DIOCESE OF LA CROSSE

LA CROSSE, WISCONSIN

INVESTMENT POLICY

January 2023

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INTRODUCTION

This investment policy has been approved by the Diocesan Finance Council and is for the use and guidance of the Diocesan Finance Officer and/or other designated persons with investment authority.

The Diocesan Finance Council or Diocesan Finance Officer, with the approval of the Diocesan Finance Council, may at any time propose a change to this investment policy when significant changes occur in any of the following:

1. Local, state or national economy;
2. Money or capital market conditions;
3. Financial condition or investment portfolio mix of the Diocese;
4. Annual budget of the Diocese.

All suggested changes shall be submitted to the Chairman of the Diocesan Finance Council in writing.

This investment policy shall be reviewed at least annually, normally at the beginning of each fiscal year by the Diocesan Finance Council. It shall be the responsibility of the Diocesan Finance Officer to originate the annual review by the Diocesan Finance Council.

The investment policy statement is divided into nine sections:

SECTION I – STATEMENT OF PURPOSE
SECTION II – INVESTMENT GOALS
SECTION III – INVESTMENT RESPONSIBILITY
SECTION IV – STATEMENT OF MORAL, ETHICAL AND SOCIAL PRINCIPLES
SECTION V – INVESTMENT POLICY
SECTION VI – ACCEPTABLE INVESTMENTS
SECTION VII – PROHIBITED INVESTMENTS
SECTION VIII – DIVESTITURE OF UNSUITABLE ASSETS
SECTION IX – TRADING

I. STATEMENT OF PURPOSE

The purpose of this investment policy is to assist the Diocesan Finance Council, Diocesan Finance Officer, Investment Consultant and Investment Managers in effectively managing and supervising the investable assets of the Diocese. It is to establish guidelines for investments which are broad enough to allow the Diocesan Finance Council and Diocesan Finance Officer to function properly within the parameters of responsibility and authority. It is also intended to be specific enough to clearly state that certain investment situations should be encouraged if they fall within the investment philosophy and policy set forth. Further, it should clearly outline all investments that are both desirable and undesirable for inclusion in Diocesan portfolios.

II. INVESTMENT GOALS

The goals of this investment policy are to manage the Diocese's investment portfolios for maximum return for both long and short-term needs in a manner that is consistent with solid investment practices and relative safety of principal. Specifically this investment policy shall offer the necessary guidelines to attain the following goals and objectives:

A. Safety of funds invested;

B. Adequate liquidity through marketability and appropriate schedules of maturing investments;

C. Maximum total return on all funds invested, subject to meeting the requirements stated in points A and B above;

D. Full employment of all available funds in earning assets;

E. Compliance with investment principles stated herein.

III. INVESTMENT RESPONSIBILITY

A. The responsibilities of the Diocesan Finance Council, or committee appointed by the Council, are:

1. Establish, maintain, and review the Investment Policy Statement, which should be a broad investment strategy with constraints, but with flexibility to provide guidelines for the Diocesan Finance Officer, Investment Consultant and Investment Managers to meet established policy goals and objectives.
2. If the Council chooses, hire an investment consultant to provide investment education, information, and guidance.
3. Monitor and evaluate investment results on an ongoing basis to assure that policy guidelines are being adhered to and that objectives are appropriate.
4. Identify and select Investment Managers to assist in meeting and maintaining the investment objectives.
5. Review of economic data (provided by the Diocesan Finance Officer, Investment Consultant and/or Investment Managers) on current economic conditions and outlook for the financial markets and interest rates.

B. The responsibilities of the Diocesan Finance Officer are:

1. Communicate changes in the financial status of the Diocese or other changes that could impact the Diocesan investment portfolios to:
   a. Diocesan Finance Council
   b. Investment Consultant for master investment program
   c. Investment Manager of cash management program
2. Direct the transfer of funds to and from the master investment program, cash management program, and respective bank accounts
3. Review the Deposit and Loan Fund withdrawal forecasts for parishes
4. Handle approved borrowing to meet short-term cash requirements

C. Investment Consultant is expected to:
   1. Assist in the review and revision of the Investment Policy Statement at least annually
   2. Assist in determining the appropriate asset allocation policy
   3. Assist in the selection and on going due diligence of the investment managers
   4. Conduct periodic reviews that evaluate the continued consistency and appropriateness of asset allocation targets and ranges and of each investment manager
   5. Keep the Diocesan Finance Council and/or the Diocesan Finance Officer apprised of significant developments relative to the investment managers
   6. Provide investment performance reports for each investment pool and each manager compared with relevant market benchmarks and peer groups
   7. Provide periodic market reviews and economic outlook
   8. Provide guidance to assist in the decision making process. The Investment Consultant will play an active role in support of the Diocesan Finance Council and the Diocesan Finance Officer.

