

## Investment Policy UMC Benefit Board, Inc.

- I. **Purpose of the Investment Policy:** The purpose of this investment policy (**Investment Policy**) is to outline the governance of the UMC Benefit Board, Inc. (**UMCBB**) investment program.<sup>1</sup>
- A. UMCBB is bound by secular law and is also guided by The United Methodist Church’s *Book of Discipline* and will act in accordance with its fiduciary obligations to benefit plan participants and its institutional clients. The UMCBB board of directors (**Board**) has the sole authority and responsibility for developing and monitoring the application of this Investment Policy. UMCBB has responsibility for executing and administering this Investment Policy. UMCBB shall apply this Investment Policy to all funds and investments provided by UMCBB. UMCBB shall make all investment decisions in accordance with its fiduciary duty, which includes the Prudent Expert Standard: the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. UMCBB will require that all external asset managers that it retains are contractually bound to strictly adhere to investment guidelines that comply with this Investment Policy unless otherwise agreed by UMCBB in writing. UMCBB must notify the Board of any exceptions.
- B. The Board is charged by the General Board of Pension and Health Benefits of The United Methodist Church, Incorporated in Illinois (**Wespath Benefits and Investments**), in its capacity as the parent of UMCBB, to act in accordance with its fiduciary duties to:
1. Establish this Investment Policy.
  2. Approve changes to this Investment Policy recommended by management.
  3. Review and monitor UMCBB’s investment program, including investment performance to ensure that it fulfills the requirements of this Investment Policy. The Board will rely on the Fiduciary Committee of Wespath Benefits and Investments for guidance regarding the Board’s: (a) assessment that this Investment Policy reflects Wespath Benefits and Investments’ Investment Beliefs; (b) approval of new investment funds, asset classes and investment strategies not specifically listed in this Investment Policy; (c) monitoring of investment performance and risks for the funds ; and (d) ensuring that UMCBB discharges its fiduciary duties in its sustainable investment program while making a conscious effort to reflect the values outlined in the Social Principles.
  4. Approve investment in any asset class or investment strategy not specifically listed in this Investment Policy.

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<sup>1</sup> All statements in this Investment Policy regarding the duties and actions of UMCBB mean the duties and actions of UMCBB’s officers, employees and authorized agents.

5. Delegate the execution and administration of this Investment Policy to UMCBB management.
6. Monitor UMCBB's sustainable investment program's alignment with the Social Principles of The United Methodist Church (the **Social Principles**) and other directives of the General Conference, subject to prudent fiduciary practices. The Board will rely on the UMC Principles Committee of Wespath Benefits and Investments for guidance regarding the Board's (a) interpretation of the Social Principles and other directives of the General Conference when monitoring alignment of UMCBB's sustainable investment program; (b) monitoring of the execution of UMCBB's sustainable investment program and this Investment Policy for: (i) fulfillment of the requirements specified in Wespath Benefits and Investments' Investment Beliefs; and (ii) to ensure that UMCBB discharges its fiduciary duties in its sustainable investment program while making a conscious effort to reflect the values outlined in the Social Principles; and (c) evaluating and approving of UMCBB's execution of ethical exclusion guidelines, and active ownership activities.

**II. Investment Funds:** UMCBB offers a variety of investment funds comprised of permitted asset classes and investment strategies. UMCBB determines the net asset value for each fund based on the fair market value of the underlying assets. Exhibits shall be provided as addenda to this Investment Policy for each approved investment fund. Each exhibit shall include the following elements for each fund: fund objective, fund performance benchmark, performance objective, investment strategy, eligible investments and limits including target and permitted range, active risk target, permitted active risk range and eligible investors.

UMCBB will act as the investment adviser for the following funds:

- A. U.S. Equity Fund – P Series:** The fund invests in a broadly diversified portfolio of primarily publicly traded, U.S.-based equity securities. The fund portfolio is intended to have most of its assets invested in equities and equity index futures (Exhibit A).
- B. International Equity Fund – P Series:** The fund invests in a broadly diversified portfolio of primarily equity securities of companies from non-U.S. countries. The fund is intended to invest most of its assets in equities and equity index futures of companies based in both developed and emerging market countries and may also purchase currency forward contracts. (Exhibit B)
- C. Fixed Income Fund – P Series:** The fund invests in a broadly diversified portfolio of fixed income securities, and alternative investments. The fund may also hold mortgages and other loans originated through the Positive Social Purpose Lending program. (Exhibit C)
- D. Inflation Protection Fund – P Series:** The fund invests in a portfolio of domestic and international inflation-protected securities, floating rate securities, commodities futures contracts, real assets and cash equivalents. (Exhibit D)

- E. Stable Value Fund – P Series:** The fund invests in a broad range of short and intermediate term high quality, investment grade fixed income instruments and principal protection contracts. (Exhibit E)
- F. Social Values Choice Equity Fund – P Series:** The fund invests in equities of U.S. and non-U.S. domiciled publicly owned companies with highly rated sustainable environmental, social, and governance practices. (Exhibit F)
- G. Annuity Immunization Fund – P Series:** The fund invests in fixed income securities of U.S. government, agency and investment-grade corporate bonds, securitized bonds, and positive social purpose loans. (Exhibit G)
- H. Short Term Investment Fund – P Series:** The fund invests in cash and cash equivalents through units of a sweep account that holds short-term, highly-rated fixed income securities and positive social purpose loans. (Exhibit H)
- I. Multiple Asset Fund – P Series—:** The fund is primarily a fund-of-funds vehicle with targeted fund allocations to the U.S. Equity Fund–P Series, the International Equity Fund–P Series, the Fixed Income Fund–P Series, and the Inflation Protection Fund–P Series. (Exhibit I)
- J. Positive Social Purpose Lending Fund – P Series:** The fund invests in positive social purpose loans of longer duration to align with the duration of the underlying liabilities. The Fund invests for the purpose of generating income to fund annuity obligations. The PSPLF is limited to participants of the Ministerial Pension Plan and for investment of funds supporting MPP Annuities. (Exhibit L)
- K. Domestic Private Equity Fund – P Series:** The fund holds limited partnership investments in U.S.-based private equity funds including direct private equity funds, mezzanine investment funds, private equity fund-of-funds and separate accounts (funds of one). The fund is not offered directly to investors and is intended to be held by other P Series funds and plans. (Exhibit M)
- L. Domestic Private Real Estate Fund – P Series:** The fund holds limited partnership investments in U.S. based private real estate funds including direct private real estate funds, mezzanine debt real estate investment funds, distressed debt funds, and separate accounts (funds of one). The fund is not offered directly to investors and is intended to be held by other P Series funds. (Exhibit N)
- M. International Private Equity Fund – P Series:** The fund holds limited partnership investments in internationally-domiciled private equity funds, private equity funds-of-funds, and separate accounts (funds of one). The fund is not offered directly to investors and is intended to be held by other P Series funds. (Exhibit O)

- N. **International Private Real Estate Fund – P Series:** The fund holds limited partnership investments in internationally-domiciled private real estate funds including direct private real estate funds, mezzanine debt real estate investment funds, distressed debt funds, and separate accounts (funds of one). The fund is not offered directly to investors and is intended to be held by other P Series funds. (Exhibit P)
  - O. **Special Opportunities Fund – P Series:** The fund holds interests in any of a number of alternatives investments and other special situations deemed appropriate for plans for which Wespath Benefits and Investments has asset allocation responsibility. SOF is not intended for daily priced funds available to participants in the various defined contribution plans offered by Wespath Benefits and Investments. (Exhibit R)
  - P. **Sweep Account:** The fund holds a broad range of high-quality bonds such as U.S. Treasury Bills and Notes, U.S. Agency debt, short-term corporate obligations, and Positive Social Purpose Loans. The Sweep Account is limited to cash investments. The fund is not offered directly to investors and is intended to be held by other P Series funds. (Exhibit S)
  - Q. **US Equity Index Fund – P Series:** The fund invests in a passively managed portfolio of publicly traded, U.S.-based equity securities in the Russell 3000<sup>tm</sup> index. The fund is intended to invest most of its assets in equities and equity index futures. (Exhibit T)
  - R. **Extended Term Fixed Income Fund – P Series:** The fund invests in a broadly-diversified portfolio of fixed income securities, and alternative investments with a focus on long duration exposure. ETFIF may also hold mortgages and other loans originated through the Positive Social Purpose Lending program. (Exhibit U)
  - S. **Social Values Choice Bond Fund – P Series:** The fund invests in a diversified mix of fixed income securities. (Exhibit V)
  - T. **U.S. Treasury Inflation Protection Fund – P Series:** The fund invests primarily in U.S. Treasury Inflation Protected Securities. (Exhibit W)
  - U. **Liability Matching Fixed Income Fund – P Series:** The fund invests primarily in fixed income securities of U.S. government, agency and investment-grade corporate bonds, and securitized bonds. (Exhibit X)
- III. **Permitted Asset Classes/Investment Strategies:** Asset classes and investment strategies are permitted only if specifically listed below.
- A. **U.S. Equity Securities:** Investments in U.S. equities shall be limited to common or preferred corporate stocks and investment trusts of corporations domiciled in the U.S. or the ADRs of foreign stocks listed on a regulated exchange. To avoid the risk of concentration of assets, UMCBB shall hold no more than 3% of the outstanding securities of any one class of an issuer.

