Effective February 7, 2021

Neighborhood Unitarian Universalist Church (NUUC) INVESTMENT POLICY

Overview

Purpose & Intent

Neighborhood Unitarian Universalist Church (Tax ID 95-1684074), “NUUC,” has established and maintains working capital reserves, maintenance reserves, donor endowments and Board designated funds for the purpose of providing long-term financial support for NUUC, for its ongoing operations and for its missions.

The purpose of this Investment Policy is to:

- Articulate overarching long-term goals, objectives, and desired outcomes for the investment of NUUC funds, including unrestricted funds such as working capital reserves, maintenance reserves, as well as temporarily and permanently restricted funds.
- Establish overarching principles and guidelines to govern how NUUC’s funds are to be invested.
- Establish guidelines to govern spending policies for endowment funds.
- Establish responsibility for monitoring the investment programs of NUUC.

Investment Guidelines for NUUC Funds

NUUC Endowment funds are to be invested with the primary objective of preserving the long-term, real purchasing power of funds, while providing reasonable annual distributions in support of NUUC’s ongoing operations and its missions through the spending rate policy.

NUUC non-endowed funds, working capital and reserves, are to be invested with the primary objective of meeting the expenditure needs of the specific funds, while providing a reasonable return on investment. Investments in this category may be held in separate accounts when long term investment objectives are not consistent with the needs of the funds.

Investment guidelines and prohibitions contained in this policy have been formulated in consideration of NUUC’s tolerance for investment risk. At the same time, they are intended to provide for sufficient investment flexibility in the face of changes in market conditions and in the financial circumstances of NUUC.

Overarching Asset Allocation Policy

The Investment Sub-committee recognizes that the strategic allocation of funds across broadly defined financial asset and sub-asset categories, with varying degrees of risk, return, and return correlation, will be the most significant determinant of long-term investment returns and fund value stability.

Socially Responsible and ESG Investment Considerations

As a Unitarian Universalist congregation, NUUC intends to seek out investment funds whose portfolio strategies align to the seven principles which form the foundation upon which Unitarian Universalism is built.

Diversification Policy

Diversification across and within asset classes will be the primary means by which the Investment Sub-committee expects investments to avoid undue risk of large losses over long time periods.

Invested funds will be managed as diversified portfolios composed of two major asset classes: an equity portion and a fixed income portion. Cash equivalents will be used to meet expenditure requirements under an endowment spending rate distribution policy, reserve fund needs as determined during the budget process, or to facilitate a planned program of dollar-cost averaging into investments in either or both of the equity and fixed income asset classes.

Funds may be invested in the following:

- Regulated open-end mutual funds
- Regulated Exchange Traded Funds
- Money Market funds, Certificates of Deposit, and other cash equivalent securities
- Treasury securities issued by the U.S. Government
- Separately Managed Accounts

The expected role of Endowment equity investments will be to maximize the long-term real growth of Endowment funds. The role of fixed income investments will be to generate current income, provide for more stable periodic returns, and provide some protection against a prolonged decline in the market value of Endowment equity investments

To protect the Endowments against unfavorable outcomes within an asset class due to the assumption of large risks, the sub-committee will take reasonable precautions to avoid excessive investment concentrations. Specifically, the following guidelines will be in place:

- With the exception of fixed income investments explicitly guaranteed by the U.S. government, no single issuer shall represent more than 5% of total Endowment funds.
- With the exception of passively managed investment vehicles seeking to match the returns on a broadly diversified market index, no single issuer shall comprise more than 10% of total Endowment funds.
- With respect to fixed income investments, for individual bonds, the minimum average

credit quality of these investments shall be investment grade (Standard & Poor's A or Moody's Baa or higher).

Actual returns and return volatility may vary from return objectives across short periods of time. Periodic changes in the asset allocation will be made only in the event of material changes to the Endowments, to the assumptions underlying Endowment spending policies, and/or to the capital markets and asset classes in which the Endowments invest.

