

CATHOLIC FOUNDATION

DIOCESE OF AUSTIN

Investment Policy Statement

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Adopted by Investment Committee: August 12, 2014

Adopted by Board: September 11, 2014

I. BACKGROUND

OVERVIEW

The Catholic Foundation - Diocese of Austin (the "Foundation") serves as fiduciary of all assets (the "Assets") entrusted to it pursuant to the applicable endowment fund agreements. The Foundation supports the mission of the Catholic Diocese of Austin (the "Diocese") and its related parishes, schools, agencies, ministries and goals in perpetuity. The Foundation, through prudent and sound management, endeavors to both (i) preserve value and (ii) provide investment and income growth to meet the needs of beneficiaries of the Foundation.

PURPOSE

The Diocese is a part of the Roman Catholic Church charged with the spiritual care of the faithful in Central Texas. Its mission, through the Word and Eucharist, prayer, formation, education, social ministries, and advocacy is to embrace diverse cultures throughout the Diocese so that together as the Catholic Church it can continue the mission of Christ in the world today. The Diocese is organized under the direction of the Bishop of Austin (the "Bishop").

This Investment Policy Statement (the "IPS") of the Foundation sets forth criteria and objectives to guide prudent investment of the Assets. The Foundation will invest the Assets in a manner reasonably expected to both preserve such assets and provide income and investment growth to support the future needs of the Diocese. The IPS is guided by the Uniform Prudent Management of Institutional Funds Act ("UPMIFA"), which provides guidance for investment management and enumerates a more detailed set of rules for investing in a prudent manner.

The primary investment objective of the Foundation is to achieve an annualized total return (net of fees and expenses), through appreciation and income, equal to or greater than the rate of inflation plus any distributions and administrative expenses thus, at a minimum, maintaining the purchasing power of the Foundation. The Assets are to be managed in a manner that will meet the primary investment objective over time, while attempting to limit volatility in year-to-year distributions. While shorter-term investment results will be monitored, adherence to a sound long-term investment policy, which balances short-term spending stability with preservation and enhancement of the real (inflation-adjusted) value of assets, is crucial to the long-term success of the Foundation.

SCOPE

This IPS applies to all Assets over which the Investment Committee has discretionary investment authority.

FIDUCIARY DUTY

In seeking to attain the investment objectives set forth in this policy, the Investment Committee and its members must act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person in like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims. All investment actions and decisions must further the interest of the Foundation in its fulfillment of its charitable mission and supporting its beneficiaries. Fiduciaries must provide full and fair disclosure to the Investment Committee of all material facts regarding any potential conflicts of interests.

DEFINITION OF DUTIES

FOUNDATION BOARD

The governing body of the Foundation (the “Board”) is established in accordance with the Bylaws of the Foundation. The Board is the ultimate fiduciary of the Foundation with authority over the Assets.

The Board will establish and implement policies, including this IPS, governing the investment and management of the Assets. The Board will adopt and approve the IPS (as amended from time to time) and delegate implementation and oversight responsibility to the Investment Committee, which will report directly to the Board. The Board may engage one or more investment consultants (the “Investment Consultant”) to advise the Investment Committee and the Foundation with respect to these duties. The Board will inform the Investment Committee of the financial requirements of the Foundation so that the Investment Committee may appropriately direct the investment allocation of the Assets. The Board shall review this IPS and its objectives on a periodic basis to determine if any modifications or amendments should be made.

INVESTMENT COMMITTEE

The Investment Committee, as established by the Board, will (i) adhere to the applicable provisions of this IPS, (ii) review the IPS at least annually, and (iii) propose any changes to the IPS for the Board’s approval.

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Additional responsibilities of the Investment Committee include:

- Proposing asset allocation ranges and other performance targets (“Investment Strategy”) as adopted by the Board and set forth in this IPS;
- Implementing the Investment Strategy adopted by the Board;
- Selecting, modifying, and terminating investment allocations and/or investment managers;
- Monitoring performance of the investment portfolio and each current manager and allocation on a periodic (at least quarterly) basis;
- Taking actions designed to maintain investment performance results at both a strategic and tactical level;
- Appointing and terminating the custodian(s);
- Possessing sufficient knowledge about the portfolio and its investment managers so as to be reasonably assured of their compliance with the IPS;
- Reviewing, selecting, monitoring and terminating independent investment consultant(s) (“Investment Consultant”); and,
- Reporting to the Board on a periodic (at least quarterly) basis regarding the status of the investment portfolio of Assets.

