



## **Statement of Investment Policy**

**(October 2011)**

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## **I. Introduction**

This Statement of Investment Policy sets forth the United Church Funds' program for investing its own assets and assets it holds as agent and/or trustee for other UCC related entities and individuals. It will be reviewed periodically by the Investment Committee and revised as necessary to ensure that the policies remain consistent with the objectives of United Church Funds' program. At least once every two years the Investment Committee will review the Statement of Investment Policy in its entirety.

The Statement describes:

- The basic purpose of United Church Funds.
- The responsibilities of Investment Fiduciaries.
- The structure of the investment program maintained by United Church Funds.
- The basic objectives and policies of the funds offered by United Church Funds.
- The guidelines which have been established for each of the Funds managed by United Church Funds.
- The process to be followed in reviewing and evaluating United Church Funds' investment program.
- Policies on additional investment and related issues.

## **II. Mission of United Church Funds**

The mission of the United Church Funds is to advance the religious, charitable, educational and other interests of the United Church of Christ and its affiliated instrumentalities. To that end, United Church Funds accepts cash and other assets from qualified investors, invests these assets in one or more of the commingled Funds established and pays out income and/or principal as appropriate. A qualified investor is any tax exempt congregation, association, conference, instrumentality or other institution affiliated with the United Church of Christ, or any trust, gift annuity fund or pooled income fund established in whole or in part for the benefit of a UCC-related entity.

### **III. Responsibilities of Investment Fiduciaries**

The Board of Directors, the Investment Committee, the President of United Church Funds, the Chief Investment Officer, investment consultants and investment managers are investment fiduciaries of United Church Funds' investment program and have responsibilities with respect to invested assets.

#### **THE BOARD OF DIRECTORS**

The Board of Directors is responsible for ensuring that all investments of United Church Funds are managed effectively and in full compliance with all applicable laws and standards of prudence. Changes in the Funds included in the United Church Funds' investment program, and in the objectives of each Fund, must be approved by the Board of Directors of United Church Funds with notice of any such change being appropriately communicated to investors in the Fund. The Board of Directors of United Church Funds authorizes the Investment Committee to supervise the investment program of United Church Funds. The Investment Committee reports to the Board of Directors on its activities at its regularly scheduled meetings, and at such other times as requested by the Board.

#### **THE INVESTMENT COMMITTEE**

The Investment Committee is responsible for supervising United Church Funds' investment program. It may delegate authority to manage United Church Funds' investment program to a Chief Investment Officer. The Investment Committee formulates investment objectives and policies, approves asset classes to be included in the investment program, establishes ranges for each asset class, establishes investment guidelines and approves exceptions to those guidelines, monitors investment performance, retains and dismisses investment managers and reports to the Board of Directors on its activities at regularly scheduled meetings and at such other times requested by the Board. The Committee fulfills these responsibilities with respect to all Funds maintained by United Church Funds. The Investment Committee also establishes Policies and Guidelines for Voting Proxies. These guidelines are in Appendix E.

#### **THE PRESIDENT**

The President of United Church Funds is a voting member of the Investment Committee and participates in the Committee's decision making process. The President is responsible for the oversight of all investment activity and coordinating with the Chief Investment Officer to ensure that the objectives of the investment program and the proper execution of investment activities are being met.

**THE CHIEF INVESTMENT OFFICER**

The Chief Investment Officer is responsible for managing the investment program of United Church Funds. The Chief Investment Officer may work with investment consultants in performing the responsibilities delegated by the Investment Committee. The Chief Investment Officer reports to the Investment Committee at its regularly scheduled meetings and at such other times as requested by the Committee. The Chief Investment Officer makes recommendations to the Investment Committee on the structure of United Church Funds' investment program, the assets classes to be used in the program, investment policies, objectives and guidelines and the retention and dismissal of investment managers and investment consultants. The Chief Investment Officer also provides the Investment Committee with reports on adherence to policies and guidelines by investment managers and investment performance, oversees investment managers, allocates assets between asset classes and sub-classes, and between investment managers within policies established by the Investment Committee and works with investment consultants on behalf of the Investment Committee.

**INVESTMENT MANAGERS**

Each investment manager as a fiduciary is primarily responsible for its actions, through the Investment Committee and the Board of Directors and to United Church Funds' investors. Each manager is responsible for managing its entrusted assets effectively, in accordance with all applicable laws and standards of prudence, in full compliance with United Church Funds' policies and guidelines and in conformity with the investment style for which they were retained. Within the context of its fiduciary responsibility, each investment manager is expected to be sensitive to the Church and the investors United Church Funds serves. Investment managers manage the assets for which they are responsible in accordance with the objectives and in compliance with the guidelines established, exercise investment discretion within the objectives outlined in the Statement of Investment Policy and established guidelines, inform the Investment Committee of all organizational developments which could materially affect the management of the firm or the firm's investment process, initiate written communication with the Investment Committee if the manager believes that deviation from the guidelines would be in the best interest of United Church Funds' investors and furnish the Investment Committee with the reports listed in Appendix D of this Statement of Investment Policy.

## INVESTMENT CONSULTANTS

Investment consultants retained by the Investment Committee are responsible for providing advice and counsel to the Investment Committee and to the Chief Investment Officer on issues identified by the Investment Committee. Investment consultants work closely with the Chief Investment Officer, participate in Investment Committee meetings and provide the Committee and/or Chief Investment Officer with written reports on specific issues.

Investment consultants provide advice and counsel on the structure of United Church Funds' investment program, asset classes to be included in the program, investment policies, objectives and guidelines, the allocation of assets among asset classes, sub-classes and investment managers, investment performance, evaluation of investment managers and the retention and dismissal of investment managers.

## IV. United Church Funds' Investment Program

United Church Funds maintains a set of common investment Funds, each with different return/risk characteristics. At the present time the set consists of the Cash and Equivalent Fund, the Fixed-Income Fund, the Total Equity Fund, the Domestic Core Equity Fund, the Small Cap Equity Fund, the International Equity Fund and the Balanced Funds—the Conservative Balanced Fund, the Moderate Balanced Fund and the Aggressive Balanced Fund, all of which invest in the Total Equity Fund and Fixed-Income Fund. In addition UCF offers an Alternatives Fund and a Alternatives Balanced Fund. The Alternatives Fund invests in hedge funds and real asset investments. The Alternatives Balanced Fund invests in the Alternatives Fund, the Total Equity Fund and Fixed-Income Fund. By allocating assets between these Funds, investors may create an investment program to match their objectives and their levels of risk tolerance.

The net asset values for UCF's Funds are based on the fair market value of the underlying assets. The common investment Funds are available to all investors or entities that have deposits on account with United Church Funds.

### A. Rate of Return Expectations and Risk by Fund

Over the long-term, the total return earned on each of UCF's Funds is expected to equal or exceed the levels listed in the table below (they do not include alpha expectations), although no such return can be assured. Returns expectations are based on Summit Strategies' long-term (10-year) capital market assumptions (and include the cost of market volatility). Over shorter periods, returns may vary considerably from long-term averages due to financial market conditions, changes in inflation and performance by specific investment managers. Risk is defined as the weighted standard deviation of the asset classes represented in each Fund.

### Fund Anticipations

<b>Fund</b>	<b>Anticipated Long-Term Total Return Per Annum</b>	<b>Risk</b>
UCF Cash and Equivalent Fund	2.7%	2.0%
UCF Fixed-Income Fund	3.7%	3.8%
UCF Total Equity Fund	6.5%	19.9%
UCF Domestic Core Equity Fund	6.0%	19.0%
UCF Small Cap Equity Fund	4.8%	23.5%
UCF International Equity Fund	6.8%	22.3%
UCF Alternatives Fund	7.3%	6.9%
UCF Conservative Balanced Fund	5.1%	7.2%
UCF Moderate Balanced Fund	5.8%	11.9%
UCF Aggressive Balanced Fund	6.1%	14.9%
UCF Alternatives Balanced Fund	6.2%	10.7%

### B. Investment Objectives, Policies and Performance Measurement Criteria

The Investment Committee established the following policies in an effort to achieve the stated investment and performance objective of each Fund. United Church Funds may retain more than one manager within each asset class based on the size of the portfolio and the nature of a particular market segment. Policy guidelines are viewed as long term in nature, although they will be reviewed periodically by the Investment Committee to ensure that they continue to serve the best interest of program investors.

Over appropriate market cycles, typically three to five years, the nominal rate of return earned by each investment manager is expected to exceed the nominal rate of return of an index composed of the type of securities that typically comprise the manager's universe, and the rate of return earned by the manager is expected to be sufficient to place the account for which that manager is responsible in the top 50% of similar accounts managed by a relevant peer group of managers as defined by EQuest Manager Style Peer Universe maintained by Investment Metrics. Returns relative to market indices are calculated net of fees, while returns relative to peer groups are calculated before fees. Fund managers and their specific performance benchmarks are listed in Appendix A.

## **1. UCF Cash and Equivalent Fund**

### **a. Investment Objective**

The Cash and Equivalent Fund seeks to provide investors with a level of current income consistent with the maintenance of a constant unit value. The Fund has the least amount of market risk of any UCF Fund and accordingly can be expected to provide the lowest total rate of return of the nine Funds over a long period of time.

### **b. Investment Policy**

The Fund invests primarily in high quality, U.S. dollar-denominated money market instruments and other high quality short-term securities, all of which have remaining maturities of thirteen months or less. These instruments may include commercial paper, certificate of deposits, U.S. treasury bills and notes, U.S. agency securities, asset-backed and mortgage-backed securities.

### **c. Performance Measurement Criteria**

The performance of the Fund will be measured against the return of the Three-Month Treasury Bill. The Fund's manager(s) will be measured against the Lipper Money Market Funds Index.

## **2. UCF Fixed-Income Fund**

### **a. Investment Objective**

The Fixed-Income Fund seeks to provide investors with a total return consistent with a diversified portfolio of high quality fixed-income securities. The Fund's market risk and expected long-term total return is higher than the Cash and Equivalent Fund but lower than the other UCF Funds.

