

INVESTMENT POLICY STATEMENT OF ST. MICHAEL'S LUTHERAN ENDOWMENT FUND

Purpose

The purpose of this Statement is to establish a clear understanding between the St. Michael's Lutheran Endowment Fund and an Investment Manager of the investment policies and objectives of these assets. This Statement will outline an overall philosophy that is specific enough for an Investment Manager to know what is expected, but sufficiently flexible to allow for changing economic conditions and securities markets. The policy will provide realistic risk policies to guide toward long-term rate of return objectives, which will serve as standards for evaluating investment performance. The policy also will establish the investment restrictions to be placed upon an Investment Manager, and will outline procedures for policy and performance review.

Investment Objectives and Spending Policy

- A. The St. Michael's Lutheran Endowment Fund will seek to maximize long term total returns consistent with prudent levels of risk. The management of the assets shall be guided by the provisions of the Michigan Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA requires fiduciaries to apply the standard of prudence "about each asset in the context of the portfolio of investments as a part of an overall investment strategy." In addition, the asset(s) shall not be restricted by any law, rule or custom that (i) requires safety of corpus as a primary consideration; (ii) requiring investment solely in income producing assets; or (iii) requiring diversification of investments.

To comply with the duty of loyalty imposed through UPMIFA, each person (including volunteer members) responsible for the managing and investing an institutional fund shall manage and invest the fund in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances. All investments will be within the guidelines of quality, marketability and diversification mandated by controlling statutes.

- B. For the purposes of making distributions, the St. Michael's Lutheran Endowment Fund shall make use of a total return based on the latest Board approved spending policy set on a rolling twelve (12) quarter average. This means it will fund distributions from a combination of net investment income, net realized capital gains, and proceeds from the sale of investments.

This investment policy states the overall investment objectives and spending policy of the Fund. It also contains a target asset mix and asset mix restrictions, which in combinations with the skills of an Investment Manager, should achieve these objectives.

Standards of Performance

An Investment Manager for the St. Michael's Lutheran Endowment Fund will be expected to achieve the following performance objectives over a three year moving time period:

The investments of the St. Michael's Lutheran Endowment Fund will achieve a rate of return over any three year period, adjusted for grants and expenses, that is greater than the increase in the Consumer

Price Index and at least equal to the risk adjusted return of standard market indices as stated in the Target Asset Allocation Table of this Policy.

Policies and Restrictions

The St. Michael's Lutheran Endowment Fund intends to use the investment policies and restrictions presented in this statement as a framework to help achieve the investment objectives at a level of risk deemed acceptable. These policies and restrictions are designed to minimize interfering with an appointed Investment Manager's efforts to attain overall objectives and to minimize excluding an appointed Investment Manager from appropriate investment opportunities. The policy allows an appointed Investment Manager substantial discretion in the asset allocation and diversification of the assets for the purposes of increasing investment returns and/or reducing risk exposure. When appropriate, the St. Michael's Lutheran Endowment Fund also gives an appointed Investment Manager broad responsibility to shift the commitment of assets among asset classes, industry sectors and individual securities to pursue opportunities presented by long-term secular changes within the capital markets.

Investment Strategy and Asset Allocation

The St. Michael's Lutheran Endowment Fund expects the asset allocation policies to reflect, and be consistent with the investment objectives and risk tolerances expressed throughout this Statement. These policies, developed after examining the historical relationships of risk and return among asset classes, are designed to provide the highest probability of meeting or exceeding the return objectives at the lowest possible risk through asset class selection and diversification. Within the guidelines and restrictions, an Investment Manager has discretion over the timing and selection of securities and are expected to not time the market. It is appropriate to develop ranges within market classes so that minor tactical shifts can be made by an Investment Manager in response to market conditions. However, this language is designed to discourage the Board or the Investment Manager from acting on emotion in times of market distress.

Although dynamic capital markets may cause fluctuating risk/return opportunities over a market cycle, the following standards will be used to evaluate an appointed Investment Manager's asset allocation (as measured at market value) over a three year rolling time period:

