Authorizing Ministry 21:
Helping Churches Manage Financial Assets Amid Uncertainty

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United Church Funds

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UCF Mission and Vision

***Our Mission** — UCF supports our clients' missions and generates competitive values-aligned performance.*

***Our Vision** – Investment that creates a just world for all.*

United Church Funds lives its Mission and Vision by:

- Investing wisely to help our clients achieve their financial and investment goals to support mission and ministry.
- Using the power of ownership to effect positive change, believing a responsibly managed company makes a better long-term investment.
- Offering clients a range of 13 investment options and resources to build responsible portfolios, guide endowment management and support planned giving initiatives for long-term financial health

Session Agenda

Three Critical Themes for Churches in 2020 and Beyond:

- Prudently Managing Assets: Being a fiduciary in 2020
  - Overview of Fiduciary Standards and Responsibilities
  - Importance of Endowment Policies in Volatile Markets
  - Components of a UPMIFA-Compliant Endowment Policy
- Growing Endowments: Creating a Culture of Stewardship for the Long Term
  - Building a successful Planned Giving Program
  - Opportunities for Legacy Accounts for Closing Churches
- Make a Difference: Responding to Injustice through Responsible Investing
  - How UCF Aligns Investments and Mission
  - Historical Impact of our Clients' Dollars
- Questions & Answers

Overview of Fiduciary Standards

Who is an Investment Fiduciary?

Someone who is managing the assets of another person/entity and stands in a special relationship of trust, confidence, and/or legal responsibility.
(Source: Fi360.com)

- 80 percent of liquid assets invested in U.S. markets are managed by people with fiduciary responsibilities.
- Approximately 5 million investment fiduciaries in the U.S.
- Duty of Care/Loyalty vs. Suitability Standard
- Conflicts of Interest – Obligation to avoid or manage/disclose

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Overview of Fiduciary Standards

Three Groups of Investment Fiduciaries

1. **Investment Stewards**
   - Trustees, investment committee members, etc.
   - Hold all fiduciary responsibilities unless delegated to another party.
   - Most are untrained and unaware of fiduciary responsibilities.

2. **Investment Advisors**
   - “Prudent Experts” giving comprehensive and continuous advice to Stewards.
   - Most are untrained on fiduciary duties despite having fiduciary responsibilities.

3. **Investment Managers**
   - “Prudent Experts” who act with investment discretion over assets.
   - Mutual Fund Managers, SMA managers, etc.

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Elements of UPMIFA
Uniform Prudent Management of Institutional Funds Act

- **Uniform State Law that applies to foundations, endowments and NPOs**
  - Oversight provided by State Attorney General
- **Adopted by 49 states between 2006-2012**
  - While each state has its own version, universal principles on fiduciary conduct apply to all.
- **Sets the rules for "Prudent" investment conduct**
  - Duty of Care & Loyalty – acting solely in the organization's best interest
  - Delegation of investment management to professionals
- **General principles for prudent distributions**
  - Establishes "Total Return" (rolling average calculation) for distributions
- **Donor Intent – Restrictions imposed by donors must be followed**
  - Sets parameters for the release or modification of restrictions

UPMIFA and Fiduciary Conduct

- **Duty of Loyalty** - acting solely for the organization's benefit.
- **Delegation** - Responsibility of Stewards to prudently select and monitor Investment Advisors and Managers.
- **Fees** - Obligation to manage costs as "appropriate and reasonable" for the services provided, but not necessarily to rely on the least expensive management option.

- **Portfolio Oversight**
  - Standards for Risk-Adjusted Performance
  - Asset Allocation Guidelines
  - Diversification and Re-Balancing Requirements
  - Utilizing investments and managers that align with the goals and "charitable purpose" of the institution – responsible investment strategies.

An institution shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances.

Seven Precepts of Fiduciary Excellence (Fi360)

1. Know the standards, laws, and applicable trust provisions
2. Diversify assets to match the risk/return profile in the Investment Policy Statement.
3. Prepare the Investment Policy Statement
4. Delegate to “Prudent Experts,” and document due diligence on selection of same.
5. Control and account for investment expenses.
6. Monitor the activities of “Prudent Experts,” and document due diligence and actions on reviews.
7. Avoid conflicts of interest when possible, and always avoid prohibited transactions. If conflicts of interest are unavoidable, document in detail and communicate to all parties.