### **b. Investment Policy**

The Fund invests primarily in intermediate and long-term U.S. dollar-denominated government and investment grade corporate fixed-income obligations. The Fund may also hold high quality mortgage, asset-backed securities as well as short-term fixed-income instruments and emerging markets debt securities within established limits.

**c. Performance Measurement Criteria**

The performance of the Fund will be measured against the return of the Barclays U.S. Government/Credit index. The manager(s) will also be measured against the relevant EQuest Manager Style Peer Universe.

**3. UCF Total Equity Fund**

**a. Investment Objective**

The Total Equity Fund seeks to provide investors with a total return consistent with a broadly diversified portfolio of common stocks. The Fund's market risk and expected long-term total return are higher than the Cash and Equivalent Fund, the Fixed-Income Fund, the Conservative Balanced Fund, the Moderate Balanced Fund and the Aggressive Balanced Fund.

**b. Investment Policy**

The Fund invests primarily in a broadly diversified portfolio of domestic and international common stocks and other equity-type securities including both small and large capitalization stocks as well as emerging markets. The Fund may also own short-term fixed-income securities as cash reserves.

**c. Performance Measurement Criteria**

The Fund will be measured against the return of a Policy Index, comprised of 40% S&P 500 Index, 10% Russell 2000 Index, 35% MSCI EAFE Index, and 15% MSCI Emerging Markets Index. The underlying managers of the various asset classes will be measured against benchmarks relevant to their mandate (as shown in Appendix A) and will be measured against the relevant EQuest Manager Style Peer Universe.

**4. UCF Domestic Core Equity Fund**

**a. Investment Objective**

The Domestic Core Equity Fund seeks to provide investors with a total return consistent with a diversified portfolio of large capitalization U.S. common stocks. The Fund's market risk and expected long-term total return are higher than the Cash and Equivalent Fund, the Fixed-Income Fund, the Conservative Balanced Fund, the Moderate Balanced Fund and the Aggressive Balanced Fund.

**b. Investment Policy**

The Fund invests primarily in the common stocks and other equity-type securities of large and mid-sized companies headquartered in the U.S., with up to 10% of the portfolio may be in companies domiciled outside the U.S. The Fund may also own short-term fixed income securities as cash reserves.

**c. Performance Measurement Criteria**

The Fund will be measured against the performance of the S&P 500 Index. The manager(s) will also be measured against the relevant EQuest Manager Style Peer Universe.

**5. UCF Small Cap Equity Fund**

**a. Investment Objective**

The Small Cap Equity Fund seeks to provide the investor with a total return consistent with a diversified portfolio of U.S. small capitalization stocks. The Fund has the highest expected market risk of all of the UCF Funds due to the more volatile nature of smaller capitalization stocks.

**b. Investment Policy**

The Fund invests primarily in U.S. small capitalization common stocks and other equity-type securities of companies headquartered in the U.S. with a weighted average market capitalization that is typically under \$1.5 billion. The Fund may hold up to 10% of the portfolio in companies domiciled outside the U.S. and may also own short-term fixed income securities as cash reserves.

**c. Performance Measurement Criteria**

The Fund will be measured against the performance of the Russell 2000 Index. The managers will be measured against of the performance of the Russell 2000 Growth Index or the Russell 2000 Value Index, depending on the mandate. The Peer comparison will be the relevant EQuest Manager Style Peer Universe.

## **6. UCF International Equity Fund**

### **a. Investment Objective**

The International Equity Fund seeks to provide investors with a total return consistent with a diversified portfolio of international stocks. Investors should recognize that by investing in foreign stocks they gain an opportunity to add the potential for long-term growth and to benefit from broader diversification, but at the same time, they should recognize that foreign stocks may be subject to different and more risks than U. S. stocks. Risk can take the form of currency exchange risk, less liquidity, less stable governments and less developed economies. These risks can result in potentially wider fluctuations in price for foreign stocks relative to comparable U.S. stocks.

### **b. Investment Policy**

The Fund invests between 60% and 80% of its assets in foreign common stocks and other equity-type securities issued by companies domiciled in developed countries in Europe, Asia and the Far East (EAFE) and between 20% and 40% of its assets in stocks issued by companies in less developed economies (emerging markets). The Fund may hold up to 10% of the portfolio in companies headquartered in the U.S. and may also own short-term fixed income securities as cash reserves.

### **c. Performance Measurement Criteria**

The Fund will be measured against the performance of the MSCI EAFE Index. The manager(s) who invests primarily in securities domiciled in EAFE countries will be measured against the MSCI EAFE Index, while the manager(s) who invest primarily in less developed markets will be measured against the MSCI Emerging Market Index. The Peer comparison will be the relevant EQuest Manager Style Peer Universe.

## **7. UCF Alternatives Fund**

### **a. Investment Objective**

The Alternatives Fund seeks to provide investors with a total return consistent with a diversified portfolio of hedge funds and real asset investments. The Fund seeks to achieve attractive risk-adjusted returns, controlling downside risk associated with adverse market conditions. UCF believes diversifying a portfolio with alternative asset classes not closely correlated to publicly-traded equity and bond markets will decrease volatility and increase risk-adjusted return potential of the portfolio. The

Fund has a moderate level of market risk. Investors should also consider liquidity risk, as the Fund has a longer lock-up period than the other UCF Funds due to the longer lock-up periods associated with the underlying alternative funds in which the Fund invests.

#### **b. Investment Policy**

The Fund invests primarily in hedge funds and real estate funds. The fund may also invest in master limited partnerships (MLPs), funds that invest infrastructure and funds that invest in commodities or commodities-related investments. As part of the hedge fund allocation, the fund may utilize a variety of strategies, including but not limited to long-short, global macro, relative value, event-driven and multi-strategy. As part of the real estate allocation, the fund may invest in private real estate funds or funds that invest in real estate investment trusts (REITs). Approximately 70% of the fund is allocated to hedge fund investments and 30% to real assets, including private real estate or REIT funds, MLPs, infrastructure funds and commodities or commodities-related investments.

#### **c. Performance Measurement Criteria**

The Fund will be measured against a Policy Index that is comprised 70% of the HFRI Fund of Funds Index and 30% of the NCREIF Fund Index–Open End Diversified Core Equity.

### **8. UCF Conservative Balanced Fund, Moderate Balanced Fund and Aggressive Balanced Fund**

#### **a. Investment Objective**

The Balanced Funds seek to provide investors with a total return consistent with a broadly diversified portfolio of high quality fixed-income securities and common stocks, with varying equity allocations in accordance with the desired risk/return tradeoff. The Funds' market risk and expected long-term total return is higher than the Fixed-Income Fund but less than the Equity Fund or the Alternatives Fund. The Conservative Balanced Fund, which has the lowest equity allocation of the three Funds, has the lowest expected total return potential, but also the lowest market risk. The Aggressive Balanced Fund has the highest equity allocation and therefore the highest total return potential and highest market risk. The Moderate Balanced Fund has an equity allocation in between the Conservative Balanced Fund and the Aggressive Balanced Fund. Accordingly, the Fund's market risk and total return potential is expected to be higher than the Conservative Balanced Fund but lower than the Aggressive Balanced Fund.

**b. Investment Policy**

Balanced Fund assets consist of units of the Fixed-Income Fund and the Total Equity Fund.

**c. Performance Measurement Criteria**

The Balanced Funds are measured against Policy Indexes comprised of the S&P 500 Index and the Barclays U.S. Government/Credit Index, weighted by the midpoint of the asset allocation policy range for each Fund that is stated below.

**9. UCF Alternatives Balanced Fund****a. Investment Objective**

The Alternatives Balanced Fund seeks to provide investors with a total return consistent with a broadly diversified portfolio of common stocks, fixed-income investments and alternative investments. The Fund is expected to have an equity allocation in between the Conservative Balanced Fund and the Moderate Balanced Fund. The Fund has a higher expected return than the three other Balanced Funds and lower market risk.

**b. Investment Policy**

The Alternatives Balanced Fund assets consist of units of the Equity Fund, the Fixed-Income Fund and the Alternatives Fund.

**c. Performance Measurement Criteria**

The Fund will be measured against a Policy Index comprised of the following: 50% the UCF Total Equity Fund Policy Index, 30% the Barclays U.S. Government/Credit Index and 20% the UCF Alternatives Fund Policy Index.

**C. Long-Term Diversification Guidelines**

The Investment Committee established the following diversification guidelines to achieve appropriate diversification of asset classes within the Funds. Asset classes were identified based on their appropriateness for United Church Funds' investment program, long-term return and volatility characteristics and diversification benefits offered within a multiple manager and a multiple asset class structure. United Church Funds may retain more than one manager within each asset class based on the size of the portfolio and the nature of a particular market segment.

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These guidelines should be viewed as long term in nature, although they will be reviewed periodically by the Investment Committee to ensure that they continue to serve the best interest of program investors.

