

ARUNDEL AND BRIGHTON DIOCESAN TRUST

Statement of Investment Principles

1. Introduction

The Arundel and Brighton Diocesan Trust (“the Trust”) is a charity established by a trust deed dated 19th May 1967 (as amended 14th November 1967 and 4th December 1998). The charity is registered with the Charity Commission of England and Wales (No. 252878).

The Trustees of the Trust (“the Board”) have drawn up this Statement of Investment Principles (“SIP”) to comply with current relevant legislation and best practice guidelines. It outlines the principles and policies governing investment decisions made on behalf of the Trust, and the parishes contained therein.

This statement will be reviewed every three years, or following any material change in the investment policy of the Trust.

Before revising the SIP, the Board will obtain and consider the written advice of the external Auditor of the Trust to ensure that the said revision is in keeping with current legislation and best practice.

2. Financial Governance of the Trust

The fixed assets and investments of the charity are vested in a trust corporation with the Diocesan Trustees as the managing trustees. There are eight managing Trustees. The Trust Corporation is the Arundel & Brighton Roman Catholic Diocesan Corporation Limited incorporated on 20th January 1969. The corporation is registered under the Companies Acts (No. 0946255) as limited by guarantee and not having share capital; the Diocesan Trustees are its members and directors.

Trustees

The Bishop is empowered to appoint and remove all Trustees. The Board comprises four clergy and four laity of the faithful. The clergy Trustees are generally appointed for their expertise in parochial, spiritual and pastoral matters. Lay Trustees are selected for specialisms in business and education. Further lay trustees would be chosen to match any perceived skill requirement and would be recruited on the recommendation of, inter alia, the Trustees, the Finance Committee and parish priests. All decisions affecting the trusts are made by the Board advised by the following committees where appropriate:

- | | |
|-------------------------|--------------------------|
| a. Episcopal Council | e. Council of Priests |
| b. Finance Committee | f. College of Consultors |
| c. Investment Committee | g. Pastoral Committees |
| d. Education Committee | h. Parishes |

Finance Committee

The committee comprises two Trustees and four others who have expertise in financial, property, business management and the Diocese. The committee meets eight times a year. The role of the committee is advisory to the Trustees on financial governance and asset management. The committee also acts as the Trustees' audit committee.

Investment Committee

The committee comprises the Trust's Financial Secretary, two Trustees with financial expertise, and the representatives of the third party external investment manager(s) that the Trustees have chosen to manage the Trust's financial investments. The committee acts as an advisory committee to the Board and meets three times per year. The role of the committee is to review the financial performance of the investment portfolio, to monitor the adherence to the guidelines outlined in this SIP and to make recommendations to the Finance Committee and the Board regarding how the SIP may need to be amended in the future, or in the event of poor performance, the third party manager(s) changed.

Third Party Investment Manager(s) ("the IM(s)")

When selecting IMs, the Board takes into account the following attributes which this important "partner" needs to demonstrate prior to selection:

A reputation that reflects their:

- Good standing in the market place, documented by references from existing clients;
- Expertise;
- Past successful performance;
- Ability to screen investments for the Board's ethical criteria;
- Ability to provide the Board with the reporting quality, accuracy and frequency necessary for all stakeholders.

The IM(s)¹ manage(s) the day to day management of the various Trust funds on a discretionary basis working within the parameters set in the investment criteria listed below in points (3) and (4).

3. The Investment Portfolios of the Trust

The Trust has two Investment Portfolios:

- a. Multi Asset Investment Fund 1 ("M1 DIST")
- b. Multi Asset Investment Fund 2 ("M2 DIST")

Each fund has a different risk profile: M1 has a high target return (*see Section 5*) which is expected to be achieved by a significant exposure to global equity markets with the inherent volatility that this implies, whereas M2 has a more modest target return, with an expectation of a less volatile performance produced by a large fixed income component, as reflected by the Benchmarks below². Traditionally the Diocese, and parishes who have excess reserves which they are looking to invest for significant periods of time, invest in M1, and parishes who are less certain about their investment term, may consider M2 more appropriate.

¹ Please see Appendix 1 for the name of the current manager, the fees they charge, and the basis on which they manage the portfolio.

² Section 5.

