ANNUAL INVESTMENT STEWARDSHIP REPORT

for the period ending December 31, 2017
The Salvation Army’s music ministries teach people of all ages how to sing and play instruments to the glory of God and for the blessing of others. Whether it’s playing in a Salvation Army band, singing in a choir or praise band in Sunday worship, or playing instruments at a Christmas kettle, Salvation Army music ministries provide participants with a lifetime of fulfillment through musical excellence with spiritual purpose.
Dear Friends and Supporters:

In Psalm 21 we're reminded that “The earth is the Lord’s and everything in it, the world and all who live in it!” Therefore, it is our responsibility to be the most faithful stewards of the financial resources God has provided for His ministry through The Salvation Army. This includes the faithful and prudent management of our investments, so we can indeed “do the most good” for those in need throughout the Eastern Territory.

As long-term investors, we seek to preserve the purchasing power of the assets entrusted to us, while enabling them to grow over time. This conservative investment posture continues to provide comfort to those who support The Salvation Army.

The total assets under management in 2017 were in excess of $2.5 billion. Over $150 million of earnings and realized gains were returned to our operating units in support of our programs across the Eastern Territory. We strategically position our investment portfolio in order to minimize the downside risks, while maximizing the upside potential opportunities associated with volatility in the financial markets. As a result, the investment performance of the Eastern Territory’s portfolio, for the annual period ending December 31, 2017, was 14.9%. Details on these investments are found in the back pages of this report, along with the investment policy, objectives and management of the Eastern Territory’s portfolio.

This report reflects our faithfulness in the management and use of the funds that are entrusted to our care by many, many faithful donors, in ways that are socially responsible and in compliance with The Salvation Army’s Socially Responsible Investing Guidelines. We do not permit investments in companies whose primary business is from the manufacture, sale or distribution of alcohol, tobacco, gaming, adult entertainment, or munitions, nor in companies whose business may cause serious harm to the environment.

You will read about real-life situations in this report where The Salvation Army has come to the rescue of children, adults and families, providing them a sense of normalcy and hope. We thank you, our partners in this ministry, who enable us to make a difference in so many lives.

We look forward to the future with confidence that God will continue to bless our faithfulness in both our stewardship of all the resources He has provided to us, as well as how these financial resources enable us to provide the programs and services to those in need throughout the Eastern Territory.

Thank you for your faithful support of The Salvation Army!

Sincerely,

Commissioner William A. Bamford
Territorial Commander

Lt. Colonel Donald W. Lance
Secretary for Business Administration
The Salvation Army, established in 1865 as an evangelical part of the universal Christian church, has been supporting people in need in His name without discrimination for more than 130 years in the United States. We are dedicated to being a highly effective manager and wise investor of our financial resources. Clarity and transparency in our fiscal practices must be matched by a continued devotion to the promise inherent in the statement “Doing the most good.” Nearly 30 million Americans receive assistance from The Salvation Army each year through the broadest array of social services that range from providing food for the hungry, relief for disaster victims, assistance for the disabled, outreach to the elderly and ill, clothing and shelter to the homeless, and opportunities for underprivileged children.
**Don’t Walk By**

With a nod to Whitney Houston’s famous song, “Walk on By,” Don’t Walk By, is an effort to identify and engage New York City’s homeless population every February, traditionally the coldest month. With 62,000 homeless people in shelters, we are experiencing a housing crisis, because an estimated 3,600 people without homes still live on Manhattan’s streets, an increase of 40% over 2017.

The Rescue Alliance started this focus on “housing fragility,” and this year The Salvation Army of Greater New York’s Emergency Disaster Services is the lead coordinator, while managing all of the transportation and outreach supplies. Other partners include the Bowery Mission, Goodwill, Hope for New York, and NYC Relief.

For four Saturdays Don’t Walk By Volunteers scour Manhattan to locate homeless people and invite them to the evening’s host church, where they enjoy a nice “white tablecloth” dinner. Each participant can review the array of available resources, such as medical services, including ophthalmologist services and free glasses, HIV testing, or mental health assistance; complimentary winter coats and cell phones. Invitations to a shelter for the night are issued to all.

