

# Statement of Investment Policy

Prepared for the Presbytery of Middle Tennessee by Anders Hall  
Effective July 2021

## Introduction

This Statement of Investment Policy (“SIP”) is the governing document for the Presbytery of Middle Tennessee (“Presbytery”) to follow for the management of the investment portfolio entrusted to the Presbytery, and includes details regarding investment objectives, risk tolerance, and spending expectations. The information contained within the SIP serves as the foundation for an appropriate and effective investment plan.

## Portfolio Purpose and Background

The Investment Task Force believes that distributions to be made in the future are as important as grants made today. This is consistent with the philosophy that the Presbytery is to exist in perpetuity and, therefore, should provide services in perpetuity. To attain this goal, the overriding investment objective of the Presbytery is to maintain purchasing power while carrying out the mission of support. The Investment Task Force balances the Presbytery’s shorter-term obligations with its goal to provide distributions consistent with a spending policy which is determined by the Finance Committee.

## Overall Risk Tolerance and Investment Objective

We recognize that no investment is free from risk, and are mindful of the following risk categories and definitions in making investment decisions:

- **Volatility Risk:** “Volatility risk” is the potential for loss in the value of the portfolio due to year-to-year fluctuations in return relative to the one-year expected return.
- **Concentration Risk:** “Concentration risk” is the potential for loss in the value of the portfolio due to a substantial overweight in any sector, sub-sector, industry, or security.
- **Credit Risk:** “Credit risk” is the potential for loss in the value of the portfolio due to a decline in the credit-worthiness of an investment.
- **Inflation Risk:** “Inflation risk” is the loss of purchasing power due to the decline in value of the monetary unit on which the investment is based.
- **Liquidity Risk:** “Liquidity risk” is the inability to sell an investment in a timely manner without offering a discount to its fair value.

## **Time Horizon**

The time horizon for this portfolio is greater than 10 years.

## **Liquidity Needs**

The portfolio always should maintain liquidity for short-term cash flow needs over at least the next year.

## **Distribution Needs**

Cash will be distributed upon the request of the Finance Committee.

## **Income Tax Considerations**

The Investment Task Force constructs this portfolio without a need to consider the taxability of ordinary income and capital gains from investments. Unrelated business tax income may be a consideration.

## **Investment Authority**

The investment authority has been delegated to the Investment Task Force who is responsible for the investment management of the portfolio within the guidelines of this SIP.

## **Social Investment Restrictions and Special Instructions**

Unless there are constraints described elsewhere in this document, none of the current portfolio assets are subject to a social investment restriction.

However, the Finance Committee reserves the right to restrict future investments by:

- Asset class;
- Security type;
- Economic sector;
- Industry;
- Issuer; and
- Country of issuer.

Any restrictions will be added to this SIP.

## Portfolio Transition

As of May 2021, the portfolio was invested with an allocation of approximately 43% to public equities and a 57% allocation to fixed income, cash, and cash equivalents. As the portfolio's bond investments mature, the cash proceeds will be invested in equities over time. This results in an equity target that increases in a generally linear fashion until reaching 60% in August 2022.

| Date               | Equity Target |
|--------------------|---------------|
| May 31, 2021       | 43%           |
| June 30, 2021      | 44%           |
| September 30, 2021 | 48%           |
| December 31, 2021  | 51%           |
| March 31, 2022     | 54%           |
| June 30, 2022      | 58%           |
| August 31, 2022    | 60%           |

## Long-Term Asset Allocation

By August 2022, the portfolio will be invested in accordance with the policy maximum and minimum range for each asset category described below. The asset allocation, strategic target, and policy maximum and minimum levels have been established in accordance with the overall risk and return objectives of the portfolio. These asset classes and ranges are reviewed regularly, and may change over time.

Since the Presbytery's total portfolio is broadly diversified with respect to asset classes, the Investment Task Force is allowed latitude in constructing the components of the total portfolio as described below.

| Asset Class               | Strategic Target | Policy Range |
|---------------------------|------------------|--------------|
| Cash and Cash Equivalents | 10%              | 0% to 20%    |
| Fixed Income              | 30%              | 20% to 40%   |
| Other Asset Classes       | 0%               | 0% to 10%    |
| Equities                  | 60%              | 50% to 70%   |
| <b>Totals</b>             | <b>100%</b>      |              |

## Investment Implementation

The Investment Task Force believes in capital market efficiency and the mitigation of investment expenses, with simplification an overarching objective. For these reasons, we believe that passive investments through a limited number of commingled vehicles optimizes the potential for long-term investment success. A description of the current investment vehicles is shown in Appendix A, and the post-transition investment vehicles in Appendix B.

## Rebalancing Strategy

Rebalancing the portfolio allocation with the policy strategic target allocation ranges for the various asset classes serves the purpose of maintaining the risk and expected return of the portfolio within parameters stated in the SIP. Reallocations among asset classes shall reflect the following considerations:

- Generally maintain the strategic allocation targets over time; and
- The Investment Task Force will rebalance the portfolio with the asset allocation ranges stated herein, when the risk and expected reward potential is perceived to be such that an asset class weighting should be tilted toward the approved policy maximum or minimum.

## Performance Benchmarks and Measurement

Performance will be reviewed monthly.

Investment performance of the portfolio is measured against a blended portfolio benchmark. The target weight of each asset class benchmark, as derived from the portfolio's investment objective and asset allocation, is combined to define the blended benchmark for the portfolio. The assigned benchmark and weighting for each asset class within the investment objective are reviewed regularly and may change over time.

