Statement of Investment Policy and Objectives
Catholic Foundation of Northwest Pennsylvania
JULY 2019

This Statement of Investment Policy and Objectives ("Investment Policy") is issued by the Catholic Foundation of Northwest Pennsylvania with the approval of its Board of Directors for the management of the assets of the Catholic Foundation of Northwest Pennsylvania ("Foundation"). The Foundation strives to exercise faithful, competent, and morally responsible stewardship in managing the material resources entrusted to it through contributions and other sources. It is from the gospel message and Church teaching that the Foundation draws the values, directions, and criteria which guide the management of its assets.

The Foundation will clearly state certain principles, to which its investment managers are expected to adhere, that must be balanced with a reasonable return on its investments. Its investment managers will also be held accountable to established performance measurement standards.

I. **Purpose of the Statement**

The purpose of this Statement is fourfold:

A. To help the Investment Committee and investment managers understand the policies and objectives of the Foundation.
B. To develop broad asset categories, investment objectives, policies and guidelines, which are appropriate and prudent in consideration of the Foundation's purpose.
C. To provide investment managers with social responsibility guidelines and restrictions to be observed in the investment process.
D. To establish performance standards and criteria against which to measure the investment managers selected by the Investment Committee.

II. **DEFINITION OF DUTIES**

Investment Committee

In adopting this Statement, the Committee recognizes its fiduciary responsibility to develop, monitor and administer an investment strategy for the Foundation. The Committee may retain an independent consultant or investment advisor(s) to assist it with these duties.

To that end, the Committee is responsible for developing the asset allocation guidelines under which to invest the assets, the selection of investment management organizations, or commingled or public mutual funds, and the selection of other investment professionals employed to execute and monitor the Foundation's strategy. Additionally, the Committee is responsible for monitoring manager and total portfolio performance against adopted policy objectives.

Investment Advisor(s)

The Investment Advisor(s) is/are responsible for the following:

- Ensuring compliance with the investment guidelines and restrictions of the Investment Policy.
- Periodically reviewing the Investment Policy and recommending revisions to the Investment Committee.
- Recommending asset classes, asset allocation ranges/targets and investments to the Investment Committee.
- Investing cash and contributions and selling investments to raise cash to fund distributions within the guidelines of the Investment Policy.
- Reviewing the investment portfolio and investment results with the Investment Committee on a quarterly basis.

The Investment Advisor(s) will make tactical asset allocation recommendations (i.e. deviations from the target allocations indicated in Section III, but within the allowable ranges) when it deems it appropriate to do so and bring these to the Committee for consideration after obtaining the approval of the Chief Financial Officer. To ensure that the asset categories maintain exposure at or near the stated target allocations, the Chief Financial Officer will manage within one-half of the allowable ranges around the policy target or tactical target approved by the Investment Committee. The Investment Committee will review the actual asset allocation at each meeting and make changes to the policy target or tactical targets as it deems appropriate based on input from the Investment Advisor(s).

III. INVESTMENT OBJECTIVES

The primary objective of the Foundation is the long-term growth of principal and generation of income sufficient to offset distributions and investment fees and to preserve the purchasing power of the Foundation.

Historical performance results and future expectations suggest that common stocks will provide higher total investment returns than fixed-income securities over a long-term investment horizon. However, one can expect an increase in portfolio volatility as the stock percentage is increased.

Based on the investment goals and risk tolerances stated in this document, the following asset mix strategy is appropriate. Investments should not fall below the minimum or exceed the maximum levels (at market value) without written or verbal acknowledgement, the latter to be confirmed in the minutes of the Investment Committee meeting. This target policy mix will be reviewed annually, and the investment policy will be adjusted if deemed appropriate.

Asset Category	Target	Range
Equity	70%	60-80%
US Large Cap Equity	25%	15-35%
US Mid Cap Equity	10%	5-15%
US Small Cap Equity	10%	5-15%
International Equity	25%	15-35%
Real Estate (REITs)	5%	0-7%
Fixed Income	24%	15-35%
Cash and Equivalent	1%	0-10%

Global equity managers may be considered for use in the Foundation. Global equities consist of stocks of companies domiciled in developed and emerging international markets, and US markets. Any allocation to a Global Equity investment manager will be considered an allocation to US Large Cap Equity and International Equity and the percentage allocation to both for purposes of determining the overall portfolio allocation will be based on the allocation of the underlying portfolio.

Each of the investment managers is instructed to normally remain 95% to 100% invested in the respective asset class for which they were retained, with a target of 100%. When an investment manager has received a cash contribution, has a realized gain or loss, or during periods of extreme market volatility, up to 10% of the account may be temporarily (up to 90 days) invested in cash. Also, for fixed-income managers, the cash allocation may exceed 5% if strategic in nature (e.g., barbell strategy).

