the Research Report

3RD QUARTER 2007

CHARITABLE GIVING STRATEGIES

By Scott Middleton, CFA®, CIMA®, Senior Consultant

For many Americans, charitable giving is foundational to who we are as a nation and as individuals. According to Giving USA, charitable giving in the U.S. reached an estimated $295 billion in 2006, a new record. Individuals face numerous decisions when preparing to give to charities. Not only are there a multitude of organizations and causes requesting contributions, but there are also various methods, or strategies, of charitable giving. These strategies may be as straightforward as putting cash in a collection basket, or as complex as establishing a multi-generational private foundation.

Donors may find it challenging to obtain independent, objective information on the various methods of charitable giving. For example, many brokerage and mutual fund companies emphasize the convenience of donor-advised funds. It should come as no surprise that these same investment companies also manage the assets of these funds. In turn, since many charities prefer to receive donations as soon as possible, they may de-emphasize the merits of some long-term charitable strategies.

At Innovest, one of our founding principles is to provide our clients with information and counsel that is completely independent and free of conflicts of interest. The chart on pages 2-3 provides an overview of the characteristics of six common charitable giving strategies: outright gifts, donor-advised funds, private foundations, charitable trusts, charitable gift annuities and bequests at death. A better understanding of these strategies can help donors to clarify their priorities and select appropriate giving methods. For many families, implementing a combination of these strategies, versus only one method, could be appropriate for their goals. •

Please be aware that the information in this article is offered only for educational and informational purposes. It is not intended and should not be construed as opinions or recommendations for legal, investment or tax matters. Charitable, investment and tax issues should be discussed in advance of decisions with your CPA, attorney and investment advisor to determine the best course of action for your specific situation. Innovest's appreciation goes to Jefferey S. Watkins, CPA, J.D., of EKS&H in Denver, Colorado, for his assistance with this article.

Performance Powered by People

INNOVEST PORTFOLIO SOLUTIONS

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	Outright Gifts	Donor-Advised Funds (DAF)	Private Foundations (PF)
May be Practical for Those Who	Want gifts to go immediately to charities and who are comfortable with evaluating charities.	Want more flexibility in the timing of gifts. Want a tax-deduction (esp. in a year with high income) and administrative simplicity. May want to create a legacy and remain anonymous. Have large holdings in highly appreciated stock.	Want to involve family in an ongoing legacy of philanthropy. Want an income tax deduction (esp. in a year with high income). Want maximum control over investments and grants. Have large holdings in highly appreciated stock.
Typical Dollar Minimum	None.	$15,000	$1,000,000
Donor Start-Up Costs	None.	Usually none.	$5,000+
Donation Recipients	Not-for-profit organizations.	Qualified public charities recommended by donor and approved by an independent board of sponsoring charity.	Not-for-profits and may include individuals and foreign charities if strict criteria are met.
Donor's Income Tax Deduction Based On	Fair market value for cash and publicly-traded long-term appreciated securities. Special rules for other assets.	Fair market value for cash and publicly-traded long-term appreciated securities. Special rules for other assets.	Fair market value for cash and publicly-traded long-term appreciated securities. Tax cost for most other donations.
Tax Deduction Limits for Donated Cash	50% of Adjusted Gross Income (AGI), with a five-year carryover for excess contributions.	50% of AGI, with a five-year carryover for excess contributions.	30% of AGI, with a five-year carryover for excess contributions.
Tax Deduction Limits for Long-Term Appreciated Securities	30% of AGI, with a five-year carryover for excess contributions.	30% of AGI, with a five-year carryover for excess contributions.	20% of AGI, with a five-year carryover for excess contributions.
Cash Flow to the Donor	None.	None.	None.
Ongoing Tax Implications	The assets are removed from the donor's estate.	Donor does not need to file a separate return for the entity. No excise tax.	None to the donor. PF files an annual tax return and pays 1% or 2% excise tax on investment income, including capital gains.
Investments	Not Applicable.	Sponsoring charity liquidates the investment. Donor recommends investments often from a limited menu.	The donation is usually liquidated and diversified. Wide latitude within fiduciary responsibilities.
Administration	Not Applicable.	Relatively simple tasks for donor as assisted by sponsoring charity.	Trustees responsible for investments, tax returns, administration, and compliance with self-dealing rules.
Control and Governance	Use of the gift may be restricted if the charity agrees, such as for an endowment.	Donor recommends grants, but sponsoring charity decides. Donor and others may add to DAF. Nominated successors may assume donor's role.	Donor and appointed family have complete control of grantmaking and investment decisions, subject to self-dealing rules. Complex IRS compliance.
Time Horizon	Unless restricted by common agreement, the charity has full access to the gift.	Donor may name family and/or friends as advisors and successors. Has the potential to be perpetual.	Has the potential to be perpetual.
Privacy	Donor may request confidentiality.	Donor my remain anonymous if desired.	Tax filing is a public record of contributors, assets, grants, trustee names and staff salaries.

