-adjusted basis (the Protected Principal). Exceptions to this practice in extraordinary circumstances are as described in Section 3.3 of Article XVI of the Church Constitution.

Protected Principal of Unrestricted/Restricted Funds shall be calculated at the beginning of each calendar year. The calculation of the Protected Principal of Unrestricted/Restricted Funds is the Protected Principal of funds of the previous calendar year, adjusted for inflation using the CPI (CPI-C Annual %) plus any unrestricted/restricted contributions to the Endowment Fund during the previous calendar year.

DISTRIBUTIONS

1. Determination of Amounts Available for Annual Distributions.

In February of each fiscal year the EIB shall determine and advise the Minister and Vestry Board of funds that may be available for annual distribution from all accounts in the Endowment Fund. The EIB will make approved annual distributions on July 1 of each year.

The aggregate amount available for annual distributions will normally be between 2% and 5% of the actual value of the Endowment Fund; the amount recommended may exceed 5% in the event of extraordinary investment returns.

In developing the annual distribution recommendation, the EIB must consider the following:

- The actual value and Protected Principal of each separate account in the Endowment Fund
- The short- and long-term outlook for the economy and the Endowment Fund's investments and
- The financial obligations of the Endowment Fund for long-term commitments/investments.

2. Process for Authorizing and Making Special Distributions.

- (i) At times, special requests may be made for either advance release of the annual distribution or an additional distribution. All such special requests must be authorized by the Vestry Board, in the case of a request for a distribution from the unrestricted account of the Endowment Fund, or by the Minister, in the case of a request for a distribution from a restricted account of the Endowment Fund.
- (ii) The EIB is authorized to approve, by a motion recorded in its minutes, advance release of a distribution in respect of gifts and bequests, inclusion of an amount equal to the special request in the scheduled distribution, or allocation of funds in excess of the previously approved annual distribution. The Vestry Board is solely responsible for directing the expenditure of all funds included in distributions made by the EIB from the unrestricted account of the Endowment Fund. The Minister is solely responsible for directing the expenditure of all funds included in distributions made by the EIB from a restricted account of the Endowment Fund.
- (iii) When a request for a special distribution is submitted to the EIB, it shall be accompanied by a statement from the Vestry Board Chair or the Minister, as the case may be, that the purpose of the distribution complies with the provisions of the Church's Constitution and the established policies and procedures of the EIB, and that the distribution amount will not be used for any operational expenses.

No special distribution shall be made pursuant to this Section 2 unless the EIB determines in good faith (a) that the timing of any liquidation of securities in the Endowment Fund would not be inadvisable and (b) that such distribution would not reduce the level of the Fund below a level deemed by the EIB to provide a prudent level for the purpose for which the Fund is maintained. In the event that the Vestry Board or the Minister, respectively, disagrees with

the determination of the EIB, the matter may be submitted to the congregation for resolution.

3. Limitation on Annual and Special Distributions

In no event shall any distribution be made from any separate account if the value of such separate account would be reduced below the Protected Principal of such separate account, except as described in the Constitution.

4. Other Distributions.

Other distributions may be made to the extent provided in and subject to Section 3 of Article XIII of the Church's Constitution.