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Chapter 9: Investment Policies

Overview

The Archdiocese recognizes and accepts its moral and ethical responsibility to steward its financial resources in a manner consistent with its vision, mission, values and core strategies. The Archdiocese understands this stewardship responsibility within the context of the social teachings of the Catholic Church and its commitment to advocate for systemic changes to improve the well being of individuals and communities. In order to fulfill this responsibility, it is the policy of the Archdiocese to utilize its financial resources to emphasize human dignity and social justice and to comply in principle with the investment policies and principles as promulgated from time to time by the USCCB¹.

This chapter of the Pastoral Handbook also pertains to the principles of stewardship and the duty of the fiduciary to manage the investment assets of the Archdiocese, as would a prudent investor knowledgeable in similar matters. Its purpose is to express the investment objectives of the Archdiocese and to establish appropriate investment policies and guidelines. The management of Archdiocesan investment assets is the responsibility of the CFO with the advice and oversight of the Investment Committee as set forth in the statutes of the AFC. Subject to the approval of the AFC, the Investment Committee sets the necessary investment policies, guidelines and objectives and will implement and monitor these policies.

While the following Investment Policies and Guidelines pertain primarily to the Archdiocesan Corporation and certain Ecclesiastical Organizations, parishes and other Ecclesiastical Organizations along with their respective finance councils, should utilize the following principles as a reference source to provide assistance and guidance in the performance of their fiduciary duties relating to investments.

¹ The most recent update by the USCCB was November 13, 2003.

9.1. **Introduction**

The policies, guidelines and objectives that follow are dynamic in nature and may be modified from time to time by the Investment Committee with the approval of the AFC. They should represent the current consensus of the Investment Committee's philosophy on the investment of Archdiocesan funds.

9.1.1. The investment philosophy is intended to allow for sufficient flexibility in the management process to capture investment opportunities as they may occur, while providing reasonable parameters to ensure prudence, attention to relevant social concerns, and care in the execution of the investment program.

9.1.2. The following policies and objectives, along with the appendix entitled *Investment Guidelines - Asset Allocation and Investment Performance*, shall serve the Investment Managers as the principal source for developing investment strategies. Investment managers will act as fiduciaries, under separately managed accounts with regard to the management of the assets.

9.2. **Purpose**

The purpose of this Investment Policy is as follows :

9.2.1. To set forth a clear understanding of the investment objectives, policies and guidelines which the Investment Committee judges to be appropriate and prudent in consideration of the needs of the Archdiocese.

9.2.2 To set forth an investment structure detailing permitted asset classes and expected allocation among asset classes.

9.2.3. To establish the criteria that investment managers retained by the Investment Committee are expected to meet and against which they may be measured.

9.2.4. To encourage effective communication between the Investment Managers, the Investment Consultant, the CFO, the Investment Committee and the AFC.

9.2.5. To serve as a document to guide the Investment Committee of the AFC and, as necessary, parish and other Ecclesiastical Organizations' finance councils' ongoing oversight of their related investment assets.

9.2.5.1. The Archdiocesan Investment Program (Program) includes the Archdiocese of Denver Master Trust (Master Trust), Preneed Master Trust (Preneed Master Trust), and the Archdiocese of Denver Priest Pension Plan (Priest Pension Plan). In addition, the CFO and the Investment Committee will also manage and monitor cash and other investments held by certain Trusts and/or other related entities that collectively represent the Short-Term Money Management component of the overall investment portfolio of the Archdiocese.

a. The purpose of the Master Trust is and continues to be to allow the various participating Grantors (the Archdiocesan Corporation and certain Ecclesiastical Organizations) an investment vehicle to pool their respective assets into the Master Trust in order to have the opportunity to utilize more qualified money managers and investment professionals to assist in funding their respective endowments, trusts, and other funds purposes.

b. The purpose of the Preneed Master Trust is and continues to be to allow the various participating Grantors (the Archdiocesan Corporation and certain Ecclesiastical Organizations) an investment vehicle to pool their respective assets into the Preneed Master Trust in order to have the opportunity to utilize more qualified money managers and investment professionals. The Preneed Master Trust serves as the investment vehicle for pooling funds related solely to the Preneed Contracts at St. Simeon Cemetery, Mount Olivet Cemetery and the Mortuary at Mount Olivet. The Preneed Trusts of these respective entities are, in all respects, subject to and governed by the following laws and regulations: (i) Colorado Revised Statutes §10-15-101 et seq. as such statutes shall be amended, revised or supplanted from time to time; (ii) all regulations and rules promulgated by the Colorado Division of Insurance, including any successor administrative agency which regulate preneed funeral trusts, as such regulations shall be

amended, revised or supplanted from time to time, and (iii) any other laws, statutes, regulations or case laws effective within the State of Colorado regulating preneed funeral trusts.

c. The purpose of the Archdiocese's Priest Pension Plan is to maintain sufficient pools of assets to provide retirement and incidental benefits to participating priests within the territory of the Archdiocese who complete a period of faithful service and otherwise become eligible.