Asset Allocation Table					
Asset Class	Authorized Minimum %	Recommended Minimum %	Target %	Maximum %	Representative Index
Capital Growth (Equities)					
Capital Growth-Domestic (US Equities)	0%	25%	37%	50%	Russell 3000 Index
Large Cap	0%	20%	28%	50%	Russell 1000 Index
Mid Cap	0%	2.5%	6%	15%	Russell Mid Cap Index
Small Cap	0%	2.5%	3%	10%	Russell 2000 Index
Capital Growth – Foreign (Non US Equities)	0%	0%	15%	20%	MSCI ACWI ex US Index
International	0%	0%	12%	20%	MSCI EAFE Index
Emerging Markets	0%	0%	3%	10%	MSCI Emerging Market Net Index
Real Assets (Alternative Investments)					
Real Assets	0%	0%	6%	10%	Inflation
Diversified Real Assets Funds	0%	0%	3%	5%	Inflation
Short Term TIPS	0%	0%	3%	5%	Barclays US TIPS Index
Volatility Hedge					
Volatility Hedge	0%	0%	5%	10%	HFRI FOF Composite
Volatility Hedge	0%	0%	5%	10%	HFRI FOF Composite
Income (Fixed Income)					
Income-Domestic (US Fixed Income)	0%	10%	31%	40%	Barclay's Intermediate Gov't/Credit Index
Intermediate Gov't & Corp Bonds	0%	10%	20%	40%	Barclay's Intermediate Gov't/Credit Index
Short Tem Gov't & Corp Bonds	0%	0%	7%	40%	Barclay's 1-3 Yr. Gov't/Credit Index
High Yield Bonds	0%	0%	4%	10%	Barclays High Yld Corp Index
Income-Foreign (Non US Fixed Income)	0%	0%	5%	15%	Barclays Global Aggregate Bond Index – USD Hedged
International Bonds	0%	0%	5%	15%	CITI Non US Govt (Hdg) Index
Cash Equivalents	0%	0%	1%	100%	30 Day US Treasury Bill Index

- A. The investment returns of an Investment Manager's asset allocation will be measured against those of a sample portfolio invested in the representative indexes at the target percentages. It is the responsibility of the Investment Manager to rebalance the actual portfolio within the ranges established on the table at a frequency of their choosing knowing that their performance measurement is being reviewed according to this Investment Policy Statement.
- B. Equities (including all convertible securities) may be represented in the portfolio up to 50 % in large cap equities, 15% in Mid cap equities, 10 % in small cap equities and 20 % in international equities, 10% in emerging markets, 5% in real asset funds and 5% in Short Term TIPS of the account's market value. The recommended minimum requirements in the equities are 20 % large cap stocks, 2.5% in mid cap equities, 2.5 % in small cap equities and 0 % in international equities, 0% in emerging markets equities, 0% in real asset funds and 0% in Short Term TIPS.
- C. Fixed income securities represented by government bonds, corporate bonds and international bonds (including preferred stocks) will not exceed 55 % of the account's market value with a minimum requirement of 10 %.
- D. Cash equivalents (including all senior debt securities with under 1 year to maturity) may be held up to a maximum 100 % of the account's market value with a minimum of 0 %.
- E. Because security market conditions can vary greatly throughout a market cycle, the St. Michael's Lutheran Endowment Fund grants an appointed Investment Manager full discretion to change the asset mix within the above ranges, for the purpose of increasing investment returns and/or reducing risks. If an appointed Investment Manager believes that certain opportunities justify allocations beyond the limits prescribed above, an appointed Investment Manager may exceed the maximum percentages only with the written consent of the St. Michael's Lutheran Endowment Fund.

Investment Guidelines and Restrictions

- A. U.S. Equities - In keeping with the general philosophy, the St. Michael's Lutheran Endowment Fund expects an Investment Manager to maintain the equity portfolio at a risk level roughly equivalent to that of the equity market as a whole. Equity holdings may be selected from the New York, American and Regional Stock Exchanges, the NASDAQ markets or mutual funds or exchange traded funds comprised of stocks from these areas. These holdings must represent companies meeting a minimum capitalization requirement of \$100 million with high market liquidity. An Investment Manager is prohibited from investing in private placements, letter stock, and uncovered options; or from engaging in short sales, margin transactions or other specialized investment activities.

Within the above guidelines, the St. Michael's Lutheran Endowment Fund gives an Investment Manager full responsibility for security selection and diversification, subject to a maximum 5% commitment of the account's market value for an individual security and 20% for a particular economic sector. An Investment Manager will also have full discretion over turnover and allocation of equity holdings among selected securities and industry groups, with the limits described above.

- B. International Equities - An Investment Manager may select international equities or international equity mutual funds or exchange traded funds, and debt from companies and governments outside the U.S. Although the fund generally invests in common stock, it may also invest in preferred stocks and certain debt securities, rated or unrated, such as convertible bonds and bonds selling at a discount. The fund may, for defensive purposes, invest without limit in U.S. Government securities, bank time deposits in the currency of any major nation and commercial paper. An Investment Manager may

invest not more than 5% of its total assets in securities issued by any one company or government, exclusive of the U.S. Government securities. An Investment Manager may not invest more than 5% of its assets in warrants (exclusive of warrants acquired in units or attached to securities) nor more than 10 % of its assets in securities with a limited trading market.

