

Michigan Catholic Conference
Investment Guidelines
Socially Responsible Investment Pool

General Objectives and Policies

The Michigan Catholic Conference Socially Responsible Investment Pool (SRIP) is to provide an efficient investment pool for participants to utilize to meet their investment objectives.

Further investment objectives are to preserve capital, to achieve long-term growth of assets without undue exposure to risk through prudent diversification measures, and to achieve and maintain total asset levels that meet the needs of the participants.

Asset Allocation

Each participant in the SRIP has a separate asset allocation since its objectives are different. The following are the asset allocations currently in place:

- Protected Loss Fund 50% Equity 50% Fixed Income
- Health Care Trust 65% Equity 35% Fixed Income
- Priests' Retirement 60% Equity 40% Fixed Income
- Diocesan Funds Various Allocations

Asset class categories are currently defined as equities and fixed income. The universe of investments for each class is defined as follows:

1. Equities: Equity-type securities traded worldwide, including for example, common stocks, convertibles, ADR's, and equities held in pooled vehicles.
2. Fixed Income: Fixed return securities traded worldwide including, for example, government and agency debt, corporate bonds, preferred stock, mortgages, asset-backed securities, private fixed income investments and fixed income held in pooled vehicles.

Investment Manager Selection and Performance Objectives

Managers used for the SRIP are the same managers used by the Pension Plan. The process for selection of investment managers is as follows:

Investment managers are selected to implement the strategy asset allocation plan defined by the Pension Board. Managers are selected after a due diligence review of their past

performance, organization, investment philosophy, investment process, key personnel, fees and other capabilities to assist decision-making with information.

The Sub-Committee for Manager Selection and Review will meet as needed to conduct investment manager selections, evaluate manager performance and develop recommendations to be presented to the full Pension Board.

The Michigan Catholic Conference Lay Employees' Pension Board receives specific manager recommendations from the Manager Selection and Review Sub-Committee, and then discusses, approves and forwards those recommendations to the Michigan Catholic Conference Board for final approval before actions are taken.

A specific investment benchmark index for evaluation is determined for all investment managers hired by the Michigan Catholic Conference, and used to evaluate the manager's performance on a one, three and five year time horizon each quarter. More than one index may be used to facilitate peer performance comparisons or to encourage further useful dialogue on performance with managers.

Managers have investment discretion with regard to market timing of cash flows and security selection, but are expected to be invested in assets appropriate to their mandate. Appropriate assets would include a broad spectrum of securities within the investment universe of the asset class and category for which appointed, while maintaining high fiduciary standards and accepting only benchmark equivalent risk in the aggregate. Managers with multiple portfolios will have the ability to rebalance between the portfolios if they have requested and received authorization from the Michigan Catholic Conference Pension Board. A maximum cash level may be defined as a constraint in managers' assignments.

Equity managers should seek to realize a cumulative total rate of return (income plus realized and unrealized gains and losses minus management and any other fees) over a three-year moving average equal to the return of the benchmark index defined for their portfolio plus a basis point premium appropriate to the style and risk characteristics of the mandate, i.e. S&P 500 plus 150 basis points.

Fixed income managers should seek to realize a cumulative annual total rate of return (income plus realized and unrealized gains and losses minus management and any other fees) over a three-year moving average equal to the return of the Citigroup (or Lehman) Aggregate Bond Index plus 50 basis points.

Constraints and Necessary Approvals

Derivatives may not be used without the prior written permission of the Michigan Catholic Conference. When permission is received, derivatives may be used as efficient substitutes for traditional securities to reduce portfolio risks created by other securities, or

in fully hedged positions to take advantage of market anomalies. The risk of derivatives, like more traditional securities, should be evaluated in the context of the total portfolio.

Leverage is not permitted as an investment strategy. This includes such actions as borrowing against assets held to increase the notional amount available for investment.

Security lending is permitted if the agreements meet the credit standards of the Michigan Catholic Conference and no credit exposure liability is taken to end user borrowers.

Net short positions are not permitted without prior approval of the Michigan Catholic Conference.

Proxy Voting

Proxy voting is an element of the investment management process, and is delegated to the investment managers. A record of the votes is to be maintained by the managers and made available to the Michigan Catholic Conference upon request.