STAFF

The Investment Committee shall delegate responsibility for executing policies and procedures as outlined in this IPS to the Executive Director and Treasurer of the Foundation. The Executive Director and Chair of the Investment Committee will serve as the primary contacts for the Foundation’s custodian and Investment Consultant.

The Treasurer implements the policy and acts on the recommendations of the Investment Committee. The Treasurer is responsible for the timely implementation of investment decisions and for reporting quarterly to the Investment Committee on the performance of the funds invested by the Foundation including returns or losses. Any recommended changes by the Investment Committee to the (i) Investment Strategy, (ii) Investment Consultant or (iii) IPS, will be presented to the Board for its consideration and approval.

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INVESTMENT CONSULTANT

Upon the approval of the Board, the Foundation may retain one or more Investment Consultants to assist the Foundation with (i) Investment Strategy definition and implementation, (ii) investment manager and investment product selection, (iii) investment performance monitoring, and (iv) reporting requirements. The Investment Consultant will provide an independent, unbiased assessment of the Foundation investment results and the individual performance of the investment managers and products in the investment portfolio.

The Investment Consultant shall:

- Advise the Foundation on the IPS and related policies and procedures,
- Assist in the development of Investment Strategy, including an analysis of investment allocation methodologies consistent with the financial needs and objectives of the Foundation,
- Provide prompt notice to the Investment Committee of material changes to the investment manager's organization, investment philosophy, personnel, regulatory compliance and involvement in litigation,
- Where possible and deemed prudent, ensure that the investment managers selected by the Foundation adhere to the socially responsible investment guidelines established by the Foundation as described in this IPS,
- Compile and aggregate the periodic performance reports provided by the investment managers for each investment therewith,
- Evaluate Asset performance relative to predetermined financial market benchmarks, and
- Provide investment and manager recommendations to the Foundation.

INVESTMENT MANAGERS

The Investment Consultant will review and monitor existing investments with investment managers, and consistent with the adopted Investment Strategy, the Investment Consultant shall propose additional investment managers to the Investment Committee who will make the investment manager selections. Each selected manager must meet the following criteria:

- Be a Registered Investment Advisor, as defined under the Registered Investment Advisors Act of 1940,

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- Provide historical quarterly performance results, reported net of fees,
- Provide performance evaluation reports that illustrate the risk/return profile of the manager relative to appropriate indices,
- Provide information on the history of the firm, key personnel, key clients, fee schedule, and support personnel,
- Articulate the investment strategy for any account or product and produce information as to the historical and future compliance with such strategy,
- Maintain a reputation that reflects positively on the firm and the Foundation; and,
- Meet with the Investment Committee at its request.
- Produce performance reports made available to the Foundation (at least quarterly).

CUSTODIAN

The custodian is an integral part of managing and overseeing the Foundation's Assets. Any custodian will promptly provide to the Foundation, its investment managers and Investment Consultant all information reasonably necessary for compliance, implementation and monitoring purposes.

The custodian shall:

- Be of institutional quality,
- Provide monthly transaction and asset reports in a timely manner,
- Provide the Foundation, its investment managers and Investment Consultant special reports as reasonably requested,
- Promptly communicate any errors, irregularities or concerns regarding portfolio transactions or valuation, and
- Promptly notify the Foundation of material changes in personnel or procedures related to custody of the Assets.

II. OBJECTIVES



OVERVIEW

Responding to the Foundation's fiduciary oversight obligations and to the Gospel challenge of responsible stewardship, the IPS is based on economic and financial factors within a moral framework. The investments chosen by the Foundation must reflect reasonable efforts to conform to the moral principles of the Catholic Church (e.g., they should do no harm and avoid evil). Consequently, the Foundation and Investment Committee shall endeavor, where possible given the nature of the investments and available alternatives, to select investments that promote the social and moral well being of the community in a manner consistent with the guidelines established by the United States Conference of Catholic Bishops (the "USCCB").