### 1. Total Equity Fund Structure

		Allocation of Equity Fund Assets	
		Minimum	Maximum
<b>Investment Style</b>			
<i>Domestic Core</i>	Broadly diversified U.S. large cap oriented portfolio; broad characteristics similar to the market.	30%	50%
<i>Domestic Small Cap</i>	Smaller cap oriented U.S. equities with emphasis on growth or value characteristics	0%	20%
<i>International Developed</i>	Equities of non-U.S. companies headquartered in Europe, Australasia and the Far East.	25%	45%
<i>International Emerging</i>	Equities of non-U.S. companies headquartered in less developed, emerging markets countries.	5%	25%

### 2. Domestic Core Equity Fund Structure

		Allocation of Equity Fund Assets	
		Minimum	Maximum
<b>Investment Style</b>			
<i>Domestic Core</i>	Broadly diversified U.S. large cap oriented portfolio; broad characteristics similar to the market.	100%	100%

### 3. Small Cap Equity Fund Structure

		Allocation of Equity Fund Assets	
Investment Style		Minimum	Maximum
<i>Small Cap Value</i>	Smaller cap oriented equities with emphasis on value and/or growth characteristics. Relative weights will be determined by staff.	0%	100%
<i>Small Cap Growth</i>		0%	100%

### 4. International Equity Fund Structure

		Allocation of Equity Fund Assets	
Investment Style		Minimum	Maximum
<i>Developed</i>	Equities of non-U.S. companies headquartered in Europe, Australasia, and Far East countries	60%	80%
<i>Emerging</i>	Equities of non-U.S. companies headquartered in less developed, emerging markets countries.	20%	40%

## 5. Fixed-Income Fund Structure

Investment Style		Allocation of Fixed-Income Fund Assets	
		Minimum	Maximum
<i>Core</i>	Total return focus incorporating interest rate anticipation, sector concentration, coupon level and credit rating strategies.	90%	100%
<i>Emerging Markets Debt</i>	Emerging Markets investments include fixed income securities and derivate investments (including, but not limited to, spot and currency contracts, futures, options and swaps) that economically are tied to an emerging market country, which are denominated in the predominant currency of the local market of an emerging market country.	0%	10%

## 6. Alternatives Fund Structure

Asset Class		Allocation of Alternatives Fund Assets	
		Minimum	Maximum
<i>Hedge Funds</i>	Diversified portfolio of hedge fund and real asset investments with relatively low expected correlations with equities and fixed-income securities.	60%	80%
<i>Real Assets</i>		20%	40%

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**7. UCF Conservative Balanced Fund Structure**

Asset Class		Allocation of Balanced Fund Assets	
		Minimum	Maximum
<i>Equity</i>	Invests in the UCF Total Equity Fund and the UCF Fixed-Income Fund.	30%	40%
<i>Fixed-Income</i>		60%	70%

**8. UCF Moderate Balanced Fund Structure**

Asset Class		Allocation of Balanced Fund Assets	
		Minimum	Maximum
<i>Equity</i>	Invests in the UCF Total Equity Fund and the UCF Fixed-Income Fund.	55%	65%
<i>Fixed-Income</i>		35%	45%

**9. UCF Aggressive Balanced Fund Structure**

Asset Class		Allocation of Balanced Fund Assets	
		Minimum	Maximum
<i>Equity</i>	Invests in the UCF Total Equity Fund and the UCF Fixed-Income Fund.	70%	80%
<i>Fixed-Income</i>		20%	30%

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**10. UCF Alternatives Balanced Fund Structure**

<b>Asset Class</b>		<b>Allocation of Balanced Fund Assets</b>	
		<b>Minimum</b>	<b>Maximum</b>
<i>Equity</i>		40%	60%
<i>Fixed-Income</i>	Invests in the UCF Total Equity Fund, the UCF Fixed-Income Fund and the UCF Alternatives Fund.	20%	40%
<i>Alternatives</i>		10%	30%

## V. Investment Guidelines

The Investment Committee of United Church Funds establishes guidelines to ensure that the investments in UCF's Funds meet the ethical, moral and social expectations of the church, and that appropriate diversification within each Fund is maintained. Investment managers retained by United Church Funds are expected to adhere to these guidelines unless otherwise specified in the guidelines within the investment advisory agreement between United Church Funds and the manager. Guidelines that are a part of the investment advisory agreement for United Church Funds' external managers are included in Appendix B to this Policy Statement.

**Alternative Investments Exception:** Due to the specialized investments and strategies utilized by alternative investment funds, which are predominantly offered as commingled vehicles, the Investment Committee recognizes that these investments are subject to the diversification and quality guidelines of the investment advisor managing a given fund. Therefore, the UCF Alternatives Fund and by extension the UCF Alternatives Balanced Fund may not be in compliance with UCF social screens. In addition, the "Prohibited Transactions" cited below in section D may not apply to the UCF Alternatives Fund and by extension the UCF Alternatives Balanced Fund.

### A. Guideline Changes

Any manager who believes that a change in the guidelines would be beneficial to the investors in UCF's Funds should communicate this belief to the Investment Committee. The Committee will consider the manager's recommendations based on the facts and circumstances at the time. Approval of the Investment Committee must be obtained in writing before the investment manager is authorized to deviate from the guidelines.

### B. Money Manager Structures

The assets of UCF's Funds may be invested as separately managed accounts or in commingled or institutional mutual funds, depending on investment, administrative and cost considerations. The Investment Committee recognizes that commingled funds and mutual funds are subject to the diversification and quality guidelines of the investment advisor managing the fund. When selecting such an investment vehicle, the Investment Committee will attempt to select funds with portfolio policies and guidelines which are consistent with the guidelines in this Statement of Investment Policy. If screened investments held in a commingled or mutual fund do not exceed 2% of the assets under management by any manager, the fund will be considered consistent with the guidelines in this Statement of Investment Policy. However, there may be circumstances under which a commingled or institutional mutual fund may not be entirely consistent with the guidelines in the Policy Statement and yet represent the best or only alternative means of participating in a particular asset class. These circumstances may include an asset class in which costs, diversification

requirements, limited access to available managers and the unavailability of separately managed accounts may necessitate the use of such a fund.

### C. Ethical, Moral and Social Guidelines

When selecting investments for UCF's Funds (with the exception of the UCF Alternatives Fund and by extension the UCF Alternatives Balanced Fund), the investment manager should favor securities of companies and organizations which in their policies and actions work to promote human health and dignity, environmental integrity and moral responsibility. In its selection process, the investment manager should avoid securities of companies which derive a significant portion (as defined below) of their revenues from the manufacture, sale or distribution of alcohol, tobacco, gambling or military products or services.

Product/Service	Approximate Percentage
Alcohol	10%
Gambling	10%
Tobacco	1%
Military products/services: Conventional Weapons	10%
Military products/services: Nuclear Weapons	5%

### D. Prohibited Transactions

1. Purchasing or selling commodities, commodity contracts, or illiquid interests in real estate or mortgages.
2. Pledging, mortgaging, or hypothecating any securities except for loans of securities that are fully collateralized.
3. Borrowing money in order to create financial leverage.
4. Purchasing securities on margin or making short sales.
5. Purchasing securities of the investment manager, its parent, or its affiliates.
6. Purchasing private placements without prior written Investment Committee approval. Requests for Committee approval must be made in writing and must include an explanation of the strategies to be employed and the guidelines to be followed.

7. Purchasing or selling futures, options or forward contracts for speculative purposes or for the purpose of increasing portfolio leverage. The use of various futures and options strategies may be appropriate under certain circumstances. However, written Investment Committee approval is required before a manager may engage in such strategies. Requests for Committee approval must be made in writing and must include an explanation of the strategies to be employed and the guidelines to be followed.

#### **E. UCF Cash and Equivalent Fund Guidelines**

1. Permissible investments include high quality, marketable U.S. dollar denominated securities of the types listed below with effective remaining maturities of 397 days or less. High quality, broadly diversified commingled or mutual money market funds made available by United Church Funds' custodian bank are also permitted investments. Permission to use comparable funds or other cash equivalent vehicles may be requested by a manager of the Investment Committee. Written Investment Committee approval is required before the manager may use cash equivalent vehicles other than those listed below or those made available by United Church Funds' custodian bank.
  - a. Commercial paper of domestic and foreign issuers.
  - b. Negotiable certificates of deposit, time deposits and bankers acceptances of domestic banks that are subject to regulatory supervision by the United States Government or by state governments, and of foreign banks with branches or agencies in the United States subject to the same supervision.
  - c. Bonds and notes issued by United States or foreign corporations provided they are not subject to foreign withholding tax.
  - d. Obligations issued or guaranteed by the United States Government or its agencies or instrumentalities.
  - e. Obligations issued by foreign sovereign governments or their agencies, instrumentalities, authorities, or political subdivisions.
  - f. Obligations of international banking institutions authorized by national governments to facilitate economic reconstruction, economic development, or trade between nations.

2. Up to 10% of the market value of the portfolio for which each manager is responsible may be invested in U.S. dollar denominated bonds of issuers located outside the United States.
3. All commercial paper must be rated by at least two of the Nationally Recognized Statistical Rating Organizations (NRSRO's), and must carry the highest rating issued by all NRSRO's that rate the issue. All bonds and notes issued by United States or foreign corporations must be rated "AA" or higher by at least two of the Nationally Recognized Statistical Rating Organizations (NRSRO's). In the event that a commercial paper issue held by a manager has its rating downgraded below the required rating, and/or in the event that the comparable debt of the issuer is downgraded, the manager must liquidate the position or report its inability to do so to the Chief Investment Officer.
4. No single issuer's securities should exceed 5% of each manager's portfolio at current market value. Securities issued or guaranteed by the U.S. Government or its agencies or instrumentalities are exempt from this guideline.
5. Each manager's portfolio should be appropriately diversified. This diversification should be demonstrated in the manager's quarterly report to the Investment Committee. The dollar weighted average maturity of the manager's portfolio together with the manager's stated maturity policy should also be included. Under no circumstances, however, should the average maturity of the manager's portfolio exceed 91 days.

#### **F. UCF Fixed-Income Fund Guidelines**

1. Permissible investments include U.S. dollar denominated marketable bonds, and notes mortgages and other asset-backed securities, preferred stock and cash equivalent securities. Forward, futures, and options contracts with prior written authorization may be used in certain situations. (See Prohibited Transactions.)
2. Up to 25% of the market value of the portfolio for which each manager is responsible may be invested in U.S. dollar denominated bonds of issuers located outside the United States.
3. At least 90% of each manager's portfolio, measured at current market value, should have an investment grade rating from at least two of the NRSRO's.
4. No single issuer's securities, other than those of the U.S. Treasury or Agencies, should exceed 5% of each manager's portfolio at current market value. There is no limit to the percentage of the manager's portfolio that may be invested in U.S. Treasury securities. No more than 25% of the total portfolio, measured at current market value, may be invested in U.S. Agency securities.

