

Baptist Foundation of Colorado

Investment Policies and Guidelines

(Revised 11/10/2007)

These "Investment Policies and Guidelines" have been prepared to assist the Investment Committee and the Board of Directors (the Board) in making investment decisions that are guided by consistency, sound investment practices, and a focused approach. The primary role of the Investment Committee shall be to serve the Loan Committee in making sure that sufficient funds are available for loan purposes.

1) Investment Objectives

- a) To provide investment choices in which Southern Baptist churches and other Christian ministries may invest in minimum amounts of \$5,000. Investment choices for individuals, though not currently available, may be established at a later date.
- b) The overall investment objective of the Foundation investment choices is to provide a competitive total rate of return with an emphasis on safety of principal which will be commensurate with the investment chosen. Total rate of return is defined as current income plus or minus market value changes in portfolio assets. Three investment choices will be available: Short-Term, Fixed-Rate, and Long-Term.
 - i) The Short-Term Investment time frame will be approximately one year. The overall investment objective in the Short-Term Investment choice is to match the total rate of return of the 3-month Treasury bill.
 - ii) The Fixed-Rate Investment time frame will be one year to five years. The overall investment objective in the Fixed-Term Investment choice is to match the total rate of return of the comparable maturity Treasury note or bond.
 - iii) The Long-Term Investment time frame will be five years or longer. The overall investment objective in the Long-Term Investment Portfolio is to provide a total rate of return that exceeds the inflation rate, as measured by the Consumer Price Index (CPI), by 4%.
- c) The time frames are simply a guideline. Investors may choose to invest in any investment regardless of their time frame. A specific time frame will be set forth in the applicable investment contract and will be subject to renewal on an on-going basis.

2) Investment Policies

- a) Investment managers will be afforded discretion for their investment choices, mixes, and allocations within Board guidelines. Every attempt will be made to limit the choice of investment managers to those who invest within established policy guidelines. Any investment manager used will be a Registered Investment Advisor whose performance record includes a minimum of five years history.
- b) Investors should be aware that the investment environment may make achieving a positive total rate of return unattainable during certain periods for the Long-Term Investment Portfolio.
- c) The weighted average maturity for investments held in the Short-Term Investment choice will typically be 12 months or less but may be extended up to 18 months should market conditions look favorable to extend the weighted average maturity.
- d) Investments in the Fixed-Rate Investment choice will be limited to investments that generate cash flow such as bonds and notes, higher dividend-yielding common stocks whose dividend yield is at least 75% of the current yield of the 10-year Treasury bond, Church loans, preferred stock, and real estate contracts.
- e) Investments in the Long-Term Investment choice will include the widest mix of investments. These investments will include any investments allowed in the Short-Term Investment choice and Fixed-Rate Investment choice as well as common stocks (equity investments). Common

stocks may include portfolios of many different stocks such as those typically found in open or closed-end funds, Exchange-Traded Funds (ETFs), and unit trusts. Individual common stocks may be purchased and held as well. This list of types of common stock investments is not meant to be all-inclusive and will not restrict common stock investments in other recognized formats.

- f) The Board will seek to maintain an allocation of cash-flow generating investments and equity investments between 35% and 65% of assets in the Long-Term Investment Portfolio. The Board will periodically adjust asset allocation objectives within this range to meet specific income, loan, or growth objectives.
- g) Construction and Mortgage Loans
 - i) All loans must be reviewed by the Loan Committee and approved by the Board.
 - ii) Loans will be originated to assist churches and related ministries. Loans may not be originated for non-ministry purchases of properties such as farms, ranches, commercial/ industrial buildings and land. Loans for ministry purposes must be made in accordance with Foundation guidelines.
- h) The following types of security purchases or transactions are not permissible for investment without the Foundation Board's approval, and then only to meet an unusual, unique, and most likely one-time situation.
 - i) Short sales
 - ii) Put and call options
 - iii) Margin purchases
 - iv) Letter stock, private or direct placement stock
 - v) Commodity or futures contracts
 - vi) Hedge funds
 - vii) Derivatives

3) Investment Guidelines

- a) Short-Term Investments may include all widely recognized money market instruments. Unit value will be maintained at one dollar per unit.
 - i) Commercial paper shall have a Moody's rating of Prime-2 and/or a Standard & Poor's (S&P) rating of A-2 or better. If the company has long or short-term debt outstanding, these securities shall have an investment grade rating or better by Moody's or S&P. An investment grade rating is defined as Baa3/BBB- or higher. Investments in commercial paper, notes, and bonds from any single issuing company shall not exceed 5% of total investments of the Short-Term Investment choice.
 - ii) Securities which are guaranteed as obligations of the U.S. Government and/or its agencies may be purchased in unlimited quantities. Repurchase agreements which are collateralized by government or government agency securities may also be purchased in unlimited quantities.
 - iii) Certificates of deposit shall be FDIC insured, and shall not exceed federal insurance limits.
 - iv) Money market funds may be used as an alternative for individual securities.
 - v) Baptist Foundation of Colorado short-term loans for Southern Baptist churches or related ministries for a term not to exceed one year may also be held.
- b) Fixed-Rate Investments may include any investments approved as Short-Term investments as well as additional investment types.
 - i) Bonds purchased shall have an investment grade rating at time of purchase and shall be from an original issue of \$50 million or greater.
 - ii) Preferred stocks shall have an investment grade at time of purchase.
 - iii) Church bonds, notes, and Baptist Foundation of Colorado approved loans are permissible.
 - iv) Collateralized mortgage obligations (CMOs) carrying a AAA rating by Moody's or AAA by S&P are permissible investments.