UMCBB may authorize equity derivative contracts, but they must comply with the Derivatives Investment Policy. (Exhibit J)

- B. International Equity Securities:** Investments shall be limited to common or preferred stocks of corporations domiciled in countries that comprise the Morgan Stanley Capital International All Countries World Index or other countries specifically authorized by UMCBB and listed on a regulated exchange. Sub-asset classes include Developed Market Equities, which consist of stocks of companies domiciled in countries that comprise the MSCI EAFE plus Canada Index; and the MSCI Emerging Market IMI Index. External asset managers may purchase stocks of companies domiciled in countries that do not comprise either of these indices if permitted by the investment guidelines accompanying the investment management agreement and listed on a regulated exchange. External asset managers may execute foreign exchange contracts and invest in local country cash equivalents issued under the laws of permitted foreign countries. UMCBB may authorize equity derivative contracts, but they must comply with the Derivatives Investment Policy. (Exhibit J)
- C. Fixed Income Securities:** Investments shall be limited to classes of securities specified below. External asset managers may purchase classes of securities not listed if specifically permitted by the investment guidelines accompanying the investment management agreement. Fixed income derivative contracts are permitted but must comply with the Derivatives Investment Policy (Exhibit J) The following classes are permitted:
1. U.S. Treasury and agency fixed income securities;
  2. Credit Bonds that are rated investment grade that comprise the Barclay's Capital Credit Index;
  3. U.S. Treasury Inflation Protected Securities;
  4. Guaranteed investment contracts issued by insurance companies with a rating of "A" or better by A M Best;
  5. Non-investment grade securities if permitted by the investment guidelines accompanying the investment management agreement. These include publicly and privately traded U.S. dollar-denominated securities (including bank loans) that have a below investment grade rating from one of the major rating services. UMCBB may permit investment in unrated securities pursuant to a specific exception to the asset manager's investment guidelines accompanying the investment management agreement;
  6. International Bonds: exchange traded fixed income securities (including inflation-linked bonds) that are investment grade denominated in currencies other than the U.S. and issued by governments and corporations domiciled outside of the United States. UMCBB may also permit investment grade emerging market debt denominated in U.S. dollars and foreign

currencies. UMCBB may permit agency rated non-investment grade debt if permitted by the investment guidelines accompanying the investment management agreement;

7. Cash Equivalents: dollar-denominated instruments issued by U.S. and international corporations including corporate notes and floating rate notes, repurchase agreements (subject to appropriate collateralization), obligations of domestic banks, including banker's acceptances, certificates of deposit, time deposits, notes and other debt instruments, instruments denominated in U.S. dollars of U.S. banks offshore, bank loans, agency and non-agency mortgage backed securities;
  8. Mortgage-Backed Securities (MBS): securities with cash flows backed by the principal and interest payments of a set of mortgages. MBS issued by Fannie Mae, Freddie Mac, and Ginnie Mae are permitted. Non-agency MBS are only permitted if rated in the three highest investment grades assigned by a major rating agency or allowed by investment guidelines;
  9. Asset-backed securities secured by cash flows backed by principal and interest payments for financing business and consumer purchases such as auto loans, credit cards, and student loans;
  10. Bank loans: syndicated bank loans provided they meet investment guideline requirements; and
  11. Municipal securities of state or local government entities.
- D. **Active Currency:** Investments in forward contracts for foreign currencies of countries approved by UMCBB.
- E. **Securities Lending:** UMCBB shall administer a securities lending program in accordance with the Securities Lending Policy (Exhibit K). The purpose of the securities lending program is to generate incremental income while safeguarding the return of principal and ensuring liquidity. UMCBB may lend securities for all UMCBB funds unless specifically not permitted in the fund.
- F. **Positive Social Purpose Lending Program:** UMCBB manages a positive social purpose lending program to make a positive contribution toward the goals outlined in the Social Principles while earning a rate of return commensurate with risk. UMCBB shall adhere to the PSP Lending Program Oversight Policy of Wespeth Benefits and Investments as applicable until such time as it establishes its own policy. The program may purchase loans through the following structures:
1. mortgage-backed securities issued or guaranteed by government sponsored entities;
  2. bridge loans to Low Income Housing Tax Credit partnerships;
  3. public and privately-placed commercial mortgage-backed securities;

4. participations in pools of loans to microfinance institutions;
  5. senior participations in pools of mortgage loans;
  6. senior participations in individual affordable multi-family mortgage loans;
  7. senior participations in loans to New Markets Tax Credits partnerships; and
  8. other investment structures are permitted provided that underlying assets are loans that meet the criteria of the Positive Social Purpose Lending Program Oversight Policy and are approved in accordance with that policy.
- G. **Private Real Estate:** Private real estate consists of investments in commingled limited partnerships or separate accounts (fund of one) which invest either domestically or internationally in the debt or equity of underlying real estate properties, portfolios of properties or operating companies within the real estate industry.
- H. **Real assets:** Timber and energy via commingled limited partnership vehicles which own interests in infrastructure, timber-producing and energy-producing properties, such as cultivated forestlands, oil wells, pipelines, gas fields, etc.
- I. **Private Equity:** Private equity consists of private equity fund-of-funds and separate accounts (fund of one) in buyout, venture capital and special situation funds, such as distressed and mezzanine debt. Private equity funds can invest domestically and internationally. The Board must authorize any direct investments in private equity funds and mezzanine investment funds.
- J. **Hedge Funds:** Hedge funds that invest according to specific strategies, which may include, but are not limited to global macro, convertible arbitrage, equity long/short, equity market neutral, distressed, and merger arbitrage. UMCBB may invest in hedge funds only through a registered commingled investment fund-of-funds vehicle that is offered by a Securities and Exchange Commission-registered investment advisor. The nature of hedge fund investing, including complex investment strategies and very rapid fluctuations in investment portfolios, makes it extremely difficult to impose sustainable investment guidelines on individual hedge fund managers prospectively. However, not less than once quarterly, UMCBB will obtain from the asset manager a report regarding restricted securities held by the underlying hedge funds aggregated at the overall fund level.
- K. **Commodities:** Exchange-traded agreements, including swaps and futures, which allow UMCBB to gain exposure to the return on a portfolio of physical commodities without having to own the underlying commodities directly. The use of commodities derivatives contracts is subject to the Derivatives Investment Policy. (Exhibit J)
- L. **Managed Accounts for Defined Contribution Plans:** UMCBB will administer for participants a managed account program for executing the asset allocation for participant defined

contribution accounts. The program is required for all participant balances in Supplement III of the Clergy Retirement Security Program (f/k/a Ministerial Pension Plan) except for the balance of those participants who elected to retain a participant directed account established on April 16, 2004. The program is elective for participant contributions to any currently active defined contribution plan administered by UMCBB and shall be the default election for enrolled participants who do not make an investment election. UMCBB will administer the managed account program as described in the Managed Account Investment Policy. (Exhibit Q)

**M. Rebalancing:**

1. Fund rebalancing: UMCBB shall rebalance asset classes within each fund whenever actual allocations to an asset class fall outside the maximum and minimum allocation range as specified in the fund exhibits.
2. Plan rebalancing: Benefit plan fund allocations shall be rebalanced whenever actual allocations to a specific fund fall outside the maximum and minimum allocation range as established for the plan.
3. Liquidity limitations: UMCBB may suspend rebalancing should market conditions preclude cost-effective implementation of fund rebalancing. UMCBB shall notify the Board whenever conditions warrant suspending rebalancing.

**IV. Sustainable Investment Strategies (SIS) Program:** UMCBB seeks to make a conscious effort to consider the values of The United Methodist Church expressed in the Social Principles, as directed in ¶717 of *The Book of Discipline* 2016. UMCBB shall execute sustainable investment practices, by ensuring that its asset managers consider environmental, social, and governance (ESG) factors when evaluating the risks and opportunities for investments across asset classes. UMCBB demonstrates its commitment to sustainable investment through: ethical exclusions, active ownership, strategic partnerships, positive impact investments and asset manager ESG integration. When UMCBB considers changes to its sustainable investment program, it will seek guidance from the Wespath Benefits and Investments UMC Principles Committee and Fiduciary Committee similar to such guidance provided to the Board as described in Sections I. B.3. and B.6. of this Investment Policy.

**A. Ethical Exclusions:** UMCBB shall endeavor to exclude from investment companies that derive significant revenue from products and/or provide services that are not aligned with United Methodist values as described in the Social Principles, ¶717 of *The Book of Discipline* 2016 and Resolution 4071 (**Investment Ethics**) of *The Book of Resolutions* 2016 provided that to do so does not abrogate UMCBB's fiduciary responsibility as described herein.

1. UMCBB shall identify and maintain a list of companies excluded from investment and shall update the list monthly and make it available to all UMCBB external asset managers on a password protected web site or through other appropriate methods.



2. UMCBB shall not knowingly invest in any company or entity whose core business activity involves the production and/or assembly, direct sale, distribution, and/or marketing of the following products and/or services:
  - a. alcoholic beverages;
  - b. cigarettes, cigars, chewing tobacco, smokeless tobacco, or recreational marijuana products;
  - c. gaming or lottery industries, including the ownership, operation or management of casinos, racetracks, off-track betting parlors and other gambling enterprises;
  - d. adult entertainment, including pornography and other harmful materials;
  - e. antipersonnel weapons (“assault-type” automatic and semiautomatic weapons, firearms, etc.), armaments, ammunition or weapons delivery systems. Retailers of antiquities and/or non-military small arms used for sporting purposes shall be considered on a case-by-case basis; and
  - f. privately-operated correctional facilities, including jails, prisons, penitentiaries, detention centers, prison camps and transfer centers.
3. Core business activity refers to a company’s primary, or central focus of activity and is an essential element in the company’s economic success. Generally, a “core business” is one that accounts for 10% or more of a company’s revenue derived from the objectionable products and/or services and discontinuing the activity would materially change the nature of the company’s operations.
  - a. An exception to the 10% threshold shall apply to restaurants and other food retailers that sell or serve alcoholic beverages. For such businesses, a 25% revenue threshold shall apply.
  - b. For suppliers of key components to the products and/or services listed above, a “core business” is one that accounts for 25% or more of the supplier’s revenue.
4. UMCBB shall not knowingly invest in companies that have contracts with an agency or department of the U.S. or foreign government or have a controlling interest in entities, which materially contribute:
  - a. to the production, maintenance or upkeep of tailor-made controversial weapons including: anti-personnel mines, biological and chemical weapons, cluster weapons, depleted uranium, white phosphorous, nuclear weapons and/or essential core nuclear weapons systems; and

- b. tailor-made and/or essential components and/or services that facilitate the lethal use of controversial weapons.
- 5. Emerging markets commingled equity pools are exempt from the above restrictions if authorized by the Board and the aggregate exposure of companies otherwise prohibited does not exceed 10% of the value of the fund.
- 6. Commingled hedge fund pools are exempt subject to periodic reporting described elsewhere in this Investment Policy.
- B. Active Ownership:** UMCBB shall pursue strategies to actively influence company performance and public policy relating to material ESG issues and manage excessive sustainability risk for all investments held in separately managed accounts and co-mingled passive investment funds.
- C. Engagement:** The Board must approve the annual engagement priority plan. UMCBB shall apply the techniques referenced below to create positive change.
- D. Corporate Engagement** shall take the following forms:
  - 1. Written communications: UMCBB shall use letters to alert companies to issues, seek resolution of concerns, request a meeting or offer commendation.
  - 2. Dialogue: UMCBB shall engage selected companies in face-to-face meetings and/or conference calls as much as travel schedules and resources permit.
- E. Public Policy Engagement** shall focus on how macro-level ESG issues relate to the structure, function and governance of markets as a whole and how they can undermine investors' long-term financial interests. Engagement may include supporting regulatory interventions if, in the judgment of UMCBB, such action shall improve the sustainability of its investment funds.
- F. Management of Excessive Sustainability Risk:** ESG issues can present an excessive degree of sustainability risk to UMCBB's funds due to their fiduciary implications and their importance to The United Methodist Church. When UMCBB identifies such issues, it shall develop a guideline regarding its company-specific engagement priorities. This guideline may also lead to the exclusion of certain companies until the risk of holding securities in the affected companies has been resolved, or if UMCBB believes that it cannot reasonably mitigate the sustainability risk. The Board must approve all guidelines relating to the management of excessive sustainability risk (Exhibit Y).
- G. Proxy Voting:** The Board shall establish and monitor UMCBB's proxy voting policy. UMCBB shall exercise prudent governance over companies by actively voting global proxies based on approved proxy voting guidelines for shares of companies held by the funds.