These two funds invest in the following asset classes, and have the characteristics listed:

Asset Class	M1 DIST	M2 DIST
Cash	Yes	Yes
Bonds ¹	Yes	Yes
Equities ²	Yes	Yes
Commodities	Yes	Yes
Real Estate (funds)	No	No
Alternative Investments	Yes	Yes
Other characteristics		
Risk Profile	Medium/High	Low/Medium
Investment Horizon	Long term	Long term
Income Target	None specified	None specified
Investment Objective	Balance between income and capital growth	Balance between income and capital growth with focus on preservation

The two funds have the following additional investment restrictions:

- A change of more than 5% in the current asset allocation of the portfolio requires consultation with the Investment Committee members.
- A change of more than 10% in the current asset allocation of the portfolio requires consultation with the Board.
- Neither portfolio will hold property given the liquidity constraints of property investments and the extensive property portfolio held by the Diocese.
- No one equity or debt³ issuer can be more than 7.5% of the total portfolio.
- The maximum High Yield Bond holding in the M1 DIST is 2.5% of the portfolio. No High Yield Bonds are permissible in the M2 DIST.
- Bond holdings in the M2 DIST must be investment grade (greater or equal to BBB-).
- Greater or equal to 1/3rd M2 DIST must be invested in bonds rated AA- or greater.
- No subordinated debt is permitted in either fund.

Except for the restrictions mentioned above, there are no guidelines for the manager on what percentages of each asset class should be held in specific funds at any given time. If for any reason the Board decide to appoint a new IM, then the initial asset allocation in the portfolio will be discussed and agreed, and then the variation percentages mentioned above will apply.

4. Ethical Policy

The two funds have the following ethical restrictions:

- No arms > 10% of turnover of strategic military hardware.
- No tobacco > 10% turnover.
- No contraception > 10% turnover.

¹ Developed, Emerging and High Yield markets – within the restrictions set out below the table

² Developed and Emerging markets – within the restrictions set out below the table

³ Excluding UK government debt issued in GBP

- No pornography (in all its forms) > 10% turnover.
- No gambling > 10% turnover.
- Only invest in companies with responsible lending policies
- No companies that perform abortion services
- No companies that carry out embryonic stem cell or foetal tissue research, or human cloning.
- the value of holdings invested in companies engaged with the extraction, refining, or sale of Fossil Fuels should be restricted to 10% of the overall portfolio.

The Board has requested that the IM(s) make the Investment Committee aware of investments that are close to the limits set above, at each meeting.

5. Investment Objectives

The investment objective of the Board is that the real value of the Trust's assets should be maintained and enhanced over the long term to service the needs of the Trust. The overall risk is assessed to be medium, when viewed with the property and cash assets of the Trust.

In relation to the investment objectives of each fund, target total returns have been set as follows:

Fund	Target investment returns ¹
M1 DIST	CPI+ 3.0% per annum
M2 DIST	CPI+ 1.5% per annum

Please note that these target returns are after the deduction of all charges.

Each fund will be a distributing structure to meet the income needs of the Diocese and Parishes.

Each fund is also measured against the following composite benchmark to assess overall performance, where the total return of the portfolio is compared to the performance of the indices below weighted as shown:

Benchmark ²			
Asset Type	Index	M1 DIST Weight %	M2 DIST Weight %
Bonds	50% IBoxx Gilts 5-7 Years Total Return	15	35
	50% IBoxx Sterling Corporate Bonds 5-7 Years Total Return	15	35
Equity	55% MSCI UK Net Total Return	40	15
	25% MSCI Europe ex UK Net Total Return	12	5
	20% MSCI USA Net Total Return	13	5
Cash	GBP 1 month LIBOR	5	5

¹ Target investment returns should be reviewed if the Consumer Price Index strongly exceeds the government target of 2%. Historical performance of the asset mixes set out were 5.5% p.a. and 3% p.a. respectively based on the last 26 years indices performances.

² Update to Benchmark to be confirmed by the Investment Committee in the July 2019 meeting.

The investment objectives of maintaining real value means that there may be periods of difference to benchmark. Should inflation increase sharply, it will be important to consider the underlying risk profile of the portfolio and its ability to meet the investment return target. In each case, the IM will be expected to consult with the Investment Committee to ensure any temporary departure from benchmark or CPI+ objective is agreed.

6. Investment Beliefs

The Board believes that whilst investment theory and practice have evolved considerably over the past four decades, there is still no generally agreed objective framework for investors which adequately describes how to view capital markets, or how to apply these insights for investment purposes.

The Board therefore thinks it is important to select professional fund managers to manage the Trust's portfolio, within the constraints discussed above, in a way that achieves the Trust's investment objectives. The following points are also important:

- The portfolio is managed by an active investment manager¹.
- The investment options are long term investment portfolios, which should not be relied upon to assist with short term liquidity issues, except in exceptional circumstances.
- The provision of choice is important so that parishes can select the level of risk they are prepared to take on funds that are not immediately required.
- Taking investment risk is normally rewarded in the long term, assuming that for the majority of the time, markets are orderly².
- Diversification is the key tool for managing risk.

