

# ENDOWMENT OF ST. JOHN'S EPISCOPAL CHURCH PLAN OF OPERATION

## SECTION I—Endowment Creation

### Purpose

The St. John's Episcopal Church Endowment (the "Endowment") was created by Amendment to the By-Laws of Saint John's Episcopal Church ratified by the Parish on January 22, 2012.

The purpose of the Endowment is to enable the Parish to more completely fulfill its mission by developing its ministries beyond that which is possible through its annual operating budgets. Distributions shall not be made from the Endowment to the Parish operating budget.

Distributions from undesignated funds (i.e., those funds whose use is not designated by the donor(s) of such funds) shall be at the recommendation of the Endowment Board (the "Board") with the approval of the Vestry and shall be limited to (i) capital needs of the Parish; (ii) seed money for new ministries and special one-time projects, and (iii) any other purpose to support the mission and goals of the Parish, other than to supplement the operating budget of the Parish. Annual expenditures from undesignated funds shall be limited to no more than 5% of the prior yearend balance of undesignated funds. Distribution of funds designated by the donor(s) of such funds for a specific purpose may only be used for such purpose.

### Operation and Administration

The Board shall consist of 9 members elected by the Parish. At a 2012 special meeting of the Parish, 3 members of the Board shall be elected to serve for one year, 3 members for two years and 3 members for three years.

Thereafter, at each annual meeting of the Parish (the "Board Election meeting"), 3 members of the Board shall be elected to replace those members whose term of office expires at the time of that election.

**Retiring Board members shall not be eligible for re-election to a term of office beginning less than one (1) year after retirement from office; provided that this section shall not apply to any Board member who shall have served one (1) year or less by the expiration of the term for which he was chosen.**

**In order to qualify for service or continue service in office, Board members shall be twenty one (21) years of age or older, and shall be communicants in good standing according to the requirements of the Canons of the Episcopal Church, that is, a Parish member who has been confirmed by the Bishop, who is faithful in corporate worship, who is in regular attendance in the Parish, who is in financial support of the Parish, and who has received Holy Communion at least three (3) times during the preceding year.**

Nominations of potential Board members shall be taken as follows:

- A. Election Committee. Elections to the Board at the Board Election Meeting shall be conducted by an Election Committee composed of the Vestry members serving their third year on the Vestry, with a Chairman to be appointed by the Rector. Additional members may be added to the Election Committee if nominated by the Rector and approved by the Vestry. It shall be the duty of the Election Committee to screen nominees for eligibility to serve as Board members and where appropriate, to solicit the active participation of qualified nominees in the election process.
- B. Nomination Form. Nomination of a member of the Parish for election to the Board shall be made by filing a nomination form, prepared by the Election Committee and approved by the Vestry. Nomination forms will set forth the purpose of the Board and shall request such information about the nominee as may be deemed necessary and appropriate by the Election Committee and shall require the signature of the sponsor and the sponsor's nominee. The date of the deadline for filing such nomination forms shall also be included on the form.
- C. Teller Committee. The Teller Committee shall be composed of three (3) members whose Chairman shall be appointed by the Rector at or prior to the Board Election Meeting. The Chairman of the Committee shall select the members of the Committee. The duty of the Committee shall be to determine the eligibility of the voters, count the ballots, certify the results and take all other action necessary or desirable to conduct the election for Board members in accordance with the By-Laws and this Plan of Operation.
- D. Nomination of Board Members. The Nomination form shall be made available by the Election Committee to the members of the Parish not less than four (4) weeks preceding the Board Election Meeting. The Election Committee shall also communicate to the members of the Parish the fact that it is accepting nominations for election to the Board by one or more reasonable and appropriate methods deemed satisfactory by the Election Committee's Chairman, and shall do so not less than **four** (4) weeks prior to the Board Election Meeting. Nomination forms shall be considered properly filed with the Election Committee when they have been filled out completely, bear all appropriate signatures and have been received by the Election Committee no later than two (2) weeks prior to the Board Election Meeting of the Parish. After screening the nominees for eligibility to serve as Board members, the Election Committee shall certify the names of those properly nominated. The Election Committee shall promptly publish the names of all such nominees to the Parish, together with a brief resume of each of the nominees. Nominations may not be made from the floor for the election of Board members at the Board Election Meeting of the Parish.
- E. Election Ballot. Ballots for the election of Board members shall contain the names of all nominees and each voter must vote for three (3) of the nominees shown on the ballot or as many nominees as remain to be elected, as the case may be. Those three (3) nominees receiving highest number of the votes cast shall be declared elected. Should there be a tie vote for the last position, there shall be a second ballot cast to elect the final member, and the nominees to be placed on that ballot shall include the two or more nominees whose votes were tied.