- v) Dividend yielding stocks purchased must be traded on a recognized major public stock exchange. No stocks selling for less than \$5.00 per share shall be purchased.
 - vi) Real Estate Contracts, First Mortgages, and Deeds of Trust may be purchased when they represent a first lien position on the underlying property and yields exceed the 30-year Treasury bond by a minimum of 50%. Loan-to-value ratios shall be based on fair market value.
 - vii) Investments including bonds, preferred stocks, dividend-yield stocks from any single issuing company; individual church bonds, notes, and loans; and real estate contracts, first mortgages, and deeds of trust from any single issues shall not exceed 5% of total investments of the Fixed-Rate Investment choice. Securities which are guaranteed as obligations of the U.S. government and/or its agencies may be purchased in unlimited quantities.
- c) Long-Term Investments may include any investments approved as Short-Term investments and/or Fixed-Rate investments, as well as additional investment types, including common stocks.
- i) Common stocks purchased shall be listed on a recognized public stock exchange and cannot be purchased if the stock price is less than \$5.00 per share.
 - ii) Securities convertible into common stocks are suitable for investment if their quality rating is investment grade rating at time of purchase.
 - iii) Securities of foreign companies traded on U.S. stock exchange are acceptable
 - iv) Closed-end funds, ETFs, open-end funds (mutual funds), and unit trusts which invest in domestic or foreign stocks, are acceptable investments.
 - v) Real estate investments may be held but will not be normally purchased with foundation funds.
 - (1) Any real estate purchase shall be limited to properties within the State of Colorado and shall have the approval of the Board.
 - (2) Real Estate received as a gift or from an estate shall normally be sold as market conditions and gift or estate provisions permit.
 - (3) The Foundation will be permitted to accept Real Estate Contracts to facilitate the sale of donated property. The terms of the Real Estate contract shall be subject to legal review and approval by the Board.
 - (4) Mineral and water rights shall be retained whenever possible.
 - (5) Retaining gifted income properties will be considered at the discretion of the Board. Any decisions will, at a minimum, consider the following guidelines:
 - (a) The tenant must be well established.
 - (b) In-place lease agreements must have terms consistent with current market conditions.
 - (c) Yields must be competitive with alternative investments.
 - (d) Active extensive management must not be required.
 - (e) Use of property must be consistent with the Social Investment policy, below
 - vi) Securities from any single company shall not exceed 5% of total investments of the Long-Term Investment Portfolio. This 5% restriction shall not apply to closed-end funds, ETFs, open-end funds, unit trusts, real estate investments, or obligations of the U.S. Government and/or its agencies.
 - vii) Loans made to any one church or ministry shall not exceed 5% of total investments of the Long-Term Investment Portfolio.

4) Social Investment Policy

- a) It is the intention of the Board that the Foundation Investment choices not directly invest in

or hold individual securities in any company that is publicly recognized as being in the liquor, tobacco, gambling, pornography, or abortion industries, or any company whose products, services or activities are publicly recognized as being incompatible with the moral and ethical position of the Colorado Baptist General Convention.

- b) However, the Board must acknowledge that the use of index funds and ETFs may result in the indirect investment in such companies. For example, as of 2004, GuideStone Financial Resources of the SBC had determined that 489 of the 500 companies in the S&P 500 index met its social investment policy standards. As a result, an investment in an S&P 500 fund would potentially result in indirect ownership of stock in 11 businesses that do not meet the SBC policy standards, and account for 2.2% of the companies in the S&P 500 index.

5) Investment Oversight and Stewardship

- a) While it is the responsibility of the Investment Committee to make recommendations to the Board regarding asset allocation and investment strategy, the entire Board retains responsibility for oversight and stewardship of the assets of the Foundation and other entities that are investing funds with the Foundation. The Board should be diligent in its fiduciary responsibilities regarding the investments made on behalf of the Foundation. Assuming that the Board has sufficient professional expertise, it will continue to act as the manager of the assets to which they have been entrusted. As assets under management grow, consideration may be given to the use of outside investment managers and/or managed accounts for a portion of the assets. Consideration will be given to the potential benefits of active or passive management and the costs associated with retaining such services. In the absence of outside management, the investment allocation strategy should encourage the use of a wide variety and well-diversified mix of equity and bond investments.
- b) If the Board determines that the use of outside fund managers or separately managed accounts for a portion of the Foundation's assets, are advisable, then the investment managers (or fund managers) will be afforded discretion for fund management within established policy guidelines. The Foundation is aware that the investment environment may make achieving a positive rate of return unattainable during certain periods. Relative performance shall be evaluated at least annually and a comparison will be made between investment managers and commonly accepted benchmarks such as the S&P 500 or Dow Jones Industrial Average. For purposes of meaningful comparisons of performance, every attempt should be made to match appropriate benchmarks with the investment style of the designated investment manager.