The Foundation's investments and investment manager selections will be guided by the following objectives:

- Responsible investment in companies whose business conduct is consistent with objectives of the Foundation, and the business activities of such companies are not inconsistent with Catholic social and moral teaching,
- When making recommendations, Investment Consultants will take into account the Foundation's objectives and preference for investments that are aligned with the USCCB's guidelines, and whenever possible, will avoid recommending investment managers and companies known to materially participate in businesses deemed inappropriate by the Board,
- Whenever reasonably practical, given the nature of the investments and available alternatives, avoid investments in the equity or bond securities of any company known to be involved in the manufacture and distribution of abortifacients and contraceptive substances and devices, or any company known to be substantially involved in the manufacture and distribution of biological and chemical weapons, arms designed or regarded as first-strike nuclear weapons, and indiscriminate weapons of mass destruction, all within the guidelines published by the USCCB from time to time.

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The Investment Committee will review investments and performance at least quarterly. The Investment Committee will use all reasonable efforts to insure that the Foundation's investments are consistent with the objectives set forth in this IPS. The Investment Committee may evaluate potentially non-compliant securities and/or investment managers on a case-by-case basis and approve or restrict investment therein; such decisions will be made in accordance with the provisions of this IPS.

STRATEGY

The Foundation is structured to endure into perpetuity and achieve the long-term rate of return objective discussed herein. To meet these long-term investment objectives, the Investment Committee will consider:

- The impact of inflation and manage investment return objectives accordingly,
- Balance short-term volatility with long-term real growth potential of investments,
- The total return profile of an investment including both capital appreciation (realized and unrealized) and current yield (interest and dividends), and
- Transparency, restrictions and parameters for each investment.

For example, the Assets may be invested in, but not limited to, equity or equity-like securities, including U.S., non-U.S., large cap, small cap and emerging equity securities, real assets (e.g., real estate, infrastructure and natural resources, etc.) securities, fixed income and absolute return strategies and cash. However, cash is not considered a strategic asset of the Foundation, but cash balances may exist to support the investment process and meet short-term, liquidity needs. Each allocation to the foregoing investments will be done in a manner to achieve a diversified and aggregate return profile that meets the objectives of the Foundation.

ASSET ALLOCATION

The Investment Committee will apply the Board approved asset allocation as set forth in this IPS. Diligent compliance with these targets supports the diversification goals of the Foundation in furtherance of a balanced and prudent Investment Strategy to endeavor to enhance total returns, while avoiding undue risk concentrations in any single asset class or investment category. Such diversification objectives shall focus on the broad nature of such investments and the factors that influence them. The goal is to provide a globally diversified portfolio, with

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uncorrelated returns from various assets, reducing the variability of returns across time. In determining the appropriate asset allocation, the inclusion or exclusion of asset categories shall be based on the impact to the Foundation, rather than judging asset categories on a standalone basis.

The target asset allocation should provide an expected total return equal to or greater than the primary objective of the Foundation, while avoiding undue risk concentrations in any single asset class or category, thus reducing risk at the overall portfolio level. The Investment Committee will establish and review the asset allocation objectives at least annually.

In furtherance of these goals, the Board approved asset allocation targets are set forth in the following table:

Asset Class	Strategic Target Asset Allocation	Minimum *	Maximum *
Global Equity	63.0%	50.0%	80.0%
Global Fixed Income	20.0%	10.0%	50.0%
Real Assets	10.0%	0.0%	20.0%
Diversifying Strategies	5.0%	0.0%	15.0%
Cash	2.0%	0.0%	10.0%
TOTAL	100.0%	-	-

* Minimum / maximum subtotals may not equal the sum of the ranges within the asset category.

ASSET CLASSIFICATIONS

Within the broad asset classes set forth in the above table, the allocation to sub-asset categories shall be prudently managed to consider various factors each with unique risk premiums and roles. The factors will vary by asset class, but some examples within global equity include regional exposure, market capitalization, liquidity constraints, currency, and use of derivatives, leverage, or shorting.

When examining asset classifications a global view may be taken that incorporates historical and current industry norms. Each investment will be assessed carefully to determine if it is in an appropriate category. The underlying investments, risk profile and return expectations of "alternative investments" will determine its appropriate asset category.

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The goal of this methodology is to allow the Foundation to allocate opportunities among asset categories. The following chart summarizes asset categories, their roles and associated risk profiles.

