

CAPITAL CITIES

Affiliated Financial Advisor Program for The Community Foundation of Grant County, Indiana, Inc.

To: Liz Wright, Executive Director
Cc: Sherrie Rush, Dawn Brown
From: Capital Cities, L.L.C.
Date: January 10, 2007
Re: Program Description

Background

Sherrie and Dawn contacted Capital Cities last fall regarding an American Funds program involving community foundations. They were curious to know whether we were aware of the program, had any experience with the program and, finally, whether implementing this program would interfere with the current investment policies in place at the Foundation. Their stated goal is “to offer more products and services to our donors and investment professionals in the community.”

This memo will serve to give an overview of the Affiliated Financial Advisor Program. Specifically, we will explain the roles Capital Cities and NRS would play to implement such a program within The Community Foundation of Grant County, Indiana, Inc.

Overview of the Program

Under the Affiliated Financial Advisor Program, a donor works through a broker to provide a gift to a charitable organization. The gifted funds are invested in American Funds products and other mutual or non-registered funds. This program is open to any brokers licensed to sell funds. The community foundation establishes a single, consolidated investment account. The Affiliated Financial Advisor Program’s administrator, NRS, establishes separate and distinct trust accounts under the consolidated account, one for each participating broker.

The benefits of this program extend to all participants – the donor benefits from an enhanced giving experience, the broker maintains the ability to facilitate donations while earning commissions, and the charitable organization benefits from increasing assets and expanding relationships through the broker community. As the program gains momentum, brokers will be more likely to recommend charitable giving through this arrangement to other clients, thus serving as marketing agents for the charitable organizations. Because a charitable organization cannot pay “finder fees” to a broker, American Funds pays the commission to the broker through his or her broker dealer.

Capital Cities' Involvement

As the consultant for The Community Foundation of Grant County, Indiana, Inc., Capital Cities would be involved throughout all aspects of this program and would continue to act in a fiduciary capacity. In the beginning stages, Capital Cities would construct pre-allocated portfolios from underlying American Funds, ranging from conservative to moderate to aggressive. By constructing three distinctly different portfolios, brokers will be able to offer donors varying levels of risk/return, while Capital Cities will be better able to closely monitor the underlying funds. Capital Cities would then formulate an Investment Policy Statement to govern the three portfolios. With regards to fiduciary oversight, Capital Cities would provide documentation concerning fund selection and monitoring. Going forward, Capital Cities would report quarterly on the portfolios and underlying funds. Capital Cities would also work closely with NRS, the third party administrator providing accounting and daily valuation for the program.

NRS' Involvement

NRS has partnered with American Funds to offer accounting and daily valuation services within the Affiliated Financial Adviser Program. Specifically, NRS provides access to an easy to use, simple composite trust statement, access to daily valuation of donor data via the web and facilitates the compensation of all financial advisers involved. The platform provided by NRS would support the pre-allocated portfolios constructed by Capital Cities and would provide automated periodic rebalancing of the donor accounts upon direction from the client. All data provided by NRS would be available for export to the charitable organization's accounting system. The primary benefits of the NRS program are automated systems and seamless access to data that can be branded to each organization.

Fees

On a platform that supports monthly reporting and weekly cash flows, NRS charges 20 basis points on assets under management plus \$50 per donor account. There is a \$6,000 minimum fee for the monthly reporting package. For quarterly reporting and semi-monthly cash flows, NRS charges 15 basis points, plus \$37.50 per donor account, with a \$4,000 minimum fee. Other specific activities are charged separately, such as mailing, special handling of cash flows, wires, ACH transactions, etc., as needed. In situations where donor accounts are not tied to a specific broker of record, some fees may be recaptured. A hypothetical fee schedule is attached.

Minimum Investment Needed

There is no minimum investment required. However, current users (other not-for-profits) have accounts with as little as \$5000 while the average Community Foundation gift is in the \$65,000 range.

Next Steps

The Community Foundation of Grant County, Indiana, Inc. may wish to begin by gauging interest in this program among the brokers in the community. For instance, what size asset base is possible in the initial stages? Perhaps this is accomplished by circulating literature, similar to this memo or a variation of this memo, among the brokers. Because of the minimum fees charged to participate in this program, the Foundation would want to have some comfort that the level of interest is sufficient to justify the fees.

