CORNERSTONE
MANAGEMENT

Winning with Gift Annuities

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ACGA CONFERENCE 2024

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Presenters

Bryan Taylor, CFA
Chief Executive & Investment Officer

Cornerstone Management

Bryan has over 25 years of experience in portfolio management and design and planned gift consulting. He oversees all operations and is Chairman of the Cornerstone Investment Committee.

Sydney Walden
Gift Annuity Program Specialist

Cornerstone Management

Sydney is a key part of the Gift Annuity Team at Cornerstone. She provides support to our clients in the complex areas of gift annuity administration, state registration, and compliance. She assists with applications, annual filings, and conducts periodic reviews of regulatory compliance.

Karen Sillay
Director of Business Development & Marketing

Cornerstone Management

Karen oversees all aspects of marketing for the firm and implements Cornerstone's future strategic marketing goals. She also acts as a Relationship Manager for Cornerstone's institutional and individual clients.

Steve Nickel, JD
Vice President of Donor Ministries

Samaritan's Purse

Steve joined Samaritan's Purse in 2001, a Christian ministry bringing hope and help to victims of war, poverty, disasters, famine, and disease in more than 100 countries. With business and law degrees from the University of Nebraska, he has been blessed to serve donors through legacy and gift planning since 1982. Steve also pastors a small chapel congregation near Boone, North Carolina.

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Part One – Winning by Avoiding Common Investment Mistakes

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Leveraging the Legacy

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What is a Commercial Annuity vs. a Gift Annuity?

- Commercial Annuity: Exchanging a lump sum for a stream of income
- Charitable Gift Annuity: Exchanging a lump sum for a stream of income. The annuitant/donor receives a charitable deduction, and an amount could be left to charity at the end of the annuity contract

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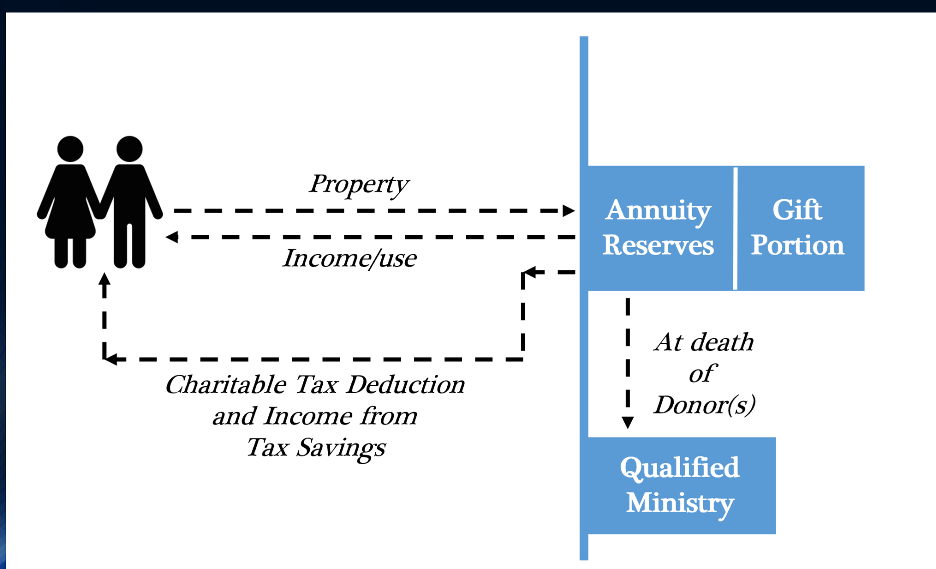
Gift Annuity Illustration



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Opportunities for Donors

- Alternative to Traditional Fixed Income
- Tax Deferral
- Simplicity
- Flexibility

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Assessing the Investment Health of your Gift Annuity Program

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5 Keys to a Thriving Gift Annuity Program

1. Federal Requirements – Audit & Tax Assumptions
2. Funded Status – Structuring the Reserve Pool
3. Extension Risk/Longevity, Concentration Risk, Small Sample Size, etc.
4. Annuity Vehicle Risk
5. State Reserve Requirements

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Federal Requirements

- The gift annuity contract is a general obligation of the organization that issues it
- The holder of the contract is protected by all of the assets of the issuing entity
- Best practice suggests that a reserve portfolio be held to “back” the annuity liability - much like a pension program. The amount of the reserve may be manipulated.
- Audit practice also allows some flexibility in the assumptions utilized to calculate the reserve

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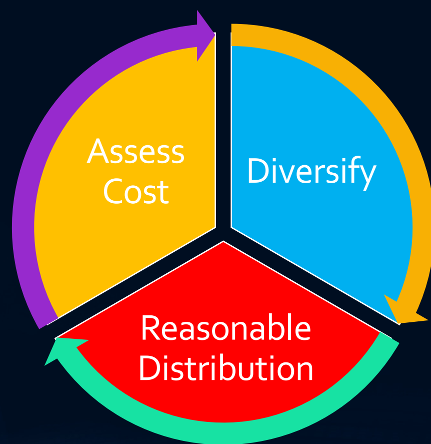
UPMIFA