- a. UMCBB shall develop and maintain proxy-voting guidelines that promote well-run companies with strong, accountable leadership, remuneration that incentivizes responsible behavior and the integration of ESG issues in business practices. The Board must approve proxy voting guidelines annually.
  - b. Shareholder resolutions: UMCBB shall file or co-file shareholder resolutions when such action can affect positive change consistent with its fiduciary responsibilities.
  - c. UMCBB may not lend securities on record date for voting proxies at the annual meeting unless there is a compelling financial reason to do so.
  - d. UMCBB's proxy voting record shall be available publicly on UMCBB's website.
- H. Strategic Partnerships:** UMCBB shall partner with other sustainable investors and organizations dedicated to corporate accountability and sustainability. Partners should complement the full range of sustainable investing activities.

**I. Positive Impact Investments:**

1. **Positive Social Purpose Lending Program:** UMCBB shall administer a program that seeks to participate in loans in the United States and throughout the world that makes a positive impact toward the goals outlined in the Social Principles. These loans are expected to earn a market rate of return commensurate with risk.

Approved loan purposes include:

- a. affordable housing
  - b. community development facilities
  - c. microfinance lending opportunities
  - d. charter schools
  - e. enterprises owned by women, ethnic, or racial minorities, or enterprises that provide positive social impact to women, ethnic or racial minorities
  - f. special social concerns as identified by General Conference provided all such loans are in keeping with this Investment Policy
2. **Women and/or Minority-Owned Manager Program:** UMCBB supports and shall endeavor to identify and retain qualified and sound investment management firms that are owned by women or members of an ethnic minority group or who integrate ESG criteria into their investment philosophies.

**J. Manager ESG Integration Due Diligence:** UMCBB shall endeavor to ensure that external asset managers demonstrate a commitment to integrating the consideration of ESG factors when assessing investment risks and opportunities for UMCBB investments. UMCBB's requests for proposals shall include questions facilitating an assessment of prospective external asset managers' skill in evaluating the risks and opportunities related to ESG considerations. Ongoing asset manager due diligence shall require an annual response by all of UMCBB's external asset managers explaining their consideration of ESG issues when assessing investment risks and opportunities. UMCBB shall formally assess each external asset manager's commitment and success in assessing ESG factors when making investment decisions.

**V. Investment Return Assumptions:** Investment return assumptions determine the discount rates used to calculate the net present value of forecasted future benefit payments for defined benefit plans and annuities administered by Wespeth Benefits and Investments. The following elements comprise UMCBB's investment return assumptions:

**A.** Inflation rate by time segment.

**B.** Real rates of return expectations by time segment for each fund held by a defined benefit plan administered by Wespeth Benefits and Investments.

**VI. Delegation of Authority:** The Board delegates to UMCBB the following responsibilities for administering this Investment Policy, specifically to:

**A.** Invest fund assets among approved asset classes listed in Section III consistent with the guidelines specified in each fund exhibit.

**B.** Select external asset managers responsible for investing assets allocated to approved asset classes for each fund. UMCBB shall identify and hire external asset managers for fund mandates without seeking formal approval from the Board if each manager's investment mandate is within permitted guidelines. In addition, UMCBB may terminate investment contracts with existing external asset managers without Board approval. UMCBB shall informally notify the Board quarterly of changes that it initiates.

**C.** Provide the Board with a quarterly report of new loans purchased through its Positive Social Purpose Lending Program.

**D.** Manage UMCBB's Positive Social Purpose Lending Program. Subject to management's risk assessment, provide the Board with an independent opinion from a qualified third party regarding the viability and adequacy of the administration of the Positive Social Purpose Lending Program.

- E. Provide the Board with a quarterly report of the investments directed through the Women or Minority-Owned Manager Program.
- F. Develop for each external investment management firm investment guidelines that formally outline the nature of that firm's engagement with UMCBB, which shall include the importance of evaluating ESG issues in selecting investments.
- G. Maintain formal documentation that outlines the policies and procedures to which UMCBB shall adhere when carrying out its responsibilities.
- H. Hire and retain qualified external asset managers, consultants, and PSP intermediaries to assist in the execution of this policy and document annually an appraisal of the external asset managers', consultants' and PSP intermediaries' services.
- I. Develop and adhere to a code of conduct for all management and staff involved in administering the responsibilities delegated by this Investment Policy.
- J. Provide the Board with an annual written analysis of the impact of UMCBB's screening guidelines on investment.
- K. Review not less than annually with the Board that UMCBB has applied best practices for reporting the fair market value of all investments for which a readily identified market price is not available.
- L. Provide the Board with a quarterly summary report on the performance of investment funds and external asset managers and other related investment activities, such as engagement initiatives.
- M. Within six months after each General Conference, provide the Board, with a listing of resolutions adopted by General Conference that affect, either directly or indirectly, UMCBB's investment program.
- N. At least annually, submit a strategic engagement proposal to the Board for its approval.
- O. At least quarterly, prepare and submit a report to the Board listing all corporate engagements and issues under discussion.
- P. At least annually, prepare and submit a report to the Board that outlines the extent to which external asset managers have integrated ESG issues or compliance with the Principles for Responsible Investment into their investment decision processes.
- Q. At least annually, prepare and submit a report to the Board listing all shareholder resolutions filed by UMCBB with respective voting results. The report also shall include withdrawn resolutions and the reason for withdrawal.

- R.** At least annually, provide the Board with a written analysis of the long-term investment return assumptions and strategic asset allocations for all funds.
- S.** Report not less than quarterly to the Board that UMCBB has complied with this Investment Policy and list any exceptions.

## Exhibit A

### Investment Strategy

#### U.S. Equity Fund – P Series

The strategy below is subject to review by the Board no less than annually.

- I. **Fund Objective:** To attain long-term capital appreciation by investing in a diversified portfolio of primarily U.S. domiciled publicly owned companies and to a lesser extent U.S. privately owned companies, U.S. private real estate, and U.S. equity index futures.
- II. **Fund Performance Benchmark:** Russell 3000 Index
- III. **Performance Objective:** To produce a return that exceeds that of the performance benchmark by 35 basis points on average per year over a market cycle (five to seven years) and net of external management fees, custody fees and administrative and operating expenses.
- IV. **Investment Strategy:** The Fund employs a blended use of passive and active investment management. For passive management, the fund includes investments that are designed to closely match the performance of various indices representing different market segments. Index funds are permitted to hold all, or a representative sample, of the securities that comprise the target market index. For active management, the Fund employs different investment management firms to make decisions about the Fund's portfolio investments. The Fund relies on the professional judgment of its asset managers to seek investments in attractively valued companies that, in their opinion, represent good long-term investment opportunities. The Fund primarily employs asset managers that will accomplish this objective through fundamental analysis, including meeting with company executives and employees, suppliers, customers and competitors. Securities may be sold when the adviser no longer believes that they represent attractive investment opportunities. Passive and active managers are subject to portfolio screening restrictions.

V. **Eligible investments and limits:**

<u>Asset Class</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
U.S. Equity Securities	85%	90%	100%
Cash Equivalents	0%	0%	5%
Alternatives Investments <sup>1</sup>	0%	10%	12%

- VI. **Active Risk Target:** 36 month trailing standard deviation of benchmark relative excess return equal to 2%. Permitted Active Risk range: between 1% and 3%.

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<sup>1</sup> Permitted Alternative investments include private real estate, real assets, private equity, and hedge funds.

**VII. Eligible Investors:** (1) Organizations that are controlled by or associated with The United Methodist Church that elect to or are required to sponsor retirement and/or health and welfare benefit plans administered by Wespath Benefits and Investments (“Wespath”) for the benefit of their employees (“Plan Sponsors”); (2) the defined benefit retirement, and health and welfare benefit, plans and programs for clergy and lay employees of a church or a tax-exempt convention or association of churches consistent with Section 414(e) of the Internal Revenue Code (each a “Church Plan”) administered by Wespath; (3) employees and former employees eligible to participate in the Church Plans offered by a Plan Sponsor and administered by Wespath, and other accountholders (i.e., beneficiaries and alternate payees); and (4) other investors approved by UMCBB under exceptional circumstances.



## Exhibit B

### Investment Strategy

### International Equity Fund – P Series

The strategy below is subject to review by the Board no less than annually.

- I. **Fund Objective:** To attain long-term capital appreciation by investing in a diversified portfolio of primarily non-U.S. domiciled publicly owned companies and to a lesser extent non-U.S. domiciled privately owned companies, non-U.S. private real estate, and non-U.S. equity index futures.
- II. **Fund Performance Benchmark:** Morgan Stanley Capital International All Country World (MSCI ACWI) ex USA IMI Net Index
- III. **Performance Objective:** To produce a return that exceeds that of the performance benchmark by 75 basis points on average per year over a market cycle (five to seven years) and net of external management fees, custody fees and administrative and operating expenses.
- IV. **Investment Strategy:** The Fund seeks a favorable long-term rate of return from a broadly diversified portfolio of international equities domiciled in developed and emerging market countries. The Fund relies on the professional judgment of its asset managers to decide how to allocate Fund assets among different countries and/or regions of the world and in which equities the Fund should invest. The asset managers seek to invest in attractively valued companies that represent above-average long-term investment opportunities. The asset managers accomplish this objective primarily through fundamental analysis, which may include meeting with a company’s management, competitors, suppliers and customers in order to evaluate a company’s future prospects. Asset managers are subject to portfolio screening restrictions.