Prohibited Investments

NUUC and its investment managers are prohibited from:

- Purchasing securities on margin or executing short sales.
- Pledging or hypothecating securities, except for loans of securities that are fully collateralized.
- Purchasing or selling derivative securities for speculation or leverage.
- Engaging in investment strategies that have the potential to amplify or distort the risk of loss beyond a level that is reasonably expected, given the investment objectives of NUUC.

Alternative Investments

To the extent NUUC holds investments in nontraditional, illiquid, and/or nonmarketable securities including (but not limited to) venture capital, hedge funds, and real estate investments, these funds will be treated collectively as alternative investments for purposes of measuring the endowment's asset allocation. While not specifically considered within this policy, alternative investments may comprise no more than 5% of total Endowment funds and, to the extent they are owned, will proportionately reduce target allocations to the two primary asset classes itemized above.

DISTRIBUTION & SPENDING POLICY GOVERNING ENDOWMENT FUNDS

Annually, as part of the budget development, the Investment Sub-committee/Finance Committee will notify the Senior Minister and Board of the amounts available for distribution. Earnings from an Endowment fund may only be spent if the corpus is $20,000 or more to ensure that distributions are meaningful. Alternative spending terms may be included in the terms of a specific endowment.

Distributions

The annual spending rate for distributions from the Endowments shall be up to or equal to 5% of the Endowment Funds' average fair value over the prior 13 quarters through the calendar year end preceding the fiscal year in which the distribution is planned.

The Endowment investments must offer sufficient liquidity to meet the spending distributions from the Endowments.

The Investment Sub-committee will review these spending assumptions annually for the purpose of deciding whether any changes therein necessitate amending the Endowments' spending policy, their target asset allocation, or both.

Periodic cash flow, either into or out of the endowment, will be used to better align the investment portfolio to the target asset allocation outlined in the asset allocation policy.

LONG-TERM INVESTMENT OBJECTIVE AND CONSIDERATIONS

The primary investment objective of the Endowments is to provide a real rate of return over inflation sufficient to support in perpetuity the mission of NUUC. It is particularly important to maintain the value of the Endowment funds in real terms in order to enable NUUC to retain the purchasing power of spending for programs and administration without eroding the real value of the principal corpus of the Endowments. As a result, the long-term net compound return objective ("Objective") for the Endowments should at least equal 7.5% as calculated below:

Target Spending Rate	5.00%
Inflation (CPI) (Long-Term Estimate)	2.50%
Objective (Net of Fees)	7.50%

Currently, there is no real growth in the Objective because of the corresponding inappropriate increase in investment risk that would entail. The Objective shall always be considered net of fees. Since NUUC is a non-profit subject to Section 501(c)(3) of the Internal Revenue Code, it will be assumed when making investment decisions that all Endowment transactions will be tax-free unless otherwise known.

Since the Board intends that NUUC remain in existence in perpetuity, the Endowments should be managed with a time horizon ("Time Horizon") much longer than the normal investment cycle. Accordingly, interim performance fluctuations should be viewed from that perspective.

Because NUUC has adopted a "total return" investment approach, current income is considered a secondary consideration

Asset Classes & Target Allocations

The overarching asset allocation target for Endowment funds will be 50-80% equities, 20-40% fixed income and up to 10% cash/cash equivalents. Annually the sub-committee will review and rebalance as necessary the recommended specific asset allocation.

This moderate, equity-oriented long term growth strategy is intended to (i) balance NUUC's objective of increasing the value of Endowment funds over the long term, against the organization's tolerance for capital market risk (ii) and its secondary objectives of current income and preservation of capital.

