Investment Policy Statement Framework for Religious Institutions

A Model Architecture, Drafting Guide, and Annotated Template for the Governance of Ecclesiastical Investment Patrimony

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1. Executive Summary

The Investment Policy Statement (IPS) is the central governing document of an institutional investment program. It is the instrument through which a fiduciary body translates its mission, objectives, and constraints into operative rules — the constitution of the portfolio. For a religious institution, the IPS performs a further and distinctive function: it is the document in which the institution's *fidelity* to Catholic teaching is converted from aspiration into governed practice. Without a written IPS, an institution's investment activity is neither fully prudent nor fully accountable; with a poorly drafted IPS, it is governed by a document that cannot be operated.

This paper presents the **CFI Investment Policy Statement Framework**, a model architecture for the IPS of a diocese, religious congregation, foundation, or other ecclesiastical entity. It is the operational companion to CFI Flagship Paper No. 01, *Catholic Investment Governance Framework*: where that paper set out the architecture of governance, this paper supplies the policy instrument through which that architecture is codified and made operative. The framework develops nine components — purpose and mission; investment objectives; governance and delegation; risk tolerance; strategic asset allocation; manager selection; monitoring; rebalancing; and Catholic values screening — and, for each, explains its function, specifies its required contents, and provides template language and worked examples. A complete, annotated **Model Investment Policy Statement** is supplied as an appendix, together with a drafting checklist and a library of example clauses.

Four propositions organize the paper. **First**, the IPS is not a compliance artifact to be drafted once and filed, but a living governing document that disciplines decision-making, protects against improvisation and behavioral error, ensures continuity across changes in personnel, and provides the standard against which the program is held accountable. **Second**, for a religious institution the IPS must integrate the financial and the moral in a single coherent document: investment objectives, risk tolerance, asset allocation, and manager selection on the one hand, and the institution's values-screening and stewardship policy on the other, expressed with equal precision and binding force. **Third**, the most consequential sections of the IPS are those that encode *policy-level* decisions — the investment objectives (the return the mission requires), the spending policy (the claim the mission makes on the portfolio), the strategic asset allocation (the principal driver of long-run results and risk), and the risk-tolerance statement — because these are the decisions reserved to the governing body and the decisions that most shape outcomes. **Fourth**, the Catholic values-screening section must be drafted with operational specificity — defining the scope of screens, materiality thresholds, the treatment of pooled vehicles, the exceptions process, and the stewardship and proxy-voting policy — so that fidelity is verifiable rather than merely professed.

The paper concludes with best practices for drafting, approving, and maintaining the IPS; illustrative composite case studies, including common modes of IPS failure; prioritized recommendations; and the model template and supporting instruments. It is intended to enable any Catholic institution — of any scale — to produce an IPS that is faithful, prudent, operable, and accountable.

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2. Background and Context

2.1 What an Investment Policy Statement is, and what it is for

An Investment Policy Statement is a written document that establishes the objectives, constraints, governance, and operating rules of an investment program and governs the relationship between the asset owner, its fiduciaries, and the parties to whom investment functions are delegated. It answers, in a single authoritative place, a defined set of questions: *Why* does the fund exist and what must it achieve? *Who* is responsible for what? *How much* risk may be taken, and of what kinds? *What* will the portfolio own, in what proportions? *How* are managers selected, monitored, and removed? *When* and *how* is the portfolio rebalanced and reported? And, for the Catholic institution, *which* moral constraints and stewardship obligations bind the program?

The IPS serves several functions that, taken together, make it indispensable. It is a *governing* document, encoding the decisions reserved to the fiduciary body and the rules by which delegated parties must act. It is a *disciplining* document, protecting the program against improvisation, fashion, and the well-documented behavioral errors — performance-chasing, panic, overconfidence — to which investors are prone, by committing the institution in advance to a considered policy. It is a *continuity* document, preserving the institution's intentions and rules across changes in committee membership, staff, and advisers, so that the program does not begin anew with each personnel change. It is an *accountability* document, supplying the agreed standard against which performance, compliance, and fidelity are measured and reported. And, for a religious institution, it is a *fidelity* document, the place in which the institution's moral commitments are made operative and auditable.

2.2 Why religious institutions require an IPS — canonical and fiduciary foundations

The obligation of a religious institution to govern its patrimony through a written policy is grounded in the same triple normative order developed in CFI Flagship Paper No. 01. Under **canon law**, administrators of ecclesiastical goods must act with the diligence of a good householder (c. 1284 §1), keep accurate records and inventories (cc. 1283–1284), and observe the distinction between ordinary and extraordinary administration (c. 1281); a written IPS is the natural instrument for documenting the standard of care, recording the

delegation of authority, and fixing the thresholds at which decisions escalate. Under **civil and fiduciary law**, the prudent-investor standard — codified for institutional funds in the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and parallel regimes — requires the formulation and implementation of a sound overall investment strategy; the IPS is the document in which that strategy is formulated and against which its implementation is assessed. Under **Catholic social teaching**, the institution is called to a faithful prudence that integrates moral and financial obligation; the IPS is where that integration is codified.

The IPS is therefore not an optional refinement but the practical means by which a religious institution discharges duties it already bears. An institution without a written IPS has not, in any operative sense, decided how its patrimony is to be governed — it has merely left those decisions to be made implicitly, inconsistently, and without record.

2.3 Relationship to the governance framework

This paper presupposes the governance architecture of CFI Flagship Paper No. 01 and supplies its central instrument. In that architecture, the IPS is the document through which the eight governance pillars — governance principles, fiduciary responsibilities, investment committees, reporting, manager oversight, ethical screening, stewardship, and risk management — are codified and made operative. The governance framework establishes *who governs and how*; the IPS records *what has been decided* about objectives, risk, allocation, selection, monitoring, rebalancing, and values. The two are designed to be used together: the governance framework is the institution's constitutional order, the IPS its operative statute.

2.4 The cost of a defective IPS

A poorly drafted IPS can be worse than none, because it confers a false assurance of governance while failing to govern. Recognizable defects include: objectives stated in vague or unachievable terms ("maximize returns while minimizing risk"); a strategic asset allocation without ranges or rebalancing discipline; risk tolerance asserted as a label ("moderate") without operational meaning; manager-selection and monitoring criteria absent or unenforceable; values commitments expressed as sentiment rather than codified screens; and the document left unreviewed for years while circumstances change. The framework that follows is designed to prevent each of these defects by specifying, for every component, what an operable IPS must contain.