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UPMIFA – Investment Guidelines

- Allows nonprofit funds to be managed with Modern Portfolio Theory
- Total return is driving force; focus on portfolio as a whole
- Applies to Endowments, Other Reserves, etc., but <u>not</u> to all split-interest gifts…however, we believe it can be applicable

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UPMIFA – Cost Considerations

- Requires cost to be managed prudently
  - Assets, purpose, and skills of institution influence cost
  - Allows for some flexibility

Note: ACGA assumes a 1% annual program cost

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Structuring the Reserve Pool

- Policy Guidelines
- Main Reserve
- State Regulation
- Coverage
- Liquidity

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Investment Management Considerations

- ACGA Return Assumptions
  - Equity = 8% (1926 -2021 with 2% buffer)
  - Fixed = 13-week rolling 10-year treasury yield
  - Cash = 13-week rolling 3-month T-bill yield
- Higher Forward Expectations for fixed income returns
- High Equity Valuations
- Adjusting for Volatility

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Investment Planning

- Risk Management Philosophy of the Organization
- Well Designed and Implementable Investment Policy
- State Reg Considerations and Main Reserve Overlay
- Issuance and Liquidity as a risk management and investment tool

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Asset Allocation

- Strategic Allocation Impact
- The Challenge of Alternatives – Liquidity
- Tactical Allocation
- Immunization – Asset Liability Matching

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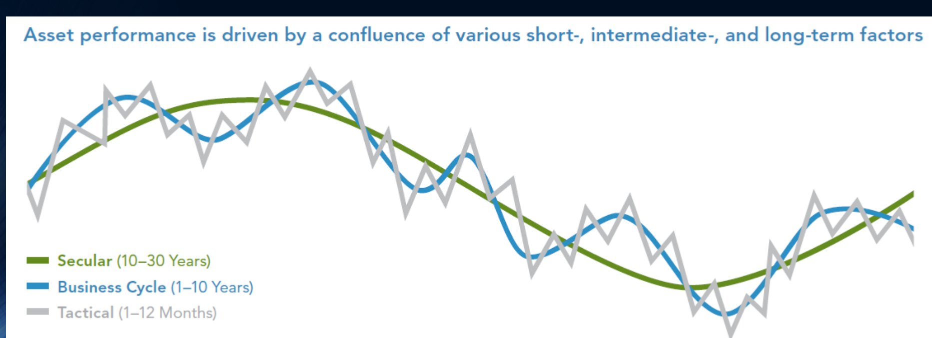
Strategic Asset Allocation and Tactical Portfolio Shifts may best be viewed through the following lenses:

1. **Secular View** (10-30 Years) – Longest time horizon
   - Market is influenced by economic trends such as demographic changes and productivity growth
2. **Business Cycle View** (1-10 Years) – Intermediate time horizon
   - Factors tied to the positioning of the economy – corporate earnings, credit growth, inventories
3. **Tactical View** (1-12 Months) – Short time horizon
   - Over the short run, markets will deviate from their longer-term trends. These deviations offer attractive entry and exit points for portfolio tilts. Politics, investor sentiment, and asset flows can drive short term deviations.



Source: Fidelity Asset Management

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Strategic Investment Options

- Cash Flow Matching
- Immunization
- Interest Rate Challenges
- Equity Exposure
- State Reserve Challenges

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Immunization & Cash Flow Matching