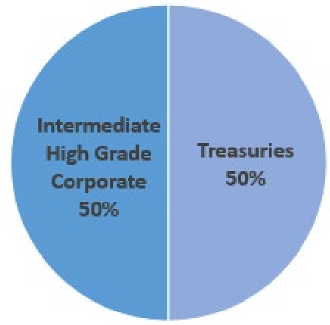
Underlying Asset Classes for Equity Allocation

That portion of Endowment funds which will be allocated to equity investments will be further allocated among sub asset class categories according to the following approximate target allocations: domestic and international alternatives, and asset classes determined by capitalization ranges.

(Domestic equity, international equity, emerging country equity, large cap, mid cap, small cap)

Fixed Income Allocation

That portion of Endowment funds which will be allocated to fixed income investments, will be allocated approximately 50%/50% between US. Government securities and high-grade fixed income alternatives.



PORTFOLIO REBALANCING

It is expected that the Endowments' actual asset allocation will vary from the target asset allocation as a result of the varying periodic returns earned on investments in different asset and sub-asset classes. The Endowments will be rebalanced to the target normal asset allocation under the following procedures:

I. The Sub-committee will use incoming cash flow (gifts, bequests) or outgoing money movements (disbursements) to and from the Endowments to realign the current weightings closer to the target weightings for the Endowments. The Investment Sub-committee will review the Endowments annually to determine the deviation from target weightings. During each annual review, the following parameters will be applied:
   - If any asset class (equity or fixed income) within the endowment is +/-5% from its target weighting, the asset allocation and Endowment holdings will be rebalanced.
   - If any fund within the Endowments has increased or decreased by greater than 20% of its target weighting, Endowment allocations will be rebalanced.

II. The Investment Sub-committee shall act within a reasonable period of time to evaluate deviation from these ranges and act accordingly to rebalance the portfolio.

MONITORING PORTFOLIO INVESTMENTS AND PERFORMANCE

The Investment Sub-committee will monitor the Portfolio's investment performance against stated investment objectives. On a quarterly basis, it will assess the performance of its underlying investments. The composite investment performance (net of fees) will be judged against the following standards:

- The Portfolio’s absolute long-term real return in relation to the annual distribution.
- A composite benchmark consisting of the following unmanaged market indexes weighted according to the expected target asset allocations stipulated by the endowment’s investment guidelines:
  - U.S. Equity: S&P 500 or Wilshire 5000 Total Market Index (or similar)
  - Non-U.S. Equity: MSCI EAFE +EM Index (or similar)
  - Investment Grade Fixed Income: Barclays Capital U.S. Aggregate Bond Index
  - Non-Investment Grade Fixed Income: Barclays Capital U.S. Corporate High Yield Bond Index
  - Cash: 3-Month T-Bill Index

In keeping with the Portfolio’s overall long-term financial objective, the Committee will evaluate the performance over a suitably long-term investment horizon, generally across full market cycles or, at a minimum, on a rolling five-year basis.

Investment reports shall be provided by each firm or funds on a (calendar) quarterly basis or as more frequently requested by the sub-committee.

FEES & EXPENSES

The Investment Sub-committee is mindful that investment management and other portfolio-related operating expenses directly impact net investment performance realized by Endowment funds.

With fees and expenses in mind, the Committee will prioritize mutual funds, ETF’s and other allowable investment options whose total portfolio operating expenses are considered “low” by industry competitive standards for each specific asset class category.

Recognizing that passively-managed index funds are typically characterized by the lowest fee structures in the fund industry, the Committee will prioritize index portfolios that are consistent with the asset allocation targets established under the investment guidelines set forth in this investment policy statement.

REPORTING FREQUENCY

The Investment Sub-committee will provide an investment *review* on an annual basis to the Board of Trustees, including:

- A summary of the fiscal year investment activity, including annual yield and total return.
- Acknowledgement of any endowment designated gifts or bequests received, and a summary of gifts received during the fiscal year, as well as identification of each endowment bequest as restricted or non-restricted and the allocation of those funds.
- Identification of any distributions made from the endowments in numeric and % terms.

- An explanation for any changes which have been made or are anticipated in asset allocation with a rationale for such changes if any.
- Further details of investments may be provided upon request of the Board.