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3. Literature Review

The IPS sits at the intersection of fiduciary practice, portfolio theory, endowment management, and — for the Catholic institution — the literature of faith-consistent investing. This section situates the framework within each, building on but not duplicating the review in CFI Flagship Paper No. 01.

3.1 The IPS in fiduciary and practitioner doctrine

The construction of the IPS is a core element of the established practitioner framework for portfolio management. The CFA Institute investment-management process, articulated in the standard practitioner literature (Maginn, Tuttle, Pinto, and McLeavey, eds., *Managing Investment Portfolios: A Dynamic Process*), treats the IPS as the foundation of a dynamic process comprising planning, execution, and feedback: the IPS specifies objectives and constraints in the planning stage, governs implementation in the execution stage, and provides the standard for monitoring and rebalancing in the feedback stage. The framework's canonical taxonomy of investor circumstances — return objectives, risk objectives, and the constraints of time horizon, liquidity, taxes, legal and regulatory factors, and unique circumstances — supplies the structure within which an institution's situation is analyzed and translated into policy. CFA Institute guidance on the

Elements of an Investment Policy Statement for Institutional Investors (2010) enumerates the components an institutional IPS should contain, from scope and governance to risk, return, allocation, and monitoring. These instruments establish the IPS as a recognized professional standard, not an idiosyncratic document.

3.2 Endowment objectives, spending, and intergenerational equity

For perpetual or long-horizon funds — the category into which most ecclesiastical patrimony falls — the central analytical problem encoded in the IPS is the reconciliation of present spending with the preservation of capital across generations. The theory of permanent endowment income (Tobin, 1974) framed this as the problem of intergenerational equity: the obligation to treat present and future beneficiaries even-handedly. The endowment-model literature (Swensen, 2009) operationalizes the resulting investment posture — an equity-oriented, well-diversified, long-horizon portfolio — while the spending-policy literature develops the rules (percentage-of-moving-average spending, smoothing mechanisms, and inflation preservation) by which a fund can sustain distributions without eroding real capital. The IPS is the document in which the institution's chosen resolution of this problem — its return objective, its spending policy, and the asset allocation that links them — is recorded.

3.3 Asset allocation as the principal policy decision

A substantial body of evidence establishes that the strategic asset-allocation decision encoded in the IPS is the principal driver of a portfolio's long-run risk and return. The classic decomposition of portfolio performance (Brinson, Hood, and Beebower, 1986) found that policy allocation explains the preponderance of the variation in returns over time, a finding that has structured institutional practice ever since. Modern portfolio theory (Markowitz, 1952) supplies the analytical basis for constructing a diversified policy portfolio that maximizes expected return for a given level of risk. The implication for the IPS is direct: because the most consequential investment decision is the policy allocation, and because that decision is reserved to the governing body, the asset-allocation section of the IPS is the document's center of gravity.

3.4 Faith-consistent investing and the values dimension

The literature and magisterial guidance on faith-consistent investing — reviewed at length in CFI Flagship Paper No. 01 and including the USCCB *Socially Responsible Investment Guidelines* (2003; rev. 2021), *Oeconomicae et pecuniariae quaestiones* (2018), and *Mensuram Bonam* (2022) — establish that the Catholic investor is called both to avoid complicity in grave evil and to use the rights of ownership for good. The contribution of the present paper is to show how these commitments are codified within the IPS: as a defined screening policy with operational specificity, and as a stewardship and proxy-voting policy with binding force, integrated with rather than appended to the financial provisions of the document.

3.5 Synthesis

The literatures converge on a clear conception of the IPS: a written governing document, recognized as professional standard, that encodes the policy-level decisions (objectives, spending, risk, allocation) that most shape outcomes, governs the delegated functions (selection, monitoring, rebalancing) through which the program is implemented, and — for the Catholic institution — integrates the institution's fidelity and stewardship commitments as operative provisions. The framework that follows develops each component to this standard.

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4. The CFI Investment Policy Statement Framework

4.0 The anatomy of the IPS

The CFI framework structures the IPS into nine components. The order is deliberate: it proceeds from *why* (purpose and objectives), through *who* (governance), to *how much* and *what* (risk and allocation), to *how* (selection, monitoring, rebalancing), and finally to the integrating moral dimension (values screening), which — though placed last for expository clarity — binds the whole. Each component is presented below in three parts: its **function** (why the section exists), its **required contents** (what an operable section must specify), and **template language and worked examples** (illustrative drafting, marked clearly as illustrative).

Table 1 — The nine components of the IPS and their function

#	Component	Function	Decision level
1	Purpose and mission	Anchors the program in the institution's ecclesial purpose	Governing authority
2	Investment objectives	Specifies the return the mission requires and the spending it permits	Governing authority
3	Governance and delegation	Allocates roles, authority, and accountability	Governing authority
4	Risk tolerance	Defines how much and what kinds of risk may be taken	Governing authority
5	Strategic asset allocation	Sets the policy portfolio — the principal driver of results	Governing authority
6	Manager selection	Codifies how implementing managers are chosen	Committee (within policy)
7	Monitoring	Establishes benchmarks, review, and the watch-list discipline	Committee
8	Rebalancing	Fixes the rules for restoring policy weights	Committee (within policy)
9	Catholic values screening	Makes fidelity and stewardship operative and auditable	Governing authority

4.1 Purpose and Mission

Function. The purpose section anchors the entire IPS in the institution's reason for existence. It states why the fund is held, whom it serves, and to what ends it is ordered, so that every subsequent provision can be referred back to a controlling purpose. For a religious institution this section is not ceremonial: it establishes that the patrimony is *mission capital*, held for the ends specified in canon law (c. 1254 §2) and in the institution's statutes or proper law, and thereby grounds the integration of moral criteria as an expression of purpose rather than an external constraint.

Required contents. A complete purpose section specifies: the identity and juridic form of the institution and of the fund(s) governed; the purposes for which the patrimony is held (e.g., support of ministry, charitable works, care of members, endowment of a charism); the beneficiaries, present and future; the institution's investment time horizon (typically perpetual or very long); any donor-imposed or canonical restrictions on the corpus; and a statement of the institution's investment beliefs and its commitment to faithful prudence.