Because The Salvation Army views poverty as a slow moving disaster, many of our programs meet the immediate needs of the homelessness crisis:

- Mobile Street Outreach
- Alcohol or and Drug Abuse Rehabilitation Programs
- Soup Kitchens
- Emergency Feeding Programs
- Vouchers for Thrift Shop items

And many focus on homelessness prevention:

- Pathway of Hope
- Financial Literacy Debt Counseling Workshops
- English as a Second Language Classes
- Food Pantries
- Utility Assistance
- Rent Assistance

Thanks to the generosity of donors like you these services are available on a complimentary basis. On behalf of those whose lives have been transformed by your philanthropy, we extend our heartfelt appreciation to you.

Susan, Victoria and Rafael Nunez serving as second year volunteers for the 2018 Don’t Walk By event.

**Because The Salvation Army views poverty as a slow moving disaster, many of our programs meet the immediate needs of the homelessness crisis.**
“When I’m hungry in class, I usually just get really sleepy and just want to fall asleep on my desk,” shares a student at Collins Middle School in Salem.

“Hunger impacts a kid’s ability to learn in many ways, but mostly, kids that come to school that are hungry get distracted,” school Adjustment Counselor Marlene Lunt elaborates, “They don’t have the energy to participate. It makes it really difficult for them to learn overall.”

“There are 560 scholars that walk these halls daily,” says Principal Glenn Burns. “Before you can focus on just strictly academics, you have to make sure everybody’s basic needs are met and that starts with food.”

Due to poverty levels in Salem, all students receive free breakfast and lunch at school. But there are 68 hours between lunch on Friday and breakfast on Monday when many students go hungry.

Backpack68 started two years ago on the North Shore. Salvation Army Corps Officer Captain Dennis Knight explains how it started. “The school contacted us and said, ‘We have 20 kids who are going home on the weekend without any food at all to eat.’ And so we quickly asked what can we do? We put together a lunch and some breakfasts for them to take home on Friday evenings.”

The program currently provides food for 60 households in Salem each weekend.

Adjustment Counselor June Casale says, “We have one family here at the school, a sixth-grader and an eighth-grader. The brother shared during a family therapy session how important this program has been for them because he has been constantly worried about food. The backpack program has alleviated this one area of stress for the family.”

The students in their own words:

“I’m bringing food to my sisters, my mother, and two more families. It feels great to bring home food.”

“I hope that the Backpack68 program continues. I’ve been getting food in the program since the middle of last year. All of my family eats the food that I bring home.”

“It feels good to bring home food to my family because then everyone else gets food and it’s a really good feeling.”
Eugene was 32 when he came to The Salvation Army McKenna House in January of 2017.

“I have been sober for almost ten months, the longest I have been clean,” expressed Eugene.

“This place saved my life. I got everything I needed from the house; support and guidance to get on the right path.”

The Salvation Army McKenna House in Concord, New Hampshire opened in 1982. The facility is a 42 bed homeless shelter for single men and women. Residents are provided with a warm bed, three meals a day, toiletries, laundry services, clothing and case management. The social work staff provides referrals to agencies that address specific individual needs. Each resident is required to establish goals, participate in their case management, and to fulfill work requirements.

Eugene grew up in Massachusetts and had a rough start in his early life. He recalls, “I was a good kid, never got into trouble or drugs.” His father was an alcoholic and mother a drug user. He eventually ended up in foster care in his early teens where he was physically and mentally abused. In later years he was diagnosed with post-traumatic stress disorder and depression. His medication for PTSD seemed to not be relieving his anxiety so he decided to smoke pot and drink alcohol to cope.

In 2005 Eugene entered the Hospitality and Culinary Arts program at SNHU in Manchester, New Hampshire. At the time he was not drinking and completed the program, receiving his associate degree in Culinary Arts. Over the years Eugene worked as a chef at various restaurants.

While working as a chef at a New Hampshire restaurant he injured his foot. Eugene had to take time off from work in order for his injury to heal. During his recovery he started to drink again. He recalls, “I drank myself into a black hole, I even tried to kill myself.”

Eugene spent time in shelters and rehabilitation programs that specialized in addiction and behavioral health for most of his early life.

At the McKenna House, Eugene volunteers and puts his culinary knowledge to good use each week by organizing and sorting 6 pallets of donated food from the Sam’s Club Fresh Rescue program. Bakery goods, produce and meats are used at the shelter and at The Salvation Army Concord facility on Clinton Street.

