



INVESTMENT MEMORANDUM

Revised 9-23-11

Introduction:

The California-Nevada United Methodist Foundation (CANVUMF) was established by the California-Nevada Annual Conference in June 1964 as a 501.c.3 corporation to serve Northern California and Northern Nevada United Methodism. The mission of CANVUMF has three parts:

- To assist United Methodists in making major gifts to their local churches and to United Methodist agencies by promoting giving through current donations, wills and trusts, with a special emphasis on local church endowments.
- To assist churches and agencies in the management of their endowment, restricted and reserve funds.
- To act as trustee for trusts, charitable trusts, pooled income funds and other charitable giving instruments that offer life income options.

The CANVUMF is one of the denomination's annual conference-related, but independent, foundations and holds approximately \$34 million in invested assets. It is a member of the National Association of United Methodist Foundations. More than 99 churches and agencies in the California-Nevada Annual Conference have entrusted their reserve and endowment funds with the Foundation as well as an additional 34 individuals.

This Memorandum focuses on the investment role of CANVUMF. Its purpose is to provide current and prospective investors with a clear description, as well as disclosures, regarding important aspects of the investment program of the CANVUMF.

Pursuant to the Philanthropy Protection Act of 1995, CANVUMF is not required to register under the Investment Company Act of 1940, as amended, and, as a charitable organization that maintains charitable income funds, is exempt from registration under Federal and state securities laws. Accordingly, neither the Funds nor the interests therein are registered under the Securities Act of 1933, as amended, or any state securities laws, and neither the Securities and Exchange Commission nor any state securities agency has reviewed or approved these investments.

Participating Investors:

The CANVUMF provides investment services to the following "eligible" participants:

- Local United Methodist churches and/or specific church related entities in the Conference area;
- Tax-exempt institutions, organizations and agencies related to the United Methodist Church
- Tax-exempt sub-units of the United Methodist Church or related institutions, organizations and agencies; and
- Individual donors creating planned gifts for the benefit of United Methodist churches or agencies.

CANVUMF Funds:

The CANVUMF offers four funds that are appropriate for endowment, reserve or special monies of United Methodist churches and agencies and for the investment of planned giving assets. As described under *Socially Responsible Investments*, all of the funds, subject to sound investment fundamentals, seek to invest in companies whose practices are consistent with the goals outlined in the *Social Principles* of the United Methodist Church.

Short Horizon Portfolio:

The Short Horizon Portfolio seeks to provide investors with income on cash reserves, while preserving capital and maintaining liquidity. These goals are currently accomplished by investing in a high quality money market fund. The Portfolio's risk/reward characteristics are low compared with other CANVUMF funds. The Short Horizon Portfolio is best suited where stability of principal is of highest importance and the funds will be held for a short period of time. Further information on this portfolio is pending. Currently, funds are not being accepted into this portfolio without consultation with the Executive Director of the Foundation.

Intermediate Horizon Portfolio:

The Intermediate Horizon Portfolio has a high level of current income as its primary objective. It invests in intermediate-term bonds of the U.S. government and its agencies and investment-grade corporate bonds. Its risk/reward characteristics are low to moderate, a reflection of higher yields from longer maturities and greater price volatility compared with money market securities. The Intermediate-Horizon Portfolio is best suited to those requiring high income where the potential for the erosion of purchasing power is of secondary concern. The Intermediate-Horizon portfolio is also appropriate for those who also wish to invest in the Equity Portfolio and thereby create their own "balanced" portfolio.

Asset Allocation Portfolio:

The Asset Allocation Portfolio places greater emphasis on growth in principal and less emphasis on current income. The goal of the long-term real growth of principal and income is achieved by a target allocation of 60% equities and 40% fixed income. The fund is allowed between 70/30% on the high side and 50/50% on the low side before correction is mandated. Other corrections of the allocation are at the discretion of the investment manager. This fund has a moderate risk/return profile. The Fund is best suited to those investors who seek long-term appreciation with modest income needs.

Equity Portfolio:

The Equity Portfolio seeks long-term growth of capital and income, with current dividend income a secondary consideration. The goal is accomplished through a diversified portfolio, which is invested in high-quality common stocks and securities convertible into common stocks. The risk/reward characteristics of the Portfolio are moderate to high. The Equity Portfolio is best suited to those investors who can accept greater volatility in exchange for higher long-term total return. As noted above, the Equity Portfolio may be used with the Intermediate-Horizon Portfolio to create a customized "balanced" portfolio.

Risk Considerations:

Investments held in each of these portfolios are selected, based on fundamental financial considerations. Quality is an important criterion, and diversification of assets is applied to minimize risk. However, investing in the securities markets inherently involves the risk of possible investment loss. It is generally understood that equity portfolios have higher market volatility and also a higher

risk of loss than fixed income portfolios. Even though the Foundation expects long-term investments of the above-described funds will result in positive rates of return, there is no guarantee of such a result, written or implied. In addition, remember that past investment performance is no guarantee of future investment results.

Socially Responsible Investments:

Consistent with the policy goals of the General Conference of The United Methodist Church, the CANVUMF funds are invested in a manner that stresses social justice and social usefulness as well as financial return and financial security. To those ends, the CANVUMF funds seek to:

- A. Screen out companies with substantial interests in tobacco, alcohol, gambling, armaments, and pornographic materials.
- B. Invest whenever possible in companies that make a positive contribution to society, such as in employee relations, community relations or environmental responsibility.
- C. Follow the ethical mandates of the United Methodist *Book of Discipline* in all investments

To ensure compliance with the *Book of Discipline*, the Foundation follows guidelines published by the United Methodist Church General Board of Pensions and Health Benefits, as revised from time to time, including the requirement for divestiture that the General Board places upon its fund managers. In practice, our investment manager systematically reviews the list of approved companies maintained by the General Board and utilizes this list as a primary source of data for the social screening process.

