

**LOCAL CHURCH ADDENDUM TO
THE STATEMENT OF
INVESTMENT GUIDELINES**

The Investment Committee of the
General Council on Finance and Administration

**Adopted by
The General Council on Finance and Administration
The United Methodist Church**

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PREFACE

The General Conference has assigned responsibility for investment policy to the General Council on Finance and Administration. The assignment is presented in *The Book of Discipline of The United Methodist Church 2016* as follows:

¶ 806.12 “It shall develop general investment policies and guidelines for all agencies receiving general Church funds (see ¶ 810.2), following consultation with those agencies. The council, in its oversight capacity, shall review those agencies’ compliance with the general investment policies and guidelines. Upon their review, the council may recommend that an agency take certain actions to conform with these policies and guidelines. These guidelines are recommended for all Church organizations...”

As a service to local churches, this *Local Church Addendum to The Statement of Investment Guidelines* is recommended for their use. This addendum does not prescribe specific solutions to issues or problems. It sets forth various approaches that a local church might consider as it adopts and implements *The Statement of Investment Guidelines*, available at www.gcfa.org, for its own application.

The Statement of Investment Guidelines was adopted by the General Council on Finance and Administration in November 2017.

Disclaimer: GCFA does not provide legal, accounting or investment advice or make recommendations on specific investments.

LOCAL CHURCH ADDENDUM TO THE STATEMENT OF INVESTMENT GUIDELINES

This Local Church Addendum to The Statement of Investment Guidelines is a supplement to The Statement of Investment Guidelines. It provides additional information for the local church not provided by The Statement of Investment Guidelines. The Local Church Addendum to The Statement of Investment Guidelines is in no way designed to substitute for the content of The Statement of Investment Guidelines. It is essential that the local church apply this addendum in conjunction with The Statement of Investment Guidelines.

The task of investing by the local church can be as challenging as that faced by general agencies, annual conferences and institutions. The amount of money to be invested may be significantly less, thus eliminating some investment options that might be available for organizations with a larger investment portfolio. It may be more difficult to provide a diversified portfolio with the appropriate asset allocation with a smaller fund. The investment expertise and experience available for a local church may be more limited than that available for a general agency, annual conference or institution.

The local church must exercise great care in reviewing its financial assets before placing any monies in long term investments. Monies used for on-going church operations should not be placed in long term investments. Monies with a time horizon greater than five years may be invested in longer term investments such as a diversified portfolio of stocks and bonds. There may be a distribution or spending plan associated with the long term investments where a portion of the total return (appreciation and income) on long term investments may be used to support the local church operations. Placing endowment contributions (donor contributions for which only the total return from the investments may be spent) in long term investments may be a consideration, as the local church may only spend the total return from the corpus and thus investing in long term investments may be appropriate.

FIDUCIARY RESPONSIBILITIES

The fiduciary responsibilities for a local church charged with the investment of its assets are identical to large organization, even if its funds are substantially less. Please see pages 3-6 in *The Statement of Investment Guidelines*.

Most states have adopted the Uniform Prudent Investor Act (UPIA), a model law that clarifies the responsibilities of trustees to pursue effective portfolio strategies and allows them to retain independent investment counsel, subject to proper due diligence by the trustees, to carry out those strategies. It is important to see what laws your state has enacted in relation to investment of funds. If you would like to access information about the details of the Uniform Prudent Investor Act, you may go to the FDIC web site at https://www.fdic.gov/regulations/examinations/trustmanual/appendix_c/appendix_c.html#_toc497113666.

Regardless of the size of the portfolio, UPIA requires trustees (those individuals or committees responsible for investments) to follow modern portfolio theory and to invest as a prudent investor would invest considering the purpose, terms, distribution requirements and other circumstances of the trust using reasonable care, skill and caution.

UPIA offers the trustee more specific direction on how to go about the process of investing, which places greater accountability on the trustee. Those charged with this responsibility are expected to exercise due diligence in the managing of the local church investments, according to the standard of the prudent investor, including adopting an investment policy, selecting portfolio managers to carry out that policy, monitoring the performance of those managers over time and/or selecting investment options that are in accordance with the policy. If found negligent in their oversight, those with this responsibility may be held liable – not only for actual losses, but for the returns that *might* have been achieved if prudent judgement had been used.

Committees are now encouraged to seek expert counsel from United Methodist Foundations or from a Certified Investment Management Consultant/Analyst and/or manager(s), to assist them in the process.

