

## INFORMATION STATEMENT

Pooled Trust Fund III  
(As of December 31, 2016)

THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION  
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### INTRODUCTION

You are considering transferring cash or other property to Pooled Trust Fund III (the “Fund”) of The Lutheran Church—Missouri Synod Foundation (the “Foundation”). You probably have many questions regarding both the Foundation and the Fund. The purpose of this Information Statement is to introduce you to the Foundation and the Fund. It is hoped that this Statement will answer most, if not all, of your questions. However, if, after carefully reading this Information Statement, you still have questions, please contact us. We will do our best to answer your questions.

### THE LUTHERAN CHURCH—MISSOURI SYNOD FOUNDATION

The Foundation was established in 1958. It is charged with the management, conservation, and administration of legacies, bequests, devises, endowments, annuity gifts, and other trust funds of The Lutheran Church—Missouri Synod (the “Synod”) and its Districts, colleges, seminaries, and other organizations of the Synod. It also provides such services to the Synod’s member congregations and to its auxiliaries and listed service organizations.

The Foundation, through the administration and distribution of funds entrusted to its care, provides substantial financial support for the activities of the Synod and affiliated organizations. At the close of the fiscal year ending June 30, 2016, it supervised assets valued at approximately \$956,010,000.

### THE POOLED TRUST FUND III

#### *How The Pooled Trust Fund Operates*

#### 1. Overview

Pooled Trust Fund I was established by the Foundation in 1970, and Pooled Trust Fund II was established in 1983. Under the terms of each of those pooled trust funds, Donors contributed gifts of cash or property to the Foundation, the Synod, or a designated local or auxiliary organization of the Synod, while retaining a lifetime income interest in the cash or property. Both of Pooled Trust Fund I and Pooled Trust Fund II are still in existence. As of June 30, 2016, Pooled Trust Fund I held assets with an aggregate fair market value of



approximately \$1,025,600, and had approximately 240 agreements issued, pursuant to which individuals received aggregate annual income in the twelve months ending June 30, 2016, of approximately \$33,900. As of June 30, 2016, Pooled Trust Fund II held assets with an aggregate fair market value of approximately \$2,833,700, and had approximately 220 agreements issued, pursuant to which individuals received annual income in the twelve months ending June 30, 2016, of approximately \$98,400.

On December 14, 2016, a new and additional pooled trust fund, Pooled Trust Fund III, was established by the Foundation, which in certain respects is similar to, but is separate from, the earlier pooled trust funds. Like the earlier pooled trust funds, the Fund exists to receive and administer cash and property transferred to it by Donors who contribute an irrevocable remainder interest in such cash and property to the Foundation, the Synod, or to a designated local auxiliary organization of the Synod. Each Donor retains an income interest for the life or lives of one or more beneficiaries living at the time of the transfer. The rate of income is not guaranteed.

The cash and/or property transferred by each Donor is commingled with the cash and property transferred by other Donors who have made or make similar transfers to the same Pooled Trust Fund. The assets of each Pooled Trust Fund are then invested, and the net income of each Pooled Trust Fund is distributed in quarterly installments to the beneficiaries in proportion to the number of units each beneficiary holds in the respective Fund. The Pooled Trust Fund accepts only transfers of property that meet certain requirements of the Internal Revenue Code. A Donor cannot revoke or alter a gift of a charitable remainder in property to the Pooled Trust Fund.

As of December 31, 2016, the Fund holds assets with an aggregate fair market value of \$2,002,377.12, with 2 active agreements.

## **2. Investment Policy and Management**

The Fund's investment objective is to provide current income with some potential for growth. It is invested in four different market segments designed to achieve this objective, namely core bond, high yield bond, domestic equity, and international equity. The current allocation target is 23.3% core bond, 26.7% high yield bond, 27.5% domestic equity, and 22.5% international equity. The allocations may be adjusted from time to time as determined by the Foundation. There is no investment history for the Fund because it is a newly established fund, but the makeup of the investments that comprise the Fund, and their past performance, is available at [www.lcmsfoundation.org](http://www.lcmsfoundation.org). The Fund's income and the value of its assets will fluctuate with changes in economic and market conditions, and past performance is no guarantee of future results.