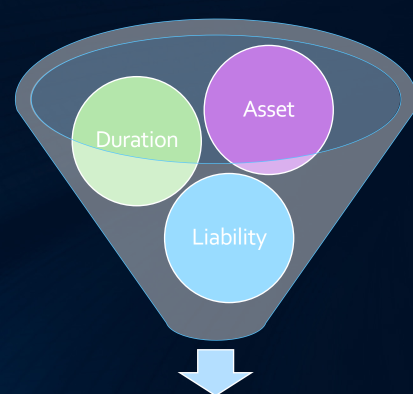
Asset/Liability Matching

Duration Management

Liquidity & Cash Flow

Sustainability

Interest Rate Moves & Parallel Shifts



Bond Portfolio

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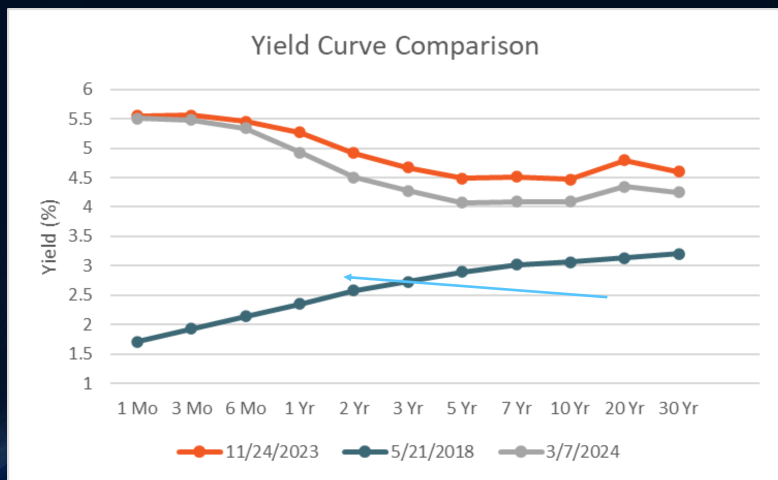
Yield Curve Comparison
2018 - 2024



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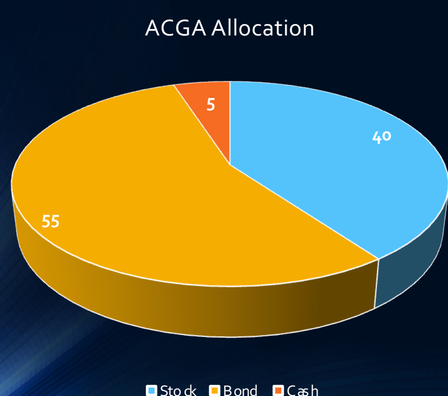
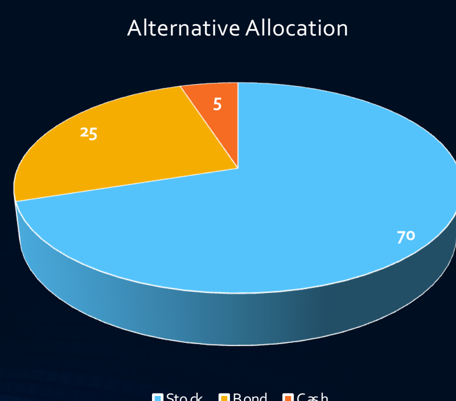
Strategic Allocation Examples:

TRADITIONAL ACGA ASSUMPTION:



POTENTIAL MORE AGGRESSIVE ALTERNATIVE:



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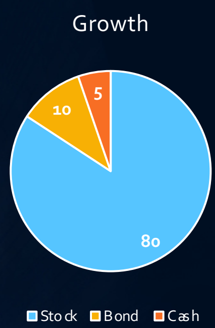
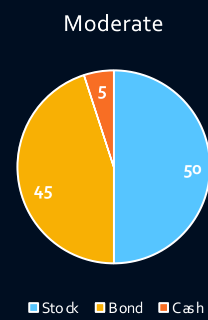
Total Portfolio Aggregation:

MAIN RESERVE:



STATE RESERVE:



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Annuity Risk Management

- Extension/Longevity Risk – The risk that a donor outlives his/her life expectancy
- This is a common challenge – ACGA Rates address this by factoring in longer life expectancies….however, risk remains in most pools
- Smaller pools of annuitants have higher extension risk than larger pools

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Annuity Risk Management

- Addressing Extension Risk:
  - Grow the number of contracts in the pool
  - Vary the size of the contracts in the pool
  - Issue contracts consistently
  - Issue contracts to younger annuitants
  - Run Monte Carlo simulation prior to issuance

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Annuity Risk Management

- Addressing Extension Risk:
  - Regularly seek severance opportunities
  - Invest for the long term
  - Keep fees low
  - Utilize a formal Distribution Policy when taking money out of the annuity pool

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Annuity Risk Management

- Concentration Risk – a small number of contracts represent a significant/excessive percentage of the total annuity pool payout and liability
- Again - smaller pools are more prone to this issue. However, some charities may issue a small number of very large contacts resulting in significant concentration risk.

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Annuity Risk Management

- Addressing Concentration Risk:
  - Set Issuance Parameters/Policy (Gift Acceptance Policy guidelines for your annuity program)
  - Consider selective reinsurance
  - Issue more contracts
  - Issue smaller contracts

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Annuity Risk Management

- Addressing Concentration Risk:
  - Utilize a conservative distribution policy
  - Carry a significant reserve liability cushion
  - Run Monte Carlo simulation prior to contract issuance

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Annuity Risk Management

- Investment Portfolio Risk – the risk that portfolio results differ from expectations resulting in underfunding or bankruptcy of the reserve

- If an Immunization Strategy is utilized there may also be the risk of continuously funding the reserve portfolio during periods of low or falling interest rates