Template language (illustrative). > *"The [Fund] is held by [Institution], a [public/private juridic person / civil foundation], to provide ongoing financial support for [stated purposes], for the benefit of present and future beneficiaries, in perpetuity. The temporal goods of the Institution are ordered to the worship of God, the support of those who serve its mission, and works of the apostolate and charity, with particular regard for those in need. The Institution shall manage the Fund in accordance with the standard of a good and faithful steward, integrating fidelity to Catholic teaching with prudent investment management as a single*

obligation owed to the Fund's purposes and beneficiaries."

4.2 Investment Objectives

Function. The objectives section specifies what the portfolio must achieve. For a perpetual fund the central objective is to generate the return required to sustain the mission's spending while preserving the real (inflation-adjusted) value of capital across generations — the discipline of intergenerational equity. This section also records the institution's **spending policy**, the claim the mission makes on the portfolio, because spending and return are two sides of one equation and cannot coherently be set apart.

Required contents. The objectives section specifies: the return objective, expressed where possible as a real-return target linked to spending and inflation (the "hurdle rate"); the spending or distribution policy, including the spending rate, the base on which it is calculated, and any smoothing mechanism; the relationship between spending and the preservation of capital; the time horizon; and the order of priority among objectives where they conflict (for example, the priority of capital preservation over spending growth in adverse conditions).

Worked example (illustrative). A perpetual endowment that intends to distribute 4.5% of its value annually, in an environment of 2.5% expected inflation, with investment and administrative costs of approximately 0.5%, requires a long-run nominal total return of approximately **7.5%** (4.5% + 2.5% + 0.5%) merely to sustain distributions and preserve real capital. This "hurdle rate" is the bridge between the objectives section and the asset-allocation section: it implies a portfolio with a substantial allocation to growth assets, because lower-returning portfolios cannot meet it without eroding capital. (All figures illustrative; institutions must use their own assumptions.)

Template language (illustrative). > *"Return objective. The Fund's long-term objective is to earn a total return, net of all fees, sufficient to support the Spending Policy while preserving the real value of the Fund's capital over rolling ten-year periods. The implied long-term return target is approximately [Spending Rate + Expected Inflation + Costs] per annum. > Spending Policy. The Fund shall distribute [4.5]% per annum of its average market value over the trailing [twelve] quarters (a smoothing mechanism intended to reduce the volatility of distributions and to protect the corpus). In any year in which the application of this formula would, in the judgement of the Committee, threaten the preservation of real capital, the Committee may recommend a reduced distribution. The preservation of capital for future beneficiaries takes precedence over the growth of present distributions."*

Table 2 — Illustrative spending policy mechanisms

Mechanism	Description	Strength	Limitation
Simple percentage of current value	Spend X% of latest market value	Transparent; responsive	Volatile distributions; procyclical
Moving-average (smoothing)	Spend X% of N-period average value	Smooths distributions; protects corpus	Slower to adjust to new reality
Inflation-linked (banded)	Prior spend grown by inflation, within a band of current value	Stable; predictable for budgeting	Can drift from sustainable level
Hybrid (e.g., Yale rule)	Weighted blend of prior spend (inflated) and target % of value	Balances stability and sustainability	More complex to administer

4.3 Governance and Delegation

Function. The governance section records who is responsible for what, the authority each party holds, and the accountability that attaches to each delegation. It is the IPS's embodiment of the governance architecture set out in CFI Flagship Paper No. 01, translating that architecture into the specific allocation of decision rights for this institution.

Required contents. The governance section specifies: the governing authority and its reserved powers (including matters requiring its consent under canon law or proper law); the investment committee, its mandate, and its delegated authority (by reference to its charter); the roles of the finance officer (oeconomus) / treasury, the investment consultant or outsourced CIO, the custodian, the auditor, and counsel; the allocation of decision rights (the RACI discipline of Flagship Paper No. 01); the procedures for amending the IPS; and the conflicts-of-interest policy.

Template language (illustrative). > *"Governance. The Governing Authority retains responsibility for approving this Investment Policy Statement, the Strategic Asset Allocation, the Spending Policy, and the Catholic Values Screening Policy, and for any act of extraordinary administration or alienation requiring its consent under applicable canon law and proper law. The Investment Committee, acting under its Charter, is responsible for implementing this Policy, including the selection, monitoring, and termination of managers and rebalancing within the ranges established herein. No person shall participate in a decision in which that person has a material conflict of interest, which shall be disclosed and recorded. This Policy may be amended only by the Governing Authority on the recommendation of the Committee."*

4.4 Risk Tolerance

Function. The risk-tolerance section defines how much risk the institution may take and of what kinds. It converts the abstract notion of "risk appetite" into operative limits that constrain the asset allocation and the program. For a religious institution it has a distinctive additional content: the institution's tolerance for the **tracking error** and possible short-term financial under-performance that may accompany values screening and stewardship — a tolerance that must be stated explicitly so that fidelity is not silently sacrificed to performance comparison.

Required contents. The risk-tolerance section specifies: the institution's *ability* to bear risk (a function of time horizon, liquidity needs, the financial cushion, and the stability of inflows); its *willingness* to bear risk (a function of governance capacity and the expectations of stakeholders); risk in operative terms (for example, the maximum tolerable drawdown, volatility ceiling, or minimum funded status); liquidity requirements; constraints on the use of leverage and derivatives; and the institution's tolerance for tracking error arising from values constraints.

Template language (illustrative). > *"Risk tolerance. The Fund has a long (perpetual) time horizon and stable inflows, giving it a substantial ability to bear investment risk and to tolerate short-term volatility in pursuit of its long-term return objective. The Fund shall maintain liquidity sufficient to meet at least [twelve] months of projected distributions and obligations without the forced sale of assets. Leverage shall not be employed at the total-fund level. The Institution accepts that fidelity to its Catholic Values Screening Policy may cause the Fund's returns to differ from those of an unconstrained portfolio (tracking error); the Institution regards such divergence as an acceptable and intended consequence of faithful investment, provided the Fund continues to meet its long-term objectives."*

Table 3 — Determinants of risk tolerance for a religious institution

Determinant	Increases risk tolerance when…	Decreases risk tolerance when…
Time horizon	Perpetual / very long	Finite / near-term liabilities (e.g., members' care)
Liquidity needs	Low; spending small relative to corpus	High; large or uncertain near-term outflows
Inflow stability	Stable donations / revenue	Declining or volatile inflows
Financial cushion	Corpus large relative to obligations	Corpus tight relative to obligations
Governance capacity	Strong oversight and expertise	Limited capacity to oversee complex risk
Stakeholder expectations	Tolerant of volatility	Averse to any loss; reputational sensitivity

4.5 Strategic Asset Allocation

Function. The strategic asset-allocation (SAA) section establishes the **policy portfolio** — the long-term target allocation among asset classes, with permissible ranges. It is the center of gravity of the IPS, because the policy allocation is the principal determinant of the portfolio's long-run risk and return and is the decision reserved to the governing body. The SAA section translates the objectives and risk tolerance into a concrete portfolio structure and supplies the benchmark against which the program is measured.