9.3. **Responsibilities**

9.3.1. The roles of the AFC, the Investment Committee, the CFO, the Investment Consultant, the Investment Managers and the Trustee/Custodian with regard to the assets are delineated as follows.

9.3.2. The responsibilities of the AFC are:

- a. Oversight of all investment-related activities of the CFO and Investment Committee.
- b. Establishment of investment policy that is to guide the investment of the Archdiocese's investment assets;
- c. Retention or dismissal of outside professionals such as investment managers, consultants, custodian banks;
- d. Periodic review of asset allocation and investment performance of the investment managers.

9.3.3. The responsibilities of the Investment Committee are to advise the CFO and the Moderator of the Curia regarding:

- a. Establishing overall financial objectives and setting investment policy;
- b. Setting parameters for asset allocation;
- c. Establishing a process and criteria for the selection and termination of Investment Managers and custodians;
- d. Selecting a qualified Investment Consultant and making a recommendation to the AFC;
- e. Selecting qualified Investment Managers and making a recommendation to the AFC;
- f. Selecting a qualified custodian and making a recommendation to the AFC;
- g. Monitoring investment results quarterly to assure that objectives are being met and that policy and guidelines are being followed;
- h. Communication on a structured and ongoing basis with those persons responsible for investment results;
- i. Periodically monitor the investment holdings for compliance with socially responsible investment guidelines so that the holdings would never cause embarrassment or conflict with the moral interests of the Archdiocese. As such, the Committee makes recommendations regarding revisions to the socially responsible investment guidelines being used by the investment managers;
- j. Selecting a qualified proxy voting firm.

9.3.4. The responsibilities of the CFO are:

- a. Oversight of day-to-day activities of the investment program;

- b. Implementation of changes recommended by the Investment Committee and approved by the AFC.

9.3.5. The Investment Consultant will be responsible to proactively advise and make recommendations to the Investment Committee regarding:

- a. Investment Policy
- b. Asset Allocation
- c. Manager Selection
- d. Performance Evaluation
- e. Other Investment Matters

9.3.6. Specifically, the Investment Consultant will:

- a. Perform manager searches that include the complete universe of managers for each particular investment style and complete adequate due diligence that ensures only qualified managers are brought to the Investment Committee for consideration.
- b. Recommend specific managers to execute overall investment strategy for the Investment Program.
- c. Review the performance, changes and outlook of the equity markets, fixed income markets, international securities markets, money markets, alternatives markets (hedge fund products) and other markets on an ongoing and continual basis with the Investment Committee.
- d. Measure the management and construction of the portfolio and asset allocation by the use of standard deviation (as a measure of risk), correlation, probability theory, etc.
- e. Communicate changes in the various markets in which the fund is or may be invested and the importance of these changes upon the portfolio.
- f. Maintain complete objectivity and be free of all conflicts of interest in all matters concerning the portfolio and their management and related fees.
- g. Perform their responsibilities for a fee that is reasonable and fair on an absolute basis and in comparison to their peers.
- h. Provide pertinent, accurate and timely information concerning the performance of the portfolio, selected strategies and individual managers on both an absolute basis and relative to peers and indexes. This will be in both written form and in verbal presentation to the Investment Committee at its quarterly meetings.
- i. Provide timely delivery of the required monthly and quarterly reports.
- j. Provide in-depth analysis and review to the Investment Committee of managers that are on “caution” status according to Investment Policy, and inform the Investment Committee immediately of events and situations that could be cause for concern relative to managers’ ability to perform.

- k. Continually educate the Investment Committee by bringing new ideas and education materials on various allocation methods and strategies as needed.
- l. Conduct an annual fee analysis of the Investment Managers and present such analysis to the CFO and the Committee
- m. Contribute to the successful management of the Investment Program including meeting with the AFC as necessary.

9.3.7. The Investment Managers will be responsible for the following:

- a. Determining investment strategy within the specific strategy and/or guidelines provided under the Manager's mandate;
- b. Implementing security selection and timing within policy guideline limitations.