The asset allocation will be monitored quarterly with the assistance of the Investment Advisor. The portfolio will be rebalanced to policy targets as necessary.

IV. INVESTMENT GUIDELINES AND DEFINITIONS

All investment managers are expected to comply with the Social Responsibility Guidelines set forth in this policy. Compliance will be monitored by the Investment Advisor and the Chief Financial Officer at least quarterly. Questions regarding the compliance of individual issues, or the interpretation of the guidelines, should be directed to the Chief Financial Officer and/or the Investment Advisor. Positions that violate the Social Responsibility Guidelines are to be removed immediately from the portfolio.

US Large Cap Equities

The role of the US large cap equity segment is to provide growth of principal with income. It should invest in well-established, large capitalization companies (greater than $7 billion market capitalization at purchase). Multiple investment managers, following a variety of investment strategies, are expected to be used under normal circumstances. These managers should be well diversified by market sector and security at all times. This section of the total portfolio is expected to provide long-term growth of principal plus a modest level of income at a moderate (market-like) level of risk.

US Small and Mid-Cap Equities

The role of the small and mid-cap segment is to provide long-term growth of principal through exposure to small and mid-sized companies (those with market capitalizations less than the largest company in the Russell Mid Cap Index at the time of purchase) that can provide consistent growth. Investment Managers should be well diversified by market sector and security. This section of the portfolio is expected to provide long-term growth of principal; any income generation is incidental to the primary objective. Risk is expected to be greater than the overall market but should not be excessive.

Global Equities

Global equities consist of stocks of companies domiciled in developed and emerging international markets, as well as domestic US markets. The role of the global equity segment is to provide long-term growth through exposure to global equities. This position is expected to diversify risk while earning a competitive return. The investment manager should provide a diversified portfolio – by market sector and security – of listed common stock, OTC common stock, ADRs, and EDRs. Its primary universe for investment will be developed international markets of the Morgan Stanley

Capital International All Country World Index (MSCI ACWI). This section of the total portfolio is expected to allow the investment manager flexibility to invest across multiple markets.

International Equities

International equities consist of stocks of companies domiciled in developed and emerging international markets. The role of the international equity segment is to provide long-term growth through exposure to international equities. This position is expected to diversify risk while earning a competitive return. The investment manager should provide a diversified portfolio – by market sector and security – of listed common stock, OTC common stock, ADRs, and EDRs. Its primary universe for investment will be developed international markets of the Morgan Stanley Capital International Europe, Australia and Far East Index (MSCI EAFE). This section of the total portfolio is expected to provide long-term growth of principal plus a modest level of income at a moderate (market-like) level of risk.

Real Estate

Investments should be held in public real estate securities (such as REITs). This category includes office, retail, industrial and occasionally apartment properties. The prevalent practice of managing real estate among institutional investors is to buy high-quality properties with minimal leasing, operating and development risks. Returns stem from net rental income, capital appreciation and proceeds from the ultimate sale of the property.

Such investments may be made only through professionally managed pooled real estate investment funds, as offered by leading real estate managers with proven records of superior performance over time.

General Equity Guidelines

The investment managers should diversify their respective portfolios in an attempt to minimize the impact of substantial loss in any specific industry or issue. Therefore, no more than 5% of the equity section may be invested in any one company, valued at market.

No equity manager shall hold a position exceeding 5% of a company's outstanding shares (at market value).

No equity manager shall purchase shares of a company below $100 million in market capitalization.

Fixed Income

The role of the fixed income segment is to provide current income and reduce overall volatility through exposure to fixed-income markets. This manager should invest in U.S. Government and Agency obligations and their instrumentalities, marketable corporate bonds, debentures, commercial paper, certificates of deposit and other such instruments as deemed prudent by the investment manager. Non-government publicly traded bonds should be selected and managed so as to ensure an appropriate balance of maturity, quality, marketability and adequate diversification with respect to industry and issue.

Bonds purchased by the investment manager should be investment grade (BAA3 Moody's and BBB- Standard & Poor's). Below investment grade bonds are permitted in the portfolio up to 25% of assets in the fixed income portfolio at the discretion of the investment manager. However, the weighted average portfolio credit quality should remain A or better.

Duration should remain within ± 20% of the Barclays Aggregate Bond index duration unless specifically authorized by the Investment Committee.

Holdings of a specific domestic issuer may not exceed 10% of the portfolio's market value, regardless of the number of differing issues, unless specifically authorized by the Chief Financial Officer. US Treasury and Agency obligations are exempt from this restriction.

Not more than 10% of the fixed income portfolio shall be invested in commercial paper of any one issuer and purchases are limited to A1P1 paper.

Not more than $100,000 shall be invested in bank certificates of deposit of any single issuer unless specifically authorized by the Chief Financial Officer.