V. **Eligible investments and limits:**

<u>Asset Class</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
International Public Equities <sup>1</sup>	85%	90%	100%
Cash Equivalents	0%	0%	5%
Alternative Investments <sup>2</sup>	0%	10%	12%

- VI. **Active Risk Target:** 36 month trailing standard deviation of benchmark relative excess return equal to 3%. Permitted Active Risk range: Between 2% and 4%.

<sup>1</sup> Allocation to emerging market equities permitted within range of +/- 5% of emerging markets’ weighting in the Fund benchmark

<sup>2</sup> Permitted alternative investments include: hedge funds, private equity, private real estate, and real assets.

**VII. Eligible Investors:** (1) Organizations that are controlled by or associated with The United Methodist Church that elect to or are required to sponsor retirement and/or health and welfare benefit plans administered by Wespath Benefits and Investments (“Wespath”) for the benefit of their employees (“Plan Sponsors”); (2) the defined benefit retirement, and health and welfare benefit, plans and programs for clergy and lay employees of a church or a tax-exempt convention or association of churches consistent with Section 414(e) of the Internal Revenue Code (each a “Church Plan”) administered by Wespath; (3) employees and former employees eligible to participate in the Church Plans offered by a Plan Sponsor and administered by Wespath, and other accountholders (i.e., beneficiaries and alternate payees); and (4) other investors approved by UMCBB under exceptional circumstances.

**Exhibit C**  
**Investment Strategy**  
**Fixed Income Fund – P Series**

The strategy below is subject to review by the Board no less than annually.

- I. Fund Objective:** To earn current income while preserving capital by primarily investing in a diversified mix of fixed income securities.
- II. Fund Performance Benchmark:** Bloomberg Barclays U.S. Universal Index (excluding Mortgage-Backed Securities).
- III. Performance Objective:** To produce a return that exceeds that of the performance benchmark by 50 basis points on average per year over a market cycle (five to seven years) and net of external management fees, custody fees and administrative and operating expenses.
- IV. Investment Strategy:** The Fund employs a blended approach of enhanced passive and active investment management. For the enhanced passive management component, the Fund’s manager attempts to slightly exceed the return of the performance of the benchmark (10 basis points). For active management, the Fund relies on asset management firms to exercise professional judgment in seeking investments in attractively valued securities that, in their opinion, represent good long-term investment opportunities. The Fund is intended to complement the Inflation Protection Fund in terms of credit exposure. Accordingly, the Fund will tend to have a lower allocation to U.S. Government debt than what is typical for a diversified bond fund. Passive and active asset managers are subject to portfolio screening restrictions.
- V. Eligible investments and limits:**

<u>Asset Class</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Fixed Income Securities	75%	85%	100%
Positive Social Purpose Loans	0%	15%	20%
Alternative Investments <sup>1</sup>	0%	0%	5%
Cash Equivalents	0%	0%	5%

- VI. Active Risk Target:** 36-month trailing standard deviation of benchmark relative excess return equal to 2%. Permitted Active Risk range: between 1% and 3%.
- VII. Eligible Investors:** (1) Organizations that are controlled by or associated with The United Methodist Church that elect to or are required to sponsor retirement and/or health and welfare benefit plans administered by Wespath Benefits and Investments (“Wespath”) for

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<sup>1</sup> Permitted Alternative investments include real assets and hedge funds.

the benefit of their employees (“Plan Sponsors”); (2) the defined benefit retirement, and health and welfare benefit, plans and programs for clergy and lay employees of a church or a tax-exempt convention or association of churches consistent with Section 414(e) of the Internal Revenue Code (each a “Church Plan”) administered by Wespeth; (3) employees and former employees eligible to participate in the Church Plans offered by a Plan Sponsor and administered by Wespeth, and other accountholders (i.e., beneficiaries and alternate payees); and (4) other investors approved by UMCBB under exceptional circumstances.

**Exhibit D**  
**Investment Strategy**  
**Inflation Protection Fund – P Series**

The strategy below is subject to review by the Board no less than annually.

- I. **Fund Objective:** To provide investors with current income and to protect principal from long-term loss of purchasing power due to inflation by primarily investing in fixed income securities and commodity futures with high correlations to inflation.
  
- II. **Fund Performance Benchmark:** The Fund uses a blended benchmark to measure the success of its performance. The benchmark includes the following:
  - 80% Bloomberg Barclays World Gov't Inflation-Linked (Hedged) index
  - 10% Bloomberg Barclays EM Tradable Inflation-Linked (EMTIL) (Unhedged) index
  - 10% Bloomberg Commodity index
  
- III. **Performance Objective:** To produce a return that exceeds that of the performance benchmark by 25 basis points on average per year over a market cycle (five to seven years) and net of external management fees, custody fees and administrative and operating expenses).
  
- IV. **Investment Strategy:** The Fund employs a blended approach of enhanced passive and active asset management. For the enhanced passively managed component, the Fund's asset manager attempts to slightly exceed the return of the performance benchmark (10 basis points). For the active management component, the Fund's asset manager(s) exercise(s) professional judgment to seek attractively valued investments that, in their opinion, represent good long-term investment opportunities. The Fund is intended to complement the Fixed Income Fund in terms of credit exposure, as the Fund is comprised primarily of U.S. Government and foreign government debt. The Fund also attempts to modestly improve investment returns by investing 10% of its assets in commodities, 10% in floating rate senior secured loans, and 5% in inflation-hedged illiquid strategies such as real assets and other alternative investments that provide an inflation hedge. Asset managers are subject to portfolio screening restrictions.

**V. Eligible investments and limits:**

<u>Asset Class</u>	<u>Min</u>	<u>Target</u>	<u>Max</u>
Passive U.S. Treasury Inflation Protected Securities	30%	35%	40%
Active Global Inflation-Linked Bonds	28%	30%	32%
Active Emerging Market Inflation-Linked Bonds	8%	10%	12%
Floating Rate Senior Secured Loans	8%	10%	12%
Commodities	8%	10%	12%
Real Assets and Alternative Investments	0%	5%	10%
Cash Equivalents	0%	0%	5%

**VI. Active Risk Target:** 36-month trailing standard deviation of benchmark relative excess return equal to 2%. Permitted Active Risk range: between 1% and 3%.

**VII. Eligible Investors:** (1) Organizations that are controlled by or associated with The United Methodist Church that elect to or are required to sponsor retirement and/or health and welfare benefit plans administered by Wespath Benefits and Investments (“Wespath”) for the benefit of their employees (“Plan Sponsors”); (2) the defined benefit retirement, and health and welfare benefit, plans and programs for clergy and lay employees of a church or a tax-exempt convention or association of churches consistent with Section 414(e) of the Internal Revenue Code (each a “Church Plan”) administered by Wespath; (3) employees and former employees eligible to participate in the Church Plans offered by a Plan Sponsor and administered by Wespath, and other accountholders (i.e., beneficiaries and alternate payees); and (4) other investors approved by UMCBB under exceptional circumstances.

## Exhibit E

### Investment Strategy

### Stable Value Fund – P Series

The strategy below is subject to review by the Board no less than annually.

- I. **Fund Objective:** To preserve both invested principal and earned interest, and to provide liquidity for investor-directed disbursements by investing in investment grade fixed income securities.
- II. **Fund Performance Benchmark:** BofA Merrill Lynch 3-Month Treasury Bill Index
- III. **Performance Objective:** To produce a return that exceeds that of the performance benchmark by 25 basis points on average per year over a market cycle (five to seven years) and net of external management fees, custody fees and administrative and operating expenses.
- IV. **Investment Strategy:** The Fund will invest in a broad range of high quality, low risk fixed income instruments. The Fund will contract with highly rated insurance companies that will provide the principal protection feature that assures participants can transfer or withdraw the value of all contributions and accumulated interest.
- V. **Eligible investments and limits:** The investment portfolio consists of a broad selection of short and medium term fixed income securities including U.S. government and agency bonds, corporate bonds, mortgages, and asset-backed securities. Additionally, the Fund may hold insurance company issued Guaranteed Investment Contracts (GICs) or similar instruments as well as cash equivalents.

<u>Asset Class</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Fixed Income Securities	40%	100%	100%
Guaranteed Investment Contracts	0%	0%	40%
Cash Equivalents	0%	0%	30%

- VI. **Active Risk Target:** Not applicable. The Fund will be managed to a duration target set by the lead manager of the Fund. In no case is duration permitted to exceed three and one half years.
- VII. **Eligible Investors** (1) Organizations that are controlled by or associated with The United Methodist Church that elect to or are required to sponsor retirement and/or health and welfare benefit plans administered by Wespeth Benefits and Investments (“Wespeth”) for the benefit of their employees (“Plan Sponsors”); (2) the defined benefit retirement, and health and welfare benefit, plans and programs for clergy and lay employees of a church or a tax-exempt convention or association of churches consistent with Section 414(e) of the Internal Revenue Code (each a

“Church Plan”) administered by Wespath; (3) employees and former employees eligible to participate in the Church Plans offered by a Plan Sponsor and administered by Wespath, and other accountholders (i.e., beneficiaries and alternate payees); and (4) other investors approved by UMCBB under exceptional circumstances.



**Exhibit F**  
**Investment Strategy**  
**Social Values Choice Equity Fund – P Series**

The strategy below is subject to review by the Board no less than annually.

- I. **Fund Objective:** To attain long-term capital appreciation by investing in a diversified portfolio of U.S. and non-U.S. domiciled publicly owned companies with highly rated sustainable environmental, social, and governance practices.
- II. **Fund Performance Benchmark:** The MSCI World Environmental, Social, and Governance (ESG) ex Fossil Fuels Index.
- III. **Performance Objective:** To produce a return that matches that of the performance Benchmark on average per year over a market cycle (five to seven years) and gross of external management fees, custody fees and administrative and operating expenses.
- IV. **Investment Strategy:** The Fund seeks to achieve its investment objective by investing in equities of U.S. and non-U.S. domiciled publicly owned companies with highly rated sustainable environmental, social, and governance practices. The Fund may exclude additional companies from investment based on criteria not considered by the Fund benchmark provider, including the following:
  - a. companies that derive a significant amount of revenue from involvement in the fossil fuels industry that UMCBB has not identified through its Management of Excessive Sustainability Risk - Climate Change guideline; and
  - b. companies with operations in “high risk” countries and areas that demonstrate a prolonged and systematic pattern of human rights abuses that UMCBB has not identified through its Management of Excessive Sustainability Risk - Human Rights guideline and have been named in divestment petitions adopted by a minimum of seven annual conferences representing three or more jurisdictional conferences.