9.3.8. The Trustee and/or the Custodian will be responsible for:

- a. Safekeeping of securities entrusted to it, the collection of dividends and income on those assets and other functions of a custodian such as trade settlement and security reorganization processing;
- b. Reception and disbursement of cash transactions as directed by the CFO and/or Controller of the Archdiocesan Corporation and the notification of cash transactions to the appropriate Investment Managers;
- c. Issuance and maintenance of accurate monthly statements of holdings and transactions;
- d. Forwarding of proxies for all Investment Managers to the Archdiocese designated proxy voting firm.
- e. Such other duties as set forth in the Preneed Master Trust, Master Trust and Priest Pension Trust agreements.

9.4 **Objectives, Policies and Guidelines**

The primary objective of the Program is to earn the highest return commensurate with the Archdiocese's and its participating related Ecclesiastical Organizations' tolerance for risk. Equally important, the Program should ensure that investment assets are managed in accordance with the objectives, policies and guidelines set forth by the Investment Committee.

9.4.1. *Investment Program Objectives* – The primary investment objectives of the Program are to invest assets in a manner that fulfills the following:

9.4.1.1. The primary objective of the Master Trust is preservation of capital; that is, to increase the purchasing power of the Archdiocese and the participating Ecclesiastical Organizations within the Master Trust while reducing, to the greatest extent possible, the possibility of loss. The investment strategy and long-term asset allocation for the Master Trust should take into consideration the specific spending requirements and the present and future needs of the Archdiocese and its respective participating Ecclesiastical Organizations. Therefore, the desired minimum rate of return is equal to the Consumer Price Index (CPI) plus three percent (3%) on an annualized basis.

9.4.1.2. The primary objective of the Preneed Master Trust is preservation of capital; that is, to increase the purchasing power of the Archdiocese and the participating entities within the Preneed Master Trust while reducing, to the greatest extent possible, the possibility of loss. The investment strategy and long-term asset allocation for the Preneed Master Trust should take into consideration the specific spending requirements and the present and future needs of the Archdiocese and the respective participating Ecclesiastical Organizations. Therefore, the desired minimum rate of return is equal to the Consumer Price Index (CPI) plus three percent (3%) on an annualized basis.

9.4.1.3. The primary objective of the Priest Pension Plan is to ensure that sufficient assets are available to fund the present and future benefit obligations of the Priest Pension Plan (the Plan) by investing the assets of the Plan in a well-diversified manner designed to optimize long-term returns while controlling risk. The investment strategy and long-term asset allocation for the Priest Pension Plan should take into consideration the Plan's liabilities to ensure the timely payment of all present and future benefit obligations. Therefore, the desired minimum rate of return is to achieve an absolute rate of return based on the long-term rate determined by the actuarial consultant to the plan.

9.4.1.4. The primary objective of the Short-Term Money Management investments is to earn an appropriate rate of return, but reduce exposure and risk of losses to a minimal level.

9.4.1.5. A secondary objective of the Archdiocese's Program is to have a sufficient degree of flexibility in order to meet the unanticipated demands and changing market environment.

9.4.2. Short-Term Money Management Portfolio:

9.4.2.1. The assets of the short-term portion of the overall portfolio will be invested in a diversified manner within each asset category to reduce volatility of returns and/or credit risk. This approach is consistent with the Investment Committee's desire for minimum variance of returns.

9.4.2.2. *Cash and Temporary Cash Investments* – The investment objective is to achieve a reasonable rate of interest on safe investment alternatives which include Mutual Funds (those which maximize current income with preservation of capital and maintenance of liquidity), US Treasury Issues, US Agency Issues, Insured Certificates of Deposit, Insured Money Markets and A2P2 or better rated Commercial Paper.

9.4.2.3. *Short-Term Investments* – The investment objective is to achieve a reasonable rate of interest on income investments that mature in *less than four years*. The scheduling of maturity dates should coincide with cash needs of the Archdiocesan Corporation and the liquidity needs of the respective participating Trusts, including the Irrevocable Revolving Fund Trust, the Archdiocese Welfare Benefits Trust and the Archdiocese Risk Management Property/Casualty Insurance Trust as determined by the staff of the Management Corp. Investment alternatives will include those noted under cash and temporary cash investments and under the guidelines for the Fixed Income component of the Master Trust, the Preneed Master Trust, and the Priest Pension Plan discussed later in this Chapter.