PRIVATE EQUITY INVESTMENT ISN'T JUST FOR THE WEALTHY INVESTOR ANYMORE

By Steven Karsh, Research Manager

It used to be that private equity investment was for the wealthy; not anymore. Red Rocks Capital in Golden Colorado has created an index named the Listed Private Equity Index (LPE), consisting of public companies that invest in private equity deals. From this index a new ETF (available through PowerShares -

Charitable Remainder Trusts (CRT)	Charitable Gift Annuities (CGA)	Charitable Bequests at Death
Want to support one or more charities, receive income and get a partial income tax deduction. Have holdings in highly appreciated stock.	Want to support one charity at a time, receive predictable fixed income, and get a partial income tax deduction.	Want to maintain full control over personal assets until death and then help charities. Have taxable estates with large retirement plan assets.
$250,000	$5,000	None. May be a specific asset, dollar amount, or estate percentage.
$2,000+. Often drafted with other estate planning documents.	None.	Included in the cost of having an attorney draft a will and possibly a revocable trust.
After the passing of the beneficiaries or a certain time period, remaining value of CRT distributed to charities or DAF chosen by the donor.	Charity invests a portion of donation to provide lifetime income to donor(s) and receives remainder portion as a gift.	Charities (outright gifts), DAF, PF, CRT and/or CGAs.
Ordinarily fair market value adjusted for the gift's present value.	Fair market value, adjusted for the gift's present value.	Fair market value if donated outright. Adjusted for the gift's present value if gifted to a CRT or CGA.
50% of AGI, with a five year carryover for excess contributions.	50% of AGI, with a five year carryover for excess contributions.	Unlimited estate tax deduction.
30% of AGI, with a five-year carryover for excess contributions.	30% of AGI, with a five-year carryover for excess contributions.	Unlimited estate tax deduction for the donation's market value.
Payment may be fixed (annuity trust) or variable (unitrust). Payouts and projected residual value must meet IRS criteria.	Fixed dollar amount for the life of the donor(s). The donor has the option to delay the income's start date.	None. A CRT or CGA created at death may provide income to other individuals.
Depending on the earnings of the CRT, the beneficiary may be subject to income tax on the payments.	Income is a mix of ordinary income, capital gains and tax-free return of principal.	Not applicable unless a CRT or CGA is created at death.
Donation is liquidated and diversified. Wide latitude within fiduciary responsibilities.	Charity assumes investment risks and has a legal obligation to pay income backed by its own assets.	Charity usually liquidates gift when received outright.
Trustees responsible for investments, tax returns, administration, and compliance with self-dealing rules.	Charity has responsibility for administration and costs.	Gift distributed by personal representative of the estate or trustee of the revocable trust.
Trustee may be the donor, another person and/or a trust company. Donor may add to a unitrust.	Charity cannot be changed. CGAs may not be issued in every state.	Use of the gift may be restricted.
For the life of the current income bene(s) or for a stated term (20 years maximum). Possibility of a DAF as the remaining charity.	After the life of the current income bene(s), the charity has full use of all assets. The donor may defer the start of the annuity income.	Unless restricted, charity has full access to the gift.
Trustee often provides copy of trust agreement and annual statements to remainder charities.	Donor may request confidentiality.	Gifts made through wills are public, and generally private if made through trusts.