Eugene also finds great enjoyment preparing and cooking three meals a week at the shelter. In addition to all his volunteer efforts at the shelter he is working full time at a local restaurant. He attends AA meetings five times a week at a center in Concord where he finds spiritual guidance and support.

Eugene stated, “I am where I am supposed to be. I love The Salvation Army and the people I’ve met, they have been a family to me.”
A mother and son find hope & success in central Pennsylvania

"I want to be a positive member of society. The Salvation Army has done so much for me and my son and they do so much for the community."

Diane, from Lancaster County in Pennsylvania, was struggling to make ends meet as a full-time student with a 7-year-old son. She kept falling further behind until eventually, she reached rock bottom; Diane and her son became homeless. They stayed with friends as much as possible, but before long they had to go to a shelter where they stayed for five months. Although she continued to attend school and work hard, Diane knew she needed to find long-term stability. Fortunately, Pathway of Hope helped her achieve that goal and gain a new start.

The Salvation Army’s Pathway of Hope program takes a long-term approach to helping families who are striving to change their circumstances and achieve self-sufficiency. Pathway of Hope helps people identify and develop those skills and strengths that will help them reach their goals. These might include finding a new job, getting a driver’s license, or starting college. A Pathway of Hope case manager provides one-on-one support to assist each participant through every step, and progress is tracked as they work on their plans for success. There are also classes offering practical help along the way.

“Pathway of Hope provided financial classes that helped me with my budget and savings,” Diane says. “My son also went to class, and he learned how to budget and save his allowance money. I’ve also learned how to cook healthy meals for my family and how to shop for produce.” Now living in a small apartment with her son, Diane continues to participate in Pathway of Hope. “I’m hoping the program can help me sustain myself,” she says. “I want to be a positive member of society. The Salvation Army has done so much for me and my son,” she adds, “and they do so much for the community.”
A little bit of kindness at Christmas was the beginning of Teresa’s new point of view. Her life had started out very differently. By the time Teresa was 16, she found herself married and pregnant. When she had nowhere to turn, The Salvation Army was there. Since the day she received help, she’s been determined to give back.

“I was forced to grow up very quickly,” Teresa says. “I was used to living in crisis mode.”

Teresa’s father struggled with alcoholism, and her mother never learned to read or write. They both worked factory jobs, but making ends meet was nearly impossible.

As a child, most of Teresa’s clothing came from The Salvation Army’s Family Store, because that was all her parents could afford. At age 12, she spent a week at Camp CONNRI, a summer camp that The Salvation Army runs for kids across Connecticut and Rhode Island.

The Salvation Army heard about Teresa’s situation through her high school guidance counselor. Around Christmas, they dropped off bags of gifts and other essential items to the young mother’s home.

Focused on the big picture
Since the day she received those gifts, Teresa was determined to help others. She’s continued to volunteer at our toy drives, food drives, and so much more. She is now the chairperson at the Litchfield Hills Service Unit and is the branch manager at Webster Bank.

Today, the mother of four takes care of her children and her parents. Her generosity to our community continues.

“Always focus on the big picture,” Teresa says about people facing difficult circumstances. “Stay true to yourself and follow God’s will. And when you can, give back to others.”

“I was forced to grow up very quickly,” Theresa says. "I was used to living in crisis mode."
EASTERN TERRITORY HIGHLIGHTS

8,337,358 meals provided
3,420,309 total people served
2,455,122 received basic social services
1,976,053 toys and gifts distributed
1,455,707 received lodging assistance
717,937 received Christmas & Thanksgiving assistance
628,885 received adult spiritual development
248,786 participate in senior citizens activities
142,008 received youth spiritual development
104,120 received disaster related assistance
55,687 attended camp
15,784 received day care services
14,911 received housing assistance
The following sections provide relevant information regarding The Salvation Army Eastern Territory’s portfolio management, investment objectives, investment philosophy, and performance. We hope it helps to further your understanding of this important function within the organization.

The Salvation Army Eastern Territory provides stewardship and prudent investment of the assets with which it has been entrusted. The Territory has a rigorous due diligence and asset allocation process for managing and monitoring its investments. We utilize the professional skills of internal staff, an investment consultant, more than 40 investment managers, as well as the oversight of an investment committee and the Board of Trustees.

