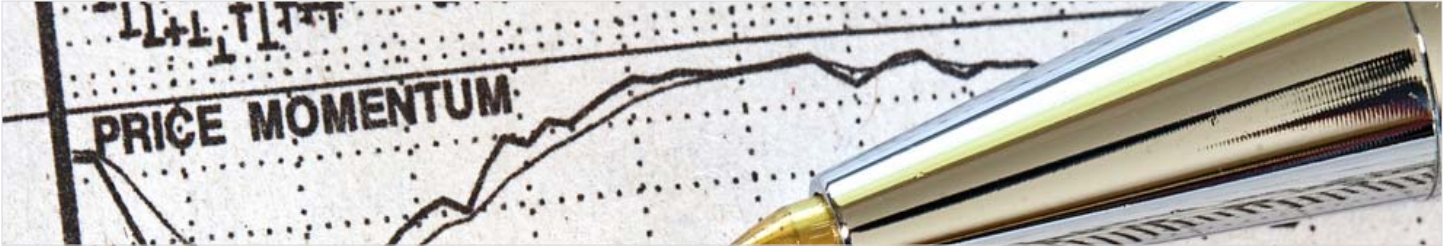




## **INVESTMENT MANAGEMENT ACCOUNTS**

- 2** Investment Management Accounts
- 4** Managing Investments at Covenant Trust Company
- 12** Cost Basis

# Investment Management Accounts



Investment of reserve assets can be a matter of concern for board and staff members of charitable ministries. Individuals may often have some of these same concerns about their personal invested funds. Problems may arise in three areas:

1. Loss of purchasing power of the assets during inflationary periods because of highly conservative investment policies
2. Loss of the principal of the reserve assets due to inappropriate asset allocation decisions and/or inappropriate investment selections
3. Inadequate bookkeeping and/or control of funds

An **Investment Management Account** with Covenant Trust Company<sup>®</sup> responds to these concerns.

In addition, an Investment Management Account with Covenant Trust Company may be of interest to you if:

- you are interested in professional money management for long-term investing for your ministry or yourself;
- you are looking for a personalized investment strategy to meet your specific needs; and
- you want to retain the ability to withdraw assets at any time

**Investment Management Accounts** provide investment management for individuals, churches, conferences, camps, Children's homes, all Covenant denominational ministries and others.

## IMPORTANT FACTS

- At Covenant Trust Company, we concentrate on meeting **your** investment needs.
- All income and principal assets of an Investment Management Account are available to you on request.
- Consultation with the ministry or individual establishing the account determines the specific asset allocation for each Investment Management Account.
- Your assets receive continuous professional monitoring.
- Our "high-tech, high-touch" service means we use technology to do a high volume of work so we are free to work with our clients. Regular communication means you always know what is happening with your account, and we keep abreast of your changing needs.
- You can close the account at any time by written notification to Covenant Trust Company. The current quarter's fee will be pro-rated.

## FEE SCHEDULE

Fees\* will be billed quarterly, based on the market value of the assets as follows:

First \$1,000,000.....1 percent per year

Next \$2,000,000 8 tenths of 1 percent per year

Next \$7,000,000 6 tenths of 1 percent per year

\$10,000,000 and over ..... By proposal

Minimum investment..... \$10,000

Maximum investment ..... None

There may be a per-transaction fee for special services such as electronic wiring of funds to a bank.

Covenant Trust Company reserves the right to change the stated fees at any time. Advance written notice will be provided to all account holders.

*\*This fee schedule effective January 1, 2012.*

Covenant Trust Company's Investment Committee consists of staff members who work full-time with investments as well as established professionals in investments and related fields.

**Lawrence P. Anderson, chair**

Executive Vice President for Finance  
Covenant Ministries of Benevolence

**Carl E. Balsam**

Executive Vice President  
North Park University

**Renee Cross**

Vice President/Branch Manager  
Apple Bank for Savings

**Paul Hawkinson**

Treasurer/Vice President for Finance  
Evangelical Covenant Church

**Gary S. Johnson**

Portfolio Manager  
Covenant Trust Company

**William Y. Moucka**

Vice President/Investments & Business Development  
Covenant Trust Company

**Samuel Papanek III**

Attorney  
Papanek, Rose & Associates

**Jill Rhiner**

Formerly Senior Partner  
J. Walter Thompson Advertising

**Thomas M. Sprague**

Independent Investment Consultant  
Formerly with Fidelity Investments

**Mollie N. Sudhoff**

Manager  
CrossCheck Compliance LLC

**Ann P. Wiesbrock**

President  
Covenant Trust Company

*Information contained in this brochure is for purposes of information and education only, and is not intended as either tax or legal advice. Consult your personal tax and/or legal advisor for specific information.*





# Managing Investments

*at Covenant Trust Company*





**Covenant Trust Company® [CTC]** offers professional asset management services for several types of accounts. We strive to provide all clients with high quality investment management services and seek to produce positive long-term investment results. We are generally conservative in our approach, and committed to high quality investments for the portfolios we manage. We hope the following information is helpful.