9.4.3. Long-Term Component of the Portfolio:

9.4.3.1. Subject to the specific investment objectives, policies, guidelines and limitations set forth in this document, the Investment Managers are granted full investment discretion regarding the purchase and sale of individual securities within the Master Trust, ~~and~~ the Preneed Master Trust and the Priest Pension Plan. Realization of gains or losses should be decided solely on the basis of investment merits.

9.4.3.2. Although security selection is the responsibility of the Investment Manager, the following guidelines should be followed. These guidelines are not meant to be restrictive; ordinarily, any exceptions or modifications desired by the Investment Manager may be discussed with the CFO, who shall determine whether the issue should be brought before the Investment Committee.

9.4.3.3. *Asset Allocation* – The Investment Committee will establish asset allocation guidelines for the Archdiocese's Master Trust, the Preneed Master Trust and the Priest Pension Plan assets, incorporating the distinct requirements of short-term and long-term requirements/components of the respective Trusts. Such guidelines, which are periodically updated, must also be approved by the AFC. Accordingly, the specific target allocations of the Master Trust, the Preneed Master Trust and the Priest Pension Plan portfolios, as between various investment asset allocations, and appropriate rebalancing ranges are documented in the minutes of the meetings of both the AFC and its Investment Committee and in an appendix entitled *Investment Guidelines – Asset Allocation and Investment Performance*. In addition, the Investment Committee shall review annually its asset allocation strategy, when considering the short-term and long-term liquidity needs of the Archdiocesan Corporation. Such a review will

include forecasts compiled by the Controller and/or CFO of the Archdiocesan Corporation and/or the President of the Management Corp., reflecting the short-term and long-term cash liquidity needs of the Archdiocesan Corporation and the participating Ecclesiastical Organizations.

9.4.3.4. *Rebalancing Policy* – The purpose of re-balancing is to maintain the risk profile implied by the stated long-term asset allocation targets. The CFO and Controller should review the actual and target allocations quarterly and carefully consider rebalancing the portfolio whenever an asset class is outside its rebalancing ranges for two consecutive quarters.

9.4.3.5. *Diversification* – Diversification of assets will ensure that adverse or unexpected results from one asset class or one security will not have a detrimental impact on the entire portfolio. Diversification is interpreted to include diversification by asset type, characteristic and the number of securities.

9.4.3.6 *Investment Performance* – The Investment Committee will establish investment performance guidelines for the Master Trust, the Preneed Master Trust and the Priest Pension Plan assets. Such guidelines, which will be periodically updated, must also be approved by the AFC and should also include review procedures for both the objectives of the portfolios and the investment managers.

9.4.4. Equity Components

9.4.4.1. *Definition* – Equity securities are defined to include common stocks. Permissible investments are all publicly traded American Depository Receipts representing foreign corporations, preferred stocks, and common stocks of any voting class traded on an exchange.

Mutual funds and commingled funds as an equity component of the portfolio may be used where it can be demonstrated that such a vehicle is a more cost efficient and/or better investment vehicle than the use of a separate account structure. If mutual funds are utilized, the investment restrictions may not necessarily apply under all circumstances.

9.4.4.2. *Selection* – If a separate account structure is utilized, equity securities are to be selected in accordance with criteria to be determined by the investment manager and applied on a consistent basis. Purchases and sales of such investments are the direct responsibility of the designated investment manager under the discretion granted herein.

9.4.4.3. *Temporary Investments* – Funds available for investment in equity securities may be temporarily invested in money market funds, short-term U.S. Treasury obligations, short-term obligations of government-sponsored enterprises, federal agencies, commercial paper and commercial bank certificates of deposit.

9.4.4.4. *Prohibited Transactions* – The Investment Committee foresees the possibility of using mutual funds/collective trust funds/limited partnerships in the form of diversified fund of fund hedge funds and understands that they would not have any control over the management of such funds with regard to certain guidelines and restrictions, including the prohibited transactions noted below. Whenever possible, the Committee intends to utilize funds that comply with the investment guidelines stated in this Investment Policy. Subject to that

understanding, the prohibited investments and transactions for separately managed accounts of the Archdiocesan Corporation and the participating Ecclesiastical Organizations are:

- a. Investment in common stock of non-public corporations
- b. Short sales of any type, except through the use of commingled funds (see appendix (Investment Guidelines – Asset Allocation and Investment Performance))
- c. Investment in insurance investment contracts, such as guaranteed investment contracts
- d. Investment in lettered or restricted stock
- e. Transactions in options of any kind or in futures contracts of any kind, short sales of any type, except through the use of commingled funds (see appendix (Investment Guidelines – Asset Allocation and Investment Performance))
- f. Investment in “penny stocks”
- g. Margin buying, short selling or any strategy or instruction involving the use of leverage.²

9.4.5. Fixed Income Components

9.4.5.1. *Definition* – Fixed income securities are defined to include debt obligations that carry a predetermined rate of interest and date of maturity. Mutual funds and commingled funds as a fixed income component may be used where it can be demonstrated that such a vehicle is a more cost efficient and/or a better investment vehicle than the use of a separate account structure. If mutual funds are utilized, the investment restrictions may not necessarily apply under all circumstances. Fixed income investments of choice would be:

- a. U.S. Treasury obligations (bills, notes, bonds)
- b. Federal agencies of the U.S. government
- c. Certificate of deposit backed by Federal Deposit Insurance Corporation (FDIC)
- d. Corporate bonds rated “BAA” or better by Standard & Poor’s
- e. Archdiocese and Diocese fixed income debt obligations, rated or un-rated, as long as the issue remains a direct obligation of the Catholic Church.

² The use of leverage within the Archdiocesan investment portfolios is prohibited except as specifically permitted in the alternative investment and commingled fund allocation. No securities which involve leverage, such as futures, may be utilized without a fully collateralized cash position. No strategies based on leverage such as margin buying or short selling may be employed within the investment portfolio. When referring to “commingled funds” in this investment policy, we are referring to investments such as mutual funds and unit trusts.

The use of derivatives is allowed for instruments, which have well understood risk/return patterns, well-documented market liquidity, and a well-recognized pricing mechanism. Such securities as exchange traded futures and options, and Treasury strips are permitted only if and to the extent that they are fully collateralized to avoid any leverage from such positions. Futures trading will generally be for the purpose of hedging the investment portfolio’s investments.

9.4.5.2. *Prohibited Transactions* – Subject to those provisions of 9.4.4.4., if a separate account structure is utilized, prohibited investments and transactions include the following:

- a. Investment in tax-exempt bonds
- b. Investment in bonds, notes, or other indebtedness for which there is no public market (private placements)
- c. Investment in corporate obligations not rated at least one notch above the lowest investment grade rating of Standard & Poor's, Moody's or Fitch (e.g. "BBB-" and "Baa3" prohibited; "BBB" and "Baa2" not prohibited)
- d. Investment in un-rated corporate bonds
- e. Investment in commercial paper not rated A2P2 or better
- f. Investment in master notes, unless the public debt of the issuer is rated at least AA or the equivalent
- g. Investment in direct placement of mortgages on real property.

9.4.6. Alternative Investments

9.4.6.1. Fund of Funds Hedge Funds will be held in the forms of professionally managed pooled limited partnership investments offered by professional investment managers with proven records of superior performance over time and extensive knowledge in this area.

9.5. Socially Responsible Investment Policy

The Archdiocese recognizes and accepts its moral and ethical responsibility to steward its financial resources in a manner consistent with its vision, mission, values and core strategies. In order to fulfill this responsibility, it is the policy of the Archdiocese to utilize its financial resources to emphasize human dignity and social justice and to comply in principle with the investment policies and principles as promulgated from time to time by the USCCB.

9.5.1. *Shareholder Activist/ Proxy Voting* – The Archdiocesan Corporation’s CFO through the utilization of a proxy-voting firm selected from time to time, controls all proxy voting in order to communicate its views on social and management issues. The CFO controls the voting of all proxies for equity securities held in the Priests’ Pension Plan and general accounts utilizing a consultant to vote proxies based on the guidelines contained in this Policy. The Proxy Voting Guidelines, which are included in this Policy, have been developed to provide consistent criteria for voting on relevant social and management issues and to be consistent with those of the USCCB. Issues not covered by the Proxy Voting Guidelines will be voted based upon the discretion of the Investment Committee.

9.5.2. *Shareholder Resolutions* – The Archdiocesan Corporation may partner with other mission-based investors and other Catholic entities in the filing of shareholder resolutions that support advocacy priorities, goals, and strategies. The Archdiocesan Corporation may work with these mission-based investors to establish dialogue with corporations in order to redirect activities or policies that are inconsistent with the Archdiocesan mission and values. The decision to participate will be determined based on availability of resources and relevance of issues.

