

# HAWAI'I CONFERENCE FOUNDATION

## Custodial Fund Disclosure Statement

July 1, 2024

The Hawai'i Conference Foundation (the "*Foundation*") manages assets for the Hawai'i Conference United Church of Christ (the "*Hawai'i UCC Churches*") and offers investment services for the Hawai'i UCC Churches, associations and related church organizations. Chartered in 1968, the Foundation manages both real property and various financial assets.

Local UCC Churches may take advantage of the Foundation's investment pool by placing permanent or long term funds in what are known as "*Custodial Funds*" within the Foundation. Such funds remain the sole property of the Local UCC Church, and decisions about how much of the fund's earnings or principal to use annually are entirely up to the Local UCC Church. There are currently over 70 active Custodial Funds, including churches, associations, and partners.

This statement is intended to explain some of the practical matters of a Custodial Fund. In compliance with the Philanthropy Protection Act of 1995 (P.L. 104-62) (the "*Act*"), it also serves to describe, in writing, the material terms of the operation of a Custodial Fund established with the Foundation. Custodial Funds managed by the Foundation are exempt from registration requirements of the federal securities laws, pursuant to the exemption for collective investment funds and similar funds maintained by charitable organizations under the Act. Information in this disclosure statement is provided to you in accordance with the requirements of the Act.

### **General Disclaimer**

The information in this disclosure statement is supplied to individuals and organizations by the Foundation for general informational, educational and illustrative purposes only. The Foundation does not provide legal, estate planning, accounting or tax advice. All individuals and organizations should consult with their own appropriate professional advisors regarding relevant legal, estate planning, accounting and tax matters.

The information in this disclosure statement is current as of the date shown on page one. The statement may be updated, and the information and policies described herein are subject to change from time to time at the discretion of the Foundation.

<b>A. <u>Custodial Fund Information</u></b>
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#### **1. Advantages**

By setting up a Custodial Fund within the Foundation, the Local UCC Church:

- May receive the advantages of both greater potential earnings and more investment diversification, both of which are possible when a larger pool of money is available for investing;

- The Local UCC Church’s congregation is freed of the direct responsibilities associated with the actual investing of funds;
- Scarce and valuable congregational time and talent can be used for ministries that directly relate to the Local UCC Church’s mission;
- Potential conflicts within congregations may be avoided when the church does not have to choose between two or more investment management options proposed by or connected with Church members;
- Fees to the congregation generally are lower than the fees that would be charged for directly investing small amounts of funds; and
- Donors can feel secure knowing that their gifts will be managed prudently and consistently.

At the same time, the Local UCC Church:

- Retains full ownership and control of its funds;
- May choose how much of the annual earnings to use;
- May withdraw principal;
- Receives quarterly reports showing current market value and earnings of its funds; and
- Receives the advantages of an annual professional and independent audit of all Hawai‘i Conference Foundation funds, including Custodial Funds.

## **2. Operation**

The Hawai‘i UCC Church Custodial Funds are pooled with funds of the Foundation for investment purposes. Each Hawai‘i UCC Church’s Custodial Fund is assigned a certain number of Shares of the total monies being invested from all sources, and earnings are then assigned based on the number of Shares each Hawai‘i UCC Church has. It is similar in certain respects to how a mutual fund is handled.

Additions to Custodial Funds may be made at any time, and flexible withdrawal guidelines even allow a Hawai‘i UCC Church’s permanent funds to be available without penalty with a minimum of formal notice.

Regular withdrawals from Custodial Funds can be scheduled up to four times a year. Reports to the Hawai‘i UCC Churches are issued quarterly.

## **3. Management**

The Hawai‘i Conference Foundation Board of Directors (the “*Directors*”) is responsible for management of the Foundation’s investment activity. The Foundation’s Directors consist of 12 Members as follows: four Members designated by the Hawai‘i Conference; the Chairperson of the Conference Council; the Conference Minister of the Hawai‘i Conference (non-voting Member); and six Members elected by the Directors at their annual meeting.

The Foundation’s Directors approve the Investment Guidelines for the investment portfolio and hire an Investment Monitor to insure compliance with the Guidelines. The

Foundation’s Directors currently engage professional investment managers to manage varying amounts of the total Foundation investment portfolio. The Foundation also has an Investment Committee that makes recommendations to the Foundation’s Directors.