The Trustee of the Fund is the Foundation. The Trustee is authorized to retain or sell any property transferred to the Fund and to invest the assets of the Fund at its sole discretion, except that it is not authorized to invest the assets in any manner that will result in a denial of any charitable contribution deduction by the Donor(s). It is anticipated that from time to time the Foundation may retain, and compensate, independent investment counsel.

## **3. Units of Participation**

At the end of each month for each transfer of cash or property to the Fund, one or more units of participation is issued equal to the number obtained by dividing the fair market value of the property transferred by the fair market value of a unit in the Fund immediately before the transfer. If a transfer of property to the Fund by a Donor occurs on any date other than the dates described in Section 4 below, the number of units of participation assigned shall be determined by using the average fair market value of the property in the Fund immediately before the transfer, which shall be deemed to be the average of the fair market values of the property in the Fund on the dates described

in Section 4 below immediately preceding and following the date of transfer. Once determined, the number of units assigned to each life income gift will not change, but the value of the Fund assets changes.

#### **4. Valuing Assets**

The assets of the Fund are valued quarterly, at the beginning of the day on January 1, April 1, July 1, and October 1, of each year, and at such other times as the Trustee may determine; provided, however, that where such date falls on a Saturday, Sunday or legal holiday, the valuation will be made on the next business day. Valuations of the assets of the Fund, and of property added to or withdrawn from it, are made in accordance with customary fiduciary practices and with United States Treasury regulations and Internal Revenue Service rulings and guidance governing pooled trust funds.

#### **5. Distribution of Income**

Each Donor transferring cash or property to the Fund does so under the terms of a Life Income Agreement. The Life Income Agreement provides for the income generated by the Donor's gift to be distributed each year. Such income is not reduced by administrative expense, including reasonable investment management and similar fees, all of which are allocated against the principal of the Fund. The income generated by the investment of the pooled gifts of the Donors is accrued and distributed to the Donor, or to a beneficiary whom the Donor designates, for his or her lifetime. The Donor may provide for a successor beneficiary to receive the income after the death of the Donor or the Donor's designated beneficiary. Any beneficiaries named to receive income under the terms of the Life Income Agreement, including any successor beneficiary, must be living at the time the transfer is made to the Fund. The income that is paid will include all forms of net traditional income, like interest and dividends and all net realized short-term capital gains, except that any pre-gift appreciation on assets contributed to the Fund and all long-term capital gains are permanently added to the principal of the Fund and are not included in income.

#### **6. Distribution of Remainder**

Upon the death of the last named individual beneficiary, assets represented by the Donor's units of participation are withdrawn from the Fund and transferred to the Foundation. The Donor may request distribution to an organization that is part of the Synod.

### ***Tax Consequences in Brief***

#### **1. Federal Income Tax Consequences**

Each Donor to the Fund is entitled to a Federal income tax charitable contribution deduction in an amount determined by using the official United States Treasury Department tables that measure the charitable portion of a gift by subtracting the value of the life income interest from the value of the cash or property given. The value of this "remainder interest" (the right to receive the gift assets at the termination of the life interest) depends on the age(s) and number of the income beneficiary or beneficiaries and on the highest annual rate of income earned by the Fund in the three taxable years before a transfer.

The investment policies of the Fund are such that the Fund ordinarily will pay no income tax. The payments made to beneficiaries are reportable by them as ordinary income for income tax purposes.

No capital gain is realized by the Donor when securities or other property that have appreciated in value are transferred to the Fund. However, the unrealized appreciation portion of the resulting charitable income tax deduction is a tax preference item, possibly taxable under the alternative minimum tax calculation. The Donor should consult his or her tax advisor to determine whether the charitable contribution will result in an alternative minimum tax liability. The Fund pays no capital gain tax on sales of long-term securities.