9.5.3. Social Criteria

The Archdiocesan Corporation believes that the social, moral, and ethical beliefs and teachings of the Catholic Church provide the fundamental framework within which all actions carried out should reside in the conduct of its ministerial mission. In keeping with this belief, it is the policy of the Archdiocesan Corporation to invest only in those companies that make a meaningful contribution to the good of society, and which operate in a manner consistent with the social, moral, and ethical beliefs and teachings of the Church.

Therefore, investments will be encouraged in those corporations whose products, services or actions are congruent with the values of the Archdiocese and the social teachings of the Church. Investments in domestic and international equity and fixed income securities will be avoided in certain corporations whose products, services or actions are deemed to be contrary to the Archdiocesan mission. The following are the exclusionary social criteria in all of the Archdiocesan Corporation and the Ecclesiastical Organization’s investment portfolios.

9.5.3.1. *Protecting Human Life* – Absolute exclusion of investments in companies whose activities include direct participation in or support of abortion, contraception and embryonic stem cell research.

9.5.3.2. *Promoting Human Dignity* – Exclusion of investments in companies whose policies promote racial and gender discrimination and that directly produce, sell or actively distribute pornography

9.5.3.3. *Military restrictions* – The production of nuclear, chemical or biological weapons or the holding of major contracts for military weapons and/or the production of land mines

9.5.3.4 Any corporation whose operation does not serve a useful social purpose consistent with Catholic moral teaching or whose behavior raises serious questions concerning social justice.

These areas of concern may be expanded over time through revision to this policy. In order to avoid investment in corporations associated with these issues, specific definitions have been developed in the “Restrictions” section listed below.

9.6. **Restrictions on Investments**

Restrictions on investments are as follows:

9.6.1. *Protecting Human Life*

9.6.1.1. *Abortion and Contraception Restrictions* – The Archdiocesan Corporation and the Ecclesiastical Organizations will not knowingly invest in corporations that manufacture abortifacient drugs, contraceptive devices or operate health care facilities and physician management organizations that provide elective abortion services. Investments in any corporations deriving identifiable revenue from the manufacture of such products or the operation of such facilities will be excluded.

9.6.1.2. *Embryonic Stem Cell/Human Cloning* – The Archdiocesan Corporation and the Ecclesiastical Organizations will not knowingly invest in companies that engage in scientific research on human fetuses or embryos that (1) results in the end of pre-natal human life; (2) makes use of tissue derived from abortions or other life-ending activities; or (3) violates the dignity of a developing person. Specific activities covered by the policy will 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.

9.6.2. *Promoting Human Dignity* – The Archdiocesan Corporation and the Ecclesiastical Organizations will, through its investment and its advocacy of the USCCB, seek to promote resolutions towards protecting and promoting human rights and in doing so,

9.6.2.1. *Racial Discrimination* – The Archdiocesan Corporation and the Ecclesiastical Organizations will divest from those companies whose policies are found to be discriminately against people of varied ethnic and racial backgrounds that have been historically disadvantaged.

9.6.2.2. *Gender Discrimination* – The Archdiocesan Corporation and the Ecclesiastical Organizations will divest from those companies whose policies are found to be discriminatory on the basis of gender.

9.6.2.3. *Pornography* – The Archdiocesan Corporation and the Ecclesiastical Organizations will not knowingly invest in any company or corporations that directly produce, sell or actively distribute pornography.

9.6.3. Reducing Army Production

9.6.3.1. *Military Restrictions* – The Archdiocesan Corporation will, through its investments as well as its advocacy of the USCCB, seek to discourage any nuclear and conventional arms race and to limit the distortions in the U.S. and global economy resulting from disproportionate military spending. The Archdiocese will, therefore, not knowingly invest in firms primarily 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 destructions, etc.). The intention of this section is to eliminate corporations deriving any revenue from these activities.

9.6.3.2. *Land Mines* – The Archdiocesan Corporation and the Ecclesiastical Organizations will not knowingly invest in any corporations that derive identifiable revenue from the production of land mines, or are involved in the manufacture, sale or use of anti-personnel land mines.

9.6.4. *Pursuing Economic Justice* – The Archdiocesan Corporation and the Ecclesiastical Organizations will promote and support shareholder resolutions (see 9.1.8) which avoid the use of sweatshops and that do not deposit funds in financial institutions that receive less than satisfactory regulatory ratings under the Community Reinvestment Act.

9.6.5. *Protecting the Environment* – The Archdiocesan Corporation and the Ecclesiastical Organizations will promote and support shareholder resolutions which encourage corporations to act to “preserve the planet’s ecological heritage, addressing rampant poverty in the poorest nations and creating environmentally sensitive technologies”.