### **What is Covenant Trust Company?**

Covenant Trust Company is an Illinois state-chartered, non-depository trust company. *Non-depository* means that CTC does not have savings or checking accounts like a bank, but is able to provide full trust and investment management services to members, friends and ministries of The Evangelical Covenant Church and its affiliates.

### **What investment-related services does CTC offer?**

- Trustee services for revocable living trusts and irrevocable charitable trusts. As trustee, CTC manages the assets held in trust.
- Trustee services for traditional and Roth Individual Retirement Accounts [IRA]. As trustee, CTC manages the assets held in these accounts.
- Professional asset management through Investment Management Accounts [IMA]
- Management for Covenant Endowment Trust accounts that benefit Covenant ministries
- Management for various denominational funds such as the Covenant Charitable Gift Annuity Fund and Covenant Pooled Income Funds

### **What is a trust?**

A trust is a legal agreement between you as grantor and a trustee, who can be a person or a corporation such as CTC. Under this agreement, the trustee agrees to manage the assets you place in the trust during your life and to distribute the assets at your death. Both activities are governed by your explicit instructions as stated in the trust agreement. One of the most frequently used trust types is the **revocable living trust**.

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### ***How could a revocable living trust benefit me?***

A revocable living trust can provide ongoing financial services if you should become mentally or physically disabled. A trust also ensures that your assets will not be controlled by a spouse or child who may not be able to handle that burden. Accounting and recordkeeping services are provided for your trust investments, as well as collection of income and safekeeping services for all trust assets. As trustee, CTC also provides professional investment management. At death, distribution to your heirs is private, since trust assets pass outside the probate process.

### ***What do you mean by “professional” investment management?***

Every time you open a CD, buy a stock, or add to a mutual fund account, that’s investment management. Simply stated, “professional” investment management is done by a person or organization on behalf of someone else. Investment management involves two basic steps:

- Asset allocation - Determining how to distribute your assets over various investment types [e.g. money markets, bonds, stocks, etc.] based on your risk tolerance, goals and needs
- Security selection - the identification of specific bonds, stocks or mutual funds most suitable for each selected asset class

### ***What is “risk tolerance”?***

Risk tolerance is your “comfort level” with different types of investments or different levels of risk in an investment portfolio.

### ***Since each client has different needs, how does CTC identify the best way to invest the assets of my account?***

We seek to understand your personal goals and objectives by asking you to complete an Investment Questionnaire. It contains questions about your physical health and needs; your financial circumstances and goals; payments or withdrawals you may expect from your account; your attitude toward different types of securities and the risks that accompany them; and finally the type of investments you currently hold. We then create an investment plan to respond to your individual circumstances.

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### ***What is “cost basis” and why is it important?***

Cost basis is how much you paid for a stock, bond, mutual fund, etc. It is very important to know the cost basis of every asset and be able to document it. The difference between what you paid for a security [its cost basis] and its current value is *capital gain or loss*. If the difference is a gain, you may be taxed when the security is sold. We cannot assign an unsubstantiated cost basis to a security you transfer into your account. If cost basis cannot be substantiated, we will carry it on our books at a total cost of \$1.00. This would make the entire value subject to capital gains tax at sale, so it is in your best interest to do all you can to determine the accurate cost basis of all your assets.

### ***How do you begin the investment management process for my account?***

Once we review your completed CTC Investment Questionnaire, we determine the investment objective that best suits your needs and goals. Investment objectives range from very conservative, income-only accounts to growth-oriented accounts that offer the potential of superior, long-term returns. The classification of your account within this range is determined by balancing your investment objectives against the level of risk you can tolerate comfortably. CTC has eight basic investment objectives:

- Capital Preservation
- Income with Growth
- Conservative Growth
- Moderate Growth
- Focused Growth
- Strategic Growth
- Aggressive Growth
- Capital Appreciation

### ***Why is it important to consider risk?***

The old saying is certainly true: *The greater the risk, the greater the possible reward [or loss]*. The greater the total return [income plus growth] you seek, the greater the risks you must take to get there. *Compensated risk* provides a corresponding increase in potential reward. *Uncompensated risk* does not enhance a portfolio’s return expectation. CTC’s goal is to reduce or eliminate uncompensated risk through portfolio diversification. Our challenge is to properly match the risk that you can and should take—given your circumstances—with the appropriate investment mix.