5. Each manager's portfolio should be appropriately diversified. This diversification should be demonstrated in the manager's quarterly reports to the Investment Committee. The duration of each manager's portfolio together with the manager's stated duration policy should also be included.
6. For the cash and equivalent portion of their portfolios, managers are expected to utilize a high quality broadly diversified commingled fund or other high quality investment vehicle made available by United Church Funds' custodian bank. Permission to use comparable funds or other cash equivalent vehicles may be requested by a manager of the Investment Committee. The request must be accompanied by evidence indicating that the alternative funds or vehicles meet the same or higher standards of quality and diversification that would be achieved by using the custodian bank's vehicles. Written Investment Committee approval is required before a manager may use cash equivalent vehicles other than those made available by United Church Funds' custodian bank.

#### **G. UCF Equity Fund Guidelines**

1. Permissible investments include common and preferred stock, convertible securities, warrants, and cash equivalent securities. Forward, futures, and options contracts with prior written authorization may be used in certain situations. (See Prohibited Transactions.)
2. Domestic managers should invest no more than 10% of the market value of the portfolios for which they are responsible in the equities of companies headquartered outside the U.S. Both direct investments and depository receipts are permissible in the non-U.S. segment of the portfolio.
3. Foreign managers should invest no more than 10% of the market value of the portfolios for which they are responsible in the equities of companies headquartered inside the U.S. Both direct investments and depository receipts are permissible in the U.S. segment of the portfolio.
4. Investments should be made in equity markets of countries which the manager deems to be politically stable.
5. Securities of foreign issuers held in each manager's portfolio should be traded in markets in which the manager's opinion provide the investor with sufficient liquidity, and which adhere to fair, safe and orderly trading and settlement practices and procedures.

6. With respect to at least 75% of the value of each manager's portfolio, the maximum position in a single issuer's securities should not exceed 5% of total assets at current market value. Each manager has discretion to take more concentrated positions in the remaining 25% of the portfolio, but should not allow any one position to exceed 8% of the portfolio.
7. No more than 20% of each manager's portfolio, at market value, should be invested in companies with a market capitalization of \$100 million or less.
8. No more than 25% of the market value of each manager's portfolio may be invested in companies in which the combined holdings of the manager's clients constitute 10% or more of the outstanding stock.
9. Each manager's portfolio should be appropriately diversified by sector, by industry and by individual company, and it should reflect the investment style of the manager. This diversification and adherence to relevant style characteristics should be demonstrated in the manager's quarterly reports to the Investment Committee.
10. Cash equivalent positions should not exceed 15% of any manager's portfolio market value.
11. For the cash and equivalent portion of their portfolios, managers are expected to utilize a high quality broadly diversified commingled fund or other high quality investment vehicle made available by United Church Funds' custodian bank. Permission to use comparable funds or other cash equivalent vehicles may be requested by a manager of the Investment Committee. The request must be accompanied by evidence that the alternative funds or vehicles meet the same or higher standards of quality and diversification that would be achieved by using the custodian bank's vehicles. Written Investment Committee approval is required before a manager may use cash equivalent vehicles other than those made available by United Church Funds' custodian bank.

**H. UCF Domestic Core Equity Fund Guidelines**

1. Permissible investments include common and preferred stock, convertible securities, warrants, and cash equivalent securities. Forward, futures, and options contracts with prior written authorization may be used in certain situations. (See Prohibited Transactions.)
2. Managers should invest no more than 10% of the market value of the portfolios for which they are responsible in the equities of companies headquartered outside the U.S. Both direct investments and depository receipts are permissible in the non-U.S. segment of the portfolio.
3. Securities of foreign issuers should be made in equity markets of countries which the manager deems to be politically stable and which in the manager's opinion provides the investor with sufficient liquidity, and adhere to fair, safe and orderly trading and settlement practices and procedures.
4. With respect to at least 75% of the value of each manager's portfolio, the maximum position in a single issuer's securities should not exceed 5% of total assets at current market value. Each manager has discretion to take more concentrated positions in the remaining 25% of the portfolio, but should not allow any one position to exceed 8% of the portfolio.
5. Each manager's portfolio should be appropriately diversified by sector, by industry and by individual company, and it should reflect the investment style of the manager. This diversification and adherence to relevant style characteristics should be demonstrated in the manager's quarterly reports to the Investment Committee.
6. Cash equivalent positions should not exceed 15% of any manager's portfolio market value.
7. For the cash and equivalent portion of their portfolios, managers are expected to utilize a high quality broadly diversified commingled fund or other high quality investment vehicle made available by United Church Funds' custodian bank. Permission to use comparable funds or other cash equivalent vehicles may be requested by a manager of the Investment Committee. The request must be accompanied by evidence that the alternative funds or vehicles meet the same or higher standards of quality and diversification that would be achieved by using the custodian bank's vehicles. Written Investment Committee approval is required before a manager may use cash equivalent vehicles other than those made available by United Church Funds' custodian bank.

**I. UCF Small Cap Equity Fund Guidelines**

1. Permissible investments include common and preferred stock, convertible securities, warrants, and cash equivalent securities. Forward, futures, and options contracts with prior written authorization may be used in certain situations. (See Prohibited Transactions.)
2. Managers should invest no more than 10% of the market value of the portfolios for which they are responsible in the equities of companies headquartered outside the U.S. Both direct investments and depository receipts are permissible in the non-U.S. segment of the portfolio.
3. Securities of foreign issuers should be made in equity markets of countries which the manager deems to be politically stable and which in the manager's opinion provide the investor with sufficient liquidity, and adhere to fair, safe and orderly trading and settlement practices and procedures.
4. With respect to at least 75% of the value of each manager's portfolio, the maximum position in a single issuer's securities should not exceed 5% of total assets at current market value. Each manager has discretion to take more concentrated positions in the remaining 25% of the portfolio, but should not allow any one position to exceed 8% of the portfolio.
5. No more than 20% of each manager's portfolio, at market value, should be invested in companies with a market capitalization of \$100 million or less.
6. Each manager's portfolio should be appropriately diversified by sector, by industry and by individual company, and it should reflect the investment style of the manager. This diversification and adherence to relevant style characteristics should be demonstrated in the manager's quarterly reports to the Investment Committee.
7. Cash equivalent positions should not exceed 15% of any manager's portfolio market value.
8. For the cash and equivalent portion of their portfolios, managers are expected to utilize a high quality broadly diversified commingled fund or other high quality investment vehicle made available by United Church Funds' custodian bank. Permission to use comparable funds or other cash equivalent vehicles may be requested by a manager of the Investment Committee. The request must be accompanied by evidence that the alternative funds or vehicles meet the same or higher standards of quality and diversification that would be achieved by using the custodian bank's vehicles. Written Investment Committee approval is required before a manager may use cash equivalent vehicles other than those made available by United Church Funds' custodian bank.

**J. UCF International Equity Fund Guidelines**

1. Permissible investments include common and preferred stock, convertible securities, warrants, and cash equivalent securities. Forward, futures, and options contracts with prior written authorization may be used in certain situations. (See Prohibited Transactions.)
2. Managers should invest no more than 10% of the market value of the portfolios for which they are responsible in the equities of companies headquartered inside the U.S. Both direct investments and depository receipts are permissible in the U.S. segment of the portfolio.
3. Securities of foreign issuers should be made in equity markets of countries which the manager deems to be politically stable and which in the manager's opinion provide the investor with sufficient liquidity, and adhere to fair, safe and orderly trading and settlement practices and procedures.
4. With respect to at least 75% of the value of each manager's portfolio, the maximum position in a single issuer's securities should not exceed 5% of total assets at current market value. Each manager has discretion to take more concentrated positions in the remaining 25% of the portfolio, but should not allow any one position to exceed 8% of the portfolio.
5. No more than 20% of each manager's portfolio, at market value, should be invested in companies with a market capitalization of \$100 million or less.
6. Each manager's portfolio should be appropriately diversified by sector, by industry and by individual company, and it should reflect the investment style of the manager. This diversification and adherence to relevant style characteristics should be demonstrated in the manager's quarterly reports to the Investment Committee.
7. Cash equivalent positions should never exceed 15% of any manager's portfolio market value.
8. For the cash and equivalent portion of their portfolios, managers are expected to utilize a high quality broadly diversified commingled fund or other high quality investment vehicle made available by United Church Funds' custodian bank. Permission to use comparable funds or other cash equivalent vehicles may be requested from the Investment Committee. The request must be accompanied by evidence that the alternative funds or vehicles meet the same or higher standards of quality and diversification that would be achieved by using the custodian bank's vehicles. Written Investment Committee approval is required before a manager may use cash equivalent vehicles other than those made available by United Church Funds' custodian bank.

**K. UCF Alternatives Fund Guidelines**

Due to the specialized investments and strategies utilized by alternative investment funds, which are predominantly offered as commingled vehicles, the UCF Investment Committee recognizes that these investments are subject to the diversification and quality guidelines of the investment advisor managing the fund.

**L. UCF Conservative Balanced Fund, Moderate Balanced Fund and Aggressive Balanced Fund Guidelines**

Because the assets of the UCF Conservative Balanced Fund, Moderate Balanced Fund and Aggressive Balanced Fund consist of units of the UCF Fixed-Income Fund and the UCF Equity Fund, the Balanced Fund guidelines are determined by the guidelines of the underlying Funds. The following are the equity allocation ranges established by the Investment Committee in an effort to maintain desired diversification between asset classes and risk parameters: equity allocation in the Conservative Balanced Fund is between 30% and 40%; equity allocation in the Moderate Balanced Fund is between 55% and 65%; equity allocation in the Aggressive Balanced fund is between 70% and 80%.

**M. UCF Alternatives Balanced Fund Guidelines**

Because the assets of the Alternatives Balanced Fund consist of units of the Alternatives Fund, the Fixed-Income Fund and the Equity Fund, the Alternatives Balanced Fund guidelines are determined by the guidelines of the underlying funds. In an effort to maintain desired diversification between asset classes and risk parameters, the Investment committee established an equity allocation range for the Alternatives Balanced Fund between 40% and 60%.