CHURCH INVESTMENT OPTIONS

The amount of funds that a church has available to invest will determine the number of investment options available. The following are four options that a local church can use to invest their funds.

1) Invest funds with your Annual Conference or Area United Methodist Foundation

Churches in most annual conference have access to an annual conference or area United Methodist Foundation. You can contact your conference or area foundation through your annual conference. You may also identify your area foundation through the National Association of United Methodist Foundation's web site at www.naumf.org. These Foundations typically have personnel that can assist the investment committee of the local church to fulfill their fiduciary responsibilities of duty of loyalty and care, resulting in being a prudent investor as described in *The Statement of Investment Guidelines*.

United Methodist Foundations typically provide a variety of investment vehicles, including short term/intermediate term fixed income, equity and balanced portfolios. Some even offer loan programs to local churches and other special programs. Your annual conference or area United Methodist Foundation may not require any initial minimum investment, others may have minimums of \$2,500, \$5,000 or higher. Local churches should investigate this option first. United Methodist Foundations have investment knowledge and resources that can greatly assist local church leaders in meeting their fiduciary responsibilities.

These United Methodist Foundations also take seriously the mandate to invest church funds in a socially responsible manner. ¶ 2533.5 " ... The board of trustees is encouraged

to invest in institutions, companies, corporations, or funds that make a positive contribution toward the realization of the goals outlined in the Social Principles of our Church. The board of trustees is to act as a socially responsible investor and to report annually to the charge conference regarding its carrying out of this responsibility. When such property is in the form of investable funds, the board of trustees shall consider placement for investment and administration with the United Methodist foundation serving that conference or, in the absence of such a foundation, with the United Methodist Church Foundation. A conscious effort shall be made to invest in a manner consistent with the Social Principles and the creation of an investment policy."

2) Invest in Mutual Funds

An alternate approach might be to invest directly in mutual funds. Care must be exercised to ensure that the funds selected will meet the church's expected long term return, risk tolerance, asset allocation and diversification criteria. Certain families of funds are more conducive to meeting asset allocation and diversification criteria. Unless a church has a significant amount of funds to allow them to invest in institutional mutual funds, the fee structure might be too expensive.

There are a number of mutual funds that provide 'socially responsible' portfolios, including index funds. Screening techniques and criteria to ensure that the mutual fund meets the socially responsible portfolio are important for the local church to consider. Different socially responsible funds may use different screening techniques and criteria.

3) Certified Investment Management Consultant/Analyst

For the consulting approach, the investment committee should seek the services of a Certified Investment Management Consultant/Analyst. Referrals from organizations who use investment management consultants/analyst and the major investment management consulting/analyst firms would provide a list of possible certified consultants. A brief interview with the investment management consulting/analyst firm by phone could be conducted. Make certain that the investment management consulting/analyst firm knows how much the local church has available to invest, as the firm may have an investment minimum. Some firms charge fees as a percent of the total portfolio, others charge fees based on an hourly rate.

After the brief interviews, a short list of three to five firms could be developed. A "Request for Proposal" (RFP) should be prepared. The RFP requests information from the investment management consulting/analyst firm relating to information about the firm, and its methodology and philosophy on investment consulting. A sample RFP is attached, (Exhibit A.) The investment committee, based on the RFP response, would select at least two firms with which to conduct an in-depth interview. The committee would then select the firm which best meets the investment needs of the local church. References, preferably from other local churches or organizations with similar size portfolios, should be contacted before committing to hire an investment management consulting/analyst firm.

Once hired, the consultant will assist the investment committee in developing its goals, investment policies and strategies and lead them through the prudent investment process as discussed in *The Statement of Investment Guidelines*. The consultant can also work with the committee as it relates to your policies on socially responsible investing. The relationship with the consultant is an ongoing relationship. Hiring a competent investment management consultant/analyst to work with the committee goes a long way in meeting the fiduciary responsibilities of the local church investment committee.

The consultant will work with the investment committee. Once the local church's goals, investment policies and strategies have been developed, the consultant can recommend various investment options. The consultant might recommend that the local church use an annual conference or area United Methodist Foundation, diversified mutual funds or hire investment manager(s).