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Annuity Risk Management

- Addressing Portfolio Risk:
  - Utilize an investment policy statement
  - Utilize a conservative distribution policy
  - Utilize conservative return assumptions
  - Focus on "liability"-driven investment strategy
    - Cash flow liability
    - Actuarial assumptions
    - Reserve pool protection

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Annuity Risk Management

- Addressing Portfolio Risk:
  - Understand your liability assumptions
  - Keep costs low
  - Do not "skim" the contract – invest 100% of initial contract value
  - Utilize a diversified, long-term, UPMIFA-based investment approach
  - Limit total volatility

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Annuity Risk Management

- Small Sample Size– the risk that actuarial assumptions fail to apply given the small size of a pool of annuitants

- Note: Actuarial assumptions can be adjusted for reasonable sample sizes. However, a pool of two contracts will never be actuarially significant! **Don't begin issuance if you are not serious about growing your gift annuity pool.**

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Additional Risk Management Techniques

- Reinsurance
- Reserve Buffer Arrangements
- Liquidity Planning
- Distribution Policy
- Monte Carlo Simulation

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Annuity Vehicle Risk

- Traditional one- & Two-life Contracts
- Deferred Contracts
    - They may look good now…?
- Flexible Deferred Contracts
    - Remind the donor
    - When they will "turn on"…Investment Risk and Timing

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Investing to Meet State Regulations

- State-specific segregated accounts
    - All CGA assets should be segregated
    - Some states require state-specific segregated accounts (CA)
    - Some states allow state-specific segregated accounts (TN, FL)

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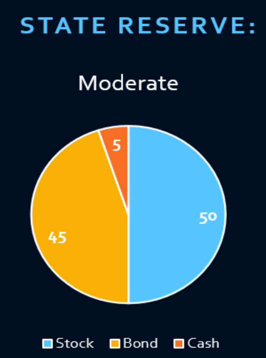
Investing to Meet State Regulations

- Regulation around Investments
  - UPMIFA – Most States
  - More specific Investment Regulations: CA, FL



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Investing to Meet State Regulations

- Regulation around Reserve Calculations
  - Some states have really stringent reserve calculations (NY, NJ, HI, WA)
- Assessing Reserve Calculations – Internal Considerations
  - Consider how this will affect your program as a whole (payout rates, distribution guidelines, etc.)
  - Consider reporting on the reserve calculations for the most stringent state – this will be unique to your program

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Part Two – Winning by Maximizing the Value of Your Gift Annuity Program

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Reviewing Industry "Best Practice" for CGA Program Administration

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Gift Annuity Administration Best Practices

1. Be compliant with all state regulations
2. Include disclosure statements where appropriate and/or required
3. Use the suggested ACGA rates currently in effect
4. Have policies in place that protect the health of your CGA pool

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1. Be compliant with all state regulations

- Historically there was some debate regarding State Regulation issues:
  - Charity location vs. Donor location
- Do not solicit or write gift annuities in states where approval is required but has not been obtained
  - The approval process can be lengthy (years), and this has only increased post-Covid
- Regulation around Investments and Reserve Calculations

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1. Be compliant with all state regulations

- Regulation around Initial Registration
  - Solicitation vs. Registration
  - 4 Categories of states in regard to registration
    - Registration
      - Can be time consuming
      - Might need board approval
    - Notification
    - No Notification
      - Regulation still exists
    - No Regulations

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1. Be compliant with all state regulations

- Regulation around Annual Reporting
  - Some states do not require any annual reporting
  - Some states require lengthy and detailed annual reports
    - e.g., NY and CA
  - Some states require annual notification
  - Be aware of deadlines, required signatures, and submission requirements

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1. Be compliant with all state regulations

- Regulation around <u>Marketing Materials</u>
  - Some states have very specific requirements for marketing CGAs
    - e.g. CA, OK, SD, AL
  - Disclosure statements
  - Font sizes
  - What can and cannot be included

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2. Include disclosure statements where appropriate and/or required

- Obtain a signed disclosure statement with each written contract
  - The Philanthropy Protection Act of 1995 requires this for most nonprofits
    - AZ requires you obtain this BEFORE funding the CGA
  - Includes language about
    - The gift being irrevocable and non-assignable
    - The annuity is backed by the unencumbered assets of the issuer
    - How the gift date and payout rate is determined
    - Governance

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2. Include disclosure statements where appropriate and/or required

- Disclosures in Marketing Material
  - All marketing material should disclose
    - The gift being irrevocable and non-assignable
    - The annuity is backed by the unencumbered assets of the issuer
    - The organization may not be able to issue charitable gift annuities in every state due to varying state law
  - Don't forget state-specific marketing regulations

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3. Use the suggested ACGA rates currently in effect

