

**INVESTMENT FUND STATEMENT
INVESTMENT FUND
OF
THE EPISCOPAL CHURCH IN THE DIOCESE OF NORTHERN CALIFORNIA**

DESCRIPTION

The Investment Fund of The Episcopal Church in the Diocese of Northern California is a collective investment fund available to Constituent Organizations. The purpose of the Fund is to allow Constituent Organizations to take advantage of economies of scale and diversification in an effort to promote greater investment returns and efficiency in the operations, and to further the charitable objectives, of the Diocesan Corporation and the Constituent Organizations. Operation of the Fund is a charitable program of the Diocesan Corporation and is authorized by the Diocesan Corporation's Articles of Incorporation. Through its operation of the Fund, the Diocesan Corporation is providing a valuable service to the Constituent Organizations. The Fund may receive, acquire, hold, manage, invest, and administer the common property, funds, and money as provided herein for the benefit of the Constituent Organizations and may make distributions as provided herein. Assets invested in the Fund are subject to a purpose restriction, constituting a charitable trust; however, the Fund is not a separate legal entity distinct from the Diocesan Corporation.

**ARTICLE I
DEFINITIONS**

As used in this Investment Fund Statement, the following terms have the following meanings:

- 1.1 Bishop means the individual ordained and consecrated as Bishop of The Episcopal Church in the Diocese of Northern California.
- 1.2 Board means the Board of Trustees of the Diocesan Corporation.
- 1.3 Code means the Internal Revenue Code of 1986, as amended.
- 1.4 Constituent Organization means any constituent church, parish, congregation, society, mission, school, or other organization, including the Foundation, the Diocese and the Diocesan Corporation, constituted by the Diocese or the Diocesan Corporation and described in Section 501(c)(3) of the Code.
- 1.5 Convention means the Annual Convention of the Diocese.

1.6 Corporation Sole means The Protestant Episcopal Bishop of Northern California, a corporation sole.

1.7 Diocesan Corporation means The Episcopal Church in the Diocese of Northern California, a California corporation.

1.8 Diocese means The Episcopal Church in the Diocese of Northern California, an ecclesiastical body.

1.9 Foundation means The Episcopal Foundation of Northern California, a California nonprofit religious corporation that supports the religious purposes of the Diocese.

1.10 Foundation Board means the Board of Directors of the Foundation.

1.11 Fund means the Investment Fund of The Episcopal Church in the Diocese of Northern California.

1.12 Investment Fund Committee means the Investment Fund Committee established by this Investment Fund Statement.

1.13 Investor means any Constituent Organization that is currently invested in the Fund.

ARTICLE II GENERAL PROVISIONS

2.1 Eligible Participants in the Fund. Only Constituent Organizations are eligible to participate in the Fund.

2.2 Custodian. The Investment Fund Committee has the authority to appoint and remove the Custodian of the assets of the Fund. The Investment Fund Committee shall report any such action to the Board.

2.3 Minimum Investment in the Fund. All contributions to the Fund must be deposited directly into the Fund through the Custodian. The minimum investment for each account and sub-account in the Fund is \$500.

2.4 Additions to the Fund. Constituent Organizations may make additional contributions to the Fund at any time and no minimum investment is required to make such additional contributions.

2.5 Legal and Equitable Title. Legal title to all property held in the Fund is vested in the Diocesan Corporation. Equitable title in all property held in the Fund remains with the Investor that contributed the property.

2.6 Accounting of Investments. The Diocesan Corporation does not segregate the assets of any single Investor from assets of other Investors. However, the Diocesan Corporation will keep a separate account of each Investor's assets, and may create sub-accounts for a particular Investor.

2.7 Allocation of Profits and Losses. All increases and decreases in the Fund's value will be shared pro rata among the Investors.

2.8 Fees and Expenses. The Diocesan Corporation does not charge a fee for participation in the Fund. All fees and expenses incurred from outside vendors, including but not limited to investment advisors and the Custodian, in connection with the Fund will be charged, pro rata, to each Investor. If at any time an Investor's assets in the Fund are insufficient to cover fees and expenses chargeable to such Investor, such Investor agrees to pay such fees and expenses or to reimburse the Fund for such fees and expenses, promptly upon written request.

2.9 Annual Accounting Period. The Diocesan Corporation's annual accounting period ("Annual Accounting Period") ends on December 31.

2.10 Investment Statements. The Investment Fund Committee will distribute monthly investment reports to Investors within 20 days of the end of each month.