Both the Fiduciary Committee and the UMC Principles Committee of the Wespath Board must approve such exclusions.

**V. Eligible investments and limits:**

<u>Asset Class</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
U.S. and non-U.S. Equity Securities <sup>1</sup>	95%	100%	100%
Cash Equivalents	0%	0%	5%

**VI. Active Risk Target:** 36 month trailing standard deviation of benchmark relative excess return less than or equal to 1%.

**VII. Eligible Investors:** (1) Organizations that are controlled by or associated with The United Methodist Church that elect to or are required to sponsor retirement and/or health and welfare benefit plans administered by Wespath Benefits and Investments (“Wespath”) for the benefit of their employees (“Plan Sponsors”); (2) the defined benefit retirement, and health and welfare benefit, plans and programs for clergy and lay employees of a church or a tax-exempt convention or association of churches consistent with Section 414(e) of the Internal Revenue Code (each a “Church Plan”) administered by Wespath; (3) employees and former employees eligible to participate in the Church Plans offered by a Plan Sponsor and administered by Wespath, and other accountholders (i.e., beneficiaries and alternate payees); and (4) other investors approved by UMCBB under exceptional circumstances.

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<sup>1</sup> Only equity securities included in the MSCI World Custom ESG Special Weighted Index, equity index futures, and sustainable exchange traded funds (ETFs).

**Exhibit G**  
**Investment Strategy**  
**Annuity Immunization Fund – P Series**

The strategy below is subject to review by the Board no less than annually.

- I. **Fund Objective:** To minimize the volatility of non-MPP annuities funded status and ensure the fulfillment of forecasted monthly benefit payments
- II. **Fund Performance Benchmark:** Plan liabilities
- III. **Performance Objective:** Outperform the customized liability benchmark over a full market cycle (3-5 years) and net of external management fees, custody fees and administrative and operating expenses.
- IV. **Investment Strategy:** The Fund invests in a custom liability driven investment strategy tailored to manage the key dimensions of liability risk—duration, credit spread and yield. The risk factor exposures for the Fund are similar to that of the liabilities to minimize the volatility of the estimated surplus.
- V. **Eligible investments and limits:** The investment portfolio consists of a broad selection of fixed income securities including U.S. government and agency bonds, corporate bonds, mortgages, and asset-backed securities including below-investment grade securities.

<u>Asset Class</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Fixed Income Securities	80%	100%	100%
Positive Social Purpose Loans	0%	0%	20%
Cash and Equivalents	0%	0%	10%

- VI. **Active Risk Target:** The performance of the investment assets must closely match the performance of the liabilities the assets support. Permitted Active Risk range: up to 2%.
- VII. **Eligible Investors:** The retirement, health and welfare benefit plans and programs for clergy and lay employees of a church or a tax-exempt convention or association of churches consistent with Section 414(e) of the Internal Revenue Code administered by Wespath Benefits and Investments.

**Exhibit H**  
**Investment Strategy**  
**Short Term Investment Fund – P Series**

The strategy below is subject to review by the Board no less than annually.

- I. **Fund Objective:** To preserve capital while earning current income higher than that of money market funds by exclusively investing in units of the Sweep Account.
- II. **Fund Performance Benchmark:** BofA Merrill Lynch 90-day Treasury Bill Index.
- III. **Performance Objective:** To produce a return that, on average, slightly outperforms the performance benchmark by approximately 10 basis points (five to seven years)) and net of external management fees, custody fees and administrative and operating expenses.
- IV. **Investment Strategy:** The Fund will invest in the Sweep Account comprised of investment-grade short term bonds, positive social purpose loans, and cash equivalents.
- V. **Eligible investments and limits:**

<u>Asset Class</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Sweep Account	100%	100%	100%

- VI. **Active Risk Target:** 36-month trailing standard deviation of benchmark relative excess return equal to 0.5%. Permitted Active Risk range: between 0% and 1%.
- VII. **Eligible Investors:** (1) Organizations that are controlled by or associated with The United Methodist Church that elect to or are required to sponsor retirement and/or health and welfare benefit plans administered by Wespeth Benefits and Investments (“Wespeth”) for the benefit of their employees; (2) the defined benefit retirement, and health and welfare benefit, plans and programs for clergy and lay employees of a church or a tax-exempt convention or association of churches consistent with Section 414(e) of the Internal Revenue Code administered by Wespeth; and (3) other investors approved by UMCBB under exceptional circumstances.

**Exhibit I**  
**Investment Strategy**  
**Multiple Asset Fund – P Series**

The strategy below is subject to review by the Board no less than annually.

- I. Fund Objective:** To attain current income and capital appreciation by investing in a broad mix of different types of investments.
- II. Fund Performance Benchmark:** The Fund uses a blended benchmark to measure the success of its performance. The benchmark includes the following:
- 10% Custom Inflation Protection Fund - P Series Benchmark (see Exhibit D)
  - 25% Bloomberg Barclays U.S. Universal Index, ex Mortgage-Backed Securities
  - 35% Russell 3000 Index
  - 30% MSCI All Country World Index (ACWI), ex-USA IMI Net Index
- III. Performance Objective:** To produce a return that exceeds that of the performance benchmark by 50 basis points on average per year over a market cycle (five to seven years) and net of external management fees, custody fees and administrative and operating expenses.
- IV. Investment Strategy:** The Fund is intended to provide investors with exposure to a broadly diversified universe of asset classes. The Fund will closely adhere to a pre-specified allocation primarily comprised of four funds offered by UMCBB. The fund may also invest in non-publicly traded alternative investments. UMCBB will rebalance the Multiple Asset Fund – P Series to the pre-specified mix when the actual holdings fall outside of the pre-specified range. The Fund will maintain an allocation to “risk assets”, defined as equities and alternative investments, between a range of 62% and 68% absent aberrant market conditions. Futures overlays may be used to temporarily adjust allocations to align more closely with targets.
- V. Eligible investments and limits:**
- | <u>Investment Funds</u>            | <u>Min</u> | <u>Target</u> | <u>Max</u> |
|------------------------------------|------------|---------------|------------|
| U.S. Equity Fund–P Series          | 32%        | 35%           | 38%        |
| International Equity Fund–P Series | 27%        | 30%           | 33%        |
| Fixed Income Fund–P Series         | 23%        | 25%           | 27%        |
| Inflation Protection Fund–P Series | 8%         | 10%           | 12%        |
| Alternative Investments            | 0%         | 0%            | 5%         |
- VI. Risk Target:** N/A

**VII. Eligible Investors:** (1) Organizations that are controlled by or associated with The United Methodist Church that elect to or are required to sponsor retirement and/or health and welfare benefit plans administered by Wespath Benefits and Investments (“Wespath”) for the benefit of their employees (“Plan Sponsors”); (2) the defined benefit retirement, and health and welfare benefit, plans and programs for clergy and lay employees of a church or a tax-exempt convention or association of churches consistent with Section 414(e) of the Internal Revenue Code (each a “Church Plan”) administered by Wespath; (3) employees and former employees eligible to participate in the Church Plans offered by a Plan Sponsor and administered by Wespath, and other accountholders (i.e., beneficiaries and alternate payees); and (4) other investors approved by UMCBB under exceptional circumstances.

## Exhibit J

### Derivatives Investment Policy

The strategy below is subject to review by the Board no less than annually.

- I. **Definition:** A derivative is a financial instrument whose value is derived from, in whole or part, the value of any one or more underlying securities or assets of an index of securities or assets (such as bonds, stocks, commodities and currencies). Mortgage-backed securities and asset-backed securities are not considered derivatives for the purpose of this policy. Derivatives may be purchased through a national exchange or through an over-the-counter direct arrangement with a qualified counterparty.
  
- II. **Philosophy:** UMCBB may use derivatives to manage asset exposure and risks in a prudent, timely and cost-effective manner. This is accomplished by using derivatives to achieve exposure that could otherwise be achieved with physical securities as well as strategies described in **Section V** below. Derivatives shall only be used to acquire or hedge asset and risk exposures consistent with approved investment policies and portfolio guidelines. Generally, derivatives are primarily to be used for tactical implementation of UMCBB's investment strategies. Long-term strategic use of derivatives is generally discouraged unless it is impractical to hold the physical assets represented by the derivative contracts (e.g. commodities).
  
- III. **Objective:** To facilitate cost-effective and timely investment and risk management, provide for trading efficiency (i.e. speed of trade execution and lower cost), and to optimize asset allocation in cases where using derivatives may be more cost-effective than purchasing/selling physical securities in illiquid financial markets. In addition, derivatives may be used to enhance or manage the risk/return profile of individual securities or portfolios.
  
- IV. **Authorization for Executing Derivative Transactions:** Qualified external asset managers specifically contracted by UMCBB may engage in derivatives transactions only if the transactions are consistent with the overall investment objectives of the asset manager's investment mandate. Additionally, for the derivative transactions UMCBB periodically directs to fulfill UMCBB's asset allocation objectives, UMCBB staff will maintain detailed policies and procedures for initiating, documenting, and monitoring directed derivative transactions. The procedures shall require a Derivatives Strategy Form and Directed Exposure Form for each transaction with multiple signoffs and reviews by UMCBB staff, including the Chief Investment Officer.
  
- V. **Permitted Strategies:**  
Derivatives may be used to facilitate the following strategies:
  - A. Manage overall asset allocation of a fund, including rebalancing activities
  - B. Implement investment strategies in a low-cost and efficient manner
  - C. Construct portfolios with risk/return characteristics that could not be created

- with cash market securities
- D. Manage transition of assets between asset managers
- E. Hedge cash balances in a fund to replicate the performance of a permitted fund asset class within a fund
- F. Hedge or manage exposure to equity markets
- G. Hedge or manage duration, total return, yield or credit exposure, sector and/or country exposure
- H. Hedge or manage the risk/return profiles of individual securities of a portfolio.
- I. Hedge or manage commodity exposures
- J. Hedge or manage currency exposures

**VI. Permitted Types of Derivatives:**

- A. Futures
- B. Options
- C. Forward Contracts
- D. Credit Default Swaps
- E. Interest Rate Swaps
- F. Warrants

**VII. Restrictions:**

- A. Derivatives shall not be used to replicate the performance of an asset class not specifically listed in **Section III** of the Investment Policy.
- B. Derivatives are not permitted for the purpose of leveraging a portfolio unless specifically approved by the Board.
- C. Asset managers shall reconcile cash and margin requirements. concerning derivatives on a daily basis with UMCBB's custodian bank.
- D. Speculation with derivatives is prohibited.