If the recommendation is to hire one or more investment managers, the consultant would recommend a process, or assist in developing a process, to select and hire one or more investment manager(s). This process would include specific investment objectives, style, benchmarks, performance expectations and fees. This would include the consultant recommending a short list of appropriate managers and assisting the local church in the interview, selection and hiring process.

The consultant will then work with the committee on ongoing issues to complete the prudent investment process, which includes the evaluation of the performance against the established benchmark and relative performance when compared with their peers, over time. The ongoing responsibility of the consultant is to review the performance of the investment manager(s) in accordance with the local church investment objectives and recommend changes where appropriate.

The relationship with an investment management consultant/analyst should be constantly under review. If the consultant does not demonstrate satisfactory guidance in the seven step prudent investment management process as identified in *The Statement of Investment Guidelines* pages 4-6, the relationship should end.

4) Investment Manager Hired by a Church Investment Committee

The size of the available funds may be insufficient to attract good portfolio management companies. Typically, they require at least \$100,000 per asset class or style. In order to hire an investment manager, the investment committee should have a member who has the expertise to act in the capacity of a prudent investor to assist the investment committee in the process of hiring an investment manager. The person acting as the prudent investor must be knowledgeable and experienced with investments and in the prudent investment process, so that they may assist the investment committee and the local church in reaching their investment goals effectively. It may be that the local church may have a number of individuals who have the experience in investing and may be able to work as a group to act in this advisory role.

A local church might be inclined to use a member or a relative of a church member to act as the investment advisor. This person might be a financial advisor, an investment broker, a bank officer or a person with significant personal investment experience. It is important to be aware of possible conflicts of interest that may arise. In this process, the advisor would in essence be expected to perform the work of a Certified Investment Management Consultant/Analyst as discussed in the prior section.

Using a church member is not recommended. Such an arrangement can result in difficulties no matter how well intentioned and capable the person might be. If the relationship has to change, no matter the reason, it may cause hard feelings. It may be difficult to ensure that the investment decisions effectively carry out the goals and objectives of the investment committee. It may be difficult to objectively assess the risk and effective performance of the investments. Health, personal situation, conflicts and relationship to the church may change resulting in the effectiveness of this investment relationship being jeopardized. The investment committee should consider adopting a policy prohibiting such relationships from ever being created. This responsibility of the investment committee to perform to the standard of the prudent expert may be difficult with such an arrangement.

The investment committee may wish to hire a Certified Investment Management Consultant/Analyst to assist in the process of selecting investment managers. The relationship with an investment manager should be constantly under review. If the investment manager does not demonstrate satisfactory investment performance after a reasonable time, the relationship should end.

Socially Responsible Investing

Resources for socially responsible investing include *The Statement of Investment Guidelines* which can be found at the GCFA web site www.gcfa.org. Other resources related to ethical exclusions and socially responsible investing and sustainable investment strategies are available from Wespath on their web site at www.wespath.org.

CLOSING REMARKS

Given portfolio size constraints and the potential lack of qualified investment expertise in the local church, the local church may have limited options to complete its fiduciary responsibilities. The local church investment committee must carefully consider what its fiduciary responsibilities are and make decisions which would best serve them in this capacity. We sincerely hope that *The Statement of Investment Guidelines* and this addendum will assist the local church in meeting its fiduciary responsibilities of duty of loyalty and care, resulting in being a prudent investor.

**SAMPLE
REQUEST FOR PROPOSAL
INVESTMENT MANAGEMENT CONSULTANT/ANALYST**

Dear _____:

Please be advised that The _____ Church is considering the hiring of a Certified Investment Management Consultant/Analyst to advise us on all aspects of our portfolios.

In your proposal please include the following:

- 1) Provide the name and location of the primary contact person.
- 2) Provide a summary of your firm. Include the depth and experience of professional staff, the year formed, revenues generated from consulting services and the number of analysts responsible for manager evaluations. Include the experience of the person(s) who would be assigned to this project, including certification criteria.
- 3) Describe your process and methods in preparing an asset allocation study. Please provide a sample of your work in this area.
- 4) Describe your process and methods in selecting asset managers. Please provide a sample of your work in this area.
- 5) Describe your process and methods in analyzing manager performance. Please provide a sample of your work in this area.
- 6) Describe the key elements of a good investment policy. Please provide a sample of your work in this area.
- 7) Provide a list of nonprofit clients for which you have performed this same type of service, include other United Methodist and church-related organizations, if any.
- 8) Provide cost information for each type of your consulting services described above.