<i>Asset Category</i>	<i>Risk Premium</i>	<i>Role</i>
GLOBAL EQUITY U.S. and International Market Cap and Style Private and Public Equity Hedge Funds	Equity Market	Total Return
GLOBAL FIXED INCOME/CREDIT Investment Grade TIPS High Yield Bank Loans Private Debt (Distressed and Mezzanine) Credit Hedge Funds	Interest Rates Credit	Equity Risk Mitigation Total Return
REAL ASSETS Real Estate (Public and Private) Natural Resources (Timber and Energy) Commodities	Inflation	Inflation Protection (along with TIPS)
DIVERSIFYING STRATEGIES Absolute Return Hedge Funds Trading Strategies Alpha Engines	Unconstrained Active Management	Diversification

Change “Risk Premium” to “Risk Profile” in above table

REBALANCING

The asset classes and target allocations serve as long-term guides only and the Investment Committee has the authority to overweight/underweight certain asset classes based on relative valuations and current investment tactical opportunities within the minimum and maximum ranges.

On a quarterly basis, the Treasurer will be responsible for monitoring the actual portfolio allocation to the asset class minimum and maximum ranges. To the extent that rebalancing to comply with the specified ranges may be achieved through the projections of resources available or anticipated withdrawals within the upcoming quarter, it may not be necessary to undertake any rebalancing actions. In the event that the desired portfolio allocations cannot be achieved through the placement of new resources or scheduled withdrawals within the upcoming quarter, the Treasurer will present recommended actions for rebalancing the portfolio to the Investment Committee. The Investment Committee shall determine additions to and withdrawals of funds from investment managers to achieve its rebalancing objectives.

DISTRIBUTION POLICY

The Foundation seeks to provide a reliable source of income to be used in a manner consistent with each donor's stated interests and the Foundation's obligations to prudently pursue its long term investment goals. The Foundation is to be managed in a manner consistent with the Investment Committee's fiduciary responsibility, emphasizing real growth in excess of inflation, administrative, and investment expenses. The Board and the Investment Committee shall manage distributions from the Foundation in accordance with this IPS.

Allowable distributions will be calculated using generally accepted, foundation spending policies. The Foundation's current distribution rate is 4.0% of the 12-quarter rolling average of the endowment fund and may be changed by the Board from time to time.

INDEXED AND SOCIALLY SCREENED INVESTMENT STRATEGIES

The Investment Committee may allocate the Assets to investment indexes or products, designed to mimic broad market indices or benchmarks such as the S&P 500 or the Russell 2000. Any investment in these indexed investment strategies should balance the efficiencies of such investment with liquidity, fee and counterparty risk constraints.

The Investment Committee may consider investments in socially screened vehicles such as Socially Responsible S&P 500 funds that invest in the broad S&P 500 list with deletions of certain companies with prohibited activities. Such socially screened investments shall generally satisfy the fiduciary, financial stewardship responsibilities of the Foundation. With any socially screened investment product, the Investment Committee will consider whether returns are reasonably correlated with the market (less management fees).

LIQUIDITY

The Investment Committee will manage investments to meet the liquidity needs of the Foundation. Adequate liquidity should exist to meet the distribution objectives and any provide for certain extraordinary events. The Investment Committee will carefully consider any investment that reduces the overall liquidity of the Assets. For the avoidance of doubt, the Foundation may invest in certain assets with liquidity constraints.

III. IMPLEMENTATION

OVERVIEW

It is the intent of the Investment Committee to hire investment managers specializing in asset categories to achieve the desired asset allocation. The Investment Committee's intent is to select and retain "best-in-class" investment managers for each asset class and to maintain long-term mutually beneficial relationships with these investment managers. The goal is to establish relationships with investment managers who understand the Foundation's long-term goals and provide high quality services that contribute to overall performance.

GENERAL

Although the Investment Committee cannot dictate policy to pooled and mutual fund investment managers, it is the Investment Committee's intent to select and retain only pooled and mutual funds with policies that further the overall objectives of the Foundation. All investment managers (pooled/mutual or separate) will be evaluated on performance objectives and other subjective criteria. Each investment manager shall promptly notify the Treasurer and Investment Consultant in writing of any material changes in the investment philosophy, strategy, portfolio structure, ownership or senior personnel.

