

**SAMPLE DOCUMENT**  
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Provided by: Evangelical Council for Financial Accountability  
440 West Jubal Early Drive, Suite 130 ♦ Winchester, VA 22601  
540-535-0103 ♦ 800-323-9473 ♦ Fax: 540-535-0533  
[www.ECFA.org](http://www.ECFA.org) ♦ Email: [info@ECFA.org](mailto:info@ECFA.org)

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## Investment Policies

Investment policies for nonprofits are board-created to determine and direct how funds are to be invested. Ministries should invest excess funds simply as a matter of stewardship with respect to God's resources. It also is easier to earn a dollar than to raise one. Another advantage of investing funds is that it enables a ministry to preserve its purchasing power while increasing its asset base.

Many ministries may not have a formal investment policy, but may have investments. Such ministries may have an informal policy as to who handles investment decisions and transactions. A treasurer sometimes has sole responsibility for investments. Such an informal policy can be dangerous for a ministry. Poor investment decisions, such as a lack of diversification, can cost a ministry dearly. Therefore, it is important that a ministry have a carefully defined investment policy.

The board of directors should create an investment policy outlining specific ministry policies on what types of funds may be invested, how much may be invested, and what types of investments may be made.

Besides protecting the assets of a ministry, an investment policy protects board members from litigation under the Prudent Investor Rule. Under this rule, a board is responsible for exercising ordinary care and prudence under the facts and circumstances at the time of any investment decisions. If prudent care is not taken and the ministry suffers a significant loss, the board members may be held liable. Therefore, to protect board members and ministry assets, all ministries should have an investment policy in place. This should be done even if they currently do not have excess funds to use for investment purposes. Should a ministry find that it has excess funds to invest, it should already have a policy in place.

Before the board of directors creates an investment policy for a ministry, it is important that it understands five important investment concepts. Understanding these concepts will help the board create an effective, quality investment policy.

1. **Meaning of total return** – Total return of investment equals the sum of dividends and interest, plus capital gains and less capital losses and expenses. The total return on investment allows an investor to understand the true economic gains and losses of an investment each year.

2. **Relationship of risk to return** – The amount of an investment's inherent risk is directly related to its reward potential. There are four types of inherent investment risk: individual investment risk, market risk, liquidity risk, and inflation risk. The greater the total investment risk, the greater potential for a large return on investment.
3. **Use of portfolio techniques to reduce risk** – Through diversification of the investment portfolio and asset allocation, a ministry is able to reduce portfolio risk. Diversification means investing in different assets such as investments through sectors and companies to reduce specific risk. Asset allocation directs investing in different types of assets such as stocks, bonds, and cash to reduce market risk.
4. **Importance of time** – When investing funds, a ministry should allow sufficient time for the money to grow. The longer the investment time, the more profit potential. Requiring immediate withdrawals can mean significant losses from the market. It is important that a ministry only invest funds it does not need in the immediate future.
5. **Reporting as an investment management tool** – Reporting is an essential investment management tool. Reporting enables board members to look at portfolio achievements and compare the total return of the portfolio of the standard indices.

Ministries with significant investment pools may consider hiring and supervising an investment advisor who will perform the following tasks:

- Make appropriate asset allocation.
- Make investment selections.
- Report on and evaluate investment performance.
- Perform securities brokerage.
- Maintain custody of the assets.

For more information, please refer to the National Center for NonProfit Boards' *Creating and Using Investment Policies: A Guide for Nonprofit Boards* by Robert P. Fry, Jr.

Following are investment policy examples for specific guidance on how to structure an investment policy.

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Example A

## Investment Policy

### Scope of the Investment Policy

This statement of investment policy pertains to excess reserves not required for short-term operating purposes.