Ticker: PSP) was created to allow any investor to gain access to the asset class. Although investment in the ETF is not exactly an investment in the actual private equity deals, it is an investment in the companies that invest in private equity. In other words, the revenues of these public companies in the ETF are derived from the private equity deals in which they participate.

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The ETF consists of at least 30 publicly traded companies that do business in the private equity arena. Together, these companies have investments in more than 1,000 private business deals diversified across all market caps, styles and various stages of business development.

In comparison, direct investment in a private equity fund or fund-of-funds typically have: 1) large minimum capital investment, usually $500,000 or more.

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AROUND THE FIRM 3RD QUARTER 2007

WELCOME

Scott Middleton, CFA®, CIMC® joined Innovest as a Senior Consultant. He has over 20 years of experience in investment management, focusing on customized portfolio management and consulting for high-net-worth families with complex estate plans and for institutional clients. Scott was a Vice President and Senior Portfolio Manager at Northern Trust, an investment management and trust company.

RECOGNITION

Innovest was recognized by Financial Advisor Magazine as one of the Top 50 Registered Investment Advisors ranked by 2006 asset growth.

Rich Todd was recognized by Barron's as one of the Top 100 Independent Financial Advisors in America. Barron's believes "…this ground-breaking list promises to be one of the industry's most important assessments of this highly respected advisor segment."

Congratulations to Wendy Dominguez who was nominated as an "Outstanding Women in Business" by the Denver Business Journal.

Bill Fender was selected to be on the planning committee for the 2007 Colorado Society of CPAs Litigation Support Conference.

Hats off to Margarita Hughes for passing the Certified Retirement Counselor exam. As part of Innovest's InSight Employee Benefits Communication Division, Margarita helps our retirement plan clients understand their retirement plan options and how to utilize them properly.

EVENTS

Innovest presented at the Colorado Public Plan Coalition Conference in Winter Park September 12-14. "Target Date Portfolios: Not All are Created Equal" was presented by Rich Todd, "Pension-izing DC Plans" was presented by Rick Rodgers, and Scott Middleton discussed "Capacity Issues for Investment Managers." These presentations are available by emailing donnap@innovestinc.com.

Also in September, Innovest sponsored the Legatus International Summit at Colorado Springs. Legatus is a Catholic CEO organization.

Bill Fender attended the Accredited Investment Fiduciary Analyst training at University of Pittsburgh in July. In addition, Steve Karsh participated in the Bank of America Hedge Fund Conference in Las Vegas and the JP Morgan Investor Conference in San Francisco.

ARTICLES

The CPA Journal published Brad Brewer's article entitled Fiduciary Risks and Opportunities in the August issue. Rich Todd's article *403(b) Plans Should No Longer Be Ignored* was published in the Association of Benefit Administrators Summer 2007 Insights. In addition, the Denver Business Journal continued to run Rich Todd's monthly column with *Short Strategies Worth Exploring in a Portfolio, Buyers Should Be Aware in Structured Product Deals, IRS is watching 403(b) Plans More Closely than Before,* and *The Economy Chugs Along but Remains Vulnerable.*

2) substantial lock-up periods where the investor may not be able to withdrawal their capital without a severe penalty.
3) relatively high fees that consists of a management fee (usually 1% or more) AND an incentive fee or share of profits generated (usually 5% or more).
4) lack of transparency.

The ETF on the other hand has no minimum investment, no lock-up, a 75 basis point expense ratio, and complete transparency of the companies it is invested in (but does not included the underlying private deals).