Required contents. The SAA section specifies: the asset classes employed and their roles in the portfolio (growth, income, diversification, inflation protection, liquidity); the policy target weight and permissible range for each; the benchmark for each asset class and for the total fund (the "policy benchmark"); the expected long-run return and risk of the policy portfolio, with the assumptions on which they rest; the treatment of illiquid assets and the pacing of commitments; and the basis and cadence for reviewing the SAA.

Worked example (illustrative). The table below presents an illustrative policy portfolio for a perpetual religious endowment with the ~7.5% return objective derived in §4.2 — a "moderate-growth" allocation oriented toward long-run growth while retaining diversification and liquidity. The weights, ranges, and benchmarks are illustrative and must be customized; smaller institutions, or those with greater liquidity needs, would adopt simpler and more liquid structures.

Table 4 — Illustrative strategic asset allocation (perpetual endowment; illustrative only)

Asset class	Role	Policy target	Range	Illustrative benchmark
Global public equity	Growth	40%	30–50%	MSCI ACWI
Private equity / venture	Growth (illiquid premium)	10%	5–15%	Public equity + premium
Real assets (real estate, infrastructure)	Inflation protection; income	10%	5–15%	Blended real-assets index
Investment-grade fixed income	Income; capital stability; deflation hedge	20%	10–30%	Aggregate bond index
Diversifying strategies (e.g., absolute return)	Diversification; drawdown control	10%	0–15%	Cash + premium / HFRI
Inflation-linked bonds	Inflation protection	5%	0–10%	Inflation-linked index
Cash and equivalents	Liquidity	5%	2–10%	Treasury bills
Total		**100%**		**Policy benchmark (weighted blend)**

Template language (illustrative). > *"Strategic asset allocation. The Fund shall be invested in accordance with the policy targets and ranges set out in the Schedule of Strategic Asset Allocation. The policy portfolio represents the Committee's and Governing Authority's judgement of the allocation most likely to achieve the Fund's return objective at an acceptable level of risk over the long term, and constitutes the Fund's primary benchmark. The Committee shall review the Strategic Asset Allocation at least annually, and shall recommend changes to the Governing Authority where warranted by material changes in the Fund's objectives, circumstances, or the investment environment. Commitments to illiquid strategies shall be paced so that aggregate illiquid exposure remains within range and the Fund's liquidity requirements are met under adverse scenarios."*

4.6 Manager Selection

Function. The manager-selection section codifies how the institution chooses the external managers through which the policy portfolio is implemented. It converts the due-diligence discipline of CFI Flagship Paper No. 01 into the IPS's binding criteria, ensuring that selection is structured, documented,

and consistent — and that the **fidelity overlay** (the manager's capacity and willingness to implement the institution's screens and stewardship policy) is a mandatory selection criterion.

Required contents. The selection section specifies: the criteria against which managers are evaluated (the due-diligence dimensions — people, philosophy, process, performance, portfolio, price, operations, and fidelity); the requirement that managers be able and willing to implement the institution's Catholic Values Screening Policy and stewardship requirements; the preference, where bespoke screening is required, for vehicles permitting customization (e.g., separately managed accounts); diversification requirements across managers and the avoidance of excessive concentration; operational and compliance requirements (custody, valuation, regulatory standing, cyber posture); and the documentation required to evidence the prudence of each appointment.

Template language (illustrative). > *"Manager selection. Managers shall be selected through a documented due-diligence process evaluating the quality and stability of the investment team; the clarity and durability of the investment philosophy and process; performance, net of fees, against an appropriate benchmark and peers across market cycles; the consistency of the portfolio with its mandate; the reasonableness of fees; and operational and compliance integrity. As a condition of appointment for any mandate to which the Fund's Catholic Values Screening Policy applies, a manager must demonstrate the capacity and willingness to implement that Policy, to vote proxies consistently with the Fund's stewardship policy, and to report on both. Where bespoke screening is required and cannot be achieved within a pooled vehicle, the Committee shall prefer a separately managed account or an equivalent structure permitting customization."*

4.7 Monitoring

Function. The monitoring section establishes how the program is overseen on a continuing basis: the benchmarks against which performance is assessed, the reporting the committee receives, the criteria for placing a manager on a watch list, and the cadence of review. It is the IPS's mechanism for converting delegation into accountability.

Required contents. The monitoring section specifies: the benchmarks for the total fund and for each manager and asset class; the performance horizons over which results are assessed (recognizing that long-horizon strategies must be judged over full cycles, not short periods); the contents and cadence of reporting to the committee and the governing authority (cross-referencing the reporting framework of Flagship Paper No. 01); the criteria and process for the manager watch list and for termination; the requirement to monitor compliance with the Catholic Values Screening Policy, including an exceptions log; and the cadence of stewardship and risk reporting.

