

Free Church Ministers and Missionaries (FCMM)  
Retirement Plan Investment and Asset Allocation Policy

Amended Dec 1, 2012

### **Introduction**

The Board of Trustees of FCMM, a Minnesota nonprofit church benefit plan corporation, serve as the trustee of the Free Church Ministers and Missionaries Retirement Plan, which consists of two separate plans: the Retirement Plan and the Pension Plan.

The Retirement Plan is a qualified Plan under Internal Revenue Code Section (403(b)(9)).

The plan holds assets acquired from investments and contributions for plan participants to provide retirement and death benefits. The Trustees have the responsibility and the authority for all Free Church Ministers and Missionaries Retirement assets.

### **Purpose of Statement**

The purpose of this Investment Policy Statement (the “IPS”) is to set standards for the direction, operation, management and oversight of the assets supporting the Retirement Plan funds (the “Funds”) managed by the trustees, currently consisting of Options B,C,D, and E. This policy is adopted by the trustees of FCMM, who shall approve this policy by majority vote and shall evidence their approval in writing as noted in the minutes of the committee meeting. The IPS is intended to:

- Define the investment-related responsibilities of both the Plan Sponsor and the investment advisors it retains to manage the assets of the Funds.
- Establish formal investment guidelines which are specific enough to provide meaningful guidance, yet flexible enough to be practical and which incorporate prudent asset allocation and realistic total return goals.
- Provide a framework for regular constructive communication between FCMM, the Investment Consultant, and the investment managers.
- Create standards of investment performance which are historically achievable and by which the managers agree to be measured over a reasonable time period.

This IPS will be reviewed at least annually by the Trustees to ensure the relevance of its contents to current capital market conditions and Plan needs. The IPS can be amended to reflect changes in the capital markets, plan participant objectives, or other factors relevant to the Plan.

## **Definitions**

1. "Fund" shall mean the individual program portfolios.
2. "Funds" shall mean the program portfolio in aggregate.
3. "Committee" shall refer to the FCMM Trustees.
4. "Fiduciary" shall mean any individual or group of individuals that exercise discretionary authority or control over fund management or any authority or control over management, disposition or administration of the Fund assets.
5. "Investment Manager" shall mean any individual, or group of individuals, employed to manage the investments of all or part of the Fund assets.
6. "Investment Management Consultant" shall mean any individual or organization employed to provide advisory services, including advice on investment objectives and/or asset allocation, manager search, and performance monitoring.
7. "Securities" shall refer to the marketable investment securities which are defined as acceptable in this statement.
8. "Investment Horizon" shall be the time period over which the investment objectives, as set forth in this statement, are expected to be met. The investment horizon for this Fund is 5 to 8 years.
9. "Investment Subcommittee" shall be comprised of the President of FCMM, the Chairman of the Board of Trustees and one other Trustee. The purpose of the Investment Subcommittee is to make investment decisions in the interim between full Trustee meetings.

## **Definition of Risk**

The Board realizes that there are many ways to define risk. It believes that any person or organization involved in the process of managing the FCMM assets must understand how it defines risk so that the assets are managed in a manner consistent with the Fund's objectives and investment strategy as designed in this statement of investment policy. The Trustees define risk as:

Primary Definition: Volatility of monthly returns in excess of the relative benchmark. It is understood that portfolio volatility may exceed benchmark volatility over certain time periods. Managing risk should include monitoring the relative volatility of the portfolio vs. the benchmark and taking steps to keep it in-line.

Secondary Definition: The probability of the fund behaving differently than its benchmark (excess tracking error).

### **General Investment Guidelines**

- 1) All transactions of the Fund shall be in the sole interest of Participants.
- 2) The Fund shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in like capacity and familiar with such matters would use in the investment of a fund of like character and with like aims (Prudent Expert Rule).
- 3) Investment of the Funds shall be so diversified as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.
- 4) The Investment Committee may employ one or more investment managers of varying styles and philosophies to attain the Fund's objectives.
- 5) Cash is to be employed productively at all times, by investment in short-term cash equivalents to provide safety, liquidity, and return.