Directed Trades

For managers who agree to directed trades, the Michigan Catholic Conference requests that 20% of the trades be directed through the approved securities program. The primary focus in all trading should always be the execution, and directed trade should never take precedence over execution of the most efficient trading procedures.

Investment Principles of the Michigan Catholic Conference

In making investment decisions, investment managers shall be aware of the mission of the Catholic Church. We believe we have the responsibility to influence corporate policy and public conscience to create a more just global society, foster the common good, and respect the dignity of life. The following principles will serve as guidelines for investments:

1. *PRESERVE THE SACREDNESS OF HUMAN LIFE.* Companies that produce pharmaceuticals or products which are contraceptive, abortive and which damage the health of the mother or children act contrary to this principle.
2. *ASSURE HUMAN RIGHTS THROUGH FAIR EMPLOYMENT PRACTICES, ESPECIALLY FOR MINORITIES AND WOMEN.* Companies that discriminate on the basis of race or sex, pay unjust wages or do not allow just participation in the work place act contrary to this principle.

3. *PROMOTE INTERNATIONAL JUSTICE, THE DEVELOPMENT OF PEOPLES, A JUST INTERNATIONAL ECONOMIC ORDER AND HUMAN RIGHTS.* Companies that exploit the workers or resources of poor countries, make poor peoples more dependent or collaborate with repressive regimes act contrary to this principle.
4. *EXERCISE PRUDENT STEWARDSHIP OF THE ENVIRONMENT AND NATURAL RESOURCES.* Companies that produce unsafe energy, pollute the environment and dispose of hazardous waste in a way that endangers life act contrary to this principle.

These principles are expanded further to specific issues that the fund has identified as investments to avoid or exclude.

- **Abortion:** Absolute exclusion of investment in companies whose activities include direct participation in abortion, including the manufacture of abortifacient contraceptives.
- **Contraceptives:** No investment in companies that manufacture contraceptives or derive a significant portion of its revenue from the sale of contraceptives even if they do not manufacture them.
- **Stem Cell / Human Cloning:** No investment in companies that engage in scientific research on human fetuses or embryos that (1) results in the end of pre-natal human life; (2) makes use of tissue derived from abortions or other life-ending activities; or (3) violates the dignity of a developing person. This includes embryonic stem cell research, fetal tissue research or stem cell research derived from embryos, and human cloning. Considering that this field of research is dynamic and evolving, new forms of associated research or product development from such research will be evaluated on a case-by-case basis.
- **Discrimination:** Divestiture from those companies whose policies are found to be discriminatory against women and/or racial minorities.
- **Military Spending:** No investment in firms primarily engaged in weapons of mass destruction, biological or chemical, and antipersonnel landmines.
- **Banking:** No investment in banks that receive a less than satisfactory rating on the Community Reinvestment Act (CRA) audit. No investment in financial institutions that are involved with predatory lending.

- Pornography: No investment in companies that derive a significant portion of its revenue from products or services intended exclusively to appeal to the prurient interest in sex or to incite sexual excitement.
- Tobacco: No investment in companies whose primary business is the manufacture of tobacco products.
- Casinos: Avoidance of investment in companies whose primary source of revenue is casino gambling.

A list of restricted companies will be provided to the investment managers on a quarterly basis.

Investment Manager Communication and Reporting Guidelines

Investment managers will meet at least annually with the Michigan Catholic Conference, and will provide the following information each quarter:

- Review of past performance and a discussion of future strategies.
- Listing of assets held and transactions during the quarter
- Major strategy and / or personnel changes.
- Personnel changes in this context includes all firm personnel with significant management or research responsibilities.
- Any other issues the manager feels are necessary or indicated to facilitate achievement of the Plan's goals and objectives.

Investment managers shall notify the Michigan Catholic Conference of any significant changes in personnel involved in our account.

Investment managers' performance will be reviewed quarterly and compared to their custom benchmark as well as other Plan benchmark references for the appropriate asset class and category.

These policies and guidelines are intended as guides, and some issues will require discussion on a case-by-case basis. It is expected that any important deviation and the reasons and explanation will be brought to the attention of the Michigan Catholic Conference on a timely basis.