Although the terms are very favorable for the ETF, the investor needs to understand that they do not have an actual stake in any of the private deals, rather only an investment in the public companies that derives its revenue from those deals. Back-tested performance of the Listed Private Equity Index has proven to be not only appealing, but it also has a relatively low 0.72 correlation to the S&P 500 over the past 10 years. Additionally, even though there is no lock up period, investors allocating to the asset class should plan for a long time-horizon as most private equity deals take several years to work themselves out and revenues may not be booked until certain hurdles are achieved.

All in all, this new ETF is a great way for the "average investor" to gain access to an asset class that used to be out of reach. For more information on Red Rocks Capital and to learn about the Listed Private Equity Index, go to www.listedprivateequity.com and to learn more about the EFT that is derived from the Listed Private Equity Index, go to www.powershares.com. •

Past performance (both before and after taxes) is no guarantee of future results. Investment return and principal value will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Performance is for stated time period only; due to market volatility, current performance may be lower or higher than quoted. Fund performance during certain periods reflects the strong market performance and/or the strong performance of securities held during those periods. Past performance is not typical and may not be repeated.

TARGET DATE

By Peter Mustian, Senior Research Analyst

"One of the most significant trends in the retirement savings channel today is the growing popularity of outcome-oriented investment products, such as target date life cycle products" *(Mellon Asset Management)*. Target date retirement funds are comprised of an array of investment products designed to provide investors an opportunity to invest in a single investment solution that will serve their investment needs over an extended period of time. These funds systematically rebalance their allocations across various asset classes and sub-classes, select managers or securities to implement the allocations and adjust the allocations over time to fit the investors changing time horizon and risk-return profile. This seemingly simplistic approach has lead investors to flock to these funds, and according to Lipper, have become one of the fastest growing segments in the mutual fund industry.

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Currently 44% of 401(k) plans use target date portfolios, up from 28% last year. Additionally, this growth is expected to increase following the announcement of the Pension Protection Act of 2006, whereby the Department of Labor released proposed regulations providing that a life-cycle or target date fund is an acceptable "qualified default investment alternative."

The mutual fund industry has also taken note of this growth and has been rolling out various versions of these funds in mass. Nearly every major fund family now has a version of target date retirement funds. The primary objective of all of these target date funds is essentially same. However, the approaches taken by the various fund families that manage these products can differ greatly and it can therefore be very difficult to analyze and compare them. For example, a 2020 target date fund of one family might be noticeably different in its allocation and composition from a 2020 target date fund of another family. In addition to allocation differences, some fund families allocate only to a handful of passive index products, some allocate to a wide range of actively managed funds, some focus solely on traditional asset classes and some utilize more non-traditional asset classes. Moreover, some fund families limit their underlying investments to only funds within their particular fund family, while some can allocate to funds from a wide range of fund families. Due to these evolving differences, the lack of historical data, and the lack of appropriate benchmarks and universes, it is very difficult to compare and analyze target date funds utilizing traditional quantitative methods. Rather, after conducting significant research in this area, we believe that at this time it is more appropriate to focus our analysis on the differentiating qualitative elements of these funds. (Please refer to the summary table of funds).

In addition to understanding the difference between target date funds, it is also important for investors and fiduciaries to understand that these products have their limitations First, the asset allocation of a particular fund may not necessarily be appropriate for every investor planning to retire in a given year. A 30 year-old single who is climbing the corporate ladder may have a very different risk profile than a 30 year-old single mother of several children. Yet both of them could have the same retirement date and could therefore be led to the same target date fund. Secondly, the allocation glide path models that target date funds follow are often built on fairly simplistic assumptions that fail to incorporate an understanding of real investor behavior. The primary difference between the simplified assumptions made by the strategies versus real investor behavior is the assumed volatility of cash flows. Target date model assume all investors behave the same way, make sequential and ongoing contributions each year towards their retirement, and avoid taking out loans or withdraws. These assumptions are often far from reality as many investors fail to make ongoing contributions to their retirement plans and often make withdrawals.