Based on the current investment objective, the portfolio will be monitored in comparison to the following benchmark:

| <b>Asset Class</b>        | <b>Strategic Target</b> | <b>Benchmark</b>                      |
|---------------------------|-------------------------|---------------------------------------|
| Cash and Cash Equivalents | 10%                     | 3-Month Treasury Bill Index           |
| Fixed Income              | 30%                     | Bloomberg Barclays US Aggregate Index |
| Equities                  | 60%                     | S&P 500 Index                         |
| <b>Totals</b>             | <b>100%</b>             |                                       |

## Updating Information

This SIP shall be reviewed at least once annually. This SIP may be modified in whole or in part at any time. The Investment Task Force will make adjustments to this SIP consistent with its understanding of the purpose, return objectives, and risk tolerance appropriate for this portfolio.

## Appendix A

### Current Investment Vehicles (as of May 31, 2022)

Cash and Cash Equivalents

Bonds

Equity Exchange-Traded Funds:

| <b>Equity ETF</b>                 | <b>Ticker</b> | <b>Description</b>                         |
|-----------------------------------|---------------|--|
| iShares Select Dividend ETF       | DVY           | Tracks the Dow Jones Select Dividend Index |
| SPDR S&P 500 ETF                  | SPY           | Tracks the S&P 500 Index                   |
| Vanguard FTSE All-World ex-US ETF | VEU           | Tracks the FTSE All-World ex-US Index      |
| Vanguard Small-Cap ETF            | VB            | Tracks the CRSP US Small-Cap Index         |

## Appendix B

### Post-Transition Investment Vehicles (by August 31, 2022)

#### Cash and Cash Equivalents

#### Vanguard LifeStrategy® Moderate Growth Fund (ticker: VSMGX):

Fact sheet | March 31, 2021



## Vanguard LifeStrategy® Moderate Growth Fund

Balanced fund (stocks and bonds)

#### Fund facts

|                            |   |   |   |   |                  |                              |               |                |             |
|----------------------------|---|---|---|---|------------------|------------------------------|---------------|----------------|-------------|
| Risk level<br>Low ← → High |   |   |   |   | Total net assets | Expense ratio as of 02/26/21 | Ticker symbol | Inception date | Fund number |
| 1                          | 2 | 3 | 4 | 5 | \$20,337 MM      | 0.13%*                       | VSMGX         | 09/30/94       | 0914        |

#### Investment objective

Vanguard LifeStrategy Moderate Growth Fund seeks to provide capital appreciation and a low to moderate level of current income.

#### Investment strategy

The fund invests in other Vanguard mutual funds according to a fixed formula that reflects an allocation of approximately 60% of the fund's assets to common stocks and 40% to bonds. The targeted percentage of the fund's assets allocated to each of the underlying funds is: Vanguard Total Stock Market Index Fund 36%, Vanguard Total Bond Market II Index Fund 28%, Vanguard Total International Stock Index Fund 24%, and Vanguard Total International Bond Index Fund/Vanguard Total International Bond II Index Fund 12%.

The fund's indirect stock holdings are a diversified mix of U.S. and foreign large-, mid-, and small-capitalization stocks. The fund's indirect bond holdings are a diversified mix of short-, intermediate-, and long-term U.S. government, U.S. agency, and investment-grade U.S. corporate bonds; mortgage-backed and asset-backed securities; and government, agency, corporate, and securitized investment-grade foreign bonds issued in currencies other than the U.S. dollar (but hedged by Vanguard to minimize currency exposures).

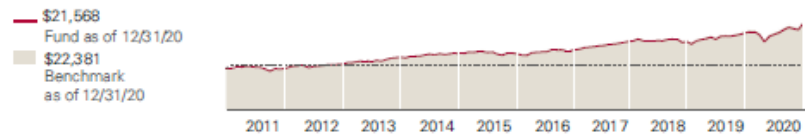
For the most up-to-date fund data, please scan the QR code below.



#### Benchmark

Moderate Growth Composite Index

#### Growth of a \$10,000 investment : January 31, 2011 – December 31, 2020



#### Annual returns

|           | 2011 | 2012  | 2013  | 2014 | 2015  | 2016 | 2017  | 2018  | 2019  | 2020  |
|-----------|------|-------|-------|------|-------|------|-------|-------|-------|-------|
| Fund      | 0.26 | 11.76 | 15.04 | 7.07 | -0.57 | 7.13 | 15.04 | -4.91 | 19.37 | 13.59 |
| Benchmark | 1.67 | 11.89 | 15.36 | 7.35 | -0.39 | 7.37 | 15.19 | -4.81 | 19.67 | 14.50 |

#### Total returns

|           | Periods ended March 31, 2021 |              |          |             |            |           |
|-----------|------------------------------|--------------|----------|-------------|------------|-----------|
|           | Quarter                      | Year to date | One year | Three years | Five years | Ten years |
| Fund      | 1.93%                        | 1.93%        | 32.92%   | 9.75%       | 9.76%      | 7.94%     |
| Benchmark | 1.98%                        | 1.98%        | 33.22%   | 10.22%      | 10.10%     | 8.36%     |

The performance data shown represent past performance, which is not a guarantee of future results. Investment returns and principal value will fluctuate, so investors' shares, when sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data cited. For performance data current to the most recent month-end, visit our website at [vanguard.com/performance](http://vanguard.com/performance).

Figures for periods of less than one year are cumulative returns. All other figures represent average annual returns. Performance figures include the reinvestment of all dividends and any capital gains distributions. All returns are net of expenses.

#### Allocation of underlying funds†



|                             |       |                         |      |
|-----------------------------|-------|-------------------------|------|
| Total Stock Market Idx Fund | 36.4% | Total Intl Bnd Idx Fund | 11.3 |
| Total Bond Mkt II Idx Fund  | 27.6  | Total Intl Bnd II       | 0.4  |
| Total Intl Stock Idx Fund   | 24.3  |                         |      |

†Fund holdings are subject to change.