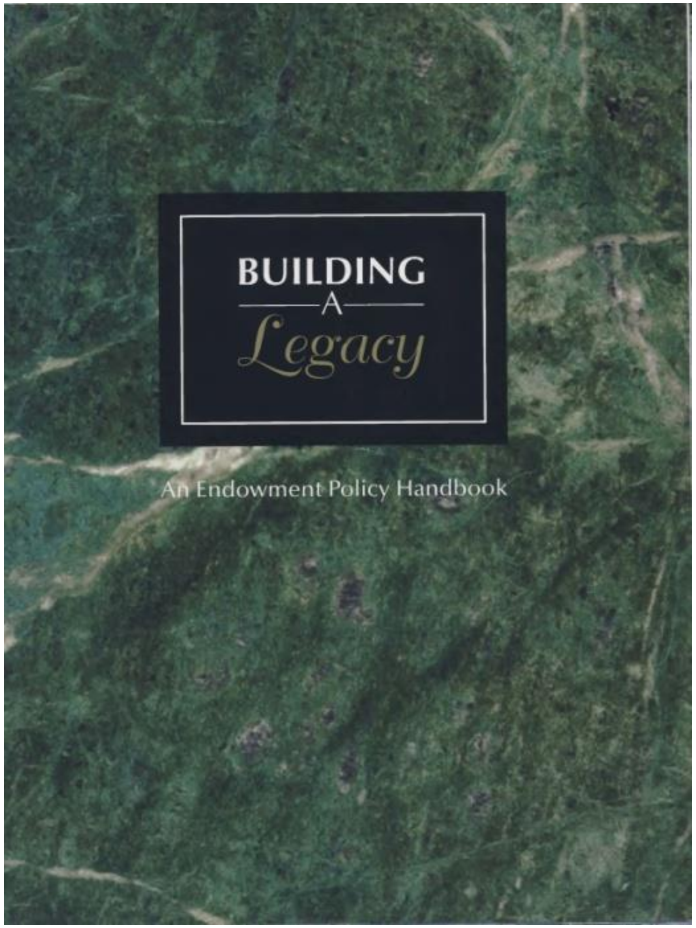
Components of An Endowment Policy Statement (EPS)

Endowment Policy Statement

- Section 1: Governance
- Section 2: Gift Acceptance Policy
- Section 3: Investment Policy
- Section 4: Distribution Policy

Resources

- Sample Templates from United Church Funds
- Planned Giving Guides
- Endowment Policy Handbook
- *ucfunds.org*



Types of Funds Governed by a Policy

- **Temporarily Restricted/Designated**
- **Permanently Restricted/Designated**

Donor or organization imposes restrictions on timeframe, distribution use, or investments

- **Unrestricted Funds**
  - Operating
  - Reserves
  - Rainy Day Funds

Membership or board makes decisions limited only by legal requirements of 501c3 status

Donor restrictions must be written instructions accompanying the gift, or in the solicitation materials used to raise money (ex: scholarship or building fund campaigns)

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Good Governance and Fiduciary Responsibility

Section 1: Governance of Assets

- What organizational documents govern activities?
  - Endowment Policy Statement, Charter, By-Laws, Trust Documents
- Which committee is tasked with managing the endowment or the long-term investable assets of your organization?
  - Endowment, Investment, Finance, Stewardship Committees
  - Church Council, in appointing members, inherits fiduciary responsibility.
- How are people elected/appointed to this committee?
  - Terms of service (not a lifetime appointment)
- What skills do you look for in church members (or others) who comprise the governing committee?

Any person serving on the governing committee has a fiduciary responsibility under UPMIFA.

Gift Acceptance Policy

Section 2: Acceptance of Gifts

"We joyfully accept your gift, but we reserve the right to manage the types of gifts we receive and the methods by which we receive them."