**VIII. Delegations of Authority:**

The Board delegates to UMCBB staff the following responsibilities for administering this policy:

- A. Define the strategy parameters and guidelines for portfolios using derivative strategies including risk assessment and counterparty guidelines;
- B. Select asset managers to execute derivatives strategies;
- C. Monitor on a daily basis all derivatives activities to assure that they comply with this policy and are within strategy, asset class and overall fund investment guidelines; and
- D. Report to the Board not less than annually all derivative strategies executed by Wespath UMCBB for the preceding year.



## Exhibit K Securities Lending Policy

The strategy below is subject to review by the Board no less than annually.

- I. **Definition:** Securities lending is an agreement between a lender and a borrower to temporarily transfer ownership of a security for a variety of strategies executed by the borrower. Transactions are structured so that the lender retains the economic benefits of the security and receives any distributions such as coupon interest and dividend payments that occur with respect to the security during the life of the lending transaction. The lender receives cash or non-cash collateral in the form of U.S. government, agency securities, and investment grade corporate debt from the borrower as collateral to ensure that the borrower returns the borrowed securities. Typically, the borrower provides additional margin to collateralize the lending transaction. The lender pays the borrower a rate of interest on the cash collateral called the “rebate” rate. The lender generates income primarily from the difference between the risk free rate (U.S. Treasury Bills) and the rebate rate paid on cash collateral received from the borrower or the securities lending fee earned on non-cash collateral loans. Additionally, by investing in cash equivalent instruments other than U.S. Treasury Bills, UMCBB may be able to earn an additional spread over and above the risk-free rate, depending on market conditions. In both cases, the lender transfers all ownership rights to the securities, such as the right to vote proxies. The lender, however, has the ability to direct the lending agent to recall securities for proxy voting. Such action allows UMCBB to execute its sustainable investor engagement initiatives.
  
- II. **Philosophy:** UMCBB may engage in securities lending activity for the purpose of adding incremental value to UMCBB’s investment program. All publicly traded fixed income and equity securities held by UMCBB are eligible for lending under this program. The program is to be administered by highly-qualified third party lending agents that incur minimal risk. The program is to be administered to generate incremental income while safeguarding the return of principal and ensuring liquidity.
  
- III. **Objective:**
  - A. To generate incremental income from a high-quality program that safeguards the return of principal, maintains adequate daily liquidity, ensures diversification and tightly controls exposure to fluctuating interest rates by lending securities to qualified borrowers.
  
  - B. The lending portfolio should generate income primarily from the difference between the risk-free rate (U.S. Treasury Bills) and the rebate rate paid on cash collateral received from the borrower or the securities lending fee earned on non-cash collateral loans. Additionally, by investing in cash equivalent instruments other than U.S. Treasury Bills, UMCBB may be able to earn an

additional spread over and above the risk-free rate, depending on market conditions.

- C. The securities lending program will be conducted in a manner so as not to interfere with the management of the P Series funds.

#### **IV. Permitted Investments for Cash Collateral Reinvestment:**

- A. The lending agent is required to maintain prudent diversification across reinvestment instruments, market sectors, industries and specific issuers:
  - 1. Instruments purchased with cash collateral must be rated in the three highest investment grades assigned by a major rating agency. In the case of split-rated securities, the lowest rating shall prevail.
  - 2. No instrument purchased with cash collateral shall have a maturity in excess of three months, with the exception of floating rate instruments, which can have a two-year maturity.
  - 3. The lending agent is required to maintain prudent diversification across reinvestment instruments, market sectors, industries and specific issuers.
- B. The issuers of the securities purchased for reinvestment must adhere to UMCBB's Sustainable Investment Strategies guidelines outlined in Section IV of the Investment Policy.

#### **V. Restrictions:**

- A. Borrowing of P Series securities:
  - 1. Permitted borrowers must meet the highest standards as outlined in formal guidelines prepared and monitored by UMCBB staff.
  - 2. The lending agent must ensure that UMCBB has sufficient collateral from borrowers on a daily basis.
  - 3. The following margins requirement apply for securities on loan:
    - a. 102% for domestic equity and fixed income securities; excluding U.S. Treasury Inflation Protected Securities
    - b. 100% for U.S. Treasury Inflation Protected Securities
    - c. 105% for international equity securities
  - 4. The lending agent will be responsible for the preservation of UMCBB's voting rights for all equity securities on loan. Agents may lend equity securities without preserving voting rights if the incremental income from such loan is excessively high unless the company is subject to a UMCBB-sponsored resolution or a resolution which involves an issue of high sensitivity related to the Social Principles.
  - 5. UMCBB has the right to recall any loaned security at any time.
- B. Reinvestment in cash collateral instruments (See Section IV above)
- C. Non-cash collateral shall consist of securities issued or guaranteed by the U.S. government and/or investment grade corporate bonds denominated in U.S. dollars.

**VI. Delegations of Authority:**

The Board delegates to UMCBB staff the following responsibilities for administering this policy:

- A. Select and negotiate contract terms with securities lending agents to execute the securities lending program.
- B. Perform oversight and monitoring of the securities lending agents to ensure compliance with this policy and all contractual securities lending guidelines.
- C. Monitor daily all securities on loan to ensure that they are in compliance with established program guidelines.
- D. Maintain a list of approved borrowers and monitor to ensure that lending is conducted only with approved borrowers.
- E. Develop guidelines for prudent diversification of cash collateral reinvestment with respect to types of instruments, market sectors, industries and issuers and ensure compliance.
- F. Maintain a list of acceptable collateral instruments for repurchase agreements *(See Section IV above)*.
- G. Report to the Board quarterly regarding the performance of the securities lending program.
- H. Develop and modify this securities lending policy as well as the detailed securities lending guidelines for securities lending agents where appropriate and to keep current with best industry practices.

**Exhibit L**  
**Investment Strategy**  
**Positive Social Purpose Lending Fund – P Series**

The strategy below is subject to review by the Board no less than annually.

- I. **Fund Objective:** To earn current income while preserving capital and providing exposure to long term interest rates by investing in a diversified mix of Positive Social Purpose (PSP) loans.
- II. **Fund Performance Benchmark:** Bloomberg Barclays Capital U.S. Long Credit A Index
- III. **Performance Objective:** To produce a return that exceeds that of the performance benchmark by 50 basis points, on average, per year over a market cycle (five to seven years) and net of external management fees, custody fees and administrative and operating expenses.
- IV. **Investment Strategy:** The Fund invests primarily in PSP loans that closely match the performance of the Ministerial Pension Plan (MPP) annuity reserve liabilities to negate the impact of interest rate fluctuations on plan funded status. Investments in units of the Sweep Account are also used as an interim funding mechanism to offset binding but not drawn PSP forward commitments.
- V. **Eligible investments and limits:** The Fund consists of a broad selection of PSP loans such as for affordable housing and other types of PSP loans consistent with Wespath’s socially responsible investment initiatives. The Fund also consists of a broad selection of short-term investment- grade fixed income securities including U.S. government and agency bonds, corporate bonds, mortgages, and asset-backed securities to collateralize PSP forward commitments until Wespath has purchased new loans.

VI. **Eligible investments:**

<u>Asset Class</u>	Minimum	Target	Maximum
Positive Social Purpose Loans	70%	90%	100%
Investment Grade short-term fixed income securities (to collateralize PSP forward commitments)	0%	10%	30%

- VII. **Active Risk Target:** Not applicable. Fund will be managed to a duration target of 8. Permitted Duration range: between 6 and 10.

**VIII. Eligible Investors:** The defined benefit retirement, and health and welfare benefit, plans and programs for clergy and lay employees of a church or a tax-exempt convention or association of churches consistent with Section 414(e) of the Internal Revenue Code administered by Wespeth Benefits and Investments.

**Exhibit M**  
**Investment Strategy**  
**Domestic Private Equity Fund – P Series**

The strategy below is subject to review by the Board no less than annually.

- I. **Fund Objective:** To attain long-term capital appreciation by investing in private equity funds holding primarily U.S. domiciled privately owned companies.
- II. **Fund Performance Benchmark:** Russell 3000 Index
- III. **Performance Objective:** To produce a return that exceeds that of the performance benchmark by 300 basis points on average per year over ten or more years net of external management fees, custody fees and administrative and operating expenses.
- IV. **Investment Strategy:** The Fund invests primarily in U.S.-based private equity fund-of-funds and separate accounts (fund of one) but can also invest in private equity funds and mezzanine investment funds directly with notification to the Board.
- V. **Eligible Investments and Limits:** U.S.-based private equity funds-of-funds, private equity, mezzanine investment funds, and separate accounts (fund of one).
- VI. **Active Risk Target:** N/A
- VII. **Eligible Investors:** This fund is only available for investment by UMCBB for other P Series funds.

**Exhibit N**  
**Investment Strategy**  
**Domestic Private Real Estate Fund – P Series**

The strategy below is subject to review by the Board no less than annually.

- I. **Fund Objective:** To attain long-term capital appreciation by investing in private equity funds holding primarily U.S. real estate and debt secured by U.S. real estate.
- II. **Fund Performance Benchmark:** NCREIF NPI Index
- III. **Performance Objective:** To exceed the NCREIF NPI Index by 300 bps over a market cycle (five to seven years) and net of external management fees, custody fees and administrative and operating expenses.
- IV. **Investment Strategy:** The Fund seeks a favorable long-term rate of return through investment primarily in U.S.-based private real estate debt and equity funds, but can also invest in separate accounts (fund of one) and funds-of-funds.
- V. **Eligible Investments and Limits:** Domestic private real estate debt and equity funds.
- VI. **Active Risk Target:** N/A
- VII. **Eligible Investors:** The Fund is only available for investment by UMCBB for other P Series funds.

**Exhibit O**  
**Investment Strategy**  
**International Private Equity Fund – P Series**

The strategy below is subject to review by the Board no less than annually.

- I. **Fund Objective:** To attain long-term capital appreciation by investing in private equity funds holding primarily non-U.S. domiciled privately owned companies.
- II. **Fund Performance Benchmark:** Morgan Stanley Capital International All Country World (MSCI ACWI) ex US IMI Net Index
- III. **Performance Objective:** To produce a return that exceeds that of the performance benchmark by 300 basis points on average per year over ten or more years and net of external management fees, custody fees and administrative and operating expenses.
- IV. **Investment Strategy:** The Fund invests primarily in internationally-domiciled private equity fund-of-funds and separate accounts (fund of one), but can also invest in private equity funds and mezzanine investment funds directly with notification to the Board.
- V. **Eligible Investments and Limits:** Internationally domiciled private equity funds-of-funds, private equity, mezzanine investment funds, and separate accounts (fund of one).
- VI. **Active Risk Target:** N/A
- VII. **Eligible Investors:** This fund is only available for investment by UMCBB for other P Series funds.