7. Investment Risk Management Framework

Investment risk management involves the identification of various risks that may affect the performance and returns achieved by the Trust's investments.

The Trust has identified four high-level guiding principles:

- The appreciation of the fact that past returns are not indications of future performance.
- The acceptance that, from time to time, market shocks mean that perceived liquidity is affected, and other liquidity options should be retained in order to allow market norms to return, rather than forcing a "fire sale"³.
- The understanding that, when assessing risk, the complete Trust portfolio must be viewed as one basket of risk. i.e. The two funds must be added to the significant

¹ Active management (also called active investing) refers to a portfolio management strategy where the manager makes specific investments with the goal of outperforming an investment benchmark index. The alternative is a passive manager, who invests portfolio money in mutual and exchange traded funds in order to track a market index.

² Any market in which the supply and demand are reasonably equal, and liquidity is available for transactions to be carried out without moving the market substantially one way or the other.

³ The selling of goods or assets at heavily discounted prices, below their intrinsic value, as a result of the investor having to sell without regard to value, or the markets being disrupted due to a significant economic or world event. e.g. As was experienced on 9/11 or the great storm of 1987.

property holdings that the Trust owns, in addition to the cash that the Trust has at its disposal.

The Trust recognises that uncertainty in the following factors can be managed to some extent by the IM(s), but from time to time, market events will have a negative, as well as a positive impact on portfolio returns:

- Inflation Risk – the funds are invested in assets which the IM(s) selects to have a positive “real¹” return.
- Market Risk – the funds are invested in a diversified pool of assets by the IM(s), in order to manage this risk.
- Counterparty Risk – the IM(s) advise(s) the Investment Committee on appropriate counterparty risks to take, and reports frequently on the holdings that are held within the portfolio. The IM(s) review(s) the portfolio on a daily basis, and takes action on holdings that may be affected by deteriorating credit conditions.
- Operational Risk – the Investment Committee reviews the operational processes of the IM(s) periodically to ensure that the IM(s) provides information on a timely basis, and the information provided is accurate and clear.
- Liquidity Risk – as far is practical, the IM(s) invests in exchange traded products, which assuming markets remain orderly, will present no liquidity issues.
- Valuation Risk – the Trust invests primarily in liquid, quoted assets in order to manage this risk.
- Environmental and Social Risks – whilst it is understood that an ethical approach to these risks can, in certain circumstances, have a significant impact on future performance. The Board is constantly aware that it is important to balance the portfolio returns against the need for an environmental and social conscience. It therefore may ask the IM(s) from time to time to justify the need for one asset versus another.
- Governance Risk – this can have a significant impact on the performance of assets the Trust holds, and the Board relies on the analysis of the IM(s), when and if a governance event occurs within one of the portfolio holdings, before decisions are made with regard to the specific investment.
- Reputational Risk – the Board and its advisers, carefully select the IM(s) and expect the IM(s) to select investments that are appropriate and fitting for a Roman Catholic Diocese, as outlined in point (4) above.

The Board feels that the investment strategy outlined in this SIP is appropriate for managing the risks outlined above. The two funds that the Trust provides enable the unrestricted funds of the Diocese and parishes to be invested in an appropriate manner according to the risk profile that the Diocesan entity wishes to accept. The Investment Committee regularly reviews and discusses issues related to investment decisions, and from time to time discusses various matters with the Board.

The Board believes that each of the funds that are currently in place provide an appropriate asset allocation for the investment objectives of the specific fund, and overall represent an adequately diversified distribution of assets.

¹ The annual percentage return realised on an investment adjusted for changes in prices due to inflation.

8. Custody of Funds

The Trust's holdings are held in nominee accounts of the IM(s), and the IM(s) is/are responsible for their safekeeping, and for the accounting treatment of all purchases, sales and income received. Income is remitted to the Trust by the IM(s) on a twice monthly basis for the strategies.

This service is documented in the Investment Management Agreement signed by the Trust and the IM(s).

9. Communication, reporting and transparency

The Board relies on the timely provision of quarterly information to ensure that all stakeholders¹ who have investments managed by the IM(s) are provided with valuations that they need throughout the year. Thereby ensuring that all stakeholders have confidence in the Trust's investment management arrangements.

The Trust's members of the Investment Committee are responsible for issuing instructions to the IM(s), within the framework described in (3) and (4) above. The IM(s) is/are instructed to communicate with all members of the Committee for a decision, unless the decision is of an administrative nature, when the Financial Secretary will suffice. If for any reason the Committee members cannot agree on an issue, the question will be referred to the Board for discussion at the next available time.

10. Compliance with the SIP

The Investment Committee monitors compliance with the SIP by the IM(s) throughout the year.

¹ The Diocese and Parishes