### Purpose of the Investment Policy

This statement of investment policy is set forth by the Investment Committee of \_\_\_\_\_ in order to:

1. Define and assign the responsibilities of all involved parties.
2. Establish a clear understanding for all involved parties of investment goals and objectives for \_\_\_\_\_.
3. Offer guidance and limitations to all Investment Managers regarding the investment of assets.
4. Establish a basis for evaluating investment results.
5. Outline a philosophy and attitude that will guide the investment management of assets toward desired results. In general, this statement is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

### Delegation of Authority

The Investment Committee of \_\_\_\_\_ is a fiduciary responsible for directing and monitoring the investment management of assets. As such, the Investment Committee is authorized to delegate certain responsibilities to professional experts in various fields. These include, but are not limited to, investment management consultants, investment managers, custodians, attorneys, auditors, actuaries, and others deemed appropriate to fulfill the fiduciary responsibility of the Investment Committee.

The Investment Committee will not reserve any control over investment decisions, with the exception of specific limitations described in this statement. Managers will be held responsible and accountable for achieving the objectives stated in this policy. While it is not believed that the limitations will hamper investment managers, each manager should request modifications deemed appropriate.

## **Responsibilities of the Investment Committee**

The Investment Committee is charged with the responsibility of managing the assets of \_\_\_\_\_ . The specific responsibilities of the Investment Committee relating to the investment management of assets include:

1. \_\_\_\_\_ financial needs shall be communicated to the Investment Managers on a timely basis.
2. Determining \_\_\_\_\_ risk tolerance and investment horizon and communicating these to the appropriate parties.
3. Establishing reasonable and consistent investment objectives, policy guidelines and allocations which will direct the investment of the assets, to be reviewed on an annual basis.
4. Prudently and diligently selecting qualified investment professionals, including investment managers(s), investment consultant(s), and custodian(s).
5. Regularly evaluating the performance of investment manager(s) to assure adherence to policy guidelines and to monitor investment objective progress.
6. Developing and enacting proper control procedures; e.g., replacing investment manager(s) due to fundamental change in investment management process, or for failure to comply with established guidelines.

## **Responsibilities of Investment Managers**

Each investment manager must be a registered investment advisor under the Investment Advisors Act of 1940, or a bank or insurance company, and must acknowledge in writing acceptance of responsibility as a fiduciary. Each investment manager will have full discretion in making all investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this statement. Specific responsibilities of investment manager(s) include:

1. Discretionary investment management, including decisions to buy, sell, or hold individual securities, and to alter allocation within the guidelines established in this statement.
2. Reporting, on a timely basis, monthly investment performance results.
3. Communicating any major changes in the economic outlook, investment strategy, or any other factors that affect implementation of investment process, or the investment objective progress of \_\_\_\_\_ investment management.

4. Informing the Investment Committee regarding any qualitative change to investment management organization. Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.
5. Voting proxies, if requested by the Investment Committee, on behalf of \_\_\_\_\_.

### **Responsibilities of the Custodian**

The custodian will physically, or through agreement with a sub-custodian, maintain possession of securities owned by \_\_\_\_\_, collect dividend and interest payments, redeem maturing securities, and effect receipt and delivery following purchases and sales. The custodian may perform regular accounting of all assets owned, purchased, or sold, as well as the movement of assets into and out of accounts.

### **General Investment Principles**

1. Investments shall be made solely in the interest of \_\_\_\_\_.
2. The assets shall be invested with care, skill, prudence, and diligence under the circumstances in the same way a prudent person acting in like capacity and familiar with such matters would act in the investments of a fund of like character and with like aims.
3. Investment of the assets shall be so diversified as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.
4. The Investment Committee may employ one or more investment managers of varying styles and philosophies to attain \_\_\_\_\_ objectives.
5. Cash is to be employed productively at all times, by investment in short-term cash equivalent to prove safety, liquidity, and return.
6. All purchases of securities will be for cash, and there will be no margin transactions, short selling, or commodity transactions.
7. Investments in limited partnerships and derivatives are prohibited.

### **Social Responsibility**

As a means to meet the needs of \_\_\_\_\_ and to benefit society generally, the Investment Committee has placed restrictions on the portfolio.

Specifically, investment in companies that manufacture or market alcoholic beverages, tobacco products, gaming products and/or facilities, pornographic, lewd, or obscene materials is prohibited.