Template language (illustrative). > *"Monitoring. The Committee shall monitor the Fund's performance against the policy benchmark and each manager against its designated benchmark and peer group, net of fees, over rolling three- to five-year periods and full market cycles, while remaining attentive to qualitative indicators that may precede performance deterioration. The Committee shall receive a quarterly investment report addressing performance and attribution, allocation relative to ranges, manager monitoring, risk, compliance with this Policy (including any exceptions to the Catholic Values Screening Policy, with explanation and remediation), and stewardship activity. A manager may be placed on a watch list upon the occurrence of defined triggers (including sustained material under-performance, loss of key personnel, organizational instability, style drift, operational or compliance failure, or breach of the Screening Policy); placement on the watch list shall prompt enhanced monitoring and a defined review, leading to restoration or termination."*

Table 5 — Illustrative manager watch-list triggers and responses

Trigger	Indicator	Response
Performance	Sustained material under-performance vs. benchmark/peers over full cycle	Review; assess against thesis
People	Departure of key investment personnel	Enhanced monitoring; reassessment
Process	Unexplained style drift	Review of mandate adherence
Organization	Adverse ownership/AUM/regulatory change	Reassessment of suitability
Operations / cyber	Control, valuation, or cyber failure	Review; possible suspension
Fidelity	Breach of Screening Policy; refusal to vote per policy	Remediation or termination

4.8 Rebalancing

Function. The rebalancing section fixes the rules by which the portfolio is restored to its policy weights as market movements cause those weights to drift. Rebalancing is the discipline that maintains the risk profile the governing body chose and that mechanically enforces a "buy-low, sell-high" pattern, counteracting the behavioral tendency to chase performance. Codifying it in the IPS removes the decision from discretion and emotion and places it under rule.

Required contents. The rebalancing section specifies: the rebalancing methodology (calendar-based, threshold/band-based, or a hybrid); the tolerance bands around each policy weight that trigger rebalancing; the use of cash flows (contributions and distributions) to rebalance efficiently before transacting; the treatment of illiquid assets, which cannot be rebalanced mechanically; the responsibility for executing rebalancing (typically delegated to the committee or its agents within policy); and any cost or tax considerations governing the timing of rebalancing.

Template language (illustrative). > "*Rebalancing. The portfolio shall be rebalanced toward its policy targets whenever an asset class moves outside the ranges set out in the Schedule of Strategic Asset Allocation, and shall be reviewed for rebalancing at least quarterly. Contributions and distributions shall, so far as practicable, be directed to under- and over-weight asset classes respectively, to rebalance efficiently and to minimize transaction costs. Illiquid asset classes shall be managed toward their targets through the pacing of commitments rather than through secondary transactions. Rebalancing within the ranges established in this Policy is delegated to the Committee.*"

Table 6 — Rebalancing approaches compared

Approach	Rule	Advantage	Consideration
Calendar	Rebalance on a fixed schedule (e.g., quarterly)	Simple; disciplined	May transact unnecessarily or miss large drifts
Threshold (bands)	Rebalance when a weight breaches its band	Responsive to actual drift; cost-aware	Requires monitoring infrastructure
Hybrid	Review on calendar; act on band breach	Combines discipline and responsiveness	Slightly more complex to administer
Cash-flow	Use inflows/outflows to rebalance first	Low cost; reduces turnover	May be insufficient alone in large drifts

4.9 Catholic Values Screening

Function. The Catholic values-screening section is the component that makes the IPS unmistakably a *Catholic* governing document. It converts the institution's fidelity to Catholic teaching from aspiration into operative, auditable policy, and it integrates the institution's stewardship and proxy-voting commitments. It is the IPS's expression of the five-tier screening system and the stewardship pillar developed in CFI Flagship Paper No. 01.

Required contents. The screening section specifies: the **screening policy** across its five tiers (exclusionary, norms-based, ESG integration, positive/thematic, and impact/mission-related), to the extent the institution adopts each; the **restricted categories** with sufficient precision to be implemented (e.g., the defined excluded activities); the **materiality thresholds** governing the treatment of incidental versus core involvement and of derivative exposures; the **treatment of pooled vehicles** in which bespoke screening cannot be applied; the **exceptions and remediation process**; the **stewardship and proxy-voting policy**, including the engagement and escalation discipline and the instruction to managers to vote consistently with the policy; the **verification and audit** arrangements (independent monitoring of holdings against the restricted list); and the **authority** for amending the policy (reserved to the governing authority with theological and canonical input). The institution's moral and canonical advisers should inform the application of the distinction between formal cooperation in evil and remote material cooperation.

Template language (illustrative). > *"Catholic Values Screening Policy. The Fund shall be invested in conformity with Catholic moral teaching as applied by the Institution. (a) Exclusions. The Fund shall not knowingly hold direct investments in issuers whose business involves [defined excluded activities], where such involvement exceeds the materiality thresholds set out in the Schedule of Screens. (b) Norms-based constraints. The Fund shall constrain or exclude issuers in serious and persistent breach of fundamental norms concerning human dignity, the rights of workers, and the care of creation. (c) Integration and positive orientation. The Institution's managers shall integrate material environmental, social, and governance factors into investment analysis, and the Fund may direct capital toward enterprises and activities that advance human dignity and the common good. (d) Pooled vehicles. Where the Fund invests through a commingled vehicle to which bespoke screens cannot be applied, the Committee shall assess the vehicle's holdings for material inconsistency with this Policy and shall prefer compliant vehicles; vehicles materially inconsistent with this Policy shall not be used. (e) Stewardship. The Fund shall exercise the responsibilities of ownership through engagement and proxy voting consistent with the Institution's Stewardship Policy, and shall instruct its managers accordingly. (f) Verification. The Fund's holdings shall be monitored against the restricted list no less than quarterly; exceptions shall be recorded, explained, and remediated. (g) Authority. This Policy may be amended only by the Governing Authority, with theological and canonical input as appropriate."*

Table 7 — The five screening tiers as IPS provisions

Tier	IPS provision	What the IPS must specify	Evidence in reporting
1 Exclusionary	Restricted categories + thresholds	Excluded activities; materiality; derivatives	Restricted-holdings audit; exceptions log
2 Norms-based	Conduct constraints	Norms; sources; consequences of breach	Breaches identified and actioned
3 Integration	Manager mandate requirement	Requirement to integrate material ESG	Integration confirmed in mandates
4 Positive/thematic	Permitted orientation	Themes; any target allocation	Capital allocated to themes
5 Impact/mission-related	Permitted impact allocation	Impact intent; measurement	Impact outcomes vs. targets

5. Best Practices

The following practices distinguish an IPS that governs from one that merely exists. They apply to the drafting, approval, and maintenance of the document.

1. **Make the IPS operable, not aspirational.** Every provision should be specific enough to be applied and tested. Replace vague objectives ("maximize return, minimize risk") with operative ones (a real-return target linked to spending and inflation); replace risk labels ("moderate") with operative limits; replace values sentiment with codified screens.