Governance and Staff:

The CANVUMF is governed by volunteer Board of Directors. Candidates for the Board are recommended by the CANVUMF Nominating Committee and then elected by the Board of Directors. The Board meets three times a year. An Executive Committee functions between meetings of the Board. An Investment Committee of the CANVUMF meets quarterly and serves as the principal liaison with the CANVUMF investment managers.

The CANVUMF employs an Executive Director, Director of Finance and Trust Administration, and Foundation Services Coordinator.

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Investment Management:

The Foundation uses two Investment Managers for three of the four basic CANVUMF Portfolios. Nelson Capital Management has been serving the Foundation and its clients since 1998. They manage our Donor advised Funds and Gift Annuities and share in the management of our Equity Portfolio. Nelson Capital Management (“NCM”) is the investment manager of approximately one-half of the Equity Portfolio. NCM is a division of Wells Fargo Private Investment Managers, LLC, a nonbank affiliate of Wells Fargo & Company. NCM provides a disciplined growth-at-a reasonable price (“garp”) core equity investment strategy, along with strong commitment to, and experience in, socially responsible investing. NCM has total assets under management of \$1,036 billion (as of June 31, 2011).

The Golub Group started serving the Foundation on June 25, 2008. They manage the Asset Allocation Portfolio, One-half of the Equity Portfolio and the Intermediate Horizon Portfolio. The Golub Group (GG) was formed in 2003 by a group of seasoned Investment Managers and has had a sterling performance record. GG provides a disciplined risk aversion investment strategy

and will adhere to socially responsible investing. GG has total assets under management of approximately \$678 million (as of June 30, 2011).

Custody, Administration and Other Service Providers:

Charles Schwab is the custodian for the major portion of the portfolios except the Short Horizon Portfolio. Vanguard is the custodian of those funds in their money market fund. A small amount of the funds is custodied by Wells Fargo.

The CANVUMF serves as its own administrator, a role in which records are maintained for the specific units and values attributable to each participant's account. The Foundation uses a computerized trust accounting system that is used by hundreds of banks and charitable institutions nationwide. In addition to regular reports on account activity, this record system serves as an important backup for local church and agency records, including information on donations and donor restrictions.

The Foundation conducts an independent outside annual audit. A copy is available upon request.

Purchase and Redemption of Units:

The assets of the portfolios are valued on the last business day of each month and a net asset value of the units of each of the funds is calculated. Units in the funds may be purchased or redeemed at net asset value at month end, provided that notice has been received at the CANVUMF office by the 25th of the month.

The minimum initial deposit to establish an account with the Foundation is \$10,000.00 for all individual accounts.

The CANVUMF form, *Trust Agreement for Invested Funds*, must be completed by each church or agency wishing to invest in one of the CANVUMF Portfolios. Purchases may be affected by check, wire transfer, or through the transfer of stocks or bonds. All funds are "no-load," i.e., there are no charges for the purchase or redemption of units.

Distributions:

Portfolios pay dividends from interest and/or dividends quarterly, approximately mid-month in January, April, July and October. Any investors not wishing to receive distributions in cash may have their dividends automatically reinvested in units.

Expenses:

The CANVUMF Portfolios operate similar to a family of no-load mutual funds. The current fee schedule, effective as of January 1, 2006, for the Foundation's annual administrative fee is as follows:

- 0.75% for first \$500,000
- 0.30% on next \$1,000,000
- 0.10% on balance of market value

This fee is calculated monthly as 1/12th of the annual fee (as listed in the above fee schedule) and deducted from each participant church or agency account administered by the Foundation. The actual dollar amount of this fee for the period and year-to-date is reported on the participant's quarterly account statement.

In addition, each of the portfolios has a quarterly equivalent of the following annual charges: Short Horizon Portfolio – 0.24%; Intermediate Horizon Portfolio – 0.35%; Equity Portfolio –

approximately 0.45%*; and Asset Allocation – approximately 0.45%. These charges are for related investment management and advisory services provided and are deducted directly from the portfolios. **When the investment managers report the percent of gain or loss it is net of these fees.** The only other investment charges to the portfolios are brokerage fees, which are institutional rates, generally 3-5 cents per share or less.

** These expenses are listed as approximate because they are based on the sliding fee schedule for the total equity funds under management; and the Asset Allocation Portfolio also is a blend of this scheduled amount. Further detail on these current charges is available upon request.*

Insurance:

CANVUMF provides insurance coverage in the following categories: Employee theft, client coverage, ERISA fidelity, and general liability.

Charles Schwab, a member of the Securities Investor Protection Corporation, provides account protection for the net equity of a customer's funds and securities position. SIPC provides \$500,000 of primary net equity protection, including \$250,000 for claims for cash. Schwab's coverage with Lloyd's of London and other London insurers, combined with SIPC coverage, provides protection of securities and cash up to an aggregate of \$600 million, and is limited to a combined return to any customer from a Trustee, SIPC and London insurers of \$150 million, including cash of up to \$1,150,000. This additional protection becomes available in the event that SIPC limits are exhausted.

Communications:

Quarterly statements are provided to each participating church and agency. Additional reports are also provided on a periodic basis to inform participants about investment updates, activities and performance results. The CANVUMF website, www.canvumf.org contains a wide variety of information about the Foundation's investment program and provides monthly performance portfolio updates. The primary office for the Foundation is in West Sacramento, CA. The Trust Administration office is located in Santa Rosa; CA.

General Disclaimer:

The Foundation is not a registered investment advisor and does not provide legal, accounting, tax or estate planning advice. All individuals/organizations should consult their own appropriate professional advisors.

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