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### ***What happens next?***

After we assess your risk tolerance and determine your investment objective, we assign an *asset allocation formula*—specific percentages to be invested in cash, fixed-income, equities, or other assets—for your account. You receive an initial portfolio review with CTC’s recommendations for an investment strategy that puts your long-term investment goals into action. We share this plan with you to ensure that we understand your wishes and expectations at the outset, and ask you to update the information periodically to keep us aware of your changing needs.

### ***How can you have a unique plan for each account, but only one basic strategy?***

CTC has one basic investment strategy which addresses needs for both income and growth. Conservative, income-oriented investments provide the foundation and often the largest portion of the portfolio. CTC believes the best way to invest this portion of your account is in bonds, through diversified investment grade bond mutual funds with short- to intermediate-term laddered [tiered] maturities. We do not buy long-term bonds or funds because of their excessive price volatility.

When invested for longer terms, stocks have historically experienced higher returns than bonds. For this reason as well as for additional diversification, we allocate a percentage of most portfolios to equity securities. As with fixed-income, CTC believes the best way to invest the equity portion of your account is through mutual funds. So we have one basic investment strategy, customized for each account by altering the mix of assets based on your individual goals and needs.







***Is it true that CTC may want to make changes in my investments when it takes over the investment management function?***

Yes. Because CTC has specific investment policies and strategies, the assets you have when your account is established may not be ideally suited to the goals of the investment plan CTC develops for your account. If so, we will recommend replacing these assets with core holdings that CTC monitors regularly. This doesn't mean your assets are of poor quality but rather may not fit the strategy CTC uses. In addition, some clients' portfolios lack proper diversification because they have individual holdings that are disproportionately large. These holdings usually create some of the unnecessary risk noted above. To maximize the benefits of CTC's investment program, it is important for us to bring your account into conformity with our investment strategy as soon as practical.

***How does CTC select individual bonds and stocks for my account?***

CTC uses multiple investment managers through the use of no-load mutual funds. These managers may utilize active or passive (index) strategies. An important part of CTC's ongoing investment management is the monitoring of these managers in terms of adherence to stated objectives, risk, and investment performance.

***How does CTC decide when to invest in tax-exempt bonds?***

Before CTC buys tax-exempt bonds or funds for an account, we review the client's projected marginal income tax rate as well as the present yield differential between tax-exempt and taxable alternatives. Where there is an adequate yield advantage with exemptions, they will be considered as an addition to the portfolio. We use the latest information you have given us about your federal and state income tax filings in making this determination.



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### **Who reviews investment activity at CTC?**

The **Investment Committee** of the board meets at least quarterly to formulate and review investment policy, evaluate internal and external investment analysis, establish criteria for CTC core holdings, review asset allocation and holdings of selected individual accounts, and monitor the activities of the Portfolio Review Committee which reviews each fiduciary account at least once annually.

#### **Lawrence P. Anderson, chair**

Executive Vice President for Finance • Covenant Ministries of Benevolence

#### **Carl E. Balsam**

Executive Vice President • North Park University

#### **Renee Cross**

Vice President/Branch Manager • Apple Bank for Savings

#### **Paul Hawkinson**

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#### **Gary S. Johnson**

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#### **Samuel Papanek III**

Attorney • Erickson-Papanek-Peterson-Rose

#### **Jill Rhiner**

Formerly Senior Partner • J. Walter Thompson Advertising

#### **Thomas M. Sprague**

Independent Investment Consultant • formerly with Fidelity Investments

#### **Mollie N. Sudhoff**

Manager • CrossCheck Compliance LLC

#### **Ann P. Wiesbrock**

President • Covenant Trust Company



**What can you tell me about CTC's investment management performance?**

CTC seeks to achieve investment returns over time which meet or exceed the returns of stated benchmarks for each respective asset class while maintaining risk levels in line with those benchmarks. While it is impossible to predict investment returns, we believe our investment approach serves as a sound basis for achieving these goals. We provide clients with standardized total return data for their accounts on a quarterly basis so that they may monitor their performance directly.

**I still have questions. Where can I get more information?**

You may contact us toll free at 800-483-2177 or visit our website at **[www. CovenantTrust.com](http://www.CovenantTrust.com)**.