**Exhibit P**  
**Investment Strategy**  
**International Private Real Estate Fund – P Series**

The strategy below is subject to review by the Board no less than annually.

- I. **Fund Objective:** To attain long-term capital appreciation by investing in private equity funds holding primarily non-U.S. real estate and debt secured by non-U.S. real estate.
- II. **Fund Performance Benchmark:** FTSE NAREIT (ex-US) Index
- III. **Performance Objective:** To exceed the FTSE NAREIT (ex-US) Index by 300 bps over a market cycle (five to seven years) and net of external management fees, custody fees and administrative and operating expenses.
- IV. **Investment Strategy:** The Fund seeks a favorable long-term rate of return through investment primarily in internationally-domiciled private real estate debt and equity funds, but can also invest in separate accounts (fund of one) and funds-of-funds.
- V. **Eligible investments and limits:** International private real estate debt and equity funds and funds-of-funds.
- VI. **Active Risk Target:** N/A
- VII. **Eligible Investors:** This fund is only available for investment by UMCBB for other P Series funds.

## Exhibit Q Managed Account Program

The strategy below is subject to review by the Board no less than annually.

- I. **Definition:** A managed account program is an algorithmic based methodology for establishing and monitoring participant investment fund allocations among P Series funds managed by UMCBB and included in the program. The algorithm will consider: participant indicative data, account balances and expected future benefits among pension plans administered by Wespath Benefits and Investments, present value of future expected social security benefits, participant responses to an optional questionnaire, and other relevant information. The algorithm produces target fund allocations that represent participants' ideal allocation to the appropriate P Series funds.
  
- II. **Philosophy:** For pension plan balances administered by the managed account program, UMCBB will attempt to reasonably match the asset allocation that would be determined in accordance with accepted industry practices. This includes setting a higher risk (equity) allocation for younger participants during their asset accumulation years and gradually lowering risk allocations as participants approach the de-accumulation phase of their lives. It also includes evaluating other known assets (including estimated current value of future social security benefits and employer defined benefit programs). The managed account program should also consider unique participant provided inputs such as psychological risk tolerance and future expectations regarding the form of benefit received (such as annuities). UMCBB will engage the services of an external partner/consultant to assist it in developing the algorithm to be applied against participant accounts.
  
- III. **Objective:**
  - A. Develop an asset allocation algorithm that will invest participant balances among the P Series funds representing diversified asset classes.
  - B. Design the algorithm in a manner that will allow UMCBB to consider certain limited types of information unique to each participant to facilitate determination of the optimal asset allocation for participant balances invested by the managed account program algorithm.
  - C. Design the algorithm in a manner that will obtain and consider unique participant information that is not available from data that resides elsewhere in UMCBB or Wespath Benefit and Investment ("Wespath")'s systems but may influence the calculation of the optimal asset allocation (e.g. psychological risk tolerance).
  - D. Design the managed account program so that it will periodically evaluate unique participant data for changes and adjust a participant's optimal asset allocation accordingly.

- E. Design the managed account program so that it will periodically rebalance participant accounts in a controlled and cost-effective manner.
  - F. Design the managed account program in a manner that attempts to adhere to a long-term investment approach by discouraging frequent changes by participants to their election of the program or changing information provided by the participant (e.g. psychological risk tolerance).
  - G. Periodically evaluate the algorithm to ensure that it reflects best practices for managing participant account balances.
- IV. Quarterly Audits:** Each quarter, UMCBB will evaluate target fund allocations and actual allocations for all participants enrolled in the managed account program to ensure that the algorithm is operating as intended.
- V. Annual Review:** Each year, UMCBB staff will provide the Board with information regarding the implementation and operation of the managed account program so that the Board can evaluate and assess the effectiveness of the program. This information may include but is not limited to: asset allocation by age group, investment returns for various asset allocation groupings, trends in participant-controlled variables (e.g. psychological risk tolerance and expected ages for converting balances to annuities). Staff will also provide the Board with information regarding best industry practices and how the program does or does not conform with industry practice.

**Exhibit R**  
**Investment Strategy**  
**Special Opportunities Fund – P Series**

The strategy below is subject to review by the Board no less than annually.

- I. **Fund Objective:** To take advantage of perceived market inefficiencies by investing in various approved asset classes depending on market conditions.
- II. **Fund Performance Benchmark:** The Fund has an absolute return objective.
- III. **Performance Objective:** To produce a return that exceeds the long-term (10 year) expected rate of inflation by 500 basis points, net of external management fees, custody fees and administrative and operating expenses.
- IV. **Investment Strategy:** The Fund seeks to make short-term and long-term investments on an opportunistic basis resulting from temporary displacements in the financial markets. It may invest in publicly traded securities managed by a registered investment advisor, hedge funds, limited partnership interests, or other legally recognized fund structures.
- V. **Eligible Investments and Limits:** Permitted investments include those approved by the Board and listed in Section IV of the Investment Policy.
- VI. **Active Risk Target:** None
- VII. **Eligible Investors:** The defined benefit retirement, and health and welfare benefit, plans and programs for clergy and lay employees of a church or a tax-exempt convention or association of churches consistent with Section 414(e) of the Internal Revenue Code administered by Wespath Benefits and Investments.

## Exhibit S Investment Strategy Sweep Account

The strategy below is subject to review by the Board no less than annually.

- I. **Account Objective:** To preserve capital while earning current income higher than that of money market funds by investing in a diversified mix of short-term fixed income securities.
- II. **Account Performance Benchmark:** Merrill Lynch 90 day Treasury Bill Index
- III. **Performance Objective:** To produce a return that, on average, slightly outperforms the performance benchmark by approximately 10 basis points (five to seven years) and net of external management fees, custody fees, and fund administration and operating expenses).
- IV. **Investment Strategy:** The Fund will invest in a broad range of high-quality bonds such as U.S. Treasury Bills and Notes, U.S. Agency debt, short-term corporate obligations, and Positive Social Purpose Loans.

V. **Eligible investments and limits:**

<u>Asset Class</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Fixed Income Securities and Cash	95%	100%	100%
Equivalent			
Positive Social Purpose Loans	0%	0%	5%

- VI. **Active Risk Target:** 36-month trailing standard deviation of benchmark relative excess return equal to 0.5%. Permitted Active Risk range: between 0% and 1%.
- VII. **Eligible Investors:** The Sweep Account is limited to cash investments from the P Series funds.

**Exhibit T**  
**Investment Strategy**  
**U.S. Equity Index Fund – P Series**

The strategy below is subject to review by the Board no less than annually.

- I. **Fund Objective:** To attain long-term capital appreciation by investing in a passively managed diversified portfolio primarily U.S. domiciled publicly owned companies and U.S. equity index futures.
- II. **Fund Performance Benchmark:** Russell 3000 Index
- III. **Performance Objective:** To produce a return that matches that of the performance benchmark on average per year over a market cycle (five to seven years) and gross of external management fees, custody fees and administrative and operating expenses.
- IV. **Investment Strategy:** The Fund seeks to achieve its performance objective by passively investing in stocks of U.S. domiciled publicly owned companies and stock index futures. The Fund will hold a broad representative sample of the securities that comprise the Fund’s performance benchmark index and is subject to portfolio screening restrictions.
- V. **Eligible investments and limits:**

<u>Asset Class</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
U.S. Equity Securities	90%	95%	100%
Cash Equivalents <sup>1</sup>	0%	5%	10%

- VI. **Active Risk Target:** N/A
- VII. **Eligible Investors:** (1) Organizations that are controlled by or associated with The United Methodist Church that elect to or are required to sponsor retirement and/or health and welfare benefit plans administered by Wespath Benefits and Investments (“Wespath”) for the benefit of their employees (“Plan Sponsors”); (2) the defined benefit retirement, and health and welfare benefit, plans and programs for clergy and lay employees of a church or a tax-exempt convention or association of churches consistent with Section 414(e) of the Internal Revenue Code administered by Wespath; (3) employees and former employees eligible to participate in the Church Plans offered by a Plan Sponsor and administered by Wespath, and other accountholders (i.e., beneficiaries and alternate payees); and (4) other investors approved by UMCBB under exceptional circumstances.

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<sup>1</sup> The Fund will hold equity index futures that will closely approximate the notional value of any cash held by the Fund.

**Exhibit U**  
**Investment Strategy**  
**Extended Term Fixed Income Fund – P Series**

The strategy below is subject to review by the Board no less than annually.

- I. **Fund Objective:** To earn current income while preserving capital and providing exposure to long term interest rates by investing in a diversified mix of fixed income securities.
- II. **Fund Performance Benchmark:** Bloomberg Barclays Capital U.S. Long Government/Credit Bond Index.
- III. **Performance Objective:** To produce a return that exceeds that of the performance benchmark by 50 basis points on average per year over a market cycle (five to seven years) and net of external management fees, custody fees and administrative and operating expenses.
- IV. **Investment Strategy:** The Fund invests in fixed income securities including U.S. government bonds, agency bonds, corporate bonds, and securitized products. The Fund may also hold participation interests in loans secured by mortgages and other types of loans originated through the Positive Social Purpose Lending Program. The Fund may also invest in Derivatives and hold cash or cash equivalents in the form of units of the Sweep Account. The Fund employs a blended approach of enhanced passive and active investment management. Passive and active managers are subject to portfolio screening restrictions. The Fund will tactically maintain duration lower than the duration of the Fund benchmark (target duration) and will increase duration as the yield for the most recently issued 30-year U.S. Treasury Bond approaches 5%. Once the yield for the most recently issued 30-year U.S. Treasury Bond reaches 5%, the Fund will no longer tactically target duration outside the permitted Active Risk Target.
- V. **Eligible Investments and Limits:**

<u>Asset Class</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Fixed Income Securities	80%	100%	100%
Positive Social Purpose Loans	0%	0%	10%
Alternative Investments <sup>1</sup>	0%	0%	5%
Cash Equivalents	0%	0%	5%

- VI. **Active Risk Target:** Once the yield for the most recently issued 30-year U.S. Treasury Bond reaches 5%, the Fund must achieve a duration that is no more than plus or minus two compared to the duration of the Fund benchmark.