Thank you for your support and interest in The Salvation Army Eastern Territory, and in the operation and performance of its investment portfolio. We strive to maintain a diversified portfolio that will enhance long-term total return while avoiding undue risk; preserve the inflation-adjusted purchasing power of the assets; and provide the needed liquidity to support the operations of the Territory’s programs and services. The Salvation Army Eastern Territory pledges to continue “Doing the Most Good” with the financial resources it receives.
INTRODUCTION

The investment portfolio of The Salvation Army Eastern Territory (the Territory) is made up of the pooled assets of more than 400 operating units throughout the Territory. These assets include gifts from wills, trusts, capital campaigns, planned giving, and other similar instruments.

The Territory has adopted investment policies for these assets that attempt to provide a predictable stream of funding to programs supported by the portfolio while seeking to maintain the purchasing power of the pooled assets.

These investment policies have been chosen to provide a reasonable likelihood of meeting the objectives outlined in the “Statement of Financial and Investment Objectives” (at right). Implementation of these policies will be directed toward achieving above-average returns and not toward maximizing return without regard to risk.

The Territorial Investment Committee is charged with carrying out these policies, reviewing them regularly, recommending improvements to the Board of Trustees as circumstances dictate, monitoring and evaluating the performance of the investment managers, and employing or terminating investment managers.

STATEMENT OF FINANCIAL & INVESTMENT OBJECTIVES

The primary objective of the investment portfolio is to realize returns that will support the current operations of the Territory through a total return investment strategy and a spending policy set to maintain—or ideally, increase—the purchasing power of its portfolio without putting the principal value of these funds at imprudent risk.

The Territory’s spending policy makes available for distribution each year 5% of its endowment fund’s average fair value over the prior 20 quarters. In establishing this policy, the Territory considered the long-term expected return on its endowment. Accordingly, over the long term, the Territory expects its endowment assets to grow at a pace at least equal to inflation.

The Territory seeks to attain a designated, minimum average annual real total return (net of all investment management fees), as measured over rolling 10-year periods. To satisfy its long-term objectives, the Territory relies on this total return strategy.

Real total return is defined as the sum of capital appreciation (or loss) and current income (dividends and interest) adjusted for inflation as measured by the CPI (U) index.

Implicit in these objectives is the goal of preserving and enhancing the Territory’s inflation-adjusted purchasing power as well as the purchasing power of the funding provided to the Territory’s operations. Additionally, the Territory must provide the necessary liquidity to meet distribution requirements.

The Territory's investment philosophy, policies, and objectives are all key elements for the goal of preserving and enhancing the Portfolio, and for providing a predictable stream of funding for the programs it supports.
INVESTMENT PHILOSOPHY

The following principles, which recognize the long–term nature of the portfolio’s purpose, are significant factors in the allocation of assets:

- In order to achieve a rate of return that will support the above–stated spending policy while protecting the portfolio from inflation, some investment risk must be taken in the management of the portfolio’s assets.
- The most effective way to establish appropriate risk levels for investment assets is through their allocations (i.e., stocks, bonds, and cash).
- There is significant evidence that long–term investors do not benefit from attempting to earn returns through short–term asset class forecasts or market timing. Therefore, strategic, long–term asset allocations have been adopted for the portfolio’s assets. Over time, the portfolio will remain invested in percentages that are fairly close to those called for in its strategic allocations.
- There are long–term benefits in diversifying the portfolio’s assets into a number of different asset classes and investment strategies. While each asset class and strategy will be carefully selected, the focus of each asset class’s investment process will always be on the overall portfolio.
- To achieve the long–term benefits of a widely diversified portfolio, strategic targets for each asset class in the portfolio have been adopted. The portfolio weight for each asset class is expected to remain between the minimum and maximum percentages. The current asset allocations of the various asset classes, including optimal targets and acceptable operating ranges, are outlined on pages 16–19.
- The most efficient (efficiency as defined by the Sharpe Ratio*) rate of return possible (after investment expenses) is sought within each asset class. Investments are well–diversified by investment style and strategy. Style/strategy diversification increases the probability over 3–5 year periods that the portfolio will achieve its investment goals and reduce volatility. The Territory has adopted specific requirements and restrictions for each asset class, as described in the following sections.