D. Investment Managers are expected to:
   1. Manage their portion of the assets in a prudent manner
   2. Exercise complete investment discretion within stated guidelines including the selection of securities and the implementation of the purchase and sale of those securities
   3. Provide information on the investment portfolio on a timely basis to the Investment Consultant
   4. Perform in line with the appropriate market benchmark net of investment advisory fees on a rolling three-year basis
   5. Maintain a return volatility that is less than return volatility of the appropriate market benchmark over a five year period

IV. STATEMENT OF MORAL, ETHICAL AND SOCIAL PRINCIPLES

The Diocese of La Crosse has the responsibility to be a proper "steward" of the investment funds entrusted to it. While the attainment of an adequate return is a moral and legal fiduciary responsibility of the Diocese, and while the conditions/restrictions of funds available for investment must be considered, these responsibilities must be coupled with the deliberate consideration of the social, ethical and moral standards of those companies in which the Diocese invests as outlined in the most recent Socially Responsible Investment Guidelines for the United States Conference of Catholic Bishops published November 2021.

In implementing the investment policy set forth below, therefore, emphasis must be on the responsibility of the Diocese to provide true moral leadership in using these resources to promote the Church's teachings concerning moral, ethical and social principles. To implement this statement of moral, ethical and social principles, investment managers will comply with the following guidelines and directives:

A. Investments are to be avoided in companies associated with the manufacture or marketing of contraceptives or abortifacients.

B. Investments are to be avoided in companies that derive over 10% of their sales (as reported in the company's previous fiscal year) from war materials designed for use in actual military engagements as opposed to material used by the military in support (e.g., fuel, uniforms).

C. The Diocese of La Crosse will actively promote and support shareholder resolutions which encourage corporations to act to preserve the planet's ecological heritage, addressing the rampant poverty in the poorest nations, redirecting development in terms of quality rather than quantity in the industrial world, and creating environmentally sensitive technologies.

D. In addition, investment managers should seek out companies that have contributed substantially to the communities in which they operate; have a positive record on employment relations; have made substantial progress in the promotion of women and minorities or in the implementation of benefit policies that support working parents.

E. Investment managers shall monitor the activities identified above to determine whether they are significant to a company's business. Significance may be determined on the basis of the percentage of revenue generated by, or the size of the operations attributable to, such activities. Investment managers may rely upon information provided by advisory firms that provide social research on U.S. corporations, such as the Interfaith Center for Corporate Responsibility.

F. The securities of companies not in accord with the above guidelines are to be sold from the portfolios as promptly as market conditions permit.

G. The Diocesan Finance Council and Diocesan Finance Officer recognize that these moral principles cannot be applied specifically to mutual funds or certain investment categories, i.e., small cap and international equities. 100% of the fixed income assets and most separately managed equity portfolios will comply with these moral principles. When mutual funds, commingled funds, and certain separate account managers are selected, the Investment Managers when or where possible shall endeavor to comply with the moral, ethical, and social principles always considering the seriousness of these principles to the image of the Diocese.

H. The investment

I. It is the responsibility of the investment managers to comply with these guidelines. The Investment Consultant or the Investment Managers shall confirm portfolio compliance with these principles to the Diocesan Finance Council as part of each investment review.

V. INVESTMENT POLICY

Over the long-term, asset allocation policy will be the key determinant of the returns generated by each fund and the key determinant of the associated volatility of returns. Therefore, the Diocesan Finance Council has developed an asset allocation policy based on the objectives, risk tolerance and characteristics of each fund type. While this policy is long-term oriented and consistent with the risk posture for each fund type, the Finance Council will continue to evaluate the appropriateness of the asset allocation policy as part of its review process.

A. Asset Allocation

The general guidelines for asset allocation are as follows:

1. Fixed Income/Equity Allocation Guidelines

A number of portfolios and groups of portfolios with different investment objectives participate in the fixed income and equity pools. The following asset allocation ranges and targets apply to those accounts.

	Range		Target	
	Fixed Income	Equities	Fixed Income	Equities
Lay Employees Retirement Fund	30% to 50%	50% to 70%	40%	60%
St. Joseph Priest Fund	20% to 40%	60% to 80%	30%	70%
Perpetual Care Funds [a]	40% to 60%	40% to 60%	50%	50%
Endowment Trusts [b]	20% to 40%	60% to 80%	30%	70%

[a] Currently the policy for all Perpetual Care Funds is 50% fixed income and 50% equities.

(b) Currently the trustees of each endowment trust determine the fixed income/equity allocation, with a maximum allowed equity exposure of 70%. The allocation can be changed at the end of any calendar quarter by notifying BMO in writing.

2. Fixed Income Pools Allocation Guidelines

   Generally the fixed income pool will be 100% invested in fixed income securities but may hold up to 10% cash equivalents at the discretion of the fixed income manager.

3. Equity Pools Allocation Guidelines

Asset Class	Minimum	Maximum	Target Allocation
Large Cap Stocks	50%	70%	60%
Mid Cap Stocks	5%	20%	15%
Small Cap Stocks	5%	20%	10%
International Stocks	5%	20%	15%
Cash Equivalents	0	10%	0

4. Perpetual Care Equity Pool

   Generally the Perpetual Care Equity Pool will be fully invested, although up to 10% cash equivalents may be held at discretion of the manager.

   Given the importance of generating a high level of current income for the Perpetual Care Funds, the Equity Pool for the Perpetual Care Funds is to be invested in equities of high quality, large-capitalization companies with strong dividend histories.