### **Investment Objectives**

The investment objective of \_\_\_\_\_ emphasizes total return; that is, aggregate return from capital appreciation and interest and dividends. Specifically, the primary objective of management of the total portfolio is the attainment on an average annual minimal return of \_\_\_% over every trailing five-year period. Short-term volatility will be tolerated in as much as it is consistent with the volatility of comparable market index.

This investment objective applies to the aggregate assets, and is not meant to be imposed on each investment account (if more than one account is used). A specified goal of each investment manager, over the investment horizon, shall be to:

1. Meet or exceed the market index, or blended market index, selected and agreed upon by the Investment Committee that most closely corresponds to the style of investment management.
2. Display an overall level of risk in the portfolio that is consistent with the risk associated in the benchmark specified above. Risk will be measured by the standard deviation of quarterly returns.

Specific investment goals and constraints for each investment manager, if any, shall be agreed upon by the investment manager and Investment Committee and shall be incorporated as part of this statement of investment policy.

This statement of investment policy is formally adopted by vote of the Board of Trustees on\_\_\_\_\_.

(Date)

Example B

## **Statement of Investment Policy Objectives and Guidelines**

### **Background**

The by-laws of \_\_\_\_\_ provide for the establishment and maintenance of an endowment fund for the mission, and the endowment policy statement provides for the administration of the fund by the Endowment Committee. This investment policy statement reflects the policies, objectives, and constraints regarding the investment of the endowment fund monies.

### **Purpose of this Investment Policy Statement**

This statement of investment policy is set forth by the Endowment Committee of the \_\_\_\_\_ in order to:

- Define and assign the responsibilities of all involved parties.
- Establish a clear understanding for all involved parties of the investment goals and objectives of Fund assets.
- Offer guidance and limitations to all Investment Managers regarding the investment of Fund assets.
- Establish a basis for evaluating investment results.
- Manage Fund assets according to prudent standards.
- Establish the relevant investment horizon for which the Fund assets will be managed.

In general, the purpose of the statement is to outline a philosophy and attitude that will guide the investment management of the assets toward the desired results. It is intended to be sufficiently specific to be meaningful, yet flexible enough to be practical.

### **Authority and Delegation Thereof**

Ultimate authority for all matters concerning investment of the endowment fund rests with the Board of Trustees. Within that parameter, however, authority is given to the Endowment Committee, with oversight by the Finance Committee, to direct and monitor the investment of Fund assets.

With advice from the Endowment Committee, the board may hire outside experts as consultants and/or investment managers. Each investment manager will have full discretion for the assets placed under the fund's jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this Statement.

## Assignment of Responsibility

The Endowment Committee shall:

- Develop an investment policy statement for approval by the board.
- Review periodically such policy and recommend changes to it to the board.
- Review at least semiannually the performance of the Fund and of any investment managers.
- Provide to the board from time to time recommendations as to which entities should act as the investment consultant (if any) and as the investment manager(s).

The investment manager(s) shall:

In good faith, make every effort to achieve the investment objectives of the Fund with the assets placed under its jurisdiction, while assuring that the Fund operates within all policies, guidelines, constraints, and philosophies as outlined in this Statement.

The investment consultant (if any) shall:

Be a non-discretionary advisor to the Endowment Committee. Investment advice concerning the investment management of the Fund assets will be offered by the investment consultant, and will be consistent with the investment objectives, policies, guidelines, and constraints as established in this Statement. This advice includes the following:

- Asset and style allocation and strategy
- Review of the investment policy and investment policy statement, to include suggested changes
- Review of current and prospective economic and capital market issues
- Performance of the overall fund and of investment managers

## Investment Management Policy

Gifts to the \_\_\_\_\_ Endowment are generally given with the donors' expectations that the funds will stay intact and will grow from earnings, which can then be used for current or long-term needs of the \_\_\_\_\_ Mission. Therefore, the funds should be invested in accordance with these general policies:

1. **Preservation to Capital.** Both with respect to the overall Fund and to the assets assigned to each investment manager, the Endowment Committee and the investment managers should make conscious efforts to preserve capital, understanding that losses may occur in individual securities.