**4. Types of Funds**

The asset allocation as of June 30, 2024 is as follows:

Name	% Portfolio
<b>Total Fund</b>	<b>100.0%</b>
<b>International Equity</b>	<b>4.4%</b>
UCF International Equity Fund	4.4%
<b>Domestic Equity</b>	<b>47.6%</b>
UCF Domestic Core Equity Fund	35.2%
UCF Beyond Fossil Fuels Fund	4.7%
Vanguard FTSE Social Index	7.7%
<b>Alternative Investments</b>	<b>29.8%</b>
FHB - Structured Notes Capped Return	12.8%
FHB - Structured Notes Fixed Coupon	17.0%
<b>Fixed Income</b>	<b>17.2%</b>
Calvert Bond	3.1%
Hartford Strategic Income Fund	3.3%
Eaton Vance Total Return Bond ETF	3.1%
Neuberger Berman Strategic Income Fund	3.3%
Transamerica Bond Fund	3.1%
Calvert Short Duration Income	0.0%
Cornerstone Fund	1.2%
<b>Cash &amp; Equivalents</b>	<b>1.0%</b>
Cash	1.0%

**5. Selected Financial Information**

At June 30, 2024, the total invested funds were as follows:

Foundation Unrestricted Assets	\$	38,354,568.70
Foundation Temporarily Restricted		5,523,909.86
Endowment Funds		16,767,083.54
Custodial Funds		19,010,140.17
<b>Total</b>	<b>\$</b>	<b>79,655,702.27</b>

**6. Fees and Expenses**

Fees and expenses associated with a Custodial Fund are as follows:

Administrative Fee: 30 basis points (0.30%) per annum, calculated and collected by Hawai‘i Conference Foundation on a quarterly basis.

## **B. How to Start**

### **1. Participants**

The Foundation may act as investment agent and Custodial for only:

- Hawai‘i Conference United Church of Christ churches;
- Tax-exempt institutions, organizations, and agencies related to the Hawai‘i Conference United Church of Christ churches;
- Tax-exempt sub-units of the Hawai‘i Conference United Church of Christ churches or related institutions, organizations, and agencies

The entities listed above, hereinafter referred to as “Participants,” must be charitable not-for-profit organizations exempt from federal income tax under Section 501(c)(3) or other applicable sections of the Internal Revenue Code of 1986, as amended. Participants may place assets with the Foundation for investment in any of the investment funds. The Foundation’s Custodial duties include physical safekeeping, investment and distribution of Fund assets in accordance with the directions of the Participants. All investments by Participants must represent assets of the Participants only.

### **2. Eligible Funds**

At this time, only permanent or semi-permanent funds, such as endowments or certain restricted funds, should be considered for placement in a Foundation Custodial Fund. If the Church believes the funds will probably be needed in the near future, shorter term investment options are probably advisable.

### **3. The Process**

Starting a Custodial Fund is easy. Simply request a Custodial Fund Agreement Form from the Foundation. After a representative of your church fills out and signs the Custodial Fund Agreement Form, please send it to the Foundation:

Hawai‘i Conference Foundation  
c/o Andrew Bunn, Executive Director  
700 Bishop Street, Suite 825  
Honolulu, HI 96813

Please include a check and a cover letter which should state how frequently and how much your church would like to withdraw annually, semi-annually, or quarterly. The Foundation will review your materials and will be in contact with you shortly thereafter.

### **4. Disclaimer**

Prospective Participants are advised to consult with their attorney or tax advisor. This disclosure statement does not constitute legal or tax advice. To ensure compliance, please be aware that any U.S. federal tax information contained in this disclosure statement is not intended

or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code, or (ii) promoting, marketing, or recommending to another party to any transaction or matter addressed herein.

**C. Risk**

The risk inherent in investing in a Custodial Fund is the risk common to any security: that the net asset value of the Funds will fluctuate in response to changes in economic conditions, interest rates, the perceptions of the national securities markets of the underlying securities held by the Funds and other factors. There can be no assurance that a Fund will achieve its investment objective because there is uncertainty in every investment. The Funds will invest in securities that may increase or decrease in value.

Although the Funds seek to reduce risk by investing in diversified portfolios of various types of investments, such diversification does not eliminate all risks. There is no assurance that such diversification will reduce the variability of the return or preserve the assets from loss.

**The Custodial Funds are not guaranteed by the Foundation, nor any organization associated with it, nor by any governmental agency or organization.**

**D. Questions?**

The Foundation would be pleased to provide any additional information at your request. The Executive Director of the Foundation is Andrew Bunn. His assistant is Lorene Arata. They will answer any further questions, provide current information on the investments or visit your church to explain the potential Custodial Fund benefits to your members. Andy may be reached at the Hawai'i Conference Foundation office at 700 Bishop Street, Suite 825, Honolulu, HI 96813, or via email at [abunn@hcucc.org](mailto:abunn@hcucc.org). His direct phone line is 808-791-5638. Neighbor Islands may also phone toll-free at 1-800-734-7610, extension 638.