- **Donor Communication**
  - Express to potential donors the types of gifts that can be donated.
    - IRAs, Life Insurance, Real Estate, Charitable Gift Annuities, etc.
  - Creates opportunities to fund specific missions and ministries.
    - The "Bucket" Strategy
  - Sets rules for amounts to qualify for naming or restrictions.
- **Fiduciary Protections**
  - Gifts of non-liquid assets may require excessive resources to liquidate or transition to meet the requirements of the IPS.
  - Some gifts require too much effort to manage relative to the value, or place restrictions not suitable to the organization's core mission.

Investment Policy

Section 3: Investment Policy Statement (IPS)

- The Business Plan of the Portfolio
  - The most important function of a steward is fidelity to the IPS, regardless of short-term market volatility or other factors.
- Must contain sufficient detail to define, implement and monitor the investment strategy, but…
  - Not so detailed as to require constant revisions or;
  - Becoming impossible to implement by investment advisors and/or investment managers
- Look to the Seven Global Precepts of Fiduciary Excellence for a Guide

Investment Policy

Benefits of an Investment Policy Statement

- Donor Communication
  - Reassures potential donors of prudent investment stewardship by the organization for the long-term support of mission/ministry.
  - Provides implementation guidance on estate planning.
- Fiduciary Protections
  - Prevents “Monday Morning Quarterbacking” by future fiduciaries.
  - Keeps investment process and strategy intact during volatile markets.
  - The Fiduciary File – meeting minutes, details on discussions and actions taken related to the portfolio.

Distribution Policy

Section 4: Distribution Policy

A spending policy outlines the parameters by which assets are distributed to fund and support mission, ministry or other purposes.

- **Donor communication**
  - Educates potential donors on opportunities to fund core ministries.
  - Communicates prudent distribution methods to protect endowment.
  - Sets parameters for spending patterns and distribution uses.
- **Fiduciary Protection**
  - Disbursements are made in accordance with the spending policy, not the wishes of the governing committee.
  - Policies must be reasonable relative to and consistent with the Investment Policy's anticipated return.
  - Prevents excessive distributions and fiduciary liability.

Distribution Policy – Best Practice

Total Return Method (assumes no donor restrictions on spending)

- Sets a prudent distribution percentage based on a rolling quarterly/annual balance
  - 3.5-5% is prudent for most, taking regular quarterly/monthly draws.
- Reinvests all dividends, not relying solely on returns or "income".
- Allows governing committees to "back in" to a prudent asset allocation strategy that generates long-term returns to support the draw rate.
  - Return is calculated net of fees and inflation.
- Beware of excessive withdrawals vs. average returns.
  - -2% draw vs. net return depletes fund by 20% over 10 years and 35% over 20.
  - -3% draw vs. net return depletes corpus by 25% over 10 years and 45% over 20.
- Success Stories

What is a Planned Gift?

Transfers of assets that, in addition to having a charitable benefit, impact financial planning and/or estate planning of the donor.

- **Deferred Gifts**
  - Impact is not fully realized until some future date, generally at the death of the donor(s).

- **Life Income Gifts**
  - Irrevocable transfers of assets creating vehicles whereby donors receive income for themselves or their designees, favorable tax treatment and provide support from their assets to a charity of their choice.

Planned Giving — Benefits to the Church

- **A Planned Giving program in a local congregation is based on the same theology of stewardship that applies to individuals**

- **A Planned Giving ministry:**
  - Enables the church to enhance its ability to conduct its mission and ministry over the long term.
  - Provides perpetual support of the church (irrevocable gifts).
  - Presents an opportunity for stewardship education.
  - Stimulates financial planning.
  - Funds an Endowment (it is suggested that churches have an endowment in place before soliciting Planned Gifts).
  - Lays the groundwork for a Recognition/Legacy Society.

- **Church Responsibility**
  - Promote the gift opportunities.
  - Thank donors for their gifts.
  - Keep records of gifts.