2. **Risk Aversion.** Understanding that risk is present in all types of securities and investment styles, the Endowment Committee recognizes that some risk is necessary to produce long-term investment results sufficient to meet the Fund's objectives. However, investment managers are to make reasonable efforts to control risk, and they will be evaluated regularly to ensure that the risk assumed is commensurate with the given investment style and objectives.
3. **Adherence to Investment Discipline.** Investment managers are expected to adhere to the investment management styles for which they were hired. Managers will be evaluated regularly for adherence to investment discipline.

## Investment Objectives

Specifically, the primary objective in the investment management of fund assets shall be:

- To preserve purchasing power after spending
- To achieve returns that are more than the rate of inflation plus spending over the investment horizon in order to preserve purchasing power of fund assets
- To control risk in the investment of fund assets

## Investment Guidelines

Allowable Assets:

Cash Equivalents:

- Treasury Bills
- Money Market Funds
- STIF funds
- Commercial Paper
- Banker's Acceptances
- Repurchase Agreements
- Certificates of Deposit

Fixed Income Securities:

- U.S. Government and Agency Securities
- U.S. Corporations
  - Notes and Bonds
  - Preferred Stock
- Mortgage Backed Bonds (with specific clearance from Endowment Committee)

- Planned Amortization Class Collateralized Mortgage Obligations (PAC CMOs) or other “early transe” CMOs (with specific clearance from Endowment Committee)

**Equity Securities:**

- U.S. Corporations
  - Common Stocks
  - Convertible Notes and Bonds
  - Convertible Preferred Stocks
- American Depository Receipts (ADRs) of Non-U.S. Companies

**Mutual Funds:**

- Mutual Funds, which invest in securities as allowed in this statement.

**Prohibited Transactions**

- Short selling
- Margin transactions
- Purchase of:
  - Privately held securities (not publicly traded)
  - Real estate properties (with the exception of Reties)
  - Derivative securities, except CMOs

**Asset Allocation Guidelines**

Equities, including any convertible securities, will constitute no more than 60% of the total portfolio market value at any time; the remainder (a minimum of 40%, and up to 100% of the total market value) will be invested in fixed obligations (bonds or cash equivalents). The Endowment Committee can direct the asset allocation or delegate that to any investment manager(s), within the above limits.

**Guidelines for Equity Investments**

ADRs are limited to no more than 15% of the total market value of the Fund. To ensure sufficient trading liquidity, at least 80% of the total equity portfolio (by market value) shall be in companies having a market capitalization of greater than \$500 million.

**Guidelines for Fixed Income Investments and Cash Equivalents**

- Corporate bonds must be “investment grade,” rated BBA by Standard and Poors (S&P) and BBB or better by Moody’s.

- Commercial paper must be rated A1/P1 or A2/P2.
- Fixed income maturity restrictions are as follows:
  - Maximum maturity for any single security is 15 years.
  - Weighted average portfolio maturity may not exceed 10 years.
- Money Market Funds selected shall contain securities whose credit rating at absolute minimum would be rated investment grade by S&P, and/or Moody's.

## **Selection of Investment Managers**

The Endowment Committee's recommendations to the board regarding the selection of investment manager(s) must be based on prudent due diligence procedures. A qualifying investment manager must be a registered investment advisor under the Investment Advisor Act of 1940, or a bank or insurance company.

## **Investment Manager Performance Review and Evaluation**

The Endowment Committee will, at least quarterly, review and measure the performance of the total portfolio, as well as asset class components, against commonly accepted performance benchmarks. Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement.

The Investment Committee intends to evaluate the portfolio(s) over at least a three-year period, but reserves the right to terminate a manager for any reason, including the following:

- Investment performance that is significantly less than anticipated, given the discipline employed and risk parameters established, or unacceptable justification of poor results
- Failure to adhere to any aspect of this statement of investment policy, including communication and reporting requirements
- Significant qualitative changes to the investment management organization

Investment managers shall be reviewed regularly regarding performance, personnel, strategy, research capabilities, organization and business matters, and other qualitative factors that may impact their ability to achieve the desired investment results.