### **Investment Objectives**

The Investment objective of each fund is to maximize total return (appreciation and income) while managing risk within acceptable limits. The long term Investment Strategy is to preserve and increase the capital value of the assets over time in a prudent manner that limits exposure to risks of permanent capital losses and of unduly high volatility in the total market value of the funds.

In particular, Fund assets shall be invested to:

- a. Obtain a return that exceeds that of their respective benchmark with equal or lower volatility over a 3-5 year market cycle.

### **Responsibilities of the FCMM Trustees**

The role of the Trustees is to implement the FCMM Statement of Investment Policy Objectives & Guidelines.

1. The committee will meet quarterly and review performance of the funds with the Investment Consultant.
2. Assure adherence to the Investment Policy Objectives & Guidelines.
3. Direct implementation of Investment Manager additions or deletions.
4. Recommend changes in the investment policy.

### **Responsibilities of the Investment Subcommittee**

1. Make investment decisions in the interim between full Trustee Meetings, within guidelines established by the Trustees.
2. Communicate decisions/actions to Trustees

**Responsibility of Investment Manager(s)**

Each Investment Manager must acknowledge in writing its acceptance of responsibility as a fiduciary. Each Investment Manager will have full discretion to make all investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies as outlined in this statement. Specific responsibilities of the Investment Manager(s) include:

1. Discretionary investment management including decisions to buy, sell, or hold individual securities, and to alter asset allocation within the guidelines established in this statement.
2. Reporting, on a timely basis, quarterly investment performance results.
3. Communicating any major changes to economic outlook, investment strategy, or any other factors which affect implementation of investment process, or the investment objective progress of the Fund's investment management.
4. Informing the Trustees regarding any qualitative change to investment management organization: Examples include changes in portfolio management personnel, ownership structure, investment philosophy, etc.
5. Voting proxies, on behalf of the Fund, and, if requested, communicating such voting records to the Board on a timely basis.

**Responsibility of the Investment Consultant(s)**

The Investment Consultant's role is that of a non-discretionary advisor to the Trustees of FCMM. Investment advice concerning the investment management of Fund assets will be offered by the Investment Consultant, and will be consistent with the investment objectives, policies, guidelines and constraints as established in this statement. Specific responsibilities of the Investment Consultant include:

1. Assisting in the development and periodic review of investment policy.
2. Advising on appropriate asset-allocation strategy.
3. Conducting investment manager searches as requested.
4. Providing "due diligence", or research, on the Investment Managers.
5. Monitoring the performance of the Investment Managers to provide the Investment Committee with the ability to determine the progress toward the investment objectives.
6. Communicating matters of policy, manager research, and manager performance to the Investment Committee.
7. Reviewing Fund investment history and historical capital markets performance in relation to the contents of this investment policy statement.

### **Asset Allocation Guidelines**

The FCMM managed portion of this 403(b)(9) defined contribution church plan is centered on a Conservative Growth with Annuity Benefit Fund (Option C), which pays an adjustable rate return based on its performance.

The other options are not managed separately, but mirror the results of the non-bond portions and bond portion.

Moderate Growth Stock Fund (Option B/D) mirrors the Equity composite.  
The Diversified Bond Fund (Option E) mirrors the Bonds

**See Asset Allocation Addendum for current allocation guidelines.**

### **Diversification for Investment Managers**

The Board does not believe it is necessary or desirable that equity securities held in the Funds represent a cross section of the economy. However, in order to achieve a prudent level of portfolio diversification, the securities of any one company should not exceed 5% of the total fund at cost, and no more than 25% of the total fund should be invested in any one industry. The total allocation to treasury bonds and notes may represent up to 100% of the Fund's aggregate bond position.

### **Investment Procedure and Permitted Investments**

The Trustees function as the Investment Committee. The Investment Committee will meet quarterly with its investment consultant to review the performance of its third party money managers, investment strategies and asset allocation. They will meet with money managers and custodians on an as needed basis.

The Fund may engage or hire one or more investment advisors and/or money managers.