- Why is it important?
  - Minimize risk / Maximize the value of the gift
  - No need to hire your own actuary
  - ACGA rates have credibility with state insurance departments
    - Some states do not allow you to issue higher than ACGA rates (FL, NJ, NH, OR)
    - Some states have regulation around payout rates, and ACGA rates comply with these regulations
    - Just because you CAN doesn't mean you SHOULD
      - ACGA and NY Legislation
- Assumes 50% of gift will remain
- Be Aware – ACGA Rates may not always qualify
  - 10% IRS Gift Requirement

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4. Have policies in place that protect the health of your CGA pool

- Gift Acceptance Policy
  - Why is it important?
  - Things to Consider
    - Age of annuitant
    - Amount of the gift
    - Timing of payments
  - Although other concerns might not be included in an official policy, you want to think about other risks that come with accepting some gifts (liability and concentration risks, cost of administration, type of asset)

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4. Have policies in place that protect the health of your CGA pool

- Distribution Policy
  - Why is it important?
  - Things to Consider
    - Will you pull from excess or only for matured?
    - Reserve requirements (can be state specific)
    - What assumptions to include (e.g. initial deposit amount)
    - Designations
    - How to determine distributable value of gift

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Expanding the Impact & Creating Successful Outcomes

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Worthy of the Gift

- Worthiness leads directly to donor trust, but what does it mean to be worthy? And what does it mean to be "worthy of the gift"?

  Being "worthy" means having the qualities of faithfulness, knowledge, dependability, perseverance, and meticulous stewardship.

- If we think of worthiness at all, we often link it simply to having a Vision or Mission that is worthy of funding, but it is so much more…

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When We Demonstrate our Worthiness

Trust is developed, vision is heard, funds are committed, and lives are changed!

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Organizational & Personal Worthiness

- We believe that worthiness must be considered at both the organizational and personal level.
- To enhance the probability of your organization receiving a transformational gift, both the organization and the individual involved in the "ask" must be "worthy" of that gift.

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Organizational & Personal Worthiness

- You may be thinking – that's fine, Bryan, but I don't directly "ask" our donors for gifts so how does this apply to me?
- Or, we have a great vision/mission - of course, we are worthy!
- We believe that worthiness is extremely relevant to the not-for-profit executive...It can be the driving force behind fully funding your organization.

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Organizational Worthiness– Key Objectives

- Mission & Vision
- Investment Philosophy
- Policies & Procedures
- Transparency
- Fiduciary
- Reporting
- Development/Fundraising

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Personal Worthiness

- Questions:
  - Can you handle the gift you uncover?
  - What steps must you take to go to the next level?

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Personal Worthiness – Key Objectives

- Moving donor relationships from transactional to transformational
- Align your organization's vision with your donors' vision for legacy impact
- Develop actionable steps to create opportunities with donors to solve problems they didn't even know they had
- Inspire transformational giving

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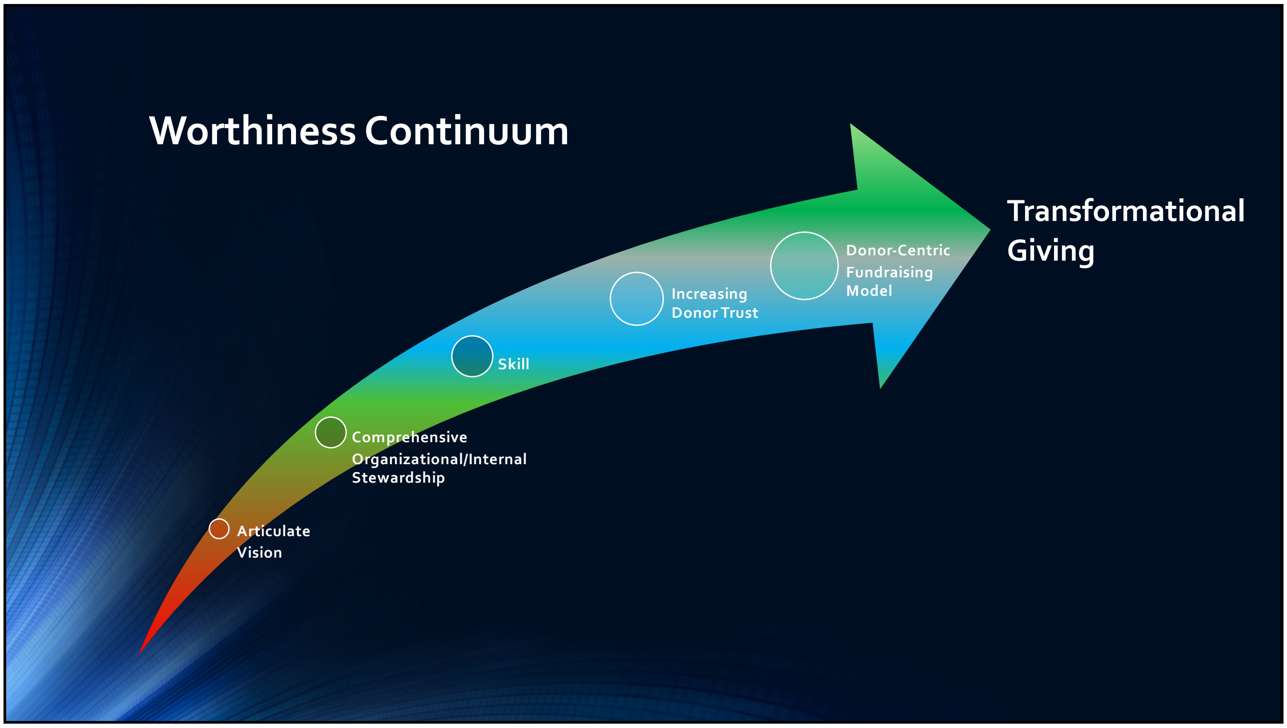

