ADDENDUM U

INVESTING PROCEEDS FROM THE SALE OF A MANSE

GUIDELINES

The Geneva Presbytery has adopted the following standing rules for investing proceeds from the sale of manses.

If churches sell their manses, proceeds from such sales shall be invested and set aside, with the income used for housing allowance or pastoral support. The investment objective of such funds should include growth of principal and income. The income from these funds shall not be used for any other purpose, i.e.. No part of the principal or proceeds from the sale of manses may be disbursed for any purpose without permission of the Presbytery.

A. LEAST DESIRABLE OPTIONS FOR INVESTING PROCEEDS

1. Real Estate - Land may appreciate in value, but it has no liquidity for paying salary or housing allowance.

2. Passbook Savings Accounts, Certificates of Deposit, and/or Bonds - Each is a relatively safe investment and all provide a dependable return (and thus are reasonably attractive).

   These instruments keep up with the rate of inflation, only if income is reinvested. There is no growth in the principal if income is paid out in pastors' salary or housing allowance.

3. Specific Equities (stocks) - Although some equities rapidly increase in value (capital gains) and produce modest income (dividends), others may have only marginal value increases, but pay significant dividends. It seems neither prudent nor wise for a church to invest its proceeds from the sale of a manse in a limited number of investment equities since this strategy increases the investor's vulnerability. Large portfolios have the advantage of being administered so as to spread the risk over many stocks, bonds and other instruments. A small portfolio's success or failure is often tied to the success or failure of one or a few stocks. The principal (corpus) investment from the proceeds of the sale is exposed to too great a risk.

B. MORE DESIRABLE OPTIONS FOR INVESTING FUNDS

The goal of the church is to allow the principal to grow with the rate of inflation, while producing income which may be contributed towards salary or housing allowance. An investment strategy should be adopted which permits realization of this goal.

1. Mutual Funds - A mutual fund is a collection of stocks, bonds or other securities purchased by a group of investors and managed by a professional investment company. The advantages to a mutual fund are diversification, flexibility, professional management, automatic reinvestment or payment and easy access to your money.

   A church should find out what all the management fees are, and when they are paid. Some funds are "no load funds" and charge no sales fees or brokers. Others are "load funds" which charge commissions when you invest and withdraw. Loads can run as high as 8.5%. All funds, however, have a management fee, whether or not they have a sales charge. Usually this fee is about one-half to one percent.

(over)

The undergirding philosophy of the fund should match the investment philosophy of the church involved. The church may desire to study those corporations supported by the mutual fund's investments, to ascertain whether there are corporations involved in projects inappropriate to church investments.

2. Presbyterian Church (USA) Foundation - The Presbyterian Foundation offers an "Investment Management Service" for churches and Presbyterian-related organizations and institutions. There is presently a choice of four unitized funds serving a variety of investment objectives, and offering professional management, diversity and flexibility.

   a. Income Fund - seeks to provide a high level of current income with conservation of principal a prime objective.

   b. Balanced Income Fund - seeks to produce a growing stream of income and some growth in capital by investing in all forms of securities with a substantial portion in bonds.

   c. Balanced Growth Fund - seeks to produce a reasonable long-term growth of capital and income by investing in all forms of securities with a substantial portion in common stock.

   d. Growth Fund - seeks long-term growth of capital by investing primarily in common stock.

   The Foundation has a single annual administrative cost of no more than 1% of the total assets managed for a client. It also follows the General Assembly "Mission Responsibility Through Investment Guidelines".

3. Pooled Church Funds Administered by a Banks Trust Department or Investment Services - If a church has a pool of money large enough to be invested in a diversified manner, the proceeds from the sale of a manse may be part of the pool. A procedure designed to track this investment would have to be established by the churches accountant or bookkeeper, church treasurer and finance committee.

   In this model a proportionate percentage of the income can be drawn upon to pay housing allowance and/or salary.

   The disadvantage of this procedure is that the church will need a financial officer with many skills.

   The advantage this investment opportunity provides is being able to meet with a trust officer on a regular basis to explore strategy and performance.

   In addition, whereas with mutual funds the church has little to say about who manages funds, but with a trust department, the church has some choice of trust officers. However, this does not necessarily mean that the financial relationship will be more financially satisfying.