The following classes of securities and investments may be purchased:

1. For individually held bond positions the funds will be limited to bills, notes and bonds of the U.S. Treasury and agencies of the United States of America, commercial paper, Commercial Bank or Savings and Loan Certificates of Deposit, corporate obligations of investment grade and guaranteed investment contracts.
2. Common stock, preferred stock, securities convertible to common stock of a quality suitable for a Retirement Fund and master Limited Partnerships (MLPs).
3. Mutual funds, exchange traded funds (ETFs), exchange traded notes (ETNs), traded & non-traded REITs, pooled funds, hedge funds, variable and fixed annuities, and separate accounts of insurance companies whose funds meet these policies and guidelines.
4. Alternatives:
  - a. Hedge Funds: Hedge funds are expected to provide diversification by investing in strategies that do not correlate directly with traditional equity and/or fixed-income investments. Such strategies may include, but are not limited to the following:

- Long/Short Equity – Directional and Market Neutral
- Convertible Arbitrage – Equity and Bond Arbitrage
- Merger/Risk Arbitrage, Risk/Event Driven Arbitrage
- Directional Trading Leveraged, Macro Trading, Sector/Industry Concentration
- Distressed Securities, Reg D
- Dedicated Short Bias, Managed Futures, Emerging Markets, Global Macro
- Additional strategies not listed above

b. Other Alternatives: Other alternative assets eligible for investments are publically and privately traded REITS, commodity funds and managed futures funds.

**Allowable Alternative Investments:**

The above-referenced strategies may include investments in the following: common and preferred stocks, options, warrants, convertible securities, foreign securities, foreign currencies, commodities, commodity futures, financial futures, derivatives, mortgage-backed and mortgage-related securities, real estate, bonds (both investment-grade and non-investment-grade, including high-yield debt, distressed or other securities) and other assets. Strategies may utilize short selling and leverage.

The Trustees understand that hedge fund investments are less transparent than traditional investments, but will expect reasonable levels of transparency in order to monitor the investments appropriately. In addition, the liquidity in such investments may be limited to specific time periods. Liquidity constraints, including lock-up provisions will be taken into consideration when making allocations to such investments.

In addition, the following guidelines shall apply:

1. All individually held bond securities shall have a rating of at least investment grade as determined by Moody or Standard and Poor's.
2. Pooled, co-mingled bond funds, mutual funds, ETFs, ETNs, variable or annuities sub accounts shall have the flexibility to invest in non US and non-investment grade fixed income securities provided that the board has expressly hired the manager for that purpose.
3. Insurance Companies and Banks shall have a Claims Paying Rating of AA or better.
4. With the exception of issues of The U.S. Treasury and other agencies backed by the full faith and credit of the United States of America, the portfolio shall not contain total securities that exceed 5% of the portfolio by any one issuer.

**Prohibited Assets for Investment Managers** (Excluding Alternative Investment Managers)

Prohibited investments for traditional investment managers include the following:

1. Private Limited Partnerships (Except those having passed the due diligence process of an investment management consultant retained by FCMM)
2. Venture-Capital Investments
3. Real Estate Properties
4. Direct Investment in Interest-Only (IO), Principal-Only (PO), and Residual Tranche CMOs

Alternative Investment programs may invest in any and or all of these categories.

### **Prohibited Transactions for Investment Managers**

(Excluding Alternative Investment Managers)

Prohibited transactions for traditional investment managers include the following:

1. Short Selling
2. Margin Transactions

Alternative Investment programs may utilize both margin and short selling transactions.

### **Investment Constraints**

#### *Affiliated Securities*

There will be no investments made in securities issued by the Evangelical Free Church of America, any division, affiliated church or entity of The Evangelical Free Church of America

#### *Socially Responsible Investment Strategy*

There shall be no direct investment of securities in which the corporate entity has significant involvement in the following industries: alcoholic beverages, tobacco, pornography, gambling and abortion.