   Changes to the minimum and maximum allocations and targets are subject to the approval of the Diocesan Finance Council.

B. Benchmarks

1. Indices

   The relative return of each component of the portfolios, net of investment advisory fees, is expected to be in line with the following general benchmarks by asset class:

   a. Large cap stocks – S&P 500 Index
   b. Mid cap stocks – Russell Midcap Index
   c. Small cap stocks – Russell 2000 Index
   d. International stocks – MSCI ACWI EX USA Index
   e. Bonds – Barclays Intermediate Govt./Credit Bond Index
   f. Cash & Equivalents – 90-day Treasury Bills

   Additional indices may be selected to measure the performance of individual managers as determined by the Finance Council upon the suggestion of the Investment Consultant.

2. Peer Group Universes

   The comparative return of each component of the portfolios is expected to be in line with similar professionally managed portfolios as measured by peer universes as determined by the Finance Council upon the suggestion of the Investment Consultant.

VI. ACCEPTABLE INVESTMENTS

A. Money Market and Fixed Income Investments:

1. Securities of the U.S. Government or agencies thereof.
2. Taxable fixed income securities with a minimum rating of Baa/BBB at time of purchase by Moody's or Standard & Poor's.
3. Commercial paper and variable rate demand notes of domestic corporations meeting the SEC Rule 2a-7 definition of top tier or if unrated, deemed equivalent to top tier by the investment advisor.
4. Bankers acceptances and certificates of deposit of major domestic banks and domestic subsidiaries of foreign banks meeting the quality criteria in item "3" above and meeting additional criteria established by investment counsel.
5. Repurchase agreements 102% collateralized with respect to market value plus accrued interest in U.S. Government and Government Agency securities.
6. Money market funds adhering to the quality guidelines described in items "1 – 5" above.
7. Shares of open-end investment companies (mutual funds) which meet the above stated guidelines and are consistent with the overall objective.
8. Fixed income securities of any one issuer (excluding obligations of U.S. Government or to any issues guaranteed as to both principle and interest by the U.S. Government) may not exceed 10% of the market value of the fixed income portfolio at the time of purchase.
9. Individual fixed income securities will typically have maturities of thirty (30) years or less. For purposes of this Policy Statement, "maturity" is defined as final payment for conventional debt securities or "average life" for

securities which have periodic principle paydowns throughout the life of the security.

10. The duration of the fixed income portfolio shall be within ±20% of the duration of the fixed income benchmark.

B. Domestic Equity Investments:
   1. Securities of U.S. companies: common stocks, convertible preferred stocks, convertible fixed income securities, real estate investment trusts, Standard & Poor's Depository Receipts and cash reserves.
   2. The domestic equity portion of the portfolio shall represent a blend of core, growth and value investment management styles and should be diversified across large, mid and small capitalization equity securities.
   3. Domestic equity investments shall be well diversified among economic sectors, industry groups and individual securities.
   4. No more than 5% of the portfolio's assets, at the time of purchase, shall be invested in the equity of a single corporation, unless said corporation comprises more than 5% of the representative benchmark, in which case investment at time of purchase shall not exceed its allocation to the benchmark.
   5. Shares of open-end investment companies (mutual funds) which are consistent with the guidelines stated above are allowed.

C. International Equity Investments:
   1. The international equity investments may be invested in American Depository Receipts (ADRs), common stock of non-U.S. corporations, World Equity Benchmark Shares (WEBS), closed-end country funds and cash reserves.
   2. The international equity portion of the portfolio shall be diversified across developed countries as represented by the MSCI All Country World ex USA Index (ACWI). Investments in emerging markets shall be limited to no more than 3% over the emerging markets representation in the index.
   3. International equity investments shall be well diversified among economic sectors, industry groups, individual securities, countries and currencies.

4. No more than 5% of the portfolio’s assets, at the time of purchase, shall be invested in they equity of a single corporation.
5. Shares of open-end investment companies (mutual funds) which are consistent with the guidelines stated above are allowed.

VII. PROHIBITED INVESTMENTS

Investment managers are prohibited from investing in nonqualified private placements, commodities, letter stock, warrants, or options and from engaging in short sales and margin transactions. Private placement securities, provided they are qualified 144a fixed income securities, may be purchased in an amount not to exceed 15% of the fixed income allocation.

VIII. DIVESTITURE OF UNSUITABLE ASSETS

It is the policy of the Diocesan Finance Council to sell unrestricted assets that come under Diocesan control by gift or otherwise if they do not meet the criteria for investments outlined in VI above. Any retention of such assets must be approved by the Diocesan Finance Council not less than annually. The sale of an unsuitable asset must be made within a reasonable time after the “sale decision” has been made. A determination of a reasonable time may depend upon a variety of factors, including the following:

A. The nature of the property;
B. The risk involved in its retention;
C. The amount which will be received on an immediate sale as compared to the full value of the property;
D. General state of the market; and
E. The available opportunities for reinvestment.

IX. TRADING

A. Purchases and sales of investments shall be handled through broker/dealers selected by the investment managers.
B. Investment Managers will trade on a best-execution basis.