On a quarterly basis the Investment Sub-committee will provide a summary level report to the Finance committee that includes year to date annual yield and total return of the investments and any significant changes made in investments during the most recent quarter.

APPENDIX: DEFINITIONS

NUUC Endowment Funds: These collectively encompass any and all monies/funds/accounts, already established or which may be established in the future, which have been, or will in the future be designated for endowment purposes. Endowment monies have been given/bequeathed (or are anticipated to be given/bequeathed in the future) by members or friends of the congregation of NUUC or their estates, to support the long-term operations and/or mission(s) of NUUC.

Special Purpose Endowment Funds: Special purpose Endowment funds, are gifts or bequests that have been specifically designated by the donor (s) or by the donor(s) estate(s) for long term endowment purposes, and declared by the donor to support a specific purpose, or to provide ongoing funding towards achieving an intended long-term desired outcome.

Special purpose Endowment funds will, by the nature of each gift or bequest's special purpose, be established, identified and maintained as a separate and distinct Endowment account, with each account used exclusively according to the declared intention of each donor.

General Endowment Funds: NUUC's General endowment funds represent the total of all monies received as gifts or bequests from members or friends of NUUC that have been designated by donors/estates, for long term endowment purposes, but which have been given with the understanding that investment earnings will be used in support of the annual operations of NUUC. General endowment gifts will be commingled and managed in a single General Endowment Account.

Investment Sub-committee: The Investment Sub-committee of NUUC is a sub-committee of the Finance Committee appointed by the Treasurer of the Board of Trustees. This group of volunteer congregants are responsible for developing, maintaining, and revising (as necessary) the Investment Policy, which is intended to govern how funds of NUUC are invested. The Investment Sub-committee develops asset allocation targets (models), which reflect the overarching Investment Policy for Endowment Funds, and deploys endowment funds accordingly. The Investment Sub-committee is responsible for monitoring investment managers retained by NUUC to manage Endowment accounts, for reviewing investment performance of Endowment portfolios and for reporting investment performance of endowment funds to the Board of Trustees on a regular and ongoing basis.

Mutual Fund: A mutual fund is a company that brings together (pools) money from many people and invests it in stocks, bonds or other assets. The combined holdings of stocks, bonds or other assets a mutual fund owns are known as its portfolio. Each investor in the fund owns shares, which represent a part of these holdings. (SEC)

Socially Responsible Investments: Socially responsible mutual funds and socially responsible exchange traded funds hold securities (stocks, bonds & cash instruments) in publicly traded companies that adhere to specific social, moral, religious or environmental beliefs and practices. To ensure that individual securities identified for inclusion in a particular fund’s articulated beliefs, (as set forth in each fund’s prospectus), companies typically undergo a screening process that includes socially responsible analytics.

The socially responsible segment of the mutual fund and exchange traded funds universe also includes funds that avoid investing in companies whose products and/or services are deemed to involve promoting alcohol, tobacco, or gambling, or in the defense industry.

ESG: Environmental, social and governance (ESG) screening is a subset of socially responsible investing. In the past decade, a key strategy of sustainable and responsible investing has been to incorporate/overlay ESG criteria into investment analysis and portfolio construction across the full range of investment classes. ESG criteria are a set of standards for a company’s operations that socially conscious investors use to screen potential investments. Environmental criteria consider how a company performs as a steward of nature. Social criteria examine how it manages relationships with employees, suppliers, customers, and the communities where it operates. Governance deals with a company’s leadership, executive pay, audits, internal controls and shareholder rights**.**

Regulated Funds: Regulated funds are collective investment pools that are substantially regulated, open-end investment funds. Open-end funds are generally defined as those that issue new fund shares (or units) and redeem existing shares (or units) on demand. Such funds are typically regulated with respect to disclosure, the form of organization (i.e. either as a corporation or trust), custody of assets, minimum capital, valuation of fund assets, and restrictions on fund investments such as limits on leverage, types of eligible investments and diversification of portfolio investments. Regulated funds in the US include mutual funds and exchange-traded funds (ETF’s).

