

# MANAGING INVESTMENTS AT COVENANT TRUST COMPANY

QUESTIONS  
AND ANSWERS



**WHAT IS YOUR LEGACY? HOW CAN WE HELP YOU BUILD IT?**



**COVENANT TRUST COMPANY®**

*your financial services partner*

*trustee services • asset management • retirement planning • legacy planning*

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**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**.

*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 adviser for specific information.*



### ***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.





### **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 account classification that best suits your needs and objectives. Account classifications 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 seven basic account classifications:

- Capital Preservation
- Current Income
- Income with Growth
- Growth with Income
- Moderate Growth
- Focused Growth
- Aggressive Growth

### **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.



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

After we assess your risk tolerance and determine your account classification, 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.





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***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.





### **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.

#### **Thomas M. Sprague, chair**

Independent Investment Advisor • Formerly with Fidelity Investments

#### **Lars P. Anderson**

Vice President, Corporate Trust Services • US Bank

#### **Lawrence P. Anderson**

Executive Vice President for Finance • Covenant Ministries of Benevolence

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

Executive Vice President/Chief Financial Officer • North Park University

#### **Donald A. Carlson**

Retired—formerly Senior Vice President, Trust Division • Norwest Bank

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

Portfolio Manager • Covenant Trust Company

#### **Paul R. Lindman**

Vice President-Systems • Covenant Trust Company

#### **Dean A. Lundgren**

Vice President for Finance • Evangelical Covenant Church

#### **Samuel Papanek III**

Partner • Erickson-Papanek-Peterson-Rose, Attorneys

#### **Paul V. Peterson**

Retired—formerly President • Covenant Ministries of Benevolence

#### **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)**.



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