



PARTNERING WITH FINANCIAL ADVISORS

As a financial planner or investment advisor, you have established strong relationships with your clients. Over the years you have managed sizeable assets on behalf of your clients, and they have been pleased with your stewardship of their financial resources. The management of financial assets is also an important part of the business side of your profession.

George Fox University recognizes your special role with your clients. If you introduce your client to the university, and a planned gift agreement is established, George Fox is willing to offer you the opportunity to continue to benefit from assets invested through a deferred gift plan with the university. This paper outlines a program that can be beneficial for the donor, the investment manager and George Fox University.

In its role as trustee of a deferred gift plan, George Fox has a fiduciary responsibility to both the donor (income beneficiary) and the charity it serves – George Fox University. No agreement will be made between the university and any agency, person, company, or organization on any matter related to investment, management, or otherwise which would knowingly jeopardize the donor's interest. The university recognizes that the long-term interests of George Fox are fostered when the interests of the donor are safeguarded.

Ultimately, and by law, when GFU serves as trustee of a deferred gift plan, the university must reserve the right to determine the most prudent and appropriate investment strategy or asset manager for a specific gift agreement, including the continuing role of any existing asset manager.

Through its planned giving program, GFU provides various life-income gift plans that offer significant advantages to the donor. Charitable trusts, gift annuities, life estate agreements, and other instruments are available. Three of these gift plans offer opportunities for you, as an investment manager, to have a continuing role with the assets contributed to the University by your client: **gift annuities, charitable remainder trusts, and charitable lead trusts.**

Gift Annuities

A charitable gift annuity is a combination of a gift to a charitable organization and an annuity. It is an irrevocable transfer by a donor of cash (or other property) to a qualified organization in exchange for that organization's commitment to pay a fixed amount for the lifetime of one or two

beneficiaries. GFU offers both immediate payment and deferred payment gift annuities.

The amount of the annual annuity payment is based on the age of the annuitants at the time of the gift. GFU follows the recommended annuity rates established by the American Council on Gift Annuities as a matter of general practice, but is not bound to do so. For various reasons, a donor or the university may use a payout rate lower than the recommended rates.

George Fox offers gift annuities in Oregon and most states. A few states require the charity offering gift annuities to be licensed in that state. Of those states requiring charities to be licensed, GFU is authorized to offer gift annuities in Washington and California.

When the university issues an annuity, the annuity payment becomes a general obligation of the university. GFU may choose to purchase an annuity from an insurance company to secure the payments, or it may hold the funds and issue the payments directly. The university is required to maintain separate and distinct trust funds to serve as a reserve fund in accordance with the requirements of state law.

Reinsuring gift annuities. If your client establishes a gift annuity with George Fox, GFU will consider the purchase of a commercial annuity from a company you represent. The annuity will be structured to produce the annual payment stream in accord with the payment schedule of the gift annuity agreement.

Acceptable annuity proposals will be from recognized, major insurance companies with a Moody's Investors Service rating of Aaa - A2, a Duff & Phelps rating of AAA - A, A.M. Best rating of A+ to A-, a Standard and Poor's rating of AAA to A. It is expected that two - three proposals will be presented for consideration.

Charitable Remainder Trusts

Charitable remainder trusts are irrevocable, separately administered trusts established by the donor. Trust payments are provided to the donor and/or other named beneficiary(ies) for life or a term of years (not exceeding twenty), whereupon the remaining assets are distributed to one or more charities.

A charitable remainder annuity trust pays a fixed amount each year. The amount payable in an annuity trust does not change, and no additional gifts may be made to the annuity trust after its creation.

A charitable remainder unitrust pays a fixed percentage (at least 5%) of the fair market value of trust assets, as valued annually. Because the value of assets can be expected to change from year to year, the unitrust payment will vary in amount each year. Additional contributions may be made to the trust after it is established.

There are four types of charitable remainder unitrusts - each of which may be a good selection for the interests of the donor and George Fox.

1. **Standard** (regular) unitrust – pays a percentage of the net fair market value of the trust assets, as determined each year.
2. **Net income unitrust without make-up** – trust payments are limited to the net-investment income which includes interest and dividends - what the trust has earned in the year.
3. **Net income unitrust with make-up** – in a good year with excess earnings, the trust goes back and makes up for those past deficiencies and pays additional income.
4. **FLIP Trust** – is often used with real estate or difficult to sell assets. It begins as one of the net income trusts, and then it “flips” to a standard trust when the property is sold. A FLIP unitrust may also be used for retirement planning when the income distributions are to be delayed for a period of time.

A charitable remainder trust makes its distributions and tracks its investments according to a four-tier order of distribution:

- 1) ordinary income (rent, royalties, interest and dividends)
- 2) capital gain
- 3) tax-free income
- 4) trust principal.

A standard unitrust must make a distribution according to the payment schedule of the trust agreement, even if the trust corpus must be distributed.

Under most circumstances a net income unitrust can only pay ordinary distributable income (rent, royalties, interest and dividends). A net income unitrust cannot distribute realized capital gains, unless specific language within the trust document permits capital gain to be classified as income.

Trustee. The trustee of a charitable remainder trust may be a bank or trust company, charitable organization, or the donor. George Fox commonly serves as trustee of charitable remainder trusts in which it is an irrevocable remainder beneficiary. This is true even when it is a major beneficiary of the trust, but not the sole beneficiary. In so doing, GFU agrees to accept the legal liability and responsibility that accompany the role of trustee.