## **VI. Review and Evaluation Process**

The Investment Committee believes that investors in UCF's funds are best served by the adoption of a long-term view of the investment process. The Investment Committee also recognizes that careful monitoring of results and timely decision-making when needed are critical to the program's success. As such, the Investment Committee has established the following formal program reviews as part of the ongoing monitoring process.

- A.** During the course of each year, the Investment Committee will review the overall investment program. This review will include an evaluation of:
1. The structure of the investment program in relation to the needs and desires of investors.
  2. The objectives of each Fund.
  3. The investment structure of each Fund, including the allocation of assets between asset classes, market segments and investment managers.
  4. The performance of each Fund in relation to its objectives.
- B.** At least once each year, the Investment Committee will review the performance of its investment managers. The yearly management review will include an evaluation of:
1. The manager's investment performance in relation to appropriate indexes and universes.
  2. The manager's adherence to its stated investment approach.
  3. The manager's observance of the investment guidelines.
  4. Developments within the investment manager's organization of importance to United Church Funds.

## **VII. Policies on Execution and Soft Dollar Transactions**

### **Execution**

Investment managers should seek “best execution” on all investment transactions. For security sales, best execution is defined as maximum net proceeds considering price, commissions or other similar expenses and all other transactions costs. For security purchases, best execution is defined as minimum net cost considering price, commissions or other similar expenses and all other transactions costs.

### **Soft Dollar Transactions**

Soft dollar transactions are permitted under the following guidelines in situations in which United Church Funds determines that the service being acquired serves the best interest of investors in the Funds.

1. The trading policy requiring best execution may not be violated.
2. The investment manager will select the broker to be used and will negotiate the hard dollar/soft dollar ratio to be applied to transactions. This ratio will be included in the brokerage allocation report referred to in Appendix C of this Statement of Investment Policy.
3. The investment manager’s normal commission policies will be followed.

## **VIII—Policies and Guidelines on Securities Lending**

The objectives of securities lending are to preserve principal and to earn incremental income consistent with prudent risk management and portfolio diversification. In accordance with these objectives, equity and fixed income securities may be lent to approved borrowers in order to increase the total return earned. Prior to any lending activity, there must be a properly executed securities lending agreement between United Church Funds and the lending agent which includes, but is not limited to, provisions for appropriate collateral accepted for securities on loan and indemnification against borrower defaults.

### **Acceptable Collateral and Collateral Levels**

In particular, all loans must be made against \$U.S. cash collateral only. Moreover, loans of U.S. equities and U.S. fixed income securities (including accrued interest) must be collateralized at all times to at least 102% of the market value of the security loaned subject to de minimus rules. Similarly, loans of non-U.S. equities and fixed income securities must be collateralized at all times to at least 105% of the market value of the securities loaned subject to de minimus rules if the borrowed securities and the collateral are denominated in different currencies.

### **Separate Account for Cash Collateral Investments**

All cash collateral investments for the United Church Funds account will be held in a separately managed portfolio, for which each individual cash collateral investment can be monitored by the staff of the United Church Funds on a daily basis. No commingling of investments, such as investments in a common fund or pooled vehicle, is permitted.

### **Maturities and Liquidity of Cash Collateral Investments**

Each investment made with cash collateral must have a remaining life when purchased of no more than 270 days. The portfolio of all cash collateral investments must have at all times an average maturity not to exceed 45 days. Cash collateral investments with a maturity (as herein defined) over 90 days must be limited to no more than 30% of the portfolio of all cash collateral investments at all times. Cash collateral investments with overnight maturities must comprise at least 20% of the portfolio of all cash collateral investments at all times.

The maturity of cash collateral investments is defined as the date on which the principal amount is ultimately required to be paid. Auction rate securities are not permitted.

### **Structured Finance Issuers Not Permitted for Cash Collateral Investments**

Investments made with cash collateral will not be permitted in any securities issued by structured finance vehicles, including but not limited to asset-backed commercial paper programs (ABCP), structured investment vehicles (SIVs), generalized asset backed securities (ABS), residential mortgage backed securities (RMBS), and commercial mortgage backed securities (CMBS). In addition, investments made with cash collateral will not be permitted in closed end mutual funds.

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### **Ratings and Rating Changes for Cash Collateral Investments**

It is expected that, prior to investment, a high level of due diligence will be performed on all investments of cash collateral with respect to creditworthiness. Only cash collateral investments where there is a high expectation that the security/issuer will remain in compliance with ratings eligibility guidelines (particularly long-term ratings guidelines) through maturity will be permitted. All cash collateral investments and related issuers must have a least two published ratings from the three major credit rating agencies (Moody's, Standard & Poors and Fitch). The lowest rating among the three rating agencies should be used to determine the eligibility of the investment/related issuer. All cash collateral investments from issuers generally classified as industrial companies must have published issuer long-term ratings at a minimum of A or the equivalent. All cash collateral investments from issuers generally classified as banks, insurance companies or other financial institutions must have published issuer long-term ratings at a minimum of AA- or the equivalent. If a rating is based upon credit enhancement provided by a third party, such as a monoline insurer, then the long-term rating must be AAA or the equivalent. Any rating changes subsequent to investment that results in a cash collateral investment or related issuer falling outside ratings eligibility guidelines must be communicated to the staff of United Church Funds within 48 hours of said change and discretion over the ultimate disposition of these investments remains with the staff of United Church Funds.

### **Cash Collateral Investment Guidelines:**

In determining investment limits for cash collateral, an issuer shall be considered to include all parent companies and subsidiaries of that issuer, as well as any affiliates of these entities. Cash collateral investments in obligations of borrowers is not permitted.

<b><u>Approved Investments</u></b>	<b><u>Investment Limit</u></b>	<b><u>Minimum Acceptable Rating * (Based upon S&amp;P rating scale)</u></b>
Full faith and credit obligations of the U. S. Government, its agencies and instrumentalities	None	Not applicable
U.S. agency obligations and obligations of foreign sovereign governments and their agencies and instrumentalities, if specifically guaranteed by the sovereign government	Lesser of 5% total cash collateral or \$20 MM per country	Short term A-1 (or equivalent**) <u>and</u> long term A (or equivalent, e.g., Moody's long term A2)
Commercial paper, master notes, and promissory notes	Lesser of 5% total cash collateral or \$20 MM per issuer	Short term A-1 (or equivalent**) <u>and</u> long term A (or equivalent, e.g., Moody's long term A2) for industrials; short term A-1+ (or equivalent**) <u>and</u> long term AA- (or equivalent) for financials

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Marketable notes and bonds	Lesser of 5% total cash collateral or \$20 MM per issuer	Short term A-1 (or equivalent**) <u>and</u> long term A (or equivalent, e.g., Moody's long term A2) for industrials; short term A-1+ (or equivalent**) <u>and</u> long term AA- (or equivalent) for financials
Certificates of deposit and time deposits of federally regulated U.S. banks or federally regulated branches or subsidiaries of foreign banks	Lesser of 5% total cash collateral or \$20 MM per issuer	Short term A-1+ (or equivalent**) <u>and</u> long term AA- (or equivalent)***
Bankers' acceptances issued by federally regulated U.S. banks or issued in the U.S. by federally regulated branches or subsidiaries of foreign banks	Lesser of 5% total cash collateral or \$20 MM per issuer	Short term A-1+ (or equivalent**) <u>and</u> long term AA- (or equivalent)***
Overnight reverse repurchase agreements with counterparties limited to Primary Dealers; security received is limited to full faith and credit obligations of the U.S. Government, its agencies, and instrumentalities or U.S. agency obligations	Lesser of 5% total cash collateral or \$20MM per counterparty	Security received must meet minimum acceptable ratings criteria for cash collateral investment
Individually registered "sweep" bank account for overnight cash balances, including Northern Trust Grand Cayman Branch	Limited to cash collateral balances and related cash payments received after normal trading hours and to be invested in another approved investment the following trading day	Short term A-1+ (or equivalent**) <u>and</u> long term AA- (or equivalent)

\* When short term and long term ratings criteria are provided, then the investment/issuer must meet both ratings criteria regardless of the tenor of the investment.

\*\* Since Moody's does not currently provide a P-1+ short term rating, Moody's P-1 short term rating shall be considered equivalent to both S&P's A-1+ and A-1 short term ratings.

\*\*\* If the banker's acceptance, certificate of deposit, or time deposit is not rated, then the bank's commercial paper rating shall be used in its place.

### **Limits on Credit Enhanced Investments**

No more than the lesser of 5% of total cash collateral or \$20MM may be invested in securities that receive credit enhancement from a single third party and no more than the lesser of 10% of total cash collateral or \$40MM may be invested in securities which receive credit enhancement from any third party, as the credit quality of these securities is often significantly lower if credit enhancement is removed.

### **Inclusion of Collateral Received in Reverse Repurchase Agreement**

For overnight reverse repurchase agreements, in addition to investment limits per counterparty, the collateral received in these transactions should be included with any other investments of cash collateral in securities of that issuer in determining compliance with investment limits per issuer.

## APPENDICES

### Appendix A – Performance Objectives by Investment Manager

Over appropriate market cycles, typically three to five years, the nominal rate of return earned by each investment manager is expected to exceed the nominal rate of return of an index composed of the types of securities that typically comprise the manager’s universe, and the rate of return earned by the manager is expected to be sufficient to place the account for which that manager is responsible in the top 50% of similar accounts managed by a relevant peer group of managers as defined by the EQuest Manager Style Peer Universe maintained by Investment Metrics. Returns relative to market indices are calculated net of fees, while returns relative to peer groups are calculated before fees. Relevant indexes and manager peer groups are listed in the table below.