Alternative Investment: An alternative investment is a financial asset that does not fall into one of the conventional investment categories. Alternative investments include private equity or venture capital, hedge funds, bitcoin, real estate investment trusts, managed futures, art and antiques, rare coins, wine, commodities, and derivatives contracts. The aim of alternative investments is to make absolute returns; that is to make performance returns irrespective of which way the markets are going.

Hedge Funds: Rather like derivative funds, hedge funds typically use derivative instruments or borrowing against the fund's assets to gain greater exposure to their investments or to protect against losses." Unlike mutual funds, hedge funds are not subject to some of the regulations that are designed to protect investors. Depending on the amount of assets in the hedge funds advised by a manager, some hedge fund managers might not be required to register or to file public reports with the SEC.

Fixed Income Securities: A fixed-income security is a debt instrument issued by a government, corporation or other entity to finance and expand their operations. Fixed-income securities provide investors a return in the form of fixed periodic payments and eventual return of principal at maturity. (RBC) Fixed Income Funds invest the fund's portfolio in whole or substantially in fixed income securities.

Fixed Income Funds: Commonly called bond funds, fixed income funds are simply mutual funds that own fixed income securities such as US Treasuries, corporate bonds, municipal bonds, etc. These fixed income funds come in many shapes and styles.

Portfolio Rebalancing: Rebalancing is the process of realigning the weightings of a portfolio of assets. Rebalancing involves periodically buying or selling assets in a portfolio to maintain an original or desired level of asset allocation or risk.

Asset Allocation: Asset allocation involves dividing an investment portfolio among different asset categories, such as stocks, bonds, and cash.

Diversification: Diversification is the practice of spreading money among different investments to reduce. By picking the right variety of investments, you may be able to limit your losses and reduce the fluctuations of investment returns without sacrificing too much potential gain (SEC)

Government Bonds/Government Securities: A government bond or sovereign bond is a bond issued by a national government, generally with a promise to pay periodic interest payments called coupon payments and to repay the face value on the maturity date. The aim of a government bond is to support government spending.

Asset Class: An asset class is a group of securities that share similar characteristics, perform comparably in the marketplace, and are subject to the same laws and regulations. Historically, the three main asset classes have been equities (stocks), fixed income (bonds) and cash equivalents or money market instruments. Major asset classes include stocks, bonds, cash, real estate and commodities. Asset classes often are mixed together to diversify an investor's portfolio and reduce its volatility. Each asset offers different risk and return characteristics and responds differently in the market. Asset classes react differently to news. For example, a piece of news may be positive for stocks and negative for bonds, but not have any impact on cash or real estate.

Investment Grade Bonds: Investment grade bonds have a lower risk of default and receive higher ratings by the credit rating agencies, namely bonds rated Baa (by Moody's) or BBB (by S&P and Fitch) or above. Investment grade bonds are considered more likely than non-investment grade bonds to be paid on time. These bonds tend to be issued at lower yields than less creditworthy bonds.

Non-Investment Grade Bonds: A non-investment grade bond, also called a speculative bond, a high yield bond, an unsecured debenture, or a junk bond, is a bond that is considered a low quality investment because the issuer has a greater risk of default. Non-investment grade bonds offer higher yields than investment grade bonds to compensate for the greater risk.

Moody's: Moody's Corporation is the holding company that owns both Moody's Investor Services, which rates fixed income debt securities, and Moody's Analytics, which provides software and research for economic analysis and risk management. Investors worldwide pay close attention to the ratings that Moody’s assigns to bonds, preferred stock, and government entities. Moody's ratings go from AAA, which is the highest grade for the top-quality issuer with the lowest risk down to C, which is usually given to securities that are in default with little chance of the principal being repaid. Moody's assigns ratings to fixed income securities on the basis of assessed risk and the borrower's ability to make interest payments, and many investors closely watch its ratings.