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[Charity Name]
Gift Annuity Risk Analysis, Operating, and Distribution Guidelines

The following guidelines are designed to accompany the formal investment policy statement associated with [Charity Name] Gift Annuity Fund.

The oversight role of the [Charity Name] Investment Committee includes monitoring risks to the gift annuity pool. The principal risks are listed below:

- Longevity risk occurs when an annuitant outlives the life expectancy used by the mortality table.

- Investment portfolio risk arises from a drop in portfolio value resulting from weak investment market conditions and/or weak portfolio performance.

- Underfunded portfolio risk occurs if the market value of the annuity investment portfolio is not adequate to meet the adjusted reserve liability and the annual annuitant payout requirements.

- Concentration risk arises when original contract terms provide for annual payouts to an individual annuitant(s) that represent an excessive percentage of the total annuity pool payout and reserve liability.

The Investment Committee carries out its oversight responsibility in the area of risk management through issuance of policies and operating guidelines that promote awareness, understanding, and prudent management practices followed by regular monitoring that assures compliance with those policies and guidelines.

To address longevity risk, the New York State method of computing reserve liability is used. This reserve liability calculation method results in a conservative process for calculating reserves.

To address investment portfolio risk, a buffer is added to the reserve (as calculated using the New York State method) to recognize the effect of portfolio market value fluctuation based on expected portfolio total return and the corresponding standard deviation.

To address underfunded portfolio risk, two safeguards are used. First, the entire original gift amount (100%) is invested. Second, withdrawal of funds from the pooled annuity investment portfolio following death of annuitant(s) is carefully controlled. Funds may only be distributed when the total level of reserve funds available exceeds the buffer previously indicated. Should the portfolio be below the buffer, deceased annuitant assets will remain invested until the pool rises above the buffered levels.

As stated above, before any funds can be withdrawn following the death of annuitant(s), the total market value of the Gift Annuity Fund must be equal to or greater than the calculated reserve liability as adjusted by the buffer.

On an annual basis prior to fiscal year end, the reserve liability calculation policy should be reviewed for adequacy and appropriateness. Currently the adjusted reserve liability is calculated as follows:

New York State method and mortality table plus state required surplus (26.5%)	R
Investment portfolio risk buffer (approximately two standard deviations of return)	15.00%
Reserve liability adjusted	R x 1.15

Distribution Guidelines

New contract issuance monies may be used to disburse required annuity payments from the Gift Annuity Fund. This technique allows the majority of the Gift Annuity Fund to remain invested and facilitates the utilization of a "long-term" approach to investment.

Periodically the corpus value of matured contracts must be removed from the Gift Annuity Fund. This may be accomplished utilizing the following approach:

- The contracts with designations will be distributed first. Then distributions will continue from the oldest date of matured contracts to the most recent until the value of all matured contracts has been removed from the Gift Annuity Fund or the buffer limit has been reached, whichever will occur first. The Gift Annuity Fund will be analyzed on a semi-annual basis, and the current market value of matured contracts will be tabulated. A determination will be made on whether or not funds may be withdrawn based on the distributable value available.

- California has very strict guidelines regarding the withdrawal of funds. Matured California gift annuity values can only be withdrawn in the year the annuitant is deceased. The only way to withdraw values later is with a Board resolution. Compliance with the California State Reserve calculation is also required.

Please see examples of calculations below.

Sample Reserve Buffer & Distribution Calculation – Main Gift Annuity Fund

New York Reserve Requirement (excludes CA annuities) (A)	$2,667,752
[Charity Name]'s Buffer (A x 15% = B)	+ 400,163
Total Reserve Requirement (A + B = C)	$3,067,915
Current Gift Annuity Market Value (D)	$4,467,393
Total Reserve Requirement (C)	- 3,067,915
Funds Over/(Under) Reserve Requirement (D - C = E)	$1,399,478
Total Market Value Matured Contracts (F)	$350,008
Distributable Amount for Matured Contracts (lesser of E or F)	$350,008

Total Market Value of Matured Contracts is less than Funds Over Reserve Requirement; therefore, the full amount may be distributed.