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NEW CLIENTS JOIN INNOVEST

Colorado County Officers and Employees Retirement Association (CCOERA) after a rigorous RFP process, re-hired Innovest as their Investment Consulting Services Consultant. CCOERA is a non-profit association whose sole purpose is to provide retirement benefits to employees of Colorado local governments. **The City of Longmont, Colorado** also took their Investment Consulting Services out to bid this summer and re-hired Innovest as well. We are honored to be able to continue these long-term client relationships.

In addition we were hired to provide investment consulting services to **WildBlue Communications.** Located in Greenwood Village, WildBlue's mission is "To make affordable broadband internet access available to everyone". **The City of Mesa, Arizona** also hired Innovest in early September to help them take their retirement plans out to bid.

The overall outcome is obvious: contributing less and withdrawing before retirement can greatly impact an investor's final value. Although these short comings exist in nearly all target date fund families, many of them can be mitigated somewhat through the use of a more customized approach. Customized target date portfolios are similar in structure; however, just as the name would suggest they can be customized to better meet the needs of specific investors. For example public safety workers often have earlier retirement dates and their life expectancies are typically shorter. A customized approach could accommodate for specific demographic information and could be designed with a more realistic idea of investor behavior. Another advantage of customized portfolios is their ability to select underlying funds from a variety of funds families and not be tied to the proprietary products of a single fund family. Few fund families are able to offer excellent products in every asset class, and the flexibility to incorporate funds from a variety of fund families expands an investor's opportunity to truly have the best possible underlying funds.

Overall, the concept of target date retirement funds has significant merit for most investors, and we believe their use will continue to grow. They have demonstrated that, when used correctly, they can provide a professionally managed, single solution that attempts to offer investors an adequate risk/return profile at various points in time. For plan sponsors, these funds have demonstrated that they can noticeably increase overall plan participation, offer a more appropriate default option, and can potentially offer an alternative that would mitigate the common behavioral mistakes made by many investors. However, these funds are not as simple as advertised and should be carefully reviewed by fiduciaries and investors prior to investing. •

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BRIEF COMPARISON OF SEVERAL TARGET DATE FUND FAMILY	
Family	**Distinguishing Characteristics**
Fidelity	- Uses a combination of approximately 25 active and passive Fidelity Funds - Mainly traditional assets classes and a small allocation to emerging markets - Proprietary modeling and significant changes throughout the years - Funds are rolled into income fund after target date is reached - Weighted average expense ratio – 0.74%
T. Rowe Price	- Uses a combination of approximately 12 mostly active and passive T. Rowe Price Funds - Traditional assets classes plus emerging markets are considered - Active asset allocation management through retirement years (30 years – too long for static) - Believe running out of money is large risk. Guiding philosophy creates more aggressive portfolios. - Weighted average expense ratio – 0.71%
Vanguard	- Uses approximately 7 entirely passive Vanguard Funds - The majority of assets are in 2 index funds – Total Bond Market Index and Total Stock Market Index - Monte Carlo based asset allocation, 70 years of back testing - More conservative than peers - Weighted average expense ratio – 0.21%
Principal	- Uses traditional asset classes plus real estate - Uses sub advisors: Goldman Sachs, Neuberger Berman, T. Rowe Price, Turner, UBS, American Century, and Columbus Circle - Continual rebalancing and portfolio adjustment - Weighted average expense ratio – 0.78%
Wells Fargo	- Built to replicate Dow Jones Target Date Indexes that are sub advised by Global Index Advisor - Methodology based on overall equity- risk component rather than focused on exposure to equities - 14 distinct sub asset classes - Conservative glide path - Global Index new advisor in June 2006 - Weighted average expense ratio – 0.66%
Custom Target Date Funds	- Uses traditional asset classes, alternatives, and stable value - Comprised of existing individual fund offerings in the plan - Asset allocation based on potential modeling loss in one year period and capital market assumptions - No income fund – each year managed due to long nature of retirement - Weighted average expense ratio – Typically range from 0.65% to 0.85% depending upon the plan.

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