



## INVESTMENT MEMORANDUM

*Revised 1/10/2023*

### **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 Methodist churches, agencies and individuals.

The mission of the CANVUMF is to build faith and generosity within all congregations of our California-Nevada Annual Conference. The Foundation works with individuals, local congregations and conference agencies by:

1. Actively promoting giving through current donations, wills and trusts, and other methods of giving with a special emphasis on local church endowments.
2. Managing endowment and other funds benefiting local churches and church agencies.
3. Serving as trustee for trusts, including charitable remainder trusts and other planned gifts in which the ultimate beneficiaries are United Methodist local churches, our Annual Conference, other United Methodist agencies and related causes.
4. Providing the resources and services for planned giving development on a comprehensive basis for our Annual Conference.
5. Providing guidance and direction for successful capital campaigns.

The CANVUMF is one of the denomination's annual conference-related, but independent, foundations and holds approximately \$84.2 million in invested assets. It is a member of the National Association of United Methodist Foundations. More than 100 churches and agencies in the California-Nevada Annual Conference have entrusted their reserve and endowment funds with the Foundation as well as over 30 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 Finance 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. 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 emphasizes social justice and social usefulness as well as financial return and financial security. To those ends, the CANVUMF Follow the ethical mandates of the United Methodist *Book of Discipline* paragraph 717 in all investments. Investments shall not knowingly be made in any company or entity whose core business activity involves the production and/or assembly, direct sale, distribution, and/or marketing of the following products and/or services:

- a. alcoholic beverages;
- b. cigarettes, cigars, chewing tobacco or smokeless tobacco;
- c. gaming or lottery industries, including the ownership, operation or management of casinos, racetracks, off-track betting parlors and other gambling enterprises;
- d. adult entertainment, including pornography and other harmful materials;
- e. antipersonnel weapons (land mines, “assault-type” automatic and semiautomatic weapons, firearms, etc.), armaments, ammunition or weapons delivery systems provided for commercial and private;
- f. privately operated correctional facilities, including jails, prisons, penitentiaries, detention centers, prison camps and transfer centers.

To ensure compliance with the *Book of Discipline*, the Foundation follows guidelines published by Wespath (United Methodist Church General Board of Pensions and Health Benefits), as revised from time to time, including the requirement for divestiture that the Wespath places upon its fund managers. In practice, our investment managers systematically reviews the list of excluded companies maintained by the Wespath 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 and Governance Committee and then elected by the Board of Directors. The Board meets three times a year. An Executive Committee meets as needed. 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 Administrative Services Manager.

**Investment Management:**

The Foundation uses two Investment Managers for three of the four basic CANVUMF Portfolios.

The Summitry started serving the Foundation on June 25, 2008. They manage approximately one-half of the Asset Allocation Portfolio and the Equity Portfolio and all of the Intermediate Horizon Portfolio. Summitry was formed in 2003 by a group of seasoned Investment Managers and has had a sterling performance record. Summitry provides a disciplined risk aversion investment strategy and will adhere to socially responsible investing. Summitry has over \$2.4 billion in total assets under management.

Bailard has been serving the Foundation and its clients since 2016. They share in the management of our Asset Allocation and Equity Portfolios. They also manage our Donor Advised Funds and Charitable Remainder Trusts. With a rich history of over 45 years, Bailard has developed expertise in serving institutional investors, from pension funds and endowments to foundations and family offices. Bailard has over \$5.5 billion in total assets under management.

Wells Fargo Wealth Management has been serving the Foundation and its clients through management of our Gift Annuities since 2010.

**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. Wells Fargo is Custodian of the funds related to the Gift Annuities

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 trust accounting system that provides 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 contracts with an outside auditor to conduct its annual audit. A copy is available upon request from our Executive Office in West Sacramento.

**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 request to have their dividends 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, 2015, for the Foundation’s annual administrative fee is as follows:

- 0.75% for first \$750,000
- 0.30% on next \$750,000
- 0.15% on balance of market value

This fee is calculated monthly as 1/12<sup>th</sup> 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 maintains comprehensive insurance coverage as dictated by best practices for United Methodist Foundations.

Protection for securities and cash by the Securities Investor Protection Corporation (SIPC): Accounts of Charles Schwab & Co., Inc. (including those held by clients of investment advisors with Schwab Institutional®) are insured by SIPC for securities and cash in the event of broker-dealer failure.

SIPC provides up to \$500,000 of protection for brokerage accounts held in each separate capacity (e.g., joint tenant or sole owner), with a limit of \$250,000 for claims of uninvested cash balances.

More information about SIPC coverage is available at [www.sipc.org](http://www.sipc.org).

Additional brokerage insurance—in addition to SIPC protection—is provided to Charles Schwab & Co., Inc. accounts through underwriters in London. 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, joint tenant or sole owner), with a limit of \$250,000 for claims of uninvested cash balances.

**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. Also, the CANVUMF has a website [www.canvumf.org](http://www.canvumf.org) with a wide variety of information about the Foundation's investment program and gives monthly performance portfolio updates. The website is also a great source of information for churches and individuals.

The CANVUMF has its primary office in West Sacramento, CA and its Trust Administration in Santa Rosa, CA. Foundation staff is available to respond to inquiries by telephone and email, and to meet with representatives of United Methodist churches and agencies.

**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.*