The Board shall collectively act as custodian of the Endowment. No Board members may serve concurrently on the Vestry. ~~and all candidates for election to the Board must be members in good standing at St. John's Parish.~~

A Vestry member shall be appointed as an ex-officio member of the Board to facilitate communication and address common issues. The Rector shall also be an ex-officio member of the Board.

Any vacancy on the Board occurring during the year, including a vacancy created by an increase in the number of members, may be filled for the unexpired portion of the term by the Vestry. Any member so appointed shall hold office until the next succeeding January meeting of the Parish or until the election and qualification of his successor. The Board shall meet at least quarterly and a quorum consisting of a majority of the voting members is needed to carry any motion or resolution.

The Board shall elect from its membership a Chairperson, Vice Chairperson and Secretary, and such other officers with such powers and duties not inconsistent with this Plan of Operation as may be appointed and determined by the Board. The Secretary shall maintain complete and accurate minutes, a copy of which shall be furnished to the Vestry within fifteen days after the meeting. The Chairperson shall make a full and complete quarterly written report to the Vestry. Likewise, a written annual report for the preceding year shall be provided at each annual meeting of the Parish held in January.

The Vestry shall provide oversight of the Board through periodic review, including the quarterly review of all transactions.

**In making gifts to the Endowment, donors have placed a trust in the Board members to exercise good faith and the care, skill, and judgment that an ordinarily prudent person in a like position would exercise under similar circumstances in managing these gifts to the sole benefit of the mission and ministry of St. John's. To meet this trust, the Board has a mandate to conduct all of its affairs decently and above reproach both in the sight of God and man, including a commitment to operate with the highest level of integrity and to avoid real or apparent conflicts of interest. Board members shall exercise the utmost good faith in all transactions involved in their duties, and they shall not use their positions at St. John's nor knowledge gained therefrom for their personal benefit. Board members shall at all times refrain from any conduct in which their personal interests would conflict with the interests of the Endowment. The Board shall codify their intent to be good stewards of the Endowment by adopting the Conflict of Interest Policy established by the Vestry. The Board shall report to the Vestry, annually in writing, any potential conflicts of interest for disposition by the Vestry.**

The Vestry 's intent is that the principal of the Endowment not be invaded. However, the Endowment distributions are to be made using a Total Return Policy. (As used herein, a Total Return Policy is a policy which treats all returns on investments – interest, dividends, realized and unrealized capital appreciation – as additions to principal. The policy enables the Board to maintain a spending policy based on preset percentages of principal. In other words, distributions from funds are not determined solely by current investment income, but rather by a percentage of a fund's market value based on a point in time (typically January 1 of the current year). This spending policy allows for more predictable distributions over the long-term, and ongoing grant recipients are able to rely upon a relatively stable income stream.) The Board shall formulate spending rules and protocols consistent with the Endowment purposes.

Endowment funds shall not be borrowed for any purpose, including temporary usage for other Parish needs.

## SECTION IV – Investment Policy

### Custody of Funds

**The Board shall be responsible for holding and managing the Endowment funds according to the Investment Policy set out in this Plan of Operation.**

All funds are held on a pooled basis in an account with a ~~discount~~ brokerage firm to be selected by the Board. **The Board expects the purchase and sale of securities to be made in a manner designed to receive the best combination of realized prices and commission rates.**

**The Board may delegate management and investment functions to its officers, committees, and agents.**

**The Board, at the expense of the Endowment, may provide for such professional counseling on investments or legal matters as it deems to be in the best interests of the Endowment.**

**The Board may elect to retain one or more professional investment managers to assume the management of funds and assets comprising the Endowment. The Board may wholly or in part place Endowment funds within the Diocese of North Carolina's Common Trust Fund. Under these alternatives, the Endowment must be managed in a manner consistent with the policies, guidelines, and purposes outlined in this Plan of Operation. The Board shall be responsible for providing oversight that this stipulation is met.**

On an annual basis, the Board will review the relationship with the ~~discount~~ brokerage firm, **investment or legal advisers, and investment manager(s)**, to ensure that account fees, trade commissions, service, etc., are commensurate with the needs of the Parish.

### Deposits

Deposits are made and sent to the ~~Foundation~~ **Endowment** brokerage account monthly. During the month, funds received by the Parish designated for the ~~Foundation~~ **Endowment** are accumulated. Accumulated funds are deposited into the brokerage account within fourteen (14) days after they exceed \$1,000.

### Brokerage Account Authorization

- ~~• Chairperson~~
- ~~• Vice Chairperson~~

### Brokerage Account Trading

- ~~• Trading decisions are made by the Board~~
- ~~• Primary execution is completed by the Chairperson~~
- ~~• Execution orders are given by fax or email, if at all possible~~
- ~~• Immediate written confirmation shall be faxed (or emailed if relevant) by the firm executing the trades to the Chairperson~~

### Investment Objective

The investment objective is a rate of return on assets that will provide a reasonable and consistent level of funds for distribution in accordance with the spending provisions in this Plan of Operation, preserve principal, and provide the potential for long-term growth of the Endowment.