#### Investment Manager Objectives

<b>Fund/Manager(s)</b>	<b>Index</b>
<b>UCF Cash and Equivalent Fund</b> Pension Boards - UCC	Lipper Money Market Funds Index
<b>UCF Fixed-Income Fund</b> Pension Boards – UCC Standish – BNY Mellon EMD	Barclays U.S. Government/Credit Index JP Morgan GBI-EM Global Diversified Index
<b>UCF Equity Fund</b> Quantitative Management Associates Dimensional Fund Advisors Fiduciary Management, Inc. Westfield Capital Management LSV Asset Management Neuberger Berman Aberdeen Asset Management	<b>Custom Equity Benchmark*</b> S&P 500 Index Russell 2000 Value Index Russell 2000 Index Russell 2000 Growth Index MSCI EAFE Index MSCI EAFE Index MSCI Emerging Markets Net Index
<b>UCF Domestic Core Equity</b> Quantitative Management Associates	S & P 500 Index
<b>UCF Small Cap Equity</b> Dimensional Fund Advisors Fiduciary Management, Inc. Westfield Capital Management	Russell 2000 Value Index Russell 2000 Index Russell 2000 Growth Index
<b>UCF International Equity</b> LSV Asset Management Neuberger Berman Aberdeen Asset Management	MSCI EAFE Index MSCI EAFE Index MSCI Emerging Markets Net Index
<b>UCF Alternatives Fund</b> Evanston Capital Management Heitman American RE Trust LP Magnitude International	70% HFRI Fund of Funds Composite Index 30% NCREIF Open End Diversified Core

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<p><b>UCF Conservative Balanced Fund</b> Quantitative Management Associates Dimensional Fund Advisors Fiduciary Management, Inc. Westfield Capital Management UCF Fixed-Income Fund Standish – BNY Mellon EMD LSV Asset Management Neuberger Berman Aberdeen Asset Management</p>	<p>35% Custom Equity Benchmark* 65% Barclays U.S. Government/Credit Index</p>
<p><b>UCF Moderate Balanced Fund</b> Quantitative Management Associates Dimensional Fund Advisors Fiduciary Management, Inc. Westfield Capital Management UCF Fixed-Income Fund Standish – BNY Mellon EMD LSV Asset Management Neuberger Berman Aberdeen Asset Management</p>	<p>60% Custom Equity Benchmark* 40% Barclays U.S. Government/Credit Index</p>
<p><b>UCF Aggressive Balanced Fund</b> Quantitative Management Associates Dimensional Fund Advisors Fiduciary Management, Inc. Westfield Capital Management UCF Fixed-Income Fund Standish – BNY Mellon EMD LSV Asset Management Neuberger Berman Aberdeen Asset Management</p>	<p>75% Custom Equity Benchmark* 25% Barclays U.S. Government/Credit Index</p>
<p><b>UCF Alternatives Balanced Fund</b> Evanston Capital Management Heitman American RE Trust LP Magnitude International</p>	<p>50% Custom Equity Benchmark* 30% Barclays U.S. Government/Credit Index 14% HFRI Fund of Funds Composite Index 6% NCREIF Open End Diversified Core</p>

\* **Customized Benchmark:** 40% S&P 500, 10% Russell 2000, 35% MSCI EAFE, 15% MSCI Emerging Markets

## **Appendix B – External Manager Guidelines**

### **QMA-DOMESTIC CORE INVESTMENT GUIDELINES**

**The Investment Manager Account** is to be primarily a large-cap core domestic (US) equity-oriented portfolio. The portfolio will be diversified based on Investment Manager investment decisions regarding individual securities and sectors. The Investment Manager will abide by the social screens established by the Client and are listed in Schedule C. All guidelines are based upon percentages of the portfolio's holdings on a market value basis at the time of the security's purchase or sale.

#### **I. Investment Objective**

The primary investment objective is to generate a total return that exceeds the S&P 500 Index (the Benchmark) by 1.0%-1.5%, over the course of a complete market cycle with a tracking error equal to or less than 2.0% to the benchmark.

#### **II. Investment Guidelines**

##### **A) Asset Allocation**

The portfolio will be invested primarily in equities and equity-related securities. Equity investments may include warrants, rights, preferred stocks, and convertibles.

At times, a portion of the equity portfolio may be invested in short-term fixed income instruments. Under normal circumstances, the intent is to be fully invested and the allocation to short term securities should be less than 5%. In no case will short-term securities exceed 15%.

##### **B) Permissible Securities**

The portfolio will be primarily invested in a diversified portfolio of common stocks that are listed on national securities exchanges. However, it may also invest in stocks that are traded over-the-counter and in other equity-related securities, provided that 88% is invested in stocks that are in the S&P 500.

In the selection process, the Investment Manager should avoid securities of companies that appear on the Restricted List in Schedule C to the Investment Management Agreement. This List will be provided by the Client and will be amended from time to time.

Non-U.S. securities are permitted as long as they are listed or registered on a U.S. domestic exchange, are denominated in U.S. dollars and do not exceed 10% of the portfolio.

Exchange traded funds (S&P spiders, sector spiders or more specialized funds) may be used up to a limit of 15%, provided that the use of a sector spider does not result in more than a 2% weighting of the socially screened stocks in Schedule C.

In addition, short-term fixed income securities are permitted subject to the Asset Allocation limitations noted in section (A).

S&P futures, financial futures, option contracts and swaps may be utilized in certain situations with prior written authorization. (See Prohibited Transactions in Section C.)

### C) Prohibited Transactions

1. Purchasing or selling commodities, commodity contracts, or illiquid interest in real estate or mortgages.
2. Pledging, mortgaging, or hypothecating any securities except for loans of securities that are fully collateralized.
3. Borrowing money in order to create financial leverage.
4. Purchasing securities on margin or making short sales,
5. Purchasing securities of the investment manager, its parent, or its affiliates.
6. Purchasing private placements without prior written Investment Committee approval. Requests for Committee approval must be made in writing and must include an explanation of the strategies to be employed and the guidelines to be followed.
7. Purchasing or selling futures, options or forward contracts for speculative purposes or for the purpose of increasing portfolio leverage. The use of various futures and options strategies may be appropriate under certain circumstances. However, written Investment Committee approval is required before a manager may engage in such strategies. Requests for Committee approval must be made in writing and must include an explanation of the strategies to be employed and the guidelines to be followed.
8. Invest for the purpose of exercising control of management.

#### D) Diversification and Concentration

The portfolio's investments will be broadly diversified. At the time the portfolio is rebalanced it:

1. *May not invest more than + or -0.75% of a sector (as defined by QMA) relative to the benchmark weighting for that sector.*
2. *May not invest more than + or - 0.75% per issue relative to the benchmark weighting for that issue, at market value.*
3. *May not invest more than + or - 0.75% in any individual industry (as defined by QMA) relative to the benchmark weighting for that industry.*
4. *Have long-term expected EPS growth equal to the S&P + or - 3% in any growth grouping (as defined by QMA).*
5. *Have market capitalization equal to the S&P +or - 3% in any capitalization grouping (as defined by QMA).*

Should market action cause any of these restrictions to be violated, they will be brought back within permissible ranges at the next portfolio rebalance which under normal conditions will be no longer than 10 business days.

#### E) *Trading*

The portfolio will be periodically be rebalanced in a manner that attempts to balance improvements in risk-adjusted performance with associated transactions costs. Although there is no limitation on turnover, we expect annual turnover to normally fall between 75% and 100%.

QMA will use its best efforts to execute transactions at the lowest possible cost including commissions, market impact, delay, spread and other factors influencing transactions costs including quality of execution services. Trading through an affiliated party is prohibited without written approval.

#### F) *Portfolio Characteristics*

Other than the limitations expressed in C, above, there are no limitations on portfolio characteristics such as beta, dividend or earnings yield. Because risk cannot be fully predicted, there is also no ex-ante limitation on tracking error (measured as the annualized standard deviation of return vs. benchmark). Nevertheless, the portfolio will be managed in a manner such that tracking error is expected to be approximately 2% over a full market cycle.

### **III. *General Principles***

The Client has delegated to its Investment Committee the responsibility for investment oversight of the funds in the Investment Manager Account. All reviews of the Investment Manager's performance shall be performed by the Client's staff and consultants selected and engaged by the Client under the direction of the Investment Committee. The Investment Manager will report to the Investment Committee and Client staff.

Funds available for investment shall be invested as promptly as possible.

Full advantage should be taken of the Account tax exempt status, when appropriate.

The Investment Committee may grant exceptions to these Investment Guidelines and Restricted Investment list (Schedule C) on a case by case basis upon request from the Investment Manager. In the event that any requirement of the Investment Agreement, the Investment Guidelines or the Restricted List conflict with the fiduciary duty of the Investment Manager under this Agreement, the Investment Manager shall advise the Investment Committee of its concern and seek an exception, if appropriate

## **LSV - INTERNATIONAL LARGE CAP VALUE INVESTMENT GUIDELINES**

**Investment Objective** - to structure and maintain a well-diversified portfolio of non-U.S. stocks and outperform the total return (net of dividend withholding taxes) of the benchmark by at least 250 basis points per annum before considering the fees payable.

**Benchmark** - MSCI EAFE Index (unhedged)

**Permissible Investments** – Common and preferred stocks, convertible securities, warrants and cash equivalent securities. Forwards, futures and options contracts with prior written authorization may be used in certain situations (see Prohibited Transactions).

**Diversification** - the Account will be well diversified and should hold at least 100 stocks. The Account will not hold more than a 5% overweight relative to the benchmark's weight, at the time of purchase, in an individual security. No more than 10% of the market value of the Account should be invested in the equities of companies headquartered inside the U.S. Both direct investment and depository receipts are permissible in the Account.

**Cash Position** - the Manager intends to be fully invested at all times with a maximum cash position of 5% of the Account except for a reasonable period of time following a cash contribution, or on a temporary or transitional basis.

**Market Capitalization** - stocks with market capitalization of at least \$400 million at the time of purchase.

**Country & Industry Exposures** - the portfolio will be approximately country-neutral relative to the benchmark and will attempt to outperform the benchmark through stock selection within each country. Industry exposures will also be closely monitored relative to the benchmark.

**Liquidity** – At the time of purchase, Manager will trade on exchanges it believes are adequate relative to the needs of the transaction.