*“Everyone needs a financial services partner. We would like to be yours. CTC provides the expertise, discipline and clear-eyed focus on long term results you expect in an asset manager. We are committed to excellence, integrity, and prudent investing, looking to grow your net worth over time. We take care of business so that you are free to take care of what matters most to you.”*



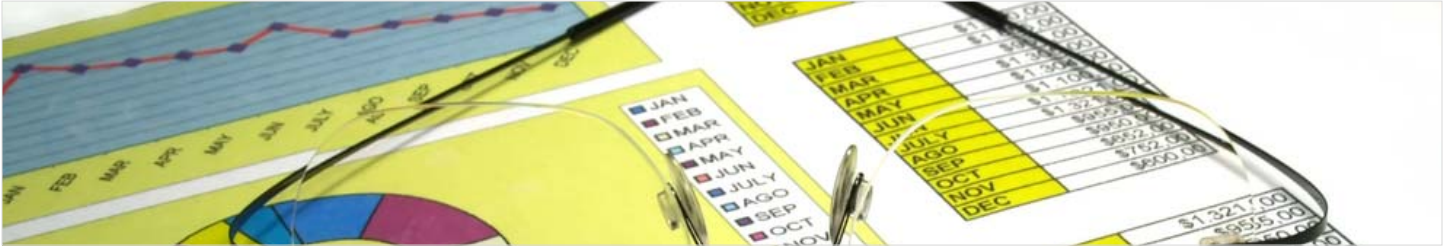
Ann Wiesbrock, CFP®  
President  
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# Cost Basis Research for Securities



## Your cost basis is:

- The amount you paid for a security when it was purchased
- The value of the security on the date of death of the person from whom it was inherited
- The same as the cost basis of the person from whom you received the securities as a gift

**NOTE:** Your original cost basis is reduced by the cost basis of any shares sold.

## Why do I need to know the cost basis?

Cost basis determines the amount of gain or loss on an asset when it is sold. This gain or loss is reported on your income tax return. If there is no cost basis on an asset, the *entire proceeds* may be taxed as a capital gain.

**NOTE:** In this brochure, the term *security* is used to refer to stocks, bonds, or mutual fund shares.

## Where can I look for cost basis information if I bought the securities myself?

- Look for *original broker confirmations*, i.e. purchase or sale receipts from your broker
- Review your *brokerage statements* for purchase(s) and sale(s)
- Review your *financial records* for purchase and sale amounts and dates
- If you made the purchase(s) through a broker and cannot find your statements, you may *contact the broker* for the cost basis
- Look for *cancelled checks* for the purchase(s)
- If you cannot find any written record of the purchase(s), try to remember the *date you made the purchase(s)*
- Refer to *old tax returns* to determine cost amounts claimed for shares previously sold

## I received this security as a gift. What is the cost basis of gifts?

The person who gave you the security should also have given you cost basis information. Normally, your cost basis for securities is the same as that of the person who gave it to you.

## What if I inherited the security?

Look for an *estate valuation* of the person from whom you inherited the security. It should list the security's value at date of death. If you cannot find an estate valuation, provide the *date of death* and Covenant Trust Company will research the price.

**I received this stock from the company I worked for. How do I find cost basis?**

- The company should have issued statements as you purchased the stock. If you have all these statements, cost basis may be calculated from them.
- If you do not have the statements, your former employer will have the information. The Human Resources Department should be able to tell you where to get the information.

**Since I bought my stock, it has had splits and/or dividends. How does this affect cost?**

Stock splits and stock dividends increase the number of shares, but do not affect the total cost basis. If you paid \$1,000 for 100 shares but now have 400 shares due to splits, the cost basis for all 400 shares is still \$1,000.

**I have stock in a company which has gone through a merger or acquisition and has a new name. How do I find cost?**

If you can determine the cost basis for the original purchase, give us those figures. We have resources in our office to make the appropriate adjustments.

**I have been reinvesting dividends, income or capital gains. What is the cost basis for reinvestment?**

Cost basis includes *each and every reinvestment* of dividends, income, and/or capital gains.

**How do I calculate the cost basis of my reinvestment?**

- If you have saved all your year-end statements since you opened the mutual fund or stock reinvestment account, add up each reinvestment to arrive at the cost.

**(HINT:** If you are using year-end statements and all the dividends have been reinvested, add the total dividends for each year and reduce by the cost basis of shares sold.)

- If you have not saved your statements, call the fund's 800 number (usually shown on the statement) and request an account history. There may be certain constraints if the account is very old.

**(NOTE:** The fund may charge a fee for this service.) You may also be able to get this information for a stock dividend reinvestment account by contacting the company. Ask for "Shareholder Services".

Cost basis information is very important and will play a significant role as you establish your trust. This **Quick Guide to Cost Basis Research** may be helpful to you in completing the Cost Basis Worksheet form which accompanies it.

If you have any questions during the process of gathering cost basis information, please feel free to contact your Financial Services Representative. Or you may write or call our office directly and speak with your trust administrator.

Telephone..... 847-583-3200

Toll-free ..... 800-483-2177

e-mail..... Info@CovenantTrust.com

Website ..... www.CovenantTrust.com

*Information contained in this brochure is for purposes of information and education only, and is not intended as either tax or legal advice. Consult your personal tax and/or legal advisor for specific information.*