Planned Giving — Benefits to the Donor

- Meets the stewardship imperative
- Supports the mission and ministry of the UCC into the future
- Income for life for donor and designee
- Increase in gift-giving capacity
- Favorable tax treatment
  - Charitable deduction; for trust or gift annuity, if funded with appreciated stock, no immediate tax on capital gain, though some income will be taxed at the capital gain rate.
  - Pooled Income Fund gift incurs no capital gain.
  - Gift Annuity: some of donor's income may be tax-free.
  - Donor's estate may enjoy both reduced probate costs and lower estate taxes.
- Expert investment management
- How life-income gifts work
  - Donor transfers assets to UCF.
  - UCF makes payments to donor or donor's designee for life.
  - Upon death, UCF transfers remaining principal to designated ministry (may be **greater or less** than original gift amount).

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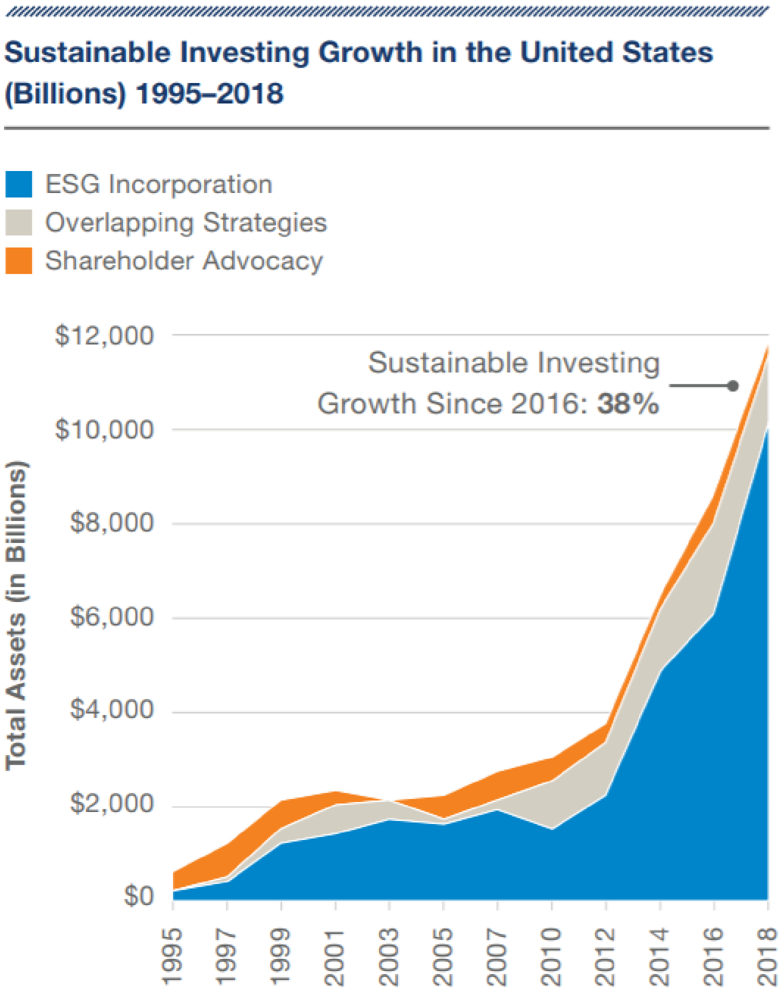
Five Steps to Building a Planned Giving Program

1. **Craft and make the case.**
2. **Choose and equip leaders.**
3. **Build policy infrastructure.**
4. **Listen to and know your prospects.**
5. **Cultivate and educate.**

Articulating Your Case to Donors:

- **Values** – The immutable principles that animate our community's life
- **Vision** – Definition of success in mission
- **Outcomes** – The impact on people and communities
- **Strategy** – How we make it happen
- **Testimonials** – The stories of our success
- **The Ask** – Unapologetic and tailored

Responsible Investing — Sustainable Investing Growth



- 1 in every 4 dollars (25%) under professional management in U.S.
- Sustainable funds outperform conventional funds over last five years.*

*Source: *Morningstar*

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Responsible Investing — Investor Toolbox

FIVE TOOLS

in the RESPONSIBLE INVESTOR TOOLBOX

Design portfolios that emphasize companies with a commitment to a more just and sustainable future

Invest in impact-first ventures that seek to solve social and environmental problems

Submit **shareholder resolutions** and **vote proxies** (on Board Members and Auditor selections, CEO pay)