9.6.6. *Encouraging Corporate Responsibility* – The Archdiocesan Corporation and the Ecclesiastical Organizations will encourage companies to report on social environment as well as financial performance.

9.6.7. *Other* – In the event the Archdiocesan Corporation and the Ecclesiastical Organizations deems a certain corporation’s actions, products, or other characteristics are incongruent with the Archdiocesan mission and values, such investment in the corporation will be restricted and any holdings will be liquidated.

9.7. **Ownership Considerations**

The general Archdiocesan policy in evaluating a corporation for exclusion includes a review of ownership issues whereby a publicly traded corporation may be responsible for a wholly owned subsidiary. In such a case, both the parent and the subsidiary corporation would be excluded from the portfolio. The Archdiocesan Corporation will not knowingly invest in corporations that are majority owned (50% or more) by firms excluded by the social criteria.

9.8. **Compliance**

The Socially Responsible Investment Policy will be communicated to all investment managers as noted in Exhibit A to these guidelines. A restricted list of corporations will not be maintained as part of this Policy. The Archdiocese believes that compliance with the Social Criteria will be effectively implemented through the use of ISS and/or similar firms, communication provided to its investment managers and periodic portfolio reviews; thus the use of a restricted list is not required. Investment managers will be directed to avoid purchases of any securities defined in the Social Criteria. Any securities deemed questionable or not in compliance with the Social Criteria should be brought to the attention of the CFO and/or Moderator of the Curia by either the investment managers or ISS. If necessary, an appropriate time frame for liquidation will be determined.

9.9. **Shareholder Resolutions**

The following shareholder resolutions will generally be supported by the Archdiocese's Proxy Voting Guidelines:

9.9.1. The Archdiocesan Corporation will actively support resolutions directed towards protecting and promoting human rights. For example, the Archdiocese will discourage and work to avoid investments in corporations that are engaged in extractive industries or are operating in countries with significant human rights concerns.

9.9.2. The Archdiocesan Corporation will support resolutions regarding equal employment opportunity, affirmative action, and elimination of racial/ethnic/religious discrimination.

9.9.3. The Archdiocesan Corporation will support resolutions that address the conversion of military technology to civilian uses, limit weapons production and limit foreign sales of weapons.

9.9.4. The Archdiocesan Corporation will support initiatives, including in some cases, shareholder resolutions to support the production of family-oriented content development by media companies.

9.9.5. The Archdiocesan Corporation will use selected shareholder resolutions and other means to encourage companies to provide sufficient wages, working conditions and other social benefits that enable their employees and families to meet basic human needs.

9.9.6. The Archdiocesan Corporation will support resolutions requesting the development of criteria for the evaluation, support, and use of intermediaries capable of promoting appropriate development in emerging economies. In addition, the Archdiocesan Corporation will support requests for disclosure of information on IMF-World Bank-enforced programs that help developing countries repay loans.

9.9.7. The Archdiocesan Corporation will support resolutions that address smoke-free restaurants, divestiture of tobacco holdings, tobacco smoke in the environment, and limitation on tobacco sales to minors and restrictions on tobacco advertising.

9.9.8. The Archdiocesan Corporation will actively encourage and support shareholder resolutions directed toward making life-sustaining drugs more available and affordable to low-income communities and nations at reduced, affordable prices consistent with our Catholic Values.

9.9.9. The Archdiocesan Corporation will support resolutions that ask certain mainstream retail companies to stop selling handguns and related ammunition and to return all handgun inventories and related ammunition to the manufacturers.

9.9.10. The Archdiocesan Corporation will encourage shareholder resolutions that promote policies and businesses that "undertake reasonable and effective initiatives for energy conservation and the development of alternate renewable and clean energy resources...(and

offering) incentives to corporations to reduce greenhouse gas emissions and assistance to workers affected by those policies.” (Global Climate Change, 2001)

9.9.11. The Archdiocesan Corporation will encourage companies to report on social, environmental, as well as financial performance (For example, those companies which have signed on or adopted formal corporate social responsibility guidelines; e.g., The UN Global Compact, the Global Sullivan Principles, and the Caux Round Table Principles for Business). The Archdiocesan Corporation will actively promote and support shareholder resolutions directed towards adoption of corporate social responsibility guidelines within companies.