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<sup>1</sup> Permitted Alternative investments include real assets.

Permitted tactical duration range of Fund compared to duration of Fund benchmark until the yield on the 30 Year U.S. Treasury Bond exceeds 5%.

<u>30 Yr. UST</u> <u>Yield</u>	<u>Min</u> <u>Duration</u>	<u>Max</u> <u>Duration</u>
≤3.0%	<i>d-8</i>	<i>d-6</i>
≤3.5%	<i>d-7</i>	<i>d-5</i>
≤4.0%	<i>d-6</i>	<i>d-4</i>
≤4.5%	<i>d-5</i>	<i>d-3</i>
≤5.0%	<i>d-4</i>	<i>d-2</i>
>5.0%	<i>d-2</i>	<i>d+2</i>

*d = benchmark duration*

36 month trailing standard deviation of benchmark relative excess return equal to 2% once the tactical period of lower duration has expired. Permitted Active Risk range: between 1% and 6%.

- VII. Eligible Investors:** (1) Organizations that are controlled by or associated with The United Methodist Church that elect to or are required to sponsor retirement and/or health and welfare benefit plans administered by Wespath Benefits and Investments (“Wespath”) for the benefit of their employees (“Plan Sponsors”); (2) the defined benefit retirement, and health and welfare benefit, plans and programs for clergy and lay employees of a church or a tax-exempt convention or association of churches consistent with Section 414(e) of the Internal Revenue Code (each a “Church Plan”) administered by Wespath; (3) employees and former employees eligible to participate in the Church Plans offered by a Plan Sponsor and administered by Wespath, and other accountholders (i.e., beneficiaries and alternate payees); and (4) other investors approved by UMCBB under exceptional circumstances.



**Exhibit V**  
**Investment Strategy**  
**Social Values Choice Bond Fund – P Series**

The strategy below is subject to review by the Board no less than annually.

- I. Fund Objective:** To earn current income while preserving capital by primarily investing in a diversified mix of fixed income securities that fulfill investor preferences for a heightened focus on corporate environmental and social performance.
- II. Fund Performance Benchmark:** Bloomberg Barclays U.S. Universal Index (excluding Mortgage-Backed Securities).
- III. Performance Objective:** To produce a return that exceeds that of the performance benchmark by 50 basis points on average per year over a market cycle (five to seven years) and net of external management fees, custody fees and administrative and operating expenses.
- IV. Investment Strategy:** The Fund seeks to achieve its investment objective by investing a diversified mix of fixed income securities. The Fund may exclude additional companies from investment, including the following:
  - a. companies that derive a significant amount of revenue from involvement in the fossil fuels industry that UMCBB has not identified through its Management of Excessive Sustainability Risk - Climate Change guideline; and
  - b. companies with operations in “high risk” countries and areas that demonstrate a prolonged and systematic pattern of human rights abuses that UMCBB has not identified through its Management of Excessive Sustainability Risk - Human Rights guideline and have been named in divestment petitions adopted by a minimum of seven annual conferences representing three or more jurisdictional conferences.

Both the Fiduciary Committee and the UMC Principles Committee of the Wespath Board must approve such exclusions.

**V. Eligible Investments and Limits:**

<u>Asset Class</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Fixed Income Securities	95%	100%	100%
Cash Equivalents	0%	0%	5%

- VI. Active Risk Target:** 36 month trailing standard deviation of benchmark relative excess return equal to 2%. Permitted Active Risk range: between 1% and 3%.

**VII. Eligible Investors:** (1) Organizations that are controlled by or associated with The United Methodist Church that elect to or are required to sponsor retirement and/or health and welfare benefit plans administered by Wespath Benefits and Investments (“Wespath”) for the benefit of their employees (“Plan Sponsors”); (2) the defined benefit retirement, and health and welfare benefit, plans and programs for clergy and lay employees of a church or a tax-exempt convention or association of churches consistent with Section 414(e) of the Internal Revenue Code (each a “Church Plan”) administered by Wespath; (3) employees and former employees eligible to participate in the Church Plans offered by a Plan Sponsor and administered by Wespath, and other accountholders (i.e., beneficiaries and alternate payees); and (4) other investors approved by UMCBB under exceptional circumstances.

**Exhibit W**  
**Investment Strategy**  
**U.S. Treasury Inflation Protection Fund – P Series**

The strategy below is subject to review by the Board no less than annually.

- I. **Fund Objective:** To provide investors with current income and to protect principal from long-term loss of purchasing power due to inflation by primarily investing in U.S. Treasury Inflation Protected Securities.
- II. **Fund Performance Benchmark:** Bloomberg Barclays U.S. Treasury Inflation Protected Securities Index
- III. **Performance Objective:** To produce a return that matches that of the performance benchmark on average per year over a market cycle (five to seven years) and gross of external management fees, custody fees and administrative and operating expenses.
- IV. **Investment Strategy:** The Fund seeks to achieve its performance objective by passively investing in U.S. Treasury inflation indexed bonds. The Fund will hold a representative sample of the securities that comprise the Fund’s performance benchmark index and is subject to portfolio screening restrictions.

V. **Eligible Investments and Limits:**

<u>Asset Class</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
U.S. Treasury Inflation Protected Securities	90%	100%	100%
Cash Equivalents	0%	0%	10%

- VI. **Active Risk Target:** N/A
- VII. **Eligible Investors:** (1) Organizations that are controlled by or associated with The United Methodist Church that elect to or are required to sponsor retirement and/or health and welfare benefit plans administered by Wespath Benefits and Investments (“Wespath”) for the benefit of their employees (“Plan Sponsors”); (2) the defined benefit retirement, and health and welfare benefit, plans and programs for clergy and lay employees of a church or a tax-exempt convention or association of churches consistent with Section 414(e) of the Internal Revenue Code (each a “Church Plan”) administered by Wespath; (3) employees and former employees eligible to participate in the Church Plans offered by a Plan Sponsor and administered by Wespath, and other accountholders (i.e., beneficiaries and alternate payees); and (4) other investors approved by UMCBB under exceptional circumstances.

**Exhibit X**  
**Investment Strategy**  
**Liability Matching Fixed Income Fund – P Series**

The strategy below is subject to review by the Board no less than annually.

- I. **Fund Objective:** Provide liability risk hedging to minimize the volatility of defined benefit plan funded status and ensure the fulfillment of forecasted monthly benefit payments.
- II. **Fund Performance Benchmark:** Customized liability benchmark designed to closely match the key risk characteristics of long duration plan liabilities.
- III. **Performance Objective:** Outperform the customized liability benchmark over a full market cycle (3-5 years) net of external management fees, custody fees and administrative and operating expenses.
- IV. **Investment Strategy:** The Fund invests in a custom liability driven investment strategy tailored to manage the key dimensions of liability risk—duration, credit spread and yield. The risk factor exposures for the Fund are similar to that of the customized liability benchmark to minimize the volatility of the estimated surplus.
- V. **Eligible investments and limits:** The investment portfolio consists of a broad selection of fixed income securities including U.S. government and agency bonds, corporate bonds, mortgages, and asset-backed securities including below-investment grade securities.

<u>Asset Class</u>	<u>Minimum</u>	<u>Target</u>	<u>Maximum</u>
Fixed Income Securities	80%	100%	100%
Positive Social Purpose Loans	0%	0%	20%
Cash and Equivalents	0%	0%	10%

- VI. **Active Risk Target:** The performance of the investment assets must closely match the performance of the liabilities the assets support. Permitted active risk range: up to 2%.
- VII. **Eligible Investors:** The retirement, health and welfare benefit plans and programs for clergy and lay employees of a church or a tax-exempt convention or association of churches consistent with Section 414(e) of the Internal Revenue Code administered by Wespath Benefits and Investments.

## Exhibit Y

### Management of Excessive Sustainability Risk (MESR) Guidelines

Following are the approved MESR guidelines pursuant to Section IV.F. of this Investment Policy

#### I. Human Rights Guideline

UMC Benefit Board (UMCBB), on behalf of the Wespath Funds Trust *P Series* funds (Wespath Funds), may seek services, including information and recommendations, from Wespath Benefits and Investments (Wespath) regarding the human rights-related impact and risk of the companies in which the Wespath Funds invest.

This risk is particularly acute when companies have significant exposure to high-risk operating areas defined as:

1. Countries demonstrating a prolonged and systematic pattern of human rights violations<sup>1</sup>
2. Conflict-affected areas where significant human rights violations have been widely documented<sup>2</sup>

For *P Series* fund investment purposes, excessive sustainability risk, leading to exclusion from portfolios, may occur if:

1. a company provides significant financing or other financial services to,
2. derives more than 10% of its revenues from, or
3. sources more than 10% of its raw materials from a country or area as described above.

Exceptions may apply if Wespath's ESG research service provider ranks or rates a company as an industry leader in its overall environmental, social and governance (ESG) performance.

UMCBB also may exclude from *P Series* funds the sovereign debt of any country demonstrating a prolonged and systematic pattern of human rights abuses.<sup>1</sup>

#### II. Climate Change (Thermal Coal) Investment Guideline

UMCBB, on behalf of the Wespath Funds Trust *P Series* funds (Wespath Funds), may seek services, including information and recommendations from Wespath Benefits and Investments (Wespath), regarding the environmental impacts of the companies in which the Wespath Funds invest. These services may also include shareholder engagement activities as a method to improve corporate environmental and financial performance.

1. In developed countries, UMCBB may choose to exclude from P Series fund investment:
  - a. Any company deriving approximately 50% of revenues from the extraction and/or mining of thermal coal.
  - b. Electric utilities deriving 75% or more of their overall fuel mix from coal, unless a company has demonstrated its intent to transition from coal by sourcing 10% or more of its energy from renewable sources.
2. In developing countries (except those eligible for assistance through the World Bank's International Development Association Program\*), UMCBB may choose to exclude from P Series fund investment any company deriving approximately 50% of revenues from the extraction and/or mining of thermal coal. Exceptions may be granted if the company's overall environmental,

social and governance (ESG) performance rank or rating by Wespath's ESG service provider is within the top half of its peer group.

3. Companies assessed as "high risk" of failing to adequately adjust their business model to the low-carbon transition.

Management will inform the UMCBB board of any company among Wespath's top 250 holdings excluded pursuant to this guideline.

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<sup>1</sup>Defined as countries with the worst ranking in Freedom House's annual "Freedom in the World" report.

<sup>2</sup>May include sectors of a country's economy recognized as prolonging conflict and violence; or areas in which significant breaches of international law occur.