2. **Integrate the financial and the moral in one document.** Do not relegate values to a preface or an appendix. The screening and stewardship policy should be drafted with the same precision and binding force as the asset-allocation and risk provisions, and reported on with equal seriousness.
3. **Encode policy-level decisions clearly and reserve them to the governing authority.** The objectives, spending policy, strategic asset allocation, risk tolerance, and screening policy are the decisions that most shape outcomes and that canon law and prudence reserve to the governing body; the IPS should state them explicitly and identify them as reserved.
4. **Set asset-allocation ranges and a rebalancing rule.** A policy portfolio without ranges and a rebalancing discipline is an intention, not a policy. Specify targets, ranges, a rebalancing methodology, and the use of cash flows.
5. **Specify benchmarks in advance.** Performance can be assessed objectively only against benchmarks agreed before the fact. Specify the policy benchmark and each manager's benchmark in the IPS.
6. **Make fidelity verifiable.** Provide for independent monitoring of holdings against the restricted list, an exceptions process, and periodic audit. A screen that is not verified is not a control.
7. **Address liquidity explicitly.** State the liquidity requirement (e.g., months of distributions held in liquid form) and the pacing discipline for illiquid commitments, so that the pursuit of the illiquidity premium does not imperil the ability to meet obligations.
8. **Keep the IPS current.** Review the document at least annually and upon any material change in circumstances. An IPS unreviewed for years governs an institution that no longer exists.
9. **Write for continuity.** Draft the IPS so that a new committee member or finance officer can understand, from the document alone, how the program is to be governed. The IPS is the institution's investment memory.
10. **Obtain professional and canonical review.** Have the IPS reviewed by competent investment, legal, and canonical advisers before adoption, and ensure it is consistent with the institution's statutes and proper law.

Table 8 — Common IPS defects and their remedies

Defect	Symptom	Remedy
Vague objectives	"Maximize return at minimum risk"	Real-return target linked to spending + inflation
Risk as a label	"Moderate risk" with no operative meaning	Operative limits: drawdown, volatility, liquidity
Allocation without ranges	Single target weights only	Targets + ranges + rebalancing rule
Values as sentiment	"We invest responsibly"	Codified five-tier screening clause
Unverified fidelity	Screens stated but not monitored	Independent holdings audit; exceptions log
Stale document	Unreviewed for years	Annual review; review on material change
No benchmarks	Performance judged narratively	Pre-agreed policy and manager benchmarks
Liquidity ignored	Over-commitment to illiquids	Liquidity requirement; commitment pacing

6. Case Studies (Illustrative Composites)

The following composites illustrate the IPS in practice and common modes of failure. They do not describe any identifiable institution.

Case Study A — From a one-page "policy" to an operable IPS

A foundation's investment "policy" consisted of a single page stating that the fund should "achieve strong returns consistent with Catholic values." When a market decline coincided with the departure of the long-serving adviser, the committee discovered that the document answered none of the operative questions: there was no return objective linked to spending, no asset-allocation ranges, no rebalancing rule, no benchmarks, and no codified screens — only a sentiment. The committee adopted a full IPS on the CFI model: a real-return objective derived from its 4.5% spending and inflation assumptions; a policy portfolio with ranges and a banded rebalancing rule; pre-agreed benchmarks; and a five-tier screening clause with independent verification. The new IPS did not change the foundation's values; it made them, for the first time, governable. *Lesson: the difference between a sentiment and a policy is operability.*

Case Study B — The values clause that could not be implemented

A congregation's IPS contained an admirable statement of Catholic investment principles but no operational detail: no defined exclusions, no materiality thresholds, no provision for pooled vehicles, and no verification. In practice, the fund held commingled vehicles whose underlying holdings were never screened, and proxies were voted by managers' default policies. The values clause was, in effect, unenforceable. On review, the congregation rewrote the clause as a system of provisions (the architecture of §4.9): defined excluded categories with thresholds; a rule preferring separately managed accounts where bespoke screening was required and excluding materially inconsistent pooled vehicles; an instruction to vote proxies per a stated stewardship policy; and quarterly verification of holdings against the restricted list. *Lesson: a values clause must be a system of operative provisions, not a statement of intent.*

Case Study C — The IPS that prevented a behavioral error

During a sharp market decline, a diocesan committee faced pressure to "de-risk" by selling equities near the bottom. Because its IPS specified a policy portfolio with ranges and a banded rebalancing rule, the committee was instead obligated to consider rebalancing *toward* equities as their weight fell below range — the mechanical "buy-low" discipline. The IPS converted a moment of fear into a rule-governed decision, and the diocese avoided crystallizing losses and missing the subsequent recovery. *Lesson: a well-drafted IPS protects the institution from its own behavioral tendencies precisely when discipline is hardest to maintain.*

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7. Recommendations

For institutions. 1. **Adopt a full IPS on the CFI model** if none exists, and **upgrade** any one-page or sentiment-based "policy" to an operable document covering all nine components. 2. **Derive the return objective from the spending policy and inflation**, and ensure the asset allocation is consistent with the resulting hurdle rate; do not set spending and return independently. 3. **Codify the screening and stewardship policy as a system of operative provisions** with verification, giving it equal standing with the financial provisions. 4. **Set asset-allocation ranges, a rebalancing rule, and benchmarks**, and address liquidity explicitly. 5. **Review the IPS annually** and obtain professional and canonical review before adoption and on material amendment.

For advisers and asset managers. 6. **Assist institutions to draft operable IPS documents**, resisting boilerplate that cannot be applied or tested, and **demonstrate fidelity competence** — the capacity to implement bespoke screens, to vote and engage per policy, and to report on both.

For the Catholic financial ecosystem (including CFI). 7. **Disseminate the model IPS, drafting checklist, and clause library** so that the cost of producing a robust IPS falls and small institutions are not excluded for want of resources or precedent.

8. Conclusion

The Investment Policy Statement is the instrument through which a religious institution converts its mission, objectives, and values into governed practice. It is the constitution of the portfolio: the place where the return the mission requires, the risk the institution will bear, the structure the portfolio will hold, the managers it will employ, the rules by which it will be monitored and rebalanced, and — distinctively — the fidelity and stewardship to which it is committed, are all recorded in operative form. An institution without a written IPS has not truly decided how its patrimony is to be governed; an institution with a defective IPS is governed by a document it cannot operate.