Cash
A cash component will be maintained for liquidity purposes and guarantee of principal – there is little concern for generating income. This segment of the portfolio shall be invested in money market instruments or funds managed by the custodian bank of the Foundation. These assets typically have maturities of less than 90 days and are considered to be very low risk.

Prohibited Investments
Unless expressly authorized by the Investment Committee, the following investments are not permitted:

- Short sales or margin purchases
- Securities lending
- Venture capital
- Private placement or other securities not publicly traded
- Direct placement of mortgages to individuals
- Commodities

The Investment Committee is conscious of the widespread use of derivatives (options, futures, pass-through securities, structured notes, etc.) in implementing investment strategy. It is also aware that derivatives can be used prudently to establish investment positions and as risk control devices. The Investment Committee does not, authorize the use of derivatives as speculative instruments or in a leveraged manner such that the risk of loss from a particular position would be materially larger than if actual securities were utilized.

Investment In Commingled or Mutual Funds
The Investment Committee is aware that the decision to invest in a commingled or mutual fund account may relieve the investment managers from strict adherence to all elements of the Investment Policy, including the Social Responsibility Guidelines. The Investment Committee will be responsible for approving the use of any investment manager that does not adhere to the Social Responsibility Guidelines.

V. INVESTMENT PERFORMANCE REVIEW PROCESS

Investment objectives are intended to provide quantifiable benchmarks to measure and evaluate portfolio return and risk. The primary objectives use a three-year time horizon consisting of two separate components. The first is a performance component which measures investment results relative to market and peer group benchmarks. The second is an assessment of investment risk relative to the manager's respective market segment. Well-invested implies that, within the framework of this investment policy, the assets are generating returns sufficient to indicate that the long-range goals will be met consistent with the risk constraints (net of fees).

Total Portfolio

Performance Benchmark	**Performance Objective**
Total Market Index (Target)*	Meet or Exceed net of fees
Risk Adjusted Return Benchmark	**Risk Adjusted Return Objective**
Sharpe Ratio	≥ the Target Market Index

25% S&P 500, 10% Russell Mid-Cap, 10% Russell 2000, 25%MSCI ACWI, ex US, Net, 5% NAREIT, 24% Barclays Aggregate, 1% 90-day US Treasury Bill.

The investments in the portfolio will be expected to meet or exceed (net of fees) their respective benchmark indices. Each component of the portfolio will be measured against one of the following performance benchmarks, as applicable:

Asset Class	**Benchmark Index**
US Large Cap Core Equity	S&P 500 Index
US Large Cap Value Equity	Russell 1000 Value Index
US Large Cap Growth Equity	Russell 1000 Growth Index
US Mid Cap Core Equity	Russell Mid Cap Index
US Mid Cap Value Equity	Russell Mid Cap Value Index
US Mid Cap Growth Equity	Russell Mid Cap Growth Index
US Small Cap Core Equity	Russell 2000 Index
US Small Cap Value Equity	Russell 2000 Value Index
US Small Cap Growth Equity	Russell 2000 Growth Index
Global Equity	MSCI All-Country World, Net Index
International Large Cap Equity	MSCI EAFE, Net Index
International Small Cap Equity	MSCI EAFE Small Cap, Net Index
Emerging Market Equity	MSCI Emerging Markets, Net Index
US Real Estate	NAREIT Index
Fixed Income	Barclays Aggregate Index
Floating Rate Fixed Income	S&P/LSTA US Leveraged Loan Index
Cash	90-day US Treasury Bill Index

In addition, each manager will be expected to have a five-year Sharp Ratio that exceeds their respective benchmark index.

<u>Risk Tolerance</u>

The risk tolerance of the Foundation is relatively high, generally in keeping with that of other foundations and endowments. Its long-term growth and distribution requirements call for the assets to be managed for total return – supported by the long-term time horizon of the portfolio. Capital gains will be the primary source of funding with income generation a secondary objective. In years when the market return exceeds the distribution level, excess account value will add to principal. However, in years when market performance falls short of liquidity requirements, principal will be used to fund distributions and expenses. Hence, the risk tolerance, flowing from the performance goals and time horizon, must allow for the short-term volatility necessary to achieve higher levels of long-term return.

VI. COMMUNICATIONS

On a periodic basis, but at least once a quarter, based on information provided by the Investment Advisor(s) the Investment Committee will:

1. Review the actual results achieved to determine whether the investment managers have performed in accordance with this Statement of Investment Policy and Objectives and the return objectives as set forth herein.

2. Review the broad asset category guidelines and make any needed recommendations for strategic changes.

The Custodian of the Foundation is expected to provide monthly statements of portfolio transactions and invested positions (by cost and market) to the financial officer designated by the Catholic Foundation.

Distributions from the Foundation will be made as necessary and approved by the Catholic Foundation board of directors.

Finally, special meetings will be held, as necessary, should events occur which require Investment Committee action; for example, a strong market rally which materially affects the asset allocation may require special attention.