TIME HORIZON

The Foundation seeks to attain long-term investment results over a full market cycle. It does not expect that all investment objectives will be attained in each year and recognizes that over various time periods investment managers may produce significant over or under performance relative to the broad markets. For this reason, long-term investment returns will generally be measured over a 5-year moving period or full market cycle. However, the Investment Committee reserves the right to evaluate and make any necessary changes regarding investment managers over a shorter-term.

TOTAL FUND PERFORMANCE BENCHMARKS

All investment returns shall be measured net of fees. The performance objectives for the Foundation will be reviewed on an ongoing basis and evaluated upon the following objective and absolute benchmark:

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- The primary objective of the Foundation is to achieve a total return, net of fees, equal to or greater than the level of distributions, administrative fees, and inflation.
- The Absolute Benchmark of the Foundation is:

Description	Factor
Inflation Factor (CPI)	+ 2.5%
Distribution Policy	+ 4.0%
<u>Expenses</u>	<u>± 1.0%</u>
TOTAL RETURN	≥ 7.5%

INVESTMENT MANAGER PERFORMANCE OBJECTIVES

All investment returns shall be measured net of fees. Each manager will be reviewed by the Investment Committee on an ongoing basis and evaluated upon the criteria listed. The Investment Committee generally expects each investment manager to outperform the benchmarks over a full market cycle (for measurement purposes = 5 years). The Investment Committee does not expect that all investment objectives will be attained in each year and recognizes that over various time periods, investment managers may significantly underperform their benchmarks. Each investment manager will be reviewed on an ongoing basis and evaluated on the following criteria:

- Stability of the organization,
- Retention of key personnel,
- Absence of regulatory actions against the firm, its principals or employees,
- Ability to meet or exceed the median performance of a peer group of investment managers with similar styles of investing,
- Ability to exceed the return of the appropriate benchmark index and for equity managers, produce positive alpha (risk-adjusted return),
- Passive investments (e.g., index funds) shall track their benchmark index within an acceptable range;

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- Adherence to the guidelines and objectives of this IPS, and
- Consistency in the style and capitalization characteristics defined as “normal” for the investment manager.

Although there are no strict guidelines that will be utilized in selecting investment managers, the Investment Committee will consider the criteria above, as well as, the length of time the firm has been in existence, its track record, assets under management, and the amount of assets the Foundation already has invested with the firm.

PROXY VOTING

Where appropriate and subject to available resources, the Foundation shall exercise its normal shareholder responsibilities including casting votes on proxies and shareholders' resolutions. When votes are cast, the Foundation should vote as a shareholder in a manner reasonably intended to support policies in accord with its values and oppose those in conflict with them.

IV. MONITORING AND REPORTING

INVESTMENT MANAGERS

Open communication between the investment managers, the Foundation and its Investment Consultant are critical to success. The guidelines stated below apply to investments in non-mutual and non-pooled funds, where the investment manager constructs a separate, discretionary account on behalf of the Foundation. The investment manager in its annual meeting (if required) shall provide the following to the Investment Committee.

- A written review of key investment decisions, investment performance and portfolio structure;
- An organizational update, including a report on any and all changes in ownership, organizational structure, investment personnel, philosophy and process; and,
- A review of the manager's understanding of its role in diversification of the Foundation's portfolio.

In addition, the following is required of each investment manager:

- Monthly transaction and asset statements shall be provided to its Investment Consultant and custodian (except for private capital and hedge fund managers which may take longer) following month end;
- Performance reviews annually and upon request;
- Immediate notification to the Investment Committee and its Investment Consultant of any exceptions to this IPS with a recommended plan of action to correct the violation; and,
- Provide the Foundation, its Investment Consultant, or custodian other reports or information as reasonably requested.

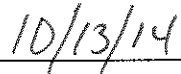
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V. ACKNOWLEDGEMENT

The Investment Committee will review this IPS annually, after consideration of the advice and recommendations of the Investment Consultant. This IPS will remain in effect until modifications are proposed by the Investment Committee. All modifications to this IPS will be in writing and approved by the Board prior to implementation.



Executive Director
Catholic Foundation – Diocese of Austin



Date

Fund Evaluation Group, LLC
Investment Consultant

Date