Standard & Poor's (S&P): This is a business intelligence corporation. Its corporate name is S&P Global. It provides credit ratings on bonds, countries, and other investments. S&P Global also calculates more than 1 million stock market indices.

S&P 500: The S&P 500 is a stock market index that measures the stock performance of 500 large companies listed on stock exchanges in the United States. The S&P 500 is a capitalization-weighted Index and the performance of the 10 largest companies in the index account for 21.8% of the performance of the index.

Risk Tolerance: Risk tolerance is an investor’s ability and willingness to lose some or all of his/her original investment in exchange for greater potential returns. An aggressive investor, or one with a high-risk tolerance, is more likely to risk losing money in order to get better results. A conservative investor, or one with a low-risk tolerance, tends to favor investments that will preserve his or her original investment. In the words of the famous saying, conservative investors keep a "bird in the hand," while aggressive investors seek "two in the bush."

Index Funds: An "index fund" describes a type of mutual fund or unit investment trust (UIT) whose investment objective typically is to achieve approximately the same return as a particular market index, such as the S&P 500 Composite Stock Price Index, the Russell 2000 Index or the Wilshire 5000 Total Market Index. An "index fund" describes a type of mutual fund or unit investment trust (UIT) whose investment objective typically is to achieve approximately the same return as a particular market index, such as the S&P 500 Composite Stock Price Index, the Russell 2000 Index or the Wilshire 5000 Total Market Index. Some index funds may also use derivatives (such as options or futures) to help achieve their investment objective. Some index funds invest in all of the companies included in an index; other index funds invest in a representative sample of the companies included in an index.

The management of index funds is more "passive" than the management of non-index funds, because an index fund manager only needs to track a relatively fixed index of securities. This usually translates into less trading of the fund’s portfolio, more favorable income tax consequences (lower realized capital gains), and lower fees & expenses than more actively managed funds.

Expense Ratio: As with any business, it costs money to run a mutual fund. There are certain costs associated with an investor’s transactions (such as buying, selling, or exchanging mutual fund shares), which are commonly known as “shareholder fees,” and ongoing fund operating costs (such as investment advisory fees for managing the fund’s holdings, and marketing and distribution expenses, as well as custodial, transfer agency, legal, accounting, and other administrative expenses). Although these fees and expenses may not be listed individually as specific line items on an investor’s account statement, they can have a substantial impact on your investment over time.

A fund's expense ratio is its total expenses divided by average net assets. Form N-1A, the mutual fund registration form, divides total expenses into three categories: management fees, rule 12b-1 fees, and other expenses.

Exchange Traded Funds: Exchange-traded funds (ETFs) are SEC-registered investment companies that offer investors a way to pool their money in a fund that invests in stocks, bonds, or other assets. In return, investors receive an interest in the fund. SEC-registered investment advisers professionally manage most ETFs. Some ETFs are passively-managed funds that seek to achieve the same return as a particular market index (often called index funds), while others are actively managed funds that buy or sell investments consistent with a stated investment objective. EFT's are not mutual funds. But, they combine features of a mutual fund, which can only be purchased or redeemed at the end of each trading day at its NAV per share, with the ability to trade throughout the day on a national securities exchange at market prices. (SEC)

Equity Investments: An equity fund is a mutual fund that invests principally in stocks. It can be actively or passively (index fund) managed. Equity funds are also known as stock funds. Stock mutual funds are principally categorized according to company size, the investment style of the holdings.

Cash & Cash Equivalents: Cash equivalents are investments securities that are meant for short-term investing; they have high credit quality and are highly liquid. Cash equivalents are one of the three main asset classes in financial investing, along with stocks and bonds. These securities have a low-risk, low-return profile and include U.S. government Treasury Bills, bank certificates of deposit bankers' acceptances corporate commercial paper, and other money market instruments.