As a practical matter, our managers might be able to use the guidelines along these lines to determine “significant involvement.” A percentage of revenue or income as follows:

Green Light:	0% to 3%	permitted
Yellow Light:	3% to 10%	caution and review
Red Light:	10% and over	prohibited

The committee recognizes that it does not have influence over the holdings of mutual fund investments. While the committee is aware of “socially conscious” mutual funds, the typical socially conscious mutual fund does not necessarily screen for the specific concerns of FCMM. Therefore, the committee has decided to allow unscreened mutual funds. Top holdings of these funds will be reviewed on at least an annual basis to enable the committee to be aware of exposures to objectionable companies and make changes if necessary

### **Performance Review and Criteria**

1. The Option C Fund should be in the top 40 percentile of similar funds. Comparison shall be made with a universe of Balanced Funds..
2. The conservative growth Option C shall exceed the performance of a benchmark composed of 45% Russell 1000, 10% Russell 2000 Small Cap, 10% EAFE International, 30% Barclays Aggregate Bond and 5% T-Bills.
3. Investment Managers shall be reviewed quarterly and evaluated over a three to four year period. The criteria for performance shall be:

The top 40% of managers in their peer group, i.e., balanced, growth equity, value equity, small capitalization, international, Emerging Market, Investment Grade Bonds, Hedge Funds of Funds.

4. Investment Managers will prepare Reports quarterly and forward on a timely basis.

The reports shall contain at least the following information:

- A portfolio evaluation by asset class and market value
- A complete list of securities held
- A performance analysis summary showing investment performance to ascertain current and long-term levels of achieving objectives
- Current portfolio strategy along with comments on the economy, past strategy and any changes in strategy, personnel changes, organizational changes or other changes that may affect performance
- Investment comparison with other general market indices

This requirement can be met by the investment consultant and custodian.

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

Performance reports generated by the Investment Consultant shall be compiled at least quarterly and communicated to the Investment Committee for review. The investment performance of total portfolios, as well as asset class components, will be measured against commonly accepted performance benchmarks. The quarterly reports should cover four basic areas: returns, comparisons of returns to benchmarks and a statistical universe of similar portfolios, diagnostic risk analyses and compliance with relevant policies and objectives.

Consideration shall be given to the extent to which the investment results are consistent with the investment objectives, goals, and guidelines as set forth in this statement. The Investment Committee intends to evaluate the portfolio(s) over at least a three year period, but reserves the right to terminate a manager for any reason including the following:

1. Investment performance which is significantly less than anticipated given the discipline employed and the risk parameters established, or unacceptable justification of poor results.
2. Failure to adhere to any aspect of this statement of investment policy.
3. Significant qualitative changes to the investment management organization.

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

### **Automatic Review Process for Investment Managers**

Beyond these customary reviews certain circumstances or events may trigger automatic formal reviews and where appropriate, reconsideration by the Investment Committee of the appropriateness of continuing to use the affected manager in the investment structure. None of these circumstances or events shall server as automatic causes for changing investment managers, but will merely indicate the need for review.



**Revisions and Adoption**

This statement was adopted by the Trustees on November 11, 1993.  
Implementation of the asset allocation and policy guidelines shall be made with prudence taking into account cost and existing manager capabilities.  
This policy statement shall be reviewed annually.  
Changes may be made from time to time by a majority of the Trustees.

Revised:	February 1998	Permitted Investments item 6
	February 1999	Permitted Investments item 1 and Additional Guidelines item1
	March 2000	Modified Morality clause
	February 2001	Added TIPS (Treasury Inflation Protection Securities) as a Fixed Income asset class and modified range percentages.
	August 2004	Changed the asset allocation section to reflect the Equity/Fixed Income/FCMM Managed strategy. This also involved establishing allocations for the four options A, B, C, and D. Clarified commodities language, and recognized option A benchmark.
	February 2008	Added Foreign Bond allocation.
	March 2009	Update policy to allow for expanded use of hedging strategies which may in effect use long and short strategies through the use of future and/or option contracts. Language was also added to allow for new investment types (ETFs, ETNs, hedge funds, REITs, and pooled accounts).
	November 2009	Update statement to add language on purpose, definition of terms, responsibilities of parties, additional language on hedge funds and prohibited assets and strategies.
	November 2012	Update statement to separate Option A from the other elections, update target asset allocations (see below), revised definition of risk.