**Ethical, Moral and Social Guidelines** –In its selection process, the Manager should avoid securities of companies on the Client's exclusionary list attached hereto as Attachment C. The exclusionary list will be provided and updated by the Client on an annual basis and will include a seven digit SEDOL for each security.

**Prohibited Transactions –**

- Purchasing or selling commodities, commodity contracts or illiquid interests in real estate or mortgages.
- Pledging, mortgaging, or hypothecating any securities except for loans of securities that are fully collateralized.
- Borrowing money in order to create financial leverage. Purchasing securities on margin or making short sales.
- Purchasing securities of the Manager, its parent, or its affiliates.
- Purchasing private placements without prior written Investment Committee approval. Requests for Committee approval must be made in writing and must include an explanation to the strategies to be employed and the guidelines to be followed.
- Purchasing or selling futures, options or forward contract for speculative purposes or for the purpose of increasing portfolio leverage. Foreign currency forwards may be used to effect settlement of equity trades. The use of various futures and options strategies may be appropriate under certain circumstances. However, written Investment Committee approval is required before the Manager may engage in such strategies.

**Manager Request for Guideline Changes –**

If the Manager believes that a change in the guidelines is needed to allow the Manager to implement its investment strategy for the Account, this belief should be communicated to the Investment Committee. The Committee will consider the Manager's recommendations based on the facts and circumstances at the time. Approval of the Investment Committee must be obtained in writing before the Manager is authorized to deviate from the guidelines.

## **Appendix C —Reports from Investment Managers**

The following reports with mutually satisfactory formats are expected from each of the investment managers retained by United Church Funds.

1. A statement at the end of each calendar year reaffirming the fact that no client of the firm is on a fee schedule which is lower than the fee schedule pertaining to United Church Funds.
2. A report on all trades on a daily basis.
3. A report covering all account transactions on a monthly basis.
4. A report showing all account holdings on a monthly basis.
5. A report detailing all appropriate portfolio analytics on a calendar quarterly basis.
6. A report on investment performance on a calendar quarterly basis in accordance with current standards established by the CFA Institute.
7. A report showing the allocation of brokerage commissions and commission rates paid on a calendar quarterly basis. This report should indicate any “soft dollar” payments and any payments to affiliated organizations.

## **Appendix D – Policies and Guidelines for Voting Proxies**

### **1. Social Issues**

The Corporate Social Responsibility Committee establishes policy guidelines for voting proxies on issues of social concern. The purpose of these guidelines is to encourage and support corporate policies and actions which promote human health and dignity, environmental integrity and moral responsibility.

Proxies on issues of social concern received from companies held in the portfolio of domestic managers are voted by the Pension Boards in accordance with the policy guidelines. Foreign managers are responsible for voting proxies of companies held in their portfolios using the Corporate Social Responsibility Committee's policies as guidelines, and they are responsible for reporting all votes to the Pension Boards. A record of all votes on issues of social concern is furnished to the Corporate Social Responsibility Committee twice each year.

### **2. Corporate Governance Issues**

The Investment Committee establishes policy guidelines for voting proxies on corporate governance issues. A copy of these guidelines is included as pages 21 through 31. The purpose of these guidelines is to encourage and support corporate policies and actions which maintain or increase shareholder value. A copy of the policy guidelines on corporate governance issues is furnished to each equity manager.

Proxies on corporate governance issues received from companies held in the portfolios of domestic managers are voted by The Pension Boards in accordance with the guidelines unless the manager owning the security in its portfolio advises the Pension Boards of reasons to vote the proxy in some other way. When so advised, The Pension Boards will generally vote in accordance with the manager's recommendation. Foreign managers are responsible for voting proxies of companies held in their portfolios using the Investment Committee's policies as guidelines, and they are responsible for reporting all votes to The Pension Boards. A record of all votes on corporate governance issues is furnished to the Investment Committee once each year.

## I. BOARD INDEPENDENCE & LEADERSHIP

### A. BOARD SHAREOWNER ACCOUNTABILITY

#### 1. Majority of Independent Directors

- a. We **support** boards where at least two-thirds of the director nominees can be identified as completely independent; if this threshold does not exist, we **oppose** individual non-independent directors.
- b. We **support** proposals seeking to increase the independence of the board.

#### 2. Board Nominees Qualifications

- a. We **support** boards that are composed of qualified individuals who reflect a diversity of experience, gender, race, and age.
- b. We **support** proposals seeking to report on a corporation's efforts to increase board inclusiveness.

#### 3. Separate Chair and CEO Positions

- a. We **support** proposals seeking to separate the positions of chairperson and CEO.
- b. We **support** proposals that call for an independent director to function as board chairperson.

#### 4. Lead Director

In the case where the chairperson of the corporation is also the CEO, we **support** proposals that seek to install a totally independent lead director of the board.

#### 5. Classified Boards

- a. We **oppose** the establishment of classified boards and support annual elections of all directors.
- b. We **support** proposals seeking the declassification of the board.

## 6. Complete Independence of Key Committees (Audit, Nominating and Compensation Committees)

- a. We **oppose** individual non-independent directors nominated to these three key committees.
- b. We **support** proposals seeking to increase the independence of these key committees.
- c. We will consider proposals seeking to prohibit Chief Executive Officers of other public companies from the Board's Compensation Committee on a case-by-case basis. Factors which may influence, but not require, support of such a proposal include whether the company's CEO pay has increased despite negative share performance and whether at least two external chief executives sit on the compensation committee.

## 7. Compensation Consultants

- a. We **support** proposals requiring fuller disclosure of all fees earned by the compensation consultant for all work with the company as well as the consultation regarding executive pay.
- b. We **support** proposals seeking the adoption of a policy that the corporation's independent compensation consultant should not receive fees in excess of 50% of fees earned for consultation regarding executive pay in order to retain independence.
- c. We **support** proposals requiring the compensation consultant to be hired independently by the compensation committee, not by management.

## 8. Director and Officer Indemnification and Liability Protection

- a. We **oppose** proposals that seek to limit or eliminate directors' and officers' liability for monetary damages for violating the duty of care.
- b. We **oppose** proposals that seek to expand indemnification coverage for intentional acts or criminal acts that are more violations of fiduciary obligation than mere negligence.

## 9. Size of Board of Directors

- a. We will **support** proposals to fix the size of the board at a specific, reasonably determined number of directors.
- b. We **oppose** proposals that seek to increase or decrease the size of the board without shareholder approval. We **oppose** proposals that seek to reduce the size of the board as a cost-cutting measure.

## 10. Mandatory Attendance of Directors

Absent compelling and stated reasons, we **oppose** individual director nominees who attended less than 75% of the board and committee meetings that they were scheduled to attend during the previous year.

## 11. Tenure and Retirement Policies

- a. We will consider proposals seeking to adopt director tenure policies on a case-by-case basis.
- b. We will consider proposals seeking to adopt director mandatory retirement policies on a case-by-case basis.

## 12. Limitations on Multiple Directorships

We **oppose** individual director nominees who face competing time commitments by serving on too many boards. This includes individuals with full-time jobs serving on more than 2 other boards, or other individuals serving on more than 4 boards.

## 13. Options Backdating

We **oppose** all directors who served as members of the compensation committee where a company has practiced illegal options backdating, and will consider voting against where the option backdating was not illegal and depending on the severity of the practices and the subsequent corrective action on the part of the board.

## **B. POLICIES FOR AUDITING FIRMS**

### **1. Ratification of Auditing Firm**

In most cases, we **support** proposals to ratify auditors. However, we **oppose** ratification if there is reason to believe that the independent auditor has rendered an opinion that is neither accurate nor indicative of the company's financial position.

### **2. No Consulting by Auditors**

- a. We **support** proposals seeking the adoption of a policy that the corporation's independent auditors only provide audit-related services and not provide any other services.
  
- b. We **support** ratification of a corporation's selection of an auditing firm if that firm does not perform significant (50% of the auditing firm's annual fees) consulting services to the corporation.

## **C. BOARD COMPENSATION**

### **1. Cash & Stock**

We **support** reasonable director compensation packages that are a combination of cash and stock.

### **2. Mandatory Stock Ownership**

- a. We **support** proposals that seek to require that board members own a meaningful position in company common stock, appropriate to their personal circumstances.
  
- b. We **oppose** proposals to establish minimum stock ownership requirements for directors.

### **3. Conflicts of Interest**

We **support** proposals that seek to ensure that conflicts of interest do not occur with respect to a board member's personal, financial or professional interests, and that board members not serve as a consultant or paid advisor to the corporation. We **support** proposals seeking disclosure of directors' conflicts of interests.

#### **4. Pension for Directors**

We **support** proposals that seek to eliminate retirement benefits for non-employee directors.

## **II. SHAREOWNER RIGHTS**

### **A. VOTING RIGHTS**

#### **1. Confidential Voting**

We **support** proposals that seek to institute confidential shareholder voting procedures.

#### **2. Independent Tabulation**

We **support** proposals that seek to institute independent tabulation shareholder voting procedures.

#### **3. Cumulative Voting**

We **support** proposals seeking to institute cumulative voting procedures at a corporation.

#### **4. Supermajority Voting Provisions**

We **oppose** proposals that require a supermajority shareholder vote to approve mergers and other significant business combinations and **support** proposals that seek to lower or eliminate these provisions.

#### **5. Majority Voting for the Election of Directors**

We **support** proposals requesting that when permissible under state law, companies' charters and by-laws should provide that directors are to be elected by a majority of the votes cast. If state law requires plurality voting (or prohibits majority voting) for directors, boards should adopt policies asking that directors tender their resignations if the number of votes withheld from the candidate exceeds the votes for the candidate, and providing that such directors will not be re-nominated after expiration of their current term in the event they fail to tender such resignation.

## 6. Supermajority Lock-In Provisions

We **oppose** proposals seeking to adopt supermajority lock-in provision to change certain bylaw or charter provisions.

## B. STOCK RELATED PROPOSALS

### 1. Common Stock Issuance

We will consider proposals seeking to increase the number of authorized shares of common stock on a case-by-case basis.