This paper has set out the CFI Investment Policy Statement Framework — nine components, each developed with its function, its required contents, and template language and worked examples — and has supplied a complete annotated Model IPS, a drafting checklist, and a library of example clauses. Its central conviction, shared with its companion paper on governance, is that the discipline of a well-drafted policy is not an administrative burden but the means by which mission is faithfully and prudently served. The IPS is where faithful prudence is written down; the templates and instruments that follow are intended to enable any Catholic institution to write it well.

Subsequent papers in the CFI series develop functions referenced here — among them a due-diligence questionnaire for the selection of asset managers, a dedicated stewardship model, and handbooks on Catholic finance and on the asset management of religious institutions — so that each component of the IPS may be matched with the operational instruments required to implement it.

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Note on sources. References to magisterial and canonical texts are given by document and year; readers should consult the authoritative editions and the most current revisions. The bibliography is selective and intended to ground the framework rather than to be exhaustive; see CFI Flagship Paper No. 01 for a fuller bibliography of the governance and faith-consistent-investing literatures.

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10. Appendices

Appendix A — Model Investment Policy Statement (annotated template)

The following is a complete model Investment Policy Statement for a religious institution, intended for adaptation. Fields in [brackets] must be completed; numerical values are illustrative and must be set by the institution. Annotations in italics explain the purpose of each section and are not part of the operative document. This template does not constitute legal, investment, or canonical advice and must be reviewed by qualified advisers before adoption.

INVESTMENT POLICY STATEMENT [Name of Institution] — [Name of Fund(s)] Adopted by [Governing Authority] on [date] · Version [x] · Next review: [date]

1. Purpose and Scope *This section anchors the document in the institution's mission and defines what it governs.* This Investment Policy Statement ("Policy") governs the management of [the Fund / the funds listed in Schedule 1] held by [Institution], a [juridic form]. The temporal goods of the Institution are held to provide ongoing support for [stated purposes], for the benefit of present and future beneficiaries, in accordance with the Institution's [statutes / proper law] and applicable canon and civil law. The Institution shall manage the Fund as a good and faithful steward, integrating fidelity to Catholic moral teaching with prudent investment management as a single obligation owed to the Fund's purposes and beneficiaries. This Policy applies to [all assets of the Fund / the assets listed in Schedule 1] and binds all parties responsible for the Fund's management.

2. Investment Beliefs *A short statement of the principles on which the program rests; it guides interpretation of the Policy.* The Institution holds that: (a) the patrimony exists for the mission; (b) fidelity and prudence are a single standard; (c) over the long term, a diversified, growth-oriented portfolio is most likely to sustain the mission while preserving capital; (d) costs and behavior materially affect outcomes, so discipline and low unnecessary cost are pursued; (e) ownership carries responsibilities exercised through stewardship; and (f) the most consequential decisions — objectives, allocation, risk, and values — are reserved to the Governing Authority.

3. Investment Objectives *The return the mission requires and the spending it permits.* 3.1 *Return objective.* The Fund's objective is to earn a total return, net of all fees, sufficient to support the Spending Policy while preserving the real value of capital over rolling [ten]-year periods. The implied long-term return target is approximately [Spending Rate + Expected Inflation + Costs] = [7.5]% per annum. 3.2 *Spending Policy.* The Fund shall distribute [4.5]% per annum of its average market value over the trailing [twelve] quarters. The preservation of capital for future beneficiaries takes precedence over the growth of present distributions; in any year in which the formula would threaten real capital, the Committee may recommend a reduced distribution. 3.3 *Time horizon.* The Fund's horizon is [perpetual / long-term].

4. Governance and Delegation *Who is responsible for what, with what authority and accountability.* 4.1 The Governing Authority approves this Policy, the Strategic Asset Allocation, the Spending Policy, and the

Catholic Values Screening Policy, and any act requiring its consent under canon or proper law. 4.2 The Investment Committee, under its Charter, implements this Policy, including manager selection, monitoring, and termination, and rebalancing within ranges. 4.3 The [Finance Officer / Treasurer / Oeconomus] manages liquidity and cash flow and serves as the interface with managers and custodian. 4.4 [Consultant / OCIO] provides [advisory / discretionary] services as defined in its agreement. 4.5 The Custodian holds the Fund's assets and provides independent records. 4.6 Conflicts of interest shall be disclosed and recorded; no person shall participate in a decision in which that person has a material conflict. 4.7 This Policy may be amended only by the Governing Authority on the recommendation of the Committee.

5. Risk Tolerance *How much and what kinds of risk may be taken.* 5.1 Given its [perpetual] horizon and [stable] inflows, the Fund has a [substantial] ability to bear investment risk and to tolerate short-term volatility. 5.2 The Fund shall hold liquidity sufficient to meet at least [twelve] months of projected distributions and obligations without forced sales. 5.3 Leverage shall not be employed at the total-fund level. Derivatives may be used only for [hedging / efficient portfolio management] as approved by the Committee. 5.4 The Institution accepts that fidelity to the Catholic Values Screening Policy may cause the Fund's returns to differ from those of an unconstrained portfolio, and regards such divergence as an acceptable and intended consequence of faithful investment.

6. Strategic Asset Allocation *The policy portfolio — the principal driver of results.* The Fund shall be invested in accordance with the targets and ranges in Schedule 2, which constitute the Fund's primary benchmark. The Committee shall review the Strategic Asset Allocation at least annually. Commitments to illiquid strategies shall be paced so that aggregate illiquid exposure remains within range and liquidity requirements are met under adverse scenarios.

7. Manager Selection *How implementing managers are chosen.* Managers shall be selected through a documented due-diligence process evaluating team, philosophy, process, performance (net of fees, across cycles), portfolio consistency, fees, and operational and compliance integrity. As a condition of appointment to any mandate to which the Catholic Values Screening Policy applies, a manager must demonstrate the capacity and willingness to implement that Policy, to vote proxies consistently with the Stewardship Policy, and to report on both. Where bespoke screening cannot be achieved within a pooled vehicle, a separately managed account or equivalent shall be preferred.

8. Monitoring and Reporting *How the program is overseen and held accountable.* 8.1 The Committee shall monitor the Fund against the policy benchmark and each manager against its benchmark and peers, net of fees, over rolling [three-to-five]-year periods and full cycles, attentive to qualitative indicators. 8.2 The Committee shall receive a quarterly investment report covering performance and attribution, allocation versus ranges, manager monitoring, risk, compliance with this Policy (including any screening exceptions, with remediation), and stewardship activity. 8.3 The Committee shall report to the Governing Authority [quarterly in summary and annually in full], and the Institution shall render the account required by canon law and provide an annual stewardship report to [members / donors / beneficiaries]. 8.4 *Watch list.* A manager may be placed on a watch list upon defined triggers (sustained material under-performance, loss of key personnel, organizational instability, style drift, operational or compliance failure, or breach of the Screening Policy), prompting enhanced monitoring and a defined review leading to restoration or termination.