ARTICLE III INVESTMENTS

3.1 Investment Policy. The Fund will be invested in accordance with the Investment Policy adopted by the Diocesan Corporation for the Fund, as it may be amended from time to time as needed to effect prudent management of the Fund in accordance with Section 9250 of the California Nonprofit Religious Corporation Law and the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") to guide the overall investment policy of the Fund. The Investment Fund Committee may recommend amendments to the Investment Policy for approval and adoption by the Board.

3.2 Loans. As part of its overall investment portfolio, and in accordance with the terms set forth in the Investment Policy, the Investment Fund Committee will determine the proportion of the total investments allocated to loans, if any.

3.3 Loans to Constituent Organizations. Upon action by the Investment Fund Committee in accordance with the Investment Policy and with approval by the Bishop, the Fund may make loans to Constituent Organizations for the purpose of capital projects, improvements, and such other projects or activities. Whenever it is possible and prudent to do so, such loans will be secured by real property.

3.4 Loans to Individuals. Upon action by the Investment Fund Committee in accordance with the Investment Policy and with approval by the Bishop the Fund may make loans to the clergy of the Diocese. Whenever it is possible and prudent to do so, such loans will be secured by real property.

3.5 Interest. The Investment Fund Committee will determine the type and rate of interest to be charged on the Fund's loans on at least an annual basis.

3.6 Loan Loss Reserve. The Investment Fund Committee will establish a loan loss reserve and, with the approval of the Board, the Investment Fund Committee will determine the amount of this reserve. The Investment Fund Committee will review the amount allocated to the loan loss reserve at least annually and may amend its recommendation with respect to that amount from time to time.

ARTICLE IV WITHDRAWALS AND RETURN OF PRINCIPAL

4.1 Withdrawals. At any time and on thirty (30) days' written notice, any Investor may withdraw up to fifty percent (50%) of its account or sub-account from the Fund. Withdrawals representing fifty percent (50%) or more of an Investor's account or sub-account require the notice set forth in Paragraph 4.2. At any time and on written notice, any Investor may initiate periodic distributions (monthly, quarterly, or semi-annual, or annual) from its account or sub-account.

4.2 Return of Principal. At any time and on sixty (60) days' written notice, an Investor may divest itself from the Fund of some or all of its investment in the Fund, and any appreciation or growth thereon.

4.3 No Obligation to Monitor Investors' Use of Distribution or Withdrawal Amounts. To the extent that assets invested in the Fund are subject to use or purpose restrictions in the hands of individual Investors, the Diocesan Corporation has no duty to monitor or to ensure that such assets are used in accordance with any such use or purpose restrictions.

ARTICLE V GOVERNANCE

5.1 Diocesan Corporation. All powers and activities under this Investment Fund Statement shall be exercised and managed at the ultimate direction of the Board. The Board may delegate the investment and management of the Fund to the Investment Fund Committee. Each member of the Board of the Diocesan Corporation shall perform the duties of a director in good faith, in a manner such member believes to be in the best interest of the Diocesan Corporation, and with such care, including reasonable inquiry, as is appropriate under the circumstances. In performing

their duties as directors, the members are entitled to rely on information, opinions, reports, or statements, including financial statements and other financial data, in each case prepared or presented by the Investment Fund Committee as to matters within the Investment Fund Committee's designated authority, provided that the member believes the Investment Fund Committee merits confidence.

5.2 Investment Fund Committee. Subject to the ultimate direction of the Board, the Investment Fund Committee has the authority to direct and monitor the Fund's investments, to manage any related outside parties such as the investment advisor or investment manager, and to select one or more investment advisors to manage the Fund. Any investment advisor selected must have an established reputation for prudence and excellence.

5.3 Standard of Care. In addition to complying with the duty of loyalty imposed by law, each person responsible for managing and investing the Fund, including the members of the Board and the Investment Fund Committee, shall do so in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances.

5.4 Annual and Other Reports to the Board. In the first quarter of each Annual Accounting Period the Investment Fund Committee shall make a written report to the Board, for the previous Annual Accounting Period. It shall contain investment performance versus appropriate benchmarks, loans made, and significant activities of the Investment Fund Committee. The Investment Fund Committee shall also provide any other reports the Board may request.

ARTICLE VI COMPOSITION AND STRUCTURE OF INVESTMENT FUND COMMITTEE

The Diocesan Corporation has established the Investment Fund Committee to ensure input from a range of individuals, professionals, and Constituent Organizations and transparency in the Fund's operations. While the Board must, by law, retain ultimate authority over the Fund, the Investment Fund Committee is delegated the authority to conduct the day to day operations of the Fund, recommend actions to the Board on matters requiring Board vote, and to report on its activities to the Board. The Investment Fund Committee may adopt its own operating procedures, including procedures with respect to meetings, notice, and actions without a meeting.