9.10. Shareholder Governance

The following shareholder resolutions address governance issues of concern to the Archdiocese:

9.10.1. *Independent Board* – The Archdiocesan Corporation recognizes it is in the best interest of all shareholders that a majority of board members be independent from the corporation.

9.10.2. *Cumulative Voting* – The Archdiocesan Corporation will oppose resolutions requesting cumulative voting. Cumulative voting allows shareholders to cast all of their votes for 1 nominee to the board. This is viewed as violating the principles of fairness and equity by granting minority shareholders a disproportionate voice in the corporation.

9.10.3. *Staggered Terms* – The Archdiocesan Corporation will support resolutions endorsing staggered terms for the board of directors in order to maintain board continuity.

9.10.4. *Annual Meetings* – The Archdiocesan Corporation will support resolutions requesting annual meetings to be held in various/rotating sites to allow shareholders the opportunity to participate in these meetings.

9.10.5. *Political Contributions* – The Archdiocesan Corporation will support resolutions requesting Boards of Directors to establish corporate political contribution guidelines and reporting provisions.

9.10.6. *Mergers and Acquisitions* – The Archdiocesan Corporation will evaluate bids by one corporation for another on a case-by-case basis. The Archdiocese will generally support these resolutions unless there are mitigating circumstances, such as labor or social issues.

9.11.7. *Management and Director Compensation* – The Archdiocesan Corporation will support reasonable compensation packages for managers and directors. In cases where the compensation is not deemed to be reasonable, the resolution will be opposed.

9.10.8. *Management Compensation – Non-financial Performance* – The Archdiocesan Corporation will support resolutions requesting companies to review their executive's compensation and report to shareholders on its link to not only financial performance but to the company's performance on environmental, diversity, and social issues.

9.10.9. *Independent Auditors* – The Archdiocesan Corporation will support shareholder proposals asking companies to adopt a policy to ensure that the firm that is appointed to be the company's independent accountants will only provide audit services to the company and not provide any other services that may conflict with the principle responsibility of providing audit services.

9.10.10. *Research* – The Archdiocesan Corporation will support resolutions requesting finance companies to develop stronger firewalls between the investment banking and investment research divisions to prevent conflicts of interest, including the total separation of these lines of business from one another.

9.11. **Meetings and Communication of the Investment Committee**

The Investment Committee of the AFC is comprised of qualified individuals with professional competence in the area of investment management. These individuals will serve in an advisory/general oversight/review capacity to monitor the investment performance of Archdiocesan assets and provide strategic input and professional expertise for assurance of capable and competent stewardship to the Archbishop. The Chairperson of the Investment Committee reports to the AFC on a quarterly basis.

The Investment Committee shall consist of at least five members and no more than ten of the laity who are not employed or have no significant relationship with the Archdiocese or the Ecclesiastical Organizations. Terms of the Committee members will be staggered, but no member can serve for greater than five years unless reappointed by the Archbishop. The chairperson presides at the meetings which are scheduled by the Archdiocesan staff in accordance with the AFC meetings. Generally, the Committee will meet a minimum on a quarterly basis. The CFO and Controller comprise the Archdiocesan staff with a Recording Secretary present to record minutes. Specific duties of the Investment Committee are governed by the Charter of the Investment Committee.

9.12. **Approval of Policy and Guidelines**

As previously stated, in view of the rapid changes within the capital markets and investment management techniques, this investment policy and guidelines will be reviewed by the Investment Committee periodically and such review will be acknowledged by the Committee chairman as noted in Appendix A.

In addition, it is required that the investment managers utilized by the Archdiocesan Corporation review and accept the objectives and guidelines of the Archdiocese investment policy and guidelines and provisions contained therein and acknowledge the same. Such acknowledgement will be evidenced as noted in Appendix A.

Appendix A

**Archdiocese of Denver
Investment Policy and Guidelines**

Approval

Committee

It is understood that this investment policy is to be reviewed periodically by the Investment Committee of the Archdiocese of Denver to determine if any revisions are warranted by changing circumstances including, but not limited to, changes in financial status, risk tolerance, or changes involving the investment mangers.

Chairperson, Investment Committee

Date _____

Investment Consultant

Date _____

Investment Manager

The investment policy as set forth in this document will be reviewed annually by the Committee, which can approve and implement changes. If at any time the investment manager believes that these objectives cannot be met or that the investment guidelines constrict performance, the Investment Committee should be so notified in writing. By initial and continuing acceptance of these objectives and guideline, the investment manager concurs with the provisions of this document effective as _____.

Investment Manager

Date