INVESTMENT POLICY STATEMENT

for the

[Charity Name] Annuity Program

[Charity Name] has established a gift annuity fund to provide a mutually beneficial financial program for [Charity Name] and its constituency. [Charity Name] acts as the trustee for each gift annuity contract. As fiduciary, [Charity Name] is acutely aware of its responsibility to its donors and constituents and has developed this policy statement in a prudent and conservative manner to ensure the ultimate viability of its gift annuity program.

Individuals with donative intent contribute assets to the program in return for a contractual agreement under which [Charity Name] pays the donor an income stream for a life or a two life term. The income stream prescribed by contract may either begin immediately (immediate payment) or at some future date (deferred payment). The contractual agreement governing the income stream payable to the income beneficiary is determined by mutual consent and guided by the American Council on Gift Annuity's suggested rates. Greatly influenced by donor ages, the income payment may vary considerably from one annuitant to the next.

At the time of this writing, the organization has elected the conservative posture of retaining and investing 100% of all funds deposited by each annuitant to support and generate the income stream required under contract. Characteristically, when all income beneficiaries associated with an account are deceased, the assets supporting the income stream are 100% available to [Charity Name] to use in accordance with established policy.

OBJECTIVES

Risk Tolerance:

The continuity of the gift annuity program implies an extended time horizon; consequently, the corresponding inflationary risk must be addressed. Significant equity exposure is required to allow the portfolio to facilitate existing distributions and generate the level of returns necessary to conserve as much principal as possible for ultimate distribution to the organization. The risk tolerance of the program is greatly increased because of the 100% reserve requirement adopted by the organization's policy. However, despite this intuitive insensitivity to short-term volatility, [Charity Name] has indicated its desire to pursue a conservatively biased approach to portfolio design. Such an approach, while continuing to maintain significant equity exposure, will assist in limiting total portfolio volatility and will provide greater stability for the annuity reserve. Unsystematic or specific risk can be reduced to negligible levels, and systematic risk can be reduced to acceptable levels through comprehensive diversification of and within asset classes. A well-diversified portfolio utilizing, when appropriate, domestic and international equities, as well as fixed income assets, should produce an annual return of approximately 5% to 7% while, at the same time, limiting the standard deviation of the portfolio to 10% to 12%. Measuring both upside and downside risk, standard deviation is considered to be a measure of the total risk of a portfolio. (Dating back to 1926, the annual standard deviation of large-cap domestic stocks and small-cap domestic stocks has been approximately 20% and 35% respectively. The standard deviation of foreign stocks generally falls between the above two classes.)

Return Requirement:

The objective of the program is to pay a fixed-income stream to the income beneficiary or beneficiaries and to provide some growth for the corpus. Because the income stream is a fixed dollar payment, much of the inflation risk has been passed to the income beneficiary. However, purchasing power risk still exists for the remainder beneficiary because of the possible long-term time horizon. The high income requirements and the inflation protection goal for the corpus demand that a relatively high return be generated which suggests substantial equity exposure. However, as indicated above, a posture of prudence and conservatism requires significant volatility reduction, and the preservation of future purchasing power becomes a secondary goal of the portfolio. Because the income stream can be supported by interest, dividends and liquidation of capital gains, a total return strategy is indicated, incorporating when appropriate, various domestic fixed income alternatives, foreign stocks, and real estate as well as large-, small-, and micro- capitalization domestic stocks into a dynamically managed portfolio. Due to the average distribution rate required on the annuity pool, it is unlikely that absolute purchasing power will be maintained while also facilitating the required payout. However, studies have indicated that an amount in excess of the ACGA 50% target of the initial "face" value of the annuity contract may ultimately be available for the organization utilization. A total return approach to investment that correctly balances the requirement for solid long-term growth of corpus with the coexisting requirement for reserve stability should produce long-term returns in the range of 5% to 7%. The strategy will initially be implemented through the utilization of both active and passive investment vehicles strategically blended together to construct a globally diversified portfolio.

CONSTRAINTS

Liquidity:

The primary liquidity demand is to fund the cash flow payments to income beneficiaries. Even though capital markets will fluctuate, the funds supporting each cash flow stream must remain intact until the last associated beneficiary passes away. When market values are down, it is conceivable that some corpus may have to be used to support contractual income streams. Because of the total return strategy, a larger than normal cash balance, perhaps as high as 10% to 15%, may be helpful and is permissible. As the gift annuity program continues to mature, cash flow requirements of the fund will be met by the addition of new gift annuity contracts. Greater liquidity is not anticipated. Because the passing away of beneficiaries is relatively random, there can be no scheduled deployment of corpus for other purposes. These conditions constitute the flexibility required to delay liquidation of assets when market values are down.