VII. AMENDMENT

This Statement of Investment Policy and Objectives may be amended from time to time with the approval of the Catholic Foundation board of directors and acknowledgement of the Investment Advisors.

VIII. PRIMARY CONTACTS

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APPROVED JULY 29, 2019

CATHOLIC FOUNDATION
of Northwest Pennsylvania

SOCIAL RESPONSIBILITY GUIDELINES
CATHOLIC FOUNDATION OF NORTHWEST PENNSYLVANIA
JULY 2019

In selecting individual securities, the managers shall endeavor at all times to exclude issues whose underlying operating activities are not compatible with the moral, social, and economic teachings and philosophy of the Catholic Church as known at present and as further defined from time to time in official church documents, pronouncements, and actions. The managers shall also be encouraged to invest in companies which promote the values of the Catholic moral and social teachings provided that they are also acceptable from a standpoint of return and risk.

The following explicit principles, abiding by the Socially Responsible Investment Guidelines of the United States Conference of Catholic Bishops (USCCB), are to be observed as related to specific market sectors and industry groups. These policies cover the areas of: protecting human life; promoting human dignity; reducing arms production; pursuing economic justice; protecting the environment, and encouraging corporate responsibility.

1. No investments are to be made in companies whose activities include direct participation in, or support of, abortion. Direct participation may include, but is not limited to, the manufacture of abortifacients and/or publicly held health-care companies that perform abortions when not absolutely required by federal or state law.

2. No investments are to be made in companies materially involved in the manufacture or distribution of contraceptives and birth control products. A 5% of revenue threshold will be used to define materiality.

3. No investments are to be made in companies that engage in scientific research on human fetuses or embryos that (1) result in the end of pre-natal human life; (2) make use of tissue derived from abortions or other life-ending activities; or (3) violate the dignity of a developing person. Specific activities include:

    a. Embryonic stem cell research (ESCR);
    b. Fetal tissue research or stem cell research derived from embryos; and
    c. Human cloning.

    Because this field of research is dynamic, new forms of research, or products and services derived from such research, will be evaluated on a case-by-case basis.

4. The Foundation will actively promote human dignity through its investment activities. Specific activities may include:

    a. *Human Rights* – actively promote and support shareholder resolutions directed toward protecting and promoting human rights.

b. *Racial Discrimination* – divesting from those companies whose policies are found to be discriminatory against people of varied ethnic and racial backgrounds disadvantaged historically.

c. *Gender Discrimination* – divesting from those companies whose policies are found to be discriminatory against women.

d. *Access to Pharmaceuticals* – encourage companies to undertake or participate in programs designed to make life-sustaining drugs available to those in low-income communities and countries at reduced, affordable prices consistent with Catholic values.

e. *Curbing Pornography* – not investing in companies that derives a significant portion of its revenues from products or services intended exclusively to appeal to a prurient interest in sex or to incite sexual excitement. These would include, but not be limited to, sexually explicit (X-rated) films, videos, publications, and software; topless bars and strip clubs; and sexually oriented telephone and Internet services. A 5% of revenue threshold will be used to define materiality.

5. The Foundation will avoid investment in firms materially engaged in military weapons production or the development of weapons inconsistent with Catholic teaching on war (e.g., biological and chemical weapons, arms designed or regarded as first-strike nuclear weapons, indiscriminate weapons of mass destruction, etc.) A 5% of revenue threshold will be used to define materiality.

6. No investments are to be made in companies that are directly involved in the manufacture, sale, or use of anti-personnel landmines.

7. The Foundation will actively promote and support shareholder resolutions directed towards avoiding the use of sweatshops in the manufacture of goods. The Foundation will actively promote and support shareholder resolutions to promote generous wage and benefit policies and adequate worker safety guidelines.

8. The Foundation will not deposit funds in a financial institution that receives less than a "satisfactory" rating from federal regulatory agencies under the Community Reinvestment Act.

9. The Foundation discourages investment in companies whose records in the areas of environmental contamination (e.g., air and water pollution), hazardous waste disposal, and consumer or employee safety are not acceptable in terms of applicable government standards. It will actively promote and support shareholder resolutions which encourage corporations to act to preserve the planet's ecological heritage, addressing the rampant poverty in the poorest nations, redirecting development in terms of quality rather than quantity in the industrial world, and creating environmentally sensitive technologies.

The Foundation will encourage companies to report on social, environmental, as well as financial performance. In all other investment matters, the Foundation assets shall be invested in a socially conscious manner consistent with the social principles of the Catholic Church. Questions regarding the compliance of certain investments with these principles are to be directed to the Investment Consultant and/or the financial officer designated by the Foundation.

Investments in companies found to be in violation of the letter or intention of these guidelines shall be removed from the manager’s portfolio immediately.

Approved July 29, 2019