**Asset Allocation Addendum**

**Program Allocation Guidelines – (New as of June 2012)**

	GROWTH & ANNUITY Option C			STOCK OPTION B/D		
	Normal Target	Minimum of Range	Maximum of Range	Normal Target	Minimum of Range	Maximum of Range
<b>Equity Composite</b>	<b>64.0%</b>	<b>30.0%</b>	<b>85.0%</b>			
<b>Equity</b>	<b>50.0%</b>	<b>50.0%</b>	<b>100.0%</b>	<b>78.0%</b>	<b>50.0%</b>	<b>100.0%</b>
Large Cap Growth	9.5%	10.0%	20.0%	15.0%	10.0%	20.0%
Large Cap Value	9.5%	10.0%	20.0%	15.0%	10.0%	20.0%
Large Cap Core	16.5%	10.0%	25.0%	26.0%	10.0%	30.0%
Small/Mid Growth	1.3%	0%	12.5%	2.0%	2.0%	12.5%
Small/Mid Value	1.3%	0%	12.5%	2.0%	2.0%	12.5%
International Equity	11.5%	10.0%	40.0%	18.0%	10.0%	40.0%
<b>Alternative Assets</b>	<b>14.0%</b>	<b>0.0%</b>	<b>35.0%</b>	<b>22.0%</b>	<b>0.0%</b>	<b>50.0%</b>
Hedge Fund	11.0%	0.0%	30.0%	17.0%	0.0%	30.0%
Managed Futures	0.0%	0.0%	10.0%	0.0%	0.0%	10.0%
Private Equity	0.0%	0.0%	10.0%	0.0%	0.0%	10.0%
Inverse Market Strat.	0.0%	0.0%	10.0%	0.0%	0.0%	10.0%
Real Estate	1.0%	0.0%	10.0%	2.0%	0.0%	10.0%
Commodity	1.0%	0.0%	10.0%	3.0%	0.0%	10.0%
<b>Cash</b>	<b>0.0%</b>	<b>0.0%</b>	<b>15.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>15.0%</b>

**Please Note: For Option C - Normal Target allocations represented by absolute percentages for each asset class. Minimum and Maximum Allocations are represented by relative percentages (Relative to the current allocation).**

				BONDS OPTION E		
<b>Bonds</b>	<b>26.0%</b>	<b>15.0%</b>	<b>70.0%</b>			
Core Bonds	15.5%	40.0%	100.0%	60.0%	40.0%	100.0%
High Yield Bonds	5.0%	0.0%	25.0%	19.0%	0.0%	25.0%
Short Term Bonds	0.0%	0.0%	25.0%	0.0%	0.0%	25.0%
TIPS	0.0%	0.0%	25.0%	0.0%	0.0%	25.0%
Foreign Bond	5.25%	0.0%	25.0%	20.0%	0.0%	25.0%
Cash	0.25%	0.0%	25.0%	<b>1.0%</b>	<b>0.0%</b>	<b>25.0%</b>

<b>AXA</b>	<b>10.0%</b>	<b>0.0%</b>	<b>30.0%</b>
Alliance SCC	2.50%	0.0%	100.0%
GAMCO SCV	2.50%	0.0%	100.0%
MS MCG	2.50%	0.0%	100.0%
EQ Small Co. Index	2.50%	0.0%	100.0%
Other AXA Funds	0.00%	0.0%	100.0%

**Please Note: For Option C - Normal Target allocations represented by absolute percentages for each asset class. Minimum and Maximum Allocations are represented by relative percentages (Relative to the current allocation).**