Dialogue with corporate leaders (to bring shareholder concerns to light)

Divest from companies that fail to respond to dialogue and shareholder resolutions

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Responsible Investing — A Long Legacy

1967

UCC General Synod declares that **social values and social justice ought to be given consideration,** together with security and yield, in the investments of funds **held by religious organizations.** *(1)*

Following race riots in Rochester, New York, the UCC **supports local community organizing efforts** and sends an ambassador to Eastman Kodak board meeting to implore the company to maintain its **commitment to hire and train unemployed blacks.** *(2)*

1969 - 1985

In response to apartheid, the UCC joins other faith-based investors in **divesting from all corporations doing business in South Africa.** Nelson Mandela later notes that this ecumenical effort was an essential driver of regime change in South Africa. *(3) (4)*

1971

United Church Foundation (later United Church Funds) and the UCC Pension Boards are among the **founding members of the Interfaith Center on Corporate Responsibility.**

1972-1980

Following unjust imprisonment of UCC minister and nine others, famously known as **the Wilmington Ten,** the UCC calls for an **end to mass incarceration and a moratorium on new prisons.** *(5) (6)*

1977

After **calling for disarmament,** General Synod **resolves to divest** from publicly held stock in weapon manufacturing businesses. *(7) (8)*

1979

General Synod passes a resolution to leverage the economic power of its investments to **promote and protect human rights, as both a gift and a demand of God."** *(9)*

1985

General Synod adopts pronouncement on **Just Peace Church,** declaring the UCC in opposition to war and supporting principles of non-violence. *(10)*

2005

General Synod commits to peace in Israel-Palestine and recommends **use of economic leverage to challenge** corporations violating human rights norms in the Occupied Territories. In 2015, General Synod votes to **divest from** corporations that failed to make meaningful efforts to comply.*(11) (12)*

2013

General Synod votes to **divest from fossil fuels** — among other strategies — to **combat climate change.** *(13)*

2015

General Synod passes a resolution urging five forms of socially responsible investment practices in support of **"a still speaking faith."** *(14)*

Citation

(1) 67-GS-5
(2) 67-GS-08
(3) 69-GS-88
(4) 85-GS-65
(5) 73-GS-65
(6) 77-GS-75
(7) 77-GS-49
(8) 83-GS-72
(9) 79-GS-31
(10) 85-GS-50
(11) 05-GS-30
(12) 15-GS-30
(13) 13-GS-25
(14) 15-GS-18

Download here: https://bit.ly/3iUFSfV

Responsible Investing — Racial Equity

Fall 2020

After nearly every company voiced support for #BlackLivesMatter, As You Sow and Whistle Stop Capital research and grade commitment to Diversity, Equity and Inclusion (DEI) at S&P 250 Companies.

Winter 2020

UCF, in partnership with As You Sow, asks selected companies with low scores for better DEI disclosure and effort.

Spring 2021

UCF Votes In Support of Shareholder Resolutions seeking greater DEI disclosure.

Responsible Investing — Environmental Justice

Last 5 years	Companies around the world sets sustainability goals.
Fall 2020	UCF, in Partnership with Climate Action 100+ and ICCR, asks companies to disclose corporate lobbying.
Ongoing	Seek goals and lobby efforts in support of Paris Agreement - net zero emissions by 2050.

INTERNATIONAL PAPER

Climate Action 100+
Global Investors Driving Business Transition

INTERFAITH CENTER ON CORPORATE RESPONSIBILITY

Review and Summary

How Can UCF help you serve your constituent churches?

- Follow the Seven Precepts of Fiduciary Excellence to ensure compliance with state law and best practices for managing assets.
  - If a church/organization doesn't have a financial asset policy, UCF can help with templates and guidance .
- Educate churches who might be tempted to take extra-ordinary withdrawals from their endowment on long-term implications.
- For churches who are considering closing, UCF provides a Church Legacy platform to manage remaining assets.
- Help churches promote planned giving – UCF and OPTIC can help!
- Use the blessing of financial assets to make a difference in the World through responsible investing practices in alignment with your church's values and missions.

Questions & Answers

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