6.1 Composition and Number. The number of Investment Fund Committee members will not be less than five nor more than eleven, including the Bishop who serves ex-officio, as a voting member.

6.2 Appointment. The Bishop serves ex-officio. The remaining members of the Investment Fund Committee shall be appointed by the Board from a list of nominees submitted to and approved by the Bishop.

6.3 Term. Except for the Bishop, the term of Investment Fund Committee members is one year, renewable annually, with no limit upon the number of terms that can be served.

6.4 Removal and Resignation. Members of the Investment Fund Committee who have been appointed by the Board may be removed at any time by the Board. Members of the Investment Fund Committee have the right to resign upon thirty (30) days' written notice to the Board. A Committee member will have automatically resigned, without further act on his or her part, upon receipt by the Board of an instrument demonstrating the incapacity of such Investment Fund Committee member as provided in Paragraph 6.8.

6.5 Vacancies. A vacancy caused by the death, resignation, or removal of an appointed Investment Fund Committee member will be filled in the manner provided in Section 6.2 above.

6.6 Compensation and Expenses. Investment Fund Committee members serve without compensation but may receive reimbursement of reasonable and necessary expenses incurred on behalf of the Fund and in accordance with a policy on reimbursements adopted by the Board.

6.7 Extent of Liability. Members of the Investment Fund Committee are not personally liable to the Fund.

6.8 Incapacity. A member of the Investment Fund Committee shall be deemed incapacitated when he/she has been declared incapacitated by a court of competent jurisdiction, when a conservator for such member has been appointed, or upon execution of a certificate by a licensed physician which states the doctor's opinion that such member is unable adequately to provide for his or her personal needs or to manage his or her financial affairs.

ARTICLE VII DISCLOSURES

7.1 Securities Laws. Neither the Diocesan Corporation nor the Fund is registered with the Securities and Exchange Commission as an investment advisor under the Investment Advisors Act of 1940, as amended (the "Advisors Act") nor as a broker or dealer under the Securities and Exchange Act of 1934 (the "Exchange Act"). Neither the Diocesan Corporation nor the Fund is registered under any state or federal securities laws and other federal laws that may be applicable to securities, including, but not limited to the Securities Act of 1933, as amended (the "Securities Act") and the Investment Company Act of 1940 (the "Investment Company Act"). Constituent Organizations acknowledge that, by investing assets in the Fund, the Diocesan Corporation is relying on an exemption from registration of the securities laws generally in permitting such Constituent Organizations to invest in the Fund, specifically relying on Section 3(a)(4) of the Securities Act, Section 3(c)(10) of the Investment Company Act and comparable California securities law exemptions and Section 12(g)(2)(D) of the Exchange Act, and Section 203(b)(4) of the Advisors Act and comparable California securities law exemptions. The Diocesan

Corporation will provide a disclosure statement in accordance with the Investment Company Act to each Investor.

ARTICLE VIII MISCELLANEOUS

8.1 Term of Fund. This Fund will continue until terminated.

8.2 Termination. The Fund may be terminated by the Board acting unanimously and with the consent of the Corporation Sole and the concurrence of the next succeeding Convention by a vote of three-quarters (3/4) of both the clerical and lay orders voting separately.

8.3 Amendments. This Investment Fund Statement may be amended by the Board acting unanimously and with the consent of the Corporation Sole and the concurrence of the next succeeding Convention by a vote of three-quarters (3/4) of both the clerical and lay orders voting separately; provided, however, that no such amendment will disqualify the Diocesan Corporation or the Fund from the exemptions from registration under Securities laws as stated in Paragraph 7.1, above. The Investment Fund Committee will be notified of any amendments to the Investment Fund Statement.

8.4 Distribution of Fund Property on Termination. Upon the termination of the Fund, the Fund property will be distributed, pro rata, to each of the Investors only after the Fund pays or adequately provides for its debts and obligations; provided, however, that no distributions will be made to any Investor that is not at the time of distribution an organization described in Section 501(c)(3) of the Code. Any amount that would have been distributed to such Investor will instead be transferred, subject to any restrictions: (i) to its legal successor-in-interest, if it is then so-described, and if not; (ii) to the Diocesan Corporation if it is then so-described, and if not; (iii) to the Corporation Sole if it is then so-described, and if not; (iv) to one or more charities which are then so-described, as selected in the sole discretion of the Board.