THE BOARD OF THE STEWARDSHIP TRUST
OF THE CHURCH OF THE GOOD SHEPHERD

ALLOCATION POLICY

Allocations of funds available for distribution will be made in two general ways:

1. Upon written request of the Vestry, and with the approval of the Board of the Stewardship Trust, funds may be transferred to the parish treasurer for those uses which conform to the purposes and restrictions incorporated in the enabling resolution adopted by the Vestry.
2. As set forth in this enabling Vestry resolution, the Board of the Stewardship Trust may obligate monies for general expenses incident to the management and administration of the Fund. Extraordinary initiatives contemplated by the Board to be undertaken for Endowment Fund development will be approved by the Vestry before implementation.

Distributable funds from the undesignated Endowment Fund will be determined on the basis of a total return principle and will not be dependent upon income generated through interest or dividends. Five percent (5%) of the market value of the corpus shall be deemed to be the Trust Income for accounting purposes, based on a three-year rolling average, with measurement of the Corpus taken at the end of the current and each of the two preceding fiscal years ending on September 30. The market value for this purpose will be taken net of the fees for investment management.

Designated Funds shall also be determined on the basis of a total return principle and will not be dependent upon income generated through interest or dividends. The funds available for expenditure from Designated Funds shall be limited to five percent (5%) of the market value determined on the three-year rolling average as defined in the preceding paragraph.

All other expenditures, whether in categories 1) or 2) above, will be taken from funds available for distribution.

The percentage of the Trust Income to be distributed shall be determined each year by the Vestry considering recommendations of the Trust Board based on criteria presented to the Vestry. The basis of the decision of the Vestry should be that in good economic years the distribution should be minimized so that the undistributed Trust Income may be allowed to build the Corpus of the Fund in value for later years when it is needed. In bad economic years the distribution should be higher when larger amounts will likely be needed. The provisions of Chapter 36E of the NC General Statutes shall provide the criteria for distribution as summarized in the explanatory Memorandum that is attached hereto and incorporated in this Policy.

Any undistributed Trust Income shall be added to the Corpus of the Undesignated or Designated Fund from which the income was not distributed.

Adopted by action of the Stewardship Trust Board of the Church of the Good Shepherd this 8th day of June, 2009.

NORTH CAROLINA ADOPTS
THE UNIFORM PRUDENT MANAGEMENT OF INSTITUTIONAL FUNDS ACT

North Carolina has recently adopted the Uniform Prudent Management of Institutional Fund Act (the "Act") to govern the investment and spending of funds held by charities and governmental organizations for charitable purposes (See Chapter 36E, NC General Statutes). The new law updates and significantly revises the standards governing such funds, providing institutions with greater flexibility.

The Act applies to funds that have been given to an institution to be held for charitable purposes pursuant to a gift instrument that are not fully currently expendable, *i.e.* endowments. It sets forth a prudent man standard to govern the management and investment of such funds. Subject to the intent of the donor, the Act allows an institution to consider a number of factors including: general economic conditions, the possible effect of inflation or deflation, the expected tax consequences of investment decisions, the role that each investment plays within the overall investment of the fund's portfolio, the expected total return from income and appreciation, other resources of the institution, the needs of the institution and the fund, and an asset's special relationship, if any, to the charitable purposes of the institution.

Of great significance are the changes allowed by the Act to the spending of funds. Under prior law, an institution could not expend endowment funds if the fund's value fell below its "historic dollar value." This meant that in poor economic times, many endowment funds could not be used at all for their charitable purposes, but were instead required to be held until their values increased. Now, under the Act, a prudence standard allows an institution to expend a fund even if it falls below its historic dollar value. Subject to the intent of a donor, an institution must look to a number of factors to determine whether it should spend money from a fund. These factors are: the duration and preservation of the endowment fund, the purposes of the institution and the endowment fund, general economic conditions, the possible effect of inflation or deflation, the expected total return from income and appreciation, other resources of the institution, and the investment policy of the institution. It is important to note, however, that an institution may not take action in this regard that would be contrary to the donor's intent.

Another significant change allows institutions in certain limited circumstances to release or modify a restriction on a fund without seeking the prior consent of the donor or a court. If an institution determines that a gift restriction is impracticable, impossible to achieve, or wasteful, it may, with notice only to the attorney general, release or modify the restriction if the fund has a value less than $100,000, is more than ten years old, and continues to be used in a manner consistent with its charitable purposes.

The Act also permits institutions to delegate management and investment functions to an outside agent under a prudent care standard. That standard should be used in selecting an agent, establishing the scope and terms of the delegation, and in periodically reviewing the agent's actions. An institution that complies with these standards is not liable for the actions of such an agent.

In conclusion, the Act makes substantial changes to allow for greater flexibility by institutions in making decisions regarding the management and investment of its charitable funds.