**Previous Program Allocation Guidelines - (PRIOR TO December 2012)**

<b>Option B</b>	<b>Normal Target</b>	<b>Minimum of Range</b>	<b>Maximum of Range</b>
<b>Equity</b>	<b>78.0%</b>	<b>50.0%</b>	<b>85.0%</b>
Large Cap Growth	15.0%	10.0%	20.0%
Large Cap Value	15.0%	10.0%	20.0%
Large Cap Core	26.0%	10.0%	30.0%
Small/Mid Growth	2.0%	2.0%	12.5%
Small/Mid Value	2.0%	2.0%	12.5%
International Equity	18.0%	10.0%	40.0%
<b>Alternative Assets</b>	<b>22.0%</b>	<b>0.0%</b>	<b>50.0%</b>
Hedge Fund	17.0%	0.0%	30.0%
Managed Futures	0.0%	0.0%	10.0%
Private Equity	0.0%	0.0%	10.0%
Inverse Market Strategies	0.0%	0.0%	10.0%
Real Estate	2.0%	0.0%	10.0%
Commodity	3.0%	0.0%	10.0%

<b>Option C</b>	<b>Normal Target</b>	<b>Minimum of Range</b>	<b>Maximum of Range</b>
<b>Equity Composite</b>	<b>64.0%</b>	<b>30.0%</b>	<b>85.0%</b>
<b>Equity</b>	<b>51.0%</b>	<b>50.0%</b>	<b>85.0%</b>
Large Cap Growth	10.0%	10.0%	20.0%
Large Cap Value	10.0%	10.0%	20.0%
Large Cap Core	16.5%	10.0%	25.0%
Small/Mid Growth	1.5%	2.5%	12.5%
Small/Mid Value	1.5%	2.5%	12.5%
International Equity	11.5%	10.0%	40.0%
<b>Alternative Assets</b>	<b>13.0%</b>	<b>0.0%</b>	<b>35.0%</b>
Hedge Fund	11.0%	0.0%	30.0%
Managed Futures	0.0%	0.0%	10.0%
Private Equity	0.0%	0.0%	10.0%
Inverse Market Strategies	0.0%	0.0%	10.0%
Real Estate	1.0%	0.0%	10.0%
Commodity	1.0%	0.0%	10.0%
<b>Bonds</b>	<b>26.0%</b>	<b>15.0%</b>	<b>70.0%</b>
Core Bonds	9.5%	0.0%	75.0%
Short Term Bonds	9.5%	0.0%	25.0%
Treasury Inflation Protected Sec.	1.5%	0.0%	50.0%
Foreign Bond	5.0%	0.0%	20.0%
Cash	0.5%	0.0%	25.0%

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<b>Option D</b>	<b>Normal Target</b>	<b>Minimum of Range</b>	<b>Maximum of Range</b>
<b>Equity</b>	<b>78.0%</b>	<b>50.0%</b>	<b>85.0%</b>
Large Cap Growth	15.0%	10.0%	20.0%
Large Cap Value	15.0%	10.0%	20.0%
Large Cap Core	26.0%	10.0%	30.0%
Small/Mid Growth	2.0%	2.0%	12.5%
Small/Mid Value	2.0%	2.0%	12.5%
International Equity	18.0%	10.0%	40.0%
<b>Alternative Assets</b>	<b>22.0%</b>	<b>0.0%</b>	<b>50.0%</b>
Hedge Fund	17.0%	0.0%	30.0%
Managed Futures	0.0%	0.0%	10.0%
Private Equity	0.0%	0.0%	10.0%
Inverse Market Strategies	0.0%	0.0%	10.0%
Real Estate	2.0%	0.0%	10.0%
Commodity	3.0%	0.0%	10.0%

<b>Option E</b>	<b>Normal Target</b>	<b>Minimum of Range</b>	<b>Maximum of Range</b>
<b>Bonds</b>	<b>100.0%</b>	<b>75.0%</b>	<b>100.0%</b>
Core Bonds	60.0%	25.0%	75.0%
High Yield Bonds	19.0%	0.0%	20.0%
Short Term Bonds	0.0%	0.0%	25.0%
Treasury Inflation Protected Sec.	0.0%	0.0%	25.0%
Foreign Bond	20.0%	0.0%	20.0%
<b>Cash</b>	<b>1.0%</b>	<b>0.0%</b>	<b>25.0%</b>