## **2. Federal Gift Tax Consequences**

Where the Donor is the first beneficiary and names a successor beneficiary, without reserving the right, exercisable only by Will, to revoke that successor's rights under the Life Income Agreement, the Donor has made a taxable gift for Federal Gift Tax purposes. In the event that the successor beneficiary is the Donor's spouse, the gift will be treated as a "terminable interest" which will result in a taxable gift unless either (i) the Donor reserves the previously described right to revoke or (ii) the Donor elects to treat the gift as "qualified terminable interest property" by making a so-called "QTIP election" thus qualifying the gift for a marital deduction. The Foundation's agreements generally provide for a Donor's right to revoke. Because of this, no taxable gift is made to the successor beneficiary. If the Donor is not a beneficiary, but creates income interests in others, the Donor makes a taxable gift to those beneficiaries. If, under any of the circumstances previously described, the Donor has made a taxable gift, the Donor must file a Federal Gift Tax return and possibly pay a tax. The gift to the Foundation of the charitable remainder interest also must be reported on a Federal Gift Tax return because it is a gift of a future interest. However, it is not taxed because it is a transfer to a charitable organization.

## **3. Federal Estate Tax Consequences**

If the Life Income Agreement is written for the Donor's life alone, no part of the life income gift will be subject to Federal Estate Tax upon his or her death. If there is a survivor beneficiary and the Donor dies first, only the value of the life interest of the survivor in the Donor's units of participation is subject to Federal Estate Tax. That value is computed on the basis of the survivor's age at the Donor's death. In the event that the survivor beneficiary is the Donor's spouse, the survivor interest will be treated as a "terminable interest" but the Donor may elect to treat the gift as "qualified terminable interest property" by making a so-called "QTIP election" thus qualifying the gift for a marital deduction. The value of the remainder interest qualifies for the Federal Estate Tax charitable contribution deduction and is, therefore, not taxed. If the second beneficiary does not survive the Donor, no part of the value of the Donor's units of participation in the Fund will be subject to the Federal Estate Tax.

## **4. Federal Generation-Skipping Transfer Tax Consequences**

If the Life Income Agreement names an income beneficiary who is two or more generations below that of the Donor, distributions to that income beneficiary may be subject to a generation-skipping transfer tax. However, the income beneficiary may be entitled to an income tax deduction for the amount of the generation-skipping transfer tax paid.

We suggest you consult your tax advisor if you have any questions about the tax consequences of your contribution to the Fund.

## *Miscellaneous*

### **1. Federal Securities Registration**

The Fund is operated so as to qualify for the exemption from registration under Section 3(c)(10) of the Investment Company Act of 1940 (15 U.S.C. Section 80a-3(c)(10) as amended by the Philanthropy Protection Act of 1995, Public Law 104-62, December 8, 1995). The Fund is intended to qualify for exemption: from registration under the Securities Act of 1933; from registration, periodic reporting and the proxy solicitation provisions under the Securities Exchange Act of 1934; and from state regulation under the securities laws of any State in effect as of December 8, 1995. However, the Philanthropy Protection Act does not preempt such state regulation of the Fund by a State that enacted legislation opting out of such preemption within the three-year period ending after the enactment of the Philanthropy Protection Act. The Fund is also operated so as to qualify for the exemption for the Foundation and its directors, officers, employees or volunteers, acting within the scope of such person's employment or duties, from the 1934 Act Broker-Dealer provisions and from the investment adviser registration provisions of the Investment Advisers Act of 1940.

### **2. Amendment**

The Foundation reserves the right to amend the Fund for the sole purpose of ensuring that it qualifies as a pooled income fund as defined by Section 642(c)(5) of the Internal Revenue Code and the regulations thereunder.

The Foundation recommends that you consult your legal counsel and tax advisors before contributing to the Fund.

For more information on the LCMS Foundation, go to [www.lcmsfoundation.org](http://www.lcmsfoundation.org).