Within the above guidelines, the St. Michael's Lutheran Endowment Fund gives an Investment Manager full responsibility for security selection and diversification, subject to a maximum 5% commitment of the account's market value for an individual security and 20% for a particular economic sector. An Investment Manager will also have full discretion over turnover and allocation of equity holdings among selected securities and industry groups, with the limits described above.

C. Fixed Income - Investments in fixed income securities will be managed actively to pursue opportunities presented by changes in interest rates, credit ratings, and maturity premiums. An Investment Manager may select from appropriately liquid (sold within 7 days at market value) preferred stocks, corporate debt securities, obligations of the U.S. Government and its agencies, tax exempt securities of municipal and state governments and securities convertible to equities or mutual funds or exchange traded funds comprised of these fixed income securities. An Investment Manager may select from appropriately liquid individual issue international bonds, international bond mutual funds or exchange traded funds representing debt from companies and governments outside the U.S. These investments will be subject to the following limitations:

- No individual issues may be purchased with more than 30 years to maturity.
- Investments in securities of a single issuer (with the exception of the U.S. Government and its agencies) must not exceed 5% of the market value.
- Only individual corporate or tax exempt debt issues that meet or exceed a credit rating of "A" from Standard & Poor's and/or Moody's, may be purchased. Corporate issues that are within a High Yield Bond Fund may be rated AAA or lower (normally BBB or lower) from the Standard & Poor's or Moody's rating agencies.
- Preferred stocks must be rated "A" or better by Moody's and/or Standard & Poor's at the time of purchase.
- During the holding period of debt issues and/or preferred stocks if the credit rating from a rating agency changes to "BBB" or below, the Investment Manager must report this information to the Foundation Board at the next scheduled meeting between the Board and the Investment Manager.

An Investment Manager is prohibited from investing in private placements, from speculating in fixed income or interest rate futures, and derivatives. Within the above restrictions, an Investment Manager has complete discretion over timing and selection of fixed income securities.

D. Cash and Cash Equivalents - An Investment Manager may invest in commercial paper, repurchase agreements, Treasury Bills, certificates of deposit, and money market funds to provide income, liquidity for expense payments and preservation of the account's principal value. All such assets must represent maturities of one year or less at time of purchase. Commercial paper assets must be rated A-1 or P-1 by Standard & Poor's and/or Moody's respectively. An Investment Manager may not purchase short-term financial instruments considered to contain speculative characteristics (uncertainty of principal and/or interest). An Investment Manager also may not invest more than 5% of the account's market value in the obligations of a single issuer, with the exception of the U.S. Government and its agencies. Uninvested cash reserves should be kept to minimum levels. Within the limitations

mentioned above, an Investment Manager has complete discretion to allocate and select short-term cash and equivalent securities.

- E. Screening for Socially Responsible Investments - In keeping with the Biblical Principles of St Michael's Lutheran Church, the Investment Manager is to ensure that Stocks or Bonds that are directly connected to the Abortion, Pornography, the Homosexual Agenda or Gambling Industries are omitted from the investment portfolio.

Communications

An Investment Manager is required to give the St. Michael's Lutheran Endowment Fund a quarterly account review detailing investment performance, strategy, and account values. Also, the St. Michael's Lutheran Endowment Fund must receive information about changes in an Investment Manager's investment philosophy, management, ownership, and key personnel in a timely fashion, which is not to exceed three months from the change.

Meetings will be held quarterly or as requested by the St. Michael's Lutheran Endowment Fund and an Investment Manager to discuss:

- An Investment Manager's investment performance and risk levels in light of the stated policies and objectives.
- An Investment Manager's views on important developments within the economy and securities markets, and their potential effect on the investment strategy, asset allocation and account performance.
- The effects of the changes within an Investment Manager's organization on investment philosophy, strategy and performance.
- Proposed amendments to the policies and objectives presented in this Statement.

The St. Michael's Lutheran Endowment Fund may call more frequent meetings if significant concerns arise about an Investment Manager's performance, strategy, personnel and organizational structure.

The Investment Policy Statement for the St. Michael's Lutheran Endowment Fund is adopted this _____ day of _____, _____.

St. Michael's Lutheran Endowment Fund

Signature: _____

Signature: _____

This Investment Policy Statement is accepted by the Investment Manager this _____ day of _____, _____.

Signature: _____