In order to provide a high level of customer service to its donors, GFU currently outsources the administration of all trusts with US Bank. All trusts held by GFU are charged an appropriate and reasonable administration fee.

If the George Fox University is a minor beneficiary (less than 50%) or GFU is a revocable beneficiary of the trust, the University may, upon approval, serve as trustee.

Trust Investments. Once the trust is established and GFU is the trustee, the University will consider the use of the referring financial advisor as the investment manager of the unitrust assets. The financial advisor will submit an investment plan to the Trustee that will address factors such as asset allocation, risk management and mutual fund selections to achieve the objectives established by the trust agreement.

The investment advisor manages the trust assets utilizing an agent / custodial account established through US Bank. The advisor will manage the trust assets in a manner similar to how the advisor operates in his/her customary investment business, subject to the regulations that apply to charitable remainder trusts (e.g. unrelated business income and private foundation rules). The manager's customary mutual funds will most likely be appropriate investment vehicles for the charitable trust. Management fees and distribution and shareholder service (12b-1) fees that would normally flow to the fund manager will continue to flow to the investment advisor through the custodial account.

The investment proposal must be structured to meet the income distribution requirements of the trust agreement, and if possible, provide a reasonable rate of growth in trust principal.

How does this work? When George Fox serves as trustee of a charitable remainder trust, the assets (real property, securities, or cash) are transferred to George Fox as trustee. The proceeds received by GFU from the sale of the assets, or the assets themselves, are transferred from George Fox to US Bank. The investment advisor will then have access to the trust and have the ability to invest and manage the funds through the traditional mutual funds they customarily utilize. The investment manager will be able to make customary purchases and sales within the fund and balance the portfolio in accord with the investment proposal recommended by the investment manager and approved by George Fox as trustee.

George Fox University seeks to invest its assets in mutual funds, equities, and fixed income investments of companies that are compatible with the University's Christian world view. In accord with the GFU socially responsible investment policy (investment screen) the University does not invest in companies, stocks, or funds associated with defense industries, alcohol, tobacco, and gambling companies.

We recognize that each charitable trust should be invested in a manner that considers the financial needs and investment perspective of the trust settlor. Therefore, George Fox University, in its capacity as trustee of charitable remainder trusts, seeks input from the settlor regarding the use of socially responsible investments and his/her preferred investment perspective.

If a settlor indicates a preference for the employment of a socially responsible investment model, that preference will generally preclude the use of an investment manager other than US Bank

because of the use of mutual funds as the preferred investment vehicle. The use of mutual funds makes it somewhat difficult to select appropriate socially responsible mutual funds compatible with the George Fox University screen.

When real estate is used to establish a unitrust, GFU will sell the real estate in the most reasonable and best time to maximize the return from the asset. The university does not hold real estate for long periods of time. Once the property is sold, the resulting sale proceeds will be invested in a manner consistent with these guidelines.

Retirement Planning. To the extent consistent with Internal Revenue Service guidelines, charitable remainder trusts make excellent vehicles for enhancing retirement income from appreciated assets. Unitrusts are often used with younger people as alternative or in addition to qualified retirement plans. In some cases, a net income with make-up unitrust may be designed to defer income for a number of years through the selection of growth-oriented investments, and then switch the investment mix at some point in the future.

Investment Portfolio - Asset Allocation

Standard unitrusts will be managed on a total return concept. Total return is defined as interest, dividends, realized gains and losses resulting from the sale of assets, and unrealized gains and losses in market value, minus fund administrative costs.

Example

Unitrusts for those beneficiaries of relatively younger ages or with a need to emphasize growth in the principle and distributions over time may have an asset allocation of 70% equities and 30% fixed income (debt) assets. Unitrusts with a need to minimize risk may utilize a more conservative portfolio of 50-60% equities and 40-50% fixed income assets.

As normally constructed, net income trusts will be managed to emphasize current income with an allowance for some growth in capital over time (30-40% in equities or growth oriented assets and 60-70% in debt instruments). A variation to the customary net income trust is the net income with make-up unitrust or retirement build-up unitrust with an investment mix designed to maximize growth over time and defer income (80 – 100% equity/growth oriented assets). In some cases, the trust's definition of income may define realized capital gains subsequent to the gift as income.

The design of the trust and needs of the income beneficiaries and the university may also govern the trust investment mix. In selecting an investment option, the university will be focusing on both the projected rate of return and the volatility of the proposed investments.

It is expected that not less than two investment management proposals will be presented for consideration. Exceptions to this requirement may be granted when assets of more than one charitable trust are already under management with the same firm, and GFU has determined that

the current investment plan meets the objectives of the university and the current trust agreement.

Reports Provided to Trustor(s)

Through US Bank, GFU provides required forms for the reporting of income for federal and state tax purposes annually. Regulations require K-1 reports to be issued prior to April 15 of each year. GFU and US Bank endeavor to provide these reports in a timely manner prior to this required time.

Annually, during the first quarter of the year, GFU will provide a report of the value of trust assets based upon the market value as of the first business day of each calendar year to the trustors (or income beneficiaries). It is expected that the fund manager will provide the required information for this report in a timely manner.

Advisor Disclosure

George Fox University desires to associate with investment advisors of the highest professional and ethical character. Toward that end, GFU asks for disclosure with regard to any legal action the investment advisor is, or has been, involved in that is related to their professional activity, and any record of any prior felony convictions. If the university subsequently learns about such action or convictions involving the investment advisor, the university's relationship with the investment advisor will be immediately terminated.

(11/8/2006)