Taxation:

The funds are "owned" and administered by [Charity Name] which is a tax-exempt investor and caution must be exercised to preserve this advantageous position. Income distributions will be subject to taxation based on calculations prescribed by the IRS and will contain some portion of ordinary as well as exempt income when the contract is funded with cash. When funded with appreciated assets, taxation of distributed income will also contain a capital gain component.

Laws and Regulations:

The administration and management of the gift annuity fund are subject to regulatory and legal compliance applicable to any gift annuity fund. Investment actions are subject to state laws of gift annuity funds and relevant precedent. Even though the gift annuity fund is not subject to ERISA provisions and jurisdiction, it is believed that the requirements of the "prudent expert" and mandate for diversification may apply once the initial assets are invested. Further, in many states, the Uniform Prudent Management of Institutional Funds Act has direct application relating to the oversight and investment management of non-profit funds. Although not directly applicable to gift annuity funds, it may be assumed that its characteristics have bearing on any funds overseen by a 501(c)(3) organization. The UPMIFA specifies a Modern Portfolio Theory approach to investment by indicating that each investment should be evaluated only in the context of its role as a portion of the larger portfolio rather than on its individual merit or lack thereof. The UPMIFA also utilizes the “prudent investor” idiom in quantifying both the level of delegation possible and the necessary approach to portfolio design and implementation. IRS provisions relative to "speculation" may also apply. Furthermore, investment counsel is subject to regulation by the Securities and Exchange Commission, Financial Industry Regulatory Authority (FINRA), and The CFA Institute’s (Formerly the Association of Investment Management & Research) Code of Ethics and Standards of Practice.

Unique Circumstances and Preferences:

[Charity Name] is the only active gift annuity program available to [Charity Name] constituents. A diversified total return approach to investment will be utilized in the management of the pool.

The organization may choose to reinsure gift annuities from time to time at its own discretion.

ASSET ALLOCATION
Asset Classes

Domestic Equities:

Large-Capitalization	($10,000,000,000+)
Mid-Capitalization	($2,000,000,000 to $10,000,000,000)
Small-Capitalization	($250,000,000 to $2,000,000,000)
Micro-Capitalization	($25,000,000 to $250,000,000)

Value Orientation
Growth Orientation

Derivative Securities (approval required)

Domestic Fixed Income:

US government Securities
Commercial Paper (minimum p-2/A-2 rating required from Moody's/Standard and Poor's)
Certificates of Deposit (not to exceed federally insured amount in any single bank)
Guaranteed Investment Contracts (approval required for each guarantor)
Corporate Bonds
Convertible Bonds
Preferred Stock
Private Placement Debt Securities (maximum 5% of portfolio)
Collateralized Mortgage Obligations
Asset Backed Securities
Derivative Securities (approval required, Short Positions established to create 1:1 hedge on underlying position will generally be permitted. No net short positions or put writing allowed.)

Domestic Real Estate:

Direct Investment (approval required)
Real Estate Investment Trust
Equity Securities

International Equities:

Country Specific
Regionally Specific
Capitalization (same as U.S. Equities)
Emerging Markets
Industry Specific
Multi Markets

International Fixed Income (government only)

Natural Resources:

Equity Securities
Master Limited Partnership

It should be noted that the aforementioned list of available asset classes and styles is not intended to be exhaustive but rather to provide the uninformed reader with a comprehensive framework for understanding the basic constructs of a liquid asset portfolio.

No more than 5% of portfolio assets at cost may be invested in any single security except for U.S. government securities. The previously noted restrictions upon various assets and asset classes are intended to be general guidelines for individual securities. It is probable that while such guidelines may be generally applied inside mutual fund investments there may be no formal restriction insuring compliance with this document.

ASSET ALLOCATION

Asset Classes	Range %	Percent Range Target %
Domestic Equities		
Large Capitalization	20-55	27.5
Small Capitalization	5-20	8.5
Domestic Fixed Income		
Cash and Equivalents	0-20	2.0
Corporate Securities	10-50	22.0
Government & Agency Securities	10-50	16.0
International		
Fixed Income Securities	0-15	0
Developed Market Equities	0-20	13.5
Emerging Markets Equities	0-10	4.5
Real Estate	0-10	6.0
Natural Resources	0-10	0
Total		**100**

The ranges depicted above are general, normal ranges within which managers must operate without special approval. However, it should be realized that managers will be permitted and expected to make short-term deviations from these ranges if they feel it is appropriate to do so in order to preserve portfolio assets.

Signature Page

The attached Investment Policy Statement has been reviewed and adopted by the trustee, and will act as the governing document regarding investment action for the [Charity Name] Gift Annuity Fund.

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Trustee Signature

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Date