9. Rebalancing *The rules for restoring policy weights.* The portfolio shall be rebalanced toward policy targets whenever an asset class moves outside its range (Schedule 2), and shall be reviewed for rebalancing at least quarterly. Cash flows shall, so far as practicable, be directed to under- and over-weight classes to rebalance efficiently. Illiquid classes shall be managed toward target through commitment pacing. Rebalancing within ranges is delegated to the Committee.

10. Catholic Values Screening and Stewardship Policy *The operative provisions that make the Policy a Catholic governing document.* 10.1 *Exclusions.* The Fund shall not knowingly hold direct investments in issuers whose business involves the activities listed in Schedule 3, above the materiality thresholds stated

therein. 10.2 *Norms-based constraints.* The Fund shall constrain or exclude issuers in serious and persistent breach of fundamental norms concerning human dignity, the rights of workers, and the care of creation. 10.3 *Integration and positive orientation.* Managers shall integrate material ESG factors into analysis; the Fund may direct capital toward enterprises advancing human dignity and the common good, including [defined themes], and may make impact or mission-related investments under Schedule 3. 10.4 *Pooled vehicles.* Where the Fund invests through a commingled vehicle to which bespoke screens cannot be applied, the Committee shall assess the vehicle for material inconsistency with this Policy and shall prefer compliant vehicles; materially inconsistent vehicles shall not be used. 10.5 *Stewardship.* The Fund shall exercise the responsibilities of ownership through engagement and proxy voting consistent with the Stewardship Policy (Schedule 4) and shall instruct managers accordingly. 10.6 *Verification.* The Fund's holdings shall be monitored against the restricted list no less than quarterly; exceptions shall be recorded, explained, and remediated. 10.7 *Authority.* This Policy may be amended only by the Governing Authority, with theological and canonical input as appropriate.

11. Review and Amendment This Policy shall be reviewed at least annually and upon any material change in the Fund's circumstances or the investment environment. Amendments require approval of the Governing Authority.

Schedules: (1) Funds governed; (2) Strategic Asset Allocation — targets, ranges, benchmarks; (3) Schedule of Screens — excluded activities, thresholds, permitted themes and impact allocations; (4) Stewardship and Proxy-Voting Policy; (5) Delegated authorities and decision-rights matrix; (6) Definitions.

Approved: _____ *[Governing Authority] · Date:* _____

Appendix B — IPS drafting and review checklist

#	Item	Present?
1	Purpose ties the fund to the institution's mission and canonical ends	☐
2	Investment beliefs stated	☐
3	Return objective expressed as a real-return / hurdle target linked to spending and inflation	☐
4	Spending policy specified (rate, base, smoothing, priority of capital preservation)	☐
5	Time horizon stated	☐
6	Governance roles, reserved powers, and decision rights allocated	☐
7	Conflicts-of-interest policy included	☐
8	Risk tolerance in operative terms (drawdown/volatility/liquidity), incl. tracking-error tolerance	☐
9	Liquidity requirement and illiquid-commitment pacing specified	☐
10	Strategic asset allocation with targets, ranges, and benchmarks	☐
11	Manager-selection criteria incl. fidelity overlay	☐
12	Monitoring benchmarks, horizons, reporting cadence, and watch-list triggers	☐
13	Rebalancing methodology, bands, and cash-flow use	☐

#	Item	Present?
14	Catholic values screening as a system of provisions (exclusions, norms, integration, pooled vehicles, stewardship, verification, authority)	☐
15	Restricted-categories schedule with materiality thresholds	☐
16	Stewardship and proxy-voting policy	☐
17	Review cadence and amendment procedure	☐
18	Professional and canonical review obtained before adoption	☐

Appendix C — Library of example clauses (alternatives by situation)

Return objective — institution preferring an absolute target: "The Fund seeks a long-term total return of CPI + [4.5]% per annum, net of fees, measured over rolling ten-year periods."

Spending — institution preferring a hybrid (Yale-type) rule: "Annual spending shall equal [70]% of the prior year's spending increased by inflation, plus [30]% of [4.5]% of the trailing average market value."

Risk — institution with a near-term liability (e.g., members' care): "The [Care] pool shall be managed to a shorter horizon with emphasis on liquidity and capital preservation, maintaining at least [thirty-six] months of projected obligations in high-quality liquid assets; the [Legacy] pool shall be managed to a perpetual horizon as set out herein."

Screening — institution adopting only exclusions and stewardship (Tiers 1, 2, 5-light): "The Fund applies the exclusions in Schedule 3 and exercises stewardship per Schedule 4; it does not at this time adopt thematic or impact allocations, which the Committee may recommend in future."

Pooled-vehicle pragmatism clause: "Where no compliant separately managed account is available for an asset class, the Committee may use the most closely compliant pooled vehicle, document the rationale and any material inconsistency, and pursue engagement or substitution as compliant options become available."

Appendix D — Glossary of selected terms

Term	Meaning in this framework
Investment Policy Statement (IPS)	The written governing document of the investment program.
Policy portfolio / strategic asset allocation	The long-term target allocation among asset classes, with ranges; the primary benchmark.
Hurdle rate	The return required to sustain spending and preserve real capital (≈ spending + inflation + costs).
Spending policy	The rule governing distributions from the fund.
Smoothing	A mechanism (e.g., moving-average) reducing the volatility of distributions.
Intergenerational equity	Even-handed treatment of present and future beneficiaries.
Risk tolerance	The combination of ability and willingness to bear investment risk.
Tracking error	Divergence of returns from a reference portfolio, here arising partly from values screens.
Rebalancing (bands)	Restoring policy weights when an allocation breaches its range.
Fidelity overlay	A manager's capacity and willingness to implement the institution's screens and stewardship.
Five-tier screening	Exclusionary; norms-based; ESG integration; positive/thematic; impact/mission-related.

Term	Meaning in this framework
Stewardship	Engagement, proxy voting, and public witness through the rights of ownership.

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