### Asset Allocation

The investment objective of the Endowment implies a balanced approach. The Board may utilize portfolios of equity securities, fixed-income securities, and short-term investments, or mutual funds comprised of these security types, according to the following asset allocation guidelines.

Equities:	30% - 70%
Fixed Income:	70% -30%
Short-Term:	0% - 20%

Investments shall be diversified with the objectives of maximizing return and minimizing the risk of losses. Consequently, the total portfolio shall be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in individual issues, corporations, industries, geographic region, economic sector, and market capitalization.

The Board may elect to utilize mutual funds or other investment vehicles with asset allocations that also have the objective of achieving a reasonable total return on the assets while limiting the risk exposure to ensure the preservation of capital. If mutual funds or other investment vehicles are used, the Board shall periodically review the allocations of these vehicles, comparing them with the ranges listed above.

### Time Horizon

~~The time horizon of the invested funds will be derived from the "Primary Foundation Spreadsheet" attached as Schedule A that lists the weighted average timing of funds expected.~~ **The Endowment's investment objectives and asset allocation are based on a long-term time horizon.**

### Investments

~~Funds will generally be invested in low-cost, exchange-traded funds (ETFs).~~

**Equity securities provide the potential for growth in principal and current income (along with income from fixed income investments) sufficient to support distribution requirements, while at the same time, preserving and enhancing the**

**purchasing power of the Endowment's assets over the long term.**

**Equity securities may include low cost exchange traded funds (ETFs), publicly-traded common and preferred stocks, publicly-traded convertible bonds and preferred stocks, and mutual funds.**

**Fixed income securities provide a source of current income, some measure of diversification, and serve as a partial hedge in reducing the Endowment's risk of loss in a deflationary environment.**

**Fixed income securities may include low cost exchange traded funds (ETFs), publicly traded corporate notes and bonds, publicly traded convertible bonds and preferred stocks, US government and government agency obligations, and mutual funds. Fixed income securities should be comprised primarily of investment grade securities as determined by nationally recognized rating agencies. The overall fixed income allocation should have an average duration of less than ten years.**

**Short term investments serve as the principal source of liquidity for distributions from the Endowment, and rebalancing the portfolio.**

**Short term investments may include money market instruments, short term FDIC insured certificates of deposit, US government and government agency obligations of less than one year, exchange traded funds (ETFs), mutual funds, and, brokerage sweep accounts. The overall short-term investment allocation should have an average duration of less than three years.**

**The Board shall not invest in common or preferred stock in non-public corporations, letter or restricted stock, initial public offerings, or Master Limited Partnerships (MLPs).**

**The Board shall not invest in bonds, notes or other indebtedness for which there is no public market (private placements) or direct placement of mortgages on real property.**

**Transactions are not permitted in futures contracts, derivative instruments, options contracts of any kind, or in the buying or selling of investments on margin.**

**Investment in mutual funds that periodically utilize impermissible transactions to mitigate risk and enhance returns may be permitted.**

## Investment Direction

### ~~Less Than 12 Months~~

- ~~• Investments are made in money market instruments and other short-term fixed income investments. Examples of these are:
  - ~~○ Money market mutual funds (including brokerage sweep accounts)~~
  - ~~○ Short-term certificates of deposits~~
  - ~~○ 90-day Treasury Bills~~~~
- ~~• Safety of principal is the primary consideration with investment income a secondary concern.~~
- ~~• Careful attention to transaction fees should be a priority given the relatively low interest income expected from these short-term investments.
  - ~~○ The overall fixed income allocation should have an average duration of less than three years.~~~~

### ~~12-36 Months~~

- ~~• The targeted allocation should be 20/80 (equity/fixed income)~~
- ~~• Fixed income investments with short-term durations are stressed.~~

### ~~36-60 Months~~

- ~~• The targeted allocation should be 40/60 (equity/fixed income)~~
- ~~• Fixed income investments with short-term durations will be stressed.
  - ~~○ The overall fixed income allocation should have an average duration of less than five years.~~~~

### ~~60+ Months~~

- ~~• The targeted allocation should be 60/40 (equity/fixed income)~~
- ~~• Fixed income investments with intermediate-term durations will be stressed.
  - ~~○ The overall fixed income allocation should have an average duration of less than ten years.~~~~

Because these broad asset allocations were **the Investment Policy was** created in a certain investment and economic climate, the allocations **Investment Policy** should be monitored periodically and **may be** adjusted **by the Board** as deemed appropriate based on then-current conditions.