### 2. Dual Class Capitalization

We **oppose** the issuance of multiple classes of stock with unequal voting rights.

### 3. Blank Check Preferred Stock

We **oppose** the authorization or increase of blank check preferred stock.

### 4. Share Repurchase Plan

- a. We **support** proposals seeking the approval of a share repurchase plan in which all shareowners participate on equal terms.
- b. We **oppose** proposals seeking the approval of a share repurchase plan if the repurchase program is initiated as a takeover defense measure.
- c. We will consider proposals seeking to limit executives' ability to sell stock during a share repurchasing period on a **case-by-case** basis, when independent sources indicate that such sales would be to the detriment of individual shareholders.

### 5. Preemptive Rights

We **support** the creation or restoration of preemptive rights and **oppose** proposals seeking their elimination.

## C. OTHER SHAREOWNER RIGHTS

### 1. In-Person Annual Meetings

We **support** proposals seeking to affirm the continuation of in-person annual meetings.

## **2. Right to Call a Special Meeting**

We **support** shareowners' rights to call a special meeting and **oppose** proposals seeking the elimination of this right.

## **3. Right to Act by Written Consent**

We **support** shareowners' right to act by written consent and **oppose** proposals seeking the elimination of this right.

## **4. Rotating Sites**

We **support** proposals seeking to alternate the location of a corporation's annual meeting.

# **III. EXECUTIVE COMPENSATION & STOCK OPTION PLANS**

## **A. EXECUTIVE COMPENSATION**

### **1. Disclosure of Director and Executive Officer Compensation Levels**

We **support** proposals requesting additional disclosure of the company's compensation philosophy, and executive officer and director pay information.

### **2. Shareholder Approval of Director/Executive Compensation**

- a. We **support** proposals seeking to bring executive compensation packages to shareholders for ratification.
- b. We **support** proposals seeking shareholder approval of supplemental executive retirement plans.
- c. We **support** proposals seeking shareholder approval of any extraordinary pension benefits for senior executives under the company's supplemental executive retirement plans.
- d. We **support** resolutions seeking to eliminate inappropriate perquisites granted to retired executives and directors on a case-by-case basis.

### **3. Performance-Based Incentive Plans**

- a. We **support** proposals seeking to link executive pay with corporate performance, when performance is measured against indicators such as comparable peer groups and objective industry benchmarks.

- b. We **support** proposals that request the board adopt a policy that executive compensation be determined in the future without regard to any amount of “periodic pension income” from a defined-benefit plan that accounting rules may require the company to treat as an addition to its income.

#### **4. Performance Vesting**

We **support** proposals that ask directors to adopt a policy that a majority of future equity compensation grants to senior executives be shares of stock that require the achievement of performance goals as a prerequisite to vesting (“performance-vesting shares”).

#### **5. Link Executive Pay to Social Performance**

We **support** proposals seeking to review, report on, or link executive compensation to non-financial criteria, including social and environmental goals.

#### **6. Golden Parachutes: Limitations & Shareholder Approval**

- a. We **support** golden parachute severance agreements that are not in excess of one year’s cash base salary.
- b. We **support** proposals asking the board to seek shareholder approval for future executive severance agreements that provide benefits that exceed a specified threshold of 2.99 times the sum of the executive’s base salary plus bonus for the most recent year.
- c. We **support** proposals seeking to eliminate gross-up payments offered to senior executives to offset the tax liabilities associated with golden parachute severance payments that have not been presented to and approved by shareholders.

#### **7. Limit Director/Executive Pay**

We will consider proposals of this nature on a case-by-case basis.

#### **8. Executive Bonus Plans**

We will consider proposals and amendments to cash bonus plans on a case-by-case basis. We will generally vote against proposals to approve or amend cash bonus plans if the size of the bonus pool is not disclosed.

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## 9. Recoup Compensation of Payments under Restatement

We will **support** proposals that ask the board to adopt a policy (in the bylaws if practicable) whereby, in the event of a 4% or more negative restatement of earnings the board will recoup, to the fullest extent practicable, for the benefit of the Company, all performance-based bonuses, awards and or severance agreements that were made to senior executives based on having met or exceeded specific performance targets to the extent that the specified performance targets were not met after considering the impact of negative restatements.

## B. STOCK OPTION PLANS

### 1. Shareholder Approval of Stock Option Plans

- a. We **support** proposals seeking greater disclosure of stock option plans.
- b. Generally we **support** proposals seeking the ratification of stock option plans by shareholders.

### 2. Plans That Exceed a Dilution Level Threshold

We **oppose** proposals seeking to adopt or amend stock option plans if the company's equity overhang, including from this proposal, exceeds the 75<sup>th</sup> percentile of its peer group.

### 3. Plans That Allow Discount Exercise Pricing

We **oppose** proposals seeking to adopt or amend stock option plans that provide for the practice of discounting exercise pricing.

### 4. Plans That Allow Replacing or Re-pricing Underwater Options

- a. We **oppose** proposals seeking to adopt or amend stock option plans that provide for replacing or re-pricing of underwater options.
- b. We will **support** proposals that require shareholder ratification in order to replace or re-price underwater stock options.

### 5. Plans That Allow Pyramiding

We **oppose** proposals seeking to adopt or amend stock option plans that provide for the practice of pyramiding.

**6. Plans That Allow Reload Options**

We **oppose** proposals seeking to adopt or amend stock option plans that provide for the practice of reloading.

**7. Plans That Allow Accelerated Vesting**

We **oppose** proposals seeking to adopt or amend stock option plans that allow the practice of accelerated vesting.

**8. Stock Option Holding Periods**

- a. We **support** proposals that request the Compensation Committee of the Board of Directors adopt a policy that requires senior executives to retain a significant percentage (at least 75%) of shares acquired through equity compensation programs during their employment.
- b. We **support** proposals seeking a report to shareholders regarding the policy.

**9. Plans That Include an Evergreen Feature**

We **oppose** proposals seeking to adopt or amend stock option plans that include an evergreen provision.

**10. Company Provides Loans to Allow Exercise of Options**

We **oppose** proposals seeking to adopt or amend stock option plans if a corporation provides loans to employees or directors to enable the exercise of options.

**11. Stock option Plans Developed/ Administered by a Compensation Committee that Includes Non-Independent Directors**

We will **oppose** stock option plans if non-independent directors serve on the Compensation Committee of the Board of Directors.

**12. Expense Future Stock Options**

- a. We **oppose** proposals seeking to adopt or amend stock option plans at companies that do not report options as a compensation expense.
- b. We **support** proposals that seek to require the company to report stock options as a compensation expense.

**13. Plan Is Limited To A Small Number Of Senior Employees**

We **support** resolutions that seek to limit stock options granted to a single individual to no more than 5% of the total options granted in a single year, and the group of senior executive officers to no more than 10% of the total options granted in a single year.

**14. Executive Safe Harbor Stock Trading Plans**

We **support** proposals seeking to strengthen or institute safeguards around executive safe harbor stock trading plans, or 10b5-1 plans, which would negatively affect individual investors to the benefit of executives.

**15. Employee Stock Ownership Plans (ESOPs)**

We **support** proposals seeking to create an Employee Stock Ownership Plan, except in cases where they are being used as anti-takeover mechanisms.

**16. Advisory Vote on Compensation Committee Reports**

We **support** proposals asking the board of directors to adopt a policy that shareholders be given the opportunity at each annual meeting of shareholders to vote on an advisory (non-binding) resolution, to be proposed by management, to approve the report of the Management Development and Compensation Committee set forth in the proxy statement. The policy should provide that appropriate disclosures will be made to ensure that shareholders fully understand that the vote is advisory; will not affect any person's compensation; and will not affect the approval of any other compensation-related proposal submitted for a vote of shareholders at the same or any other meeting of shareholders.

**IV. CORPORATE ACTIONS****A. RESTRUCTURING****1. Mergers, Acquisitions, Restructuring, Recapitalization, Spin-Offs, Sales of Assets**

We will consider proposals of this nature on a case-by-case basis.

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**B. REINCORPORATION AND THE DELAWARE OPTION****1. Reincorporation**

- a. We generally **support** proposals seeking the ratification of reincorporation for valid business reasons and if the reincorporation is in a state considered more “shareowner friendly.”
- b. We **oppose** proposals seeking the ratification of reincorporation if they are to a state that provides for more takeover defense measures.
- c. We **oppose** proposals seeking reincorporation to an offshore location from the United States
- d. We **support** proposals to change the company’s jurisdiction of incorporation from an offshore location to a state in the United States

**2. Opt-Out Proposals**

We **support** proposals seeking to opt out of a state anti-taker statutory provision (including the Delaware takeover law) for valid business reasons.

**C. TAKEOVER DEFENSES****1. Payment of Greenmail**

We **oppose** the payment of greenmail and **support** proposals seeking to institute anti-greenmail provisions.

**2. Poison Pills Shareholder Rights Plans**

- a. We **oppose** management proposals that seek to approve or create a poison pill.
- b. We **support** shareholder proposals that ask a corporation to redeem its poison pill or submit its poison pill for shareholder ratification.

**3. Fair Price Provisions**

We **support** proposals seeking to adopt a fair price provision, as long as the shareholder vote requirement imbedded in the provision is not a supermajority vote.

#### **4. Limited Use of and Shareholder Approval of Targeted Share Placements**

- a. We will consider management proposals seeking the limited use of targeted share placements on a case-by-case basis.
- b. We **support** shareholder proposals requesting that a corporation first obtain shareholder authorization of targeted share placements.

#### **D. CHARTER AND BYLAW AMENDMENTS**

##### **1. Charter Amendments (resulting in reduction of shareholders' rights)**

We **oppose** proposals that seek to amend the corporation's certificate of incorporation if an amendment would adversely affect shareholder rights.

##### **2. By-Law Changes-Requiring a Supermajority Vote**

We **oppose** proposals that seek to require a supermajority shareholder vote to approve charter and bylaw amendments.