*The Sharpe Ratio is a measurement of return adjusted for volatility.
INVESTMENT MANAGEMENT STRUCTURE & CONSULTANT RESPONSIBILITIES

The pooled assets of the portfolio are managed by external investment management firms, which are selected by the Investment Committee with approval of the Territorial Finance Council. The Investment Committee monitors the performance of the investment managers and reports to the Territorial Finance Council at its regularly scheduled meetings concerning the performance of the portfolio and its investment managers.

Investment managers have discretion to manage the assets in their respective portfolios, in order to achieve the investment objectives within the guidelines set forth in the Investment Policy Statement.

Transactions by the investment managers should be entered into on the basis of best execution, which is interpreted to mean best–realized price. Notwithstanding the above, the Investment Committee, in conjunction with its Investment Consultant, may direct the investment managers to utilize brokerage commissions to pay for service–based fees incurred by the Territory in the management of the invested assets.

The Investment Consultant is responsible for the following main areas: 1. Custody statement reconciliation and performance generation; 2. Asset allocation and rebalancing recommendations; 3. Investment manager recommendations and monitoring. In addition to these three broad areas, the Investment Consultant will be responsible for attending all Investment Committee meetings, recommending appropriate benchmarks, and closely following the investment managers to ensure they are adhering to their stated investment philosophies.

ASSET ALLOCATION STRATEGY

The overall asset allocation strategy is to diversify investments to provide a balance that will enhance long–term total return while avoiding undue risk or concentration in any single asset class or investment category.
The Investment Committee has the responsibility to allocate investment resources. In doing so, the Investment Committee will seek reasonable assurance that the portfolio is well–diversified so that no single security, class of securities, or specific investment style will have a disproportionate impact on the portfolio’s aggregate investment results.

**GENERAL GUIDELINES**

Decisions as to individual security selection, position size, diversification among industries and issuers, current income levels, turnover, and other tools employed by active managers are left to broad manager discretion, subject to the usual standards of fiduciary prudence and applicable guidelines.

No purchase will be made that will cause more than 5%, at cost, of the equity component within each asset class to be invested in the equity securities of any one issuer. Compliance with this provision will be monitored quarterly by the Investment Committee.

**PERFORMANCE EVALUATION & EXPECTATIONS**

**Total Portfolio Benchmarks**

As specified earlier in this policy, the portfolio’s primary objective is to earn a minimal average annual real total return (net of all fees) over rolling 10-year periods. To achieve this objective, each of the asset classes is invested based upon an Asset Allocation Policy. To measure the effectiveness of its manager selections, the Investment Committee monitors each asset class’s performance versus an appropriate target allocation benchmark. Each asset class has a benchmark that is based upon the portfolio’s Asset Allocation Policy.

The investment results for each asset class are evaluated individually using the indicated market index.

**Manager Benchmarks**

Each asset class is evaluated using broad market benchmarks. However, each manager will be judged against a narrower market benchmark that reflects its specific style of management. In many cases, this benchmark will differ from the broader asset class benchmarks. The combination of manager benchmarks within an asset class should closely approximate the benchmark for that asset class as a whole.

**REBALANCING OF THE PORTFOLIO**

A projection of resources available for allocation to the investment managers and for withdrawals from the portfolio is made periodically by the Territory’s investment staff. The Investment Committee will review these projections in order to determine whether it is necessary to rebalance the portfolio to accommodate the withdrawal.

Rebalancing the portfolio to target allocations should be reviewed at least annually, when the target ratios are reviewed. Additions to and withdrawals from managers shall be made by the investment staff in accordance with the Investment Committee’s determination. The investment staff will notify managers sufficiently in advance of withdrawal orders to allow for time to build up the necessary liquid reserves.

1,033,340 people were assisted by The Salvation Army Eastern Territory for the first time this year.
**MONITORING OF INVESTMENTS**

All managers are required to report to the Investment Committee any significant changes in their firm’s ownership, organizational structure, professional personnel, account structure (e.g., number of accounts or size of assets under management or account minimums), or fundamental investment philosophy.

The Investment Committee monitors both the overall portfolio and the individually managed portfolios for consistency in each manager’s investment philosophy, return relative to objectives, and investment risk as measured by asset concentration, exposure to extreme economic conditions, and volatility. At its regularly scheduled meetings, the Investment Committee reviews the performance of the overall portfolio, each of the asset allocations as a whole, and the managers individually.

Each manager reports on a monthly basis total return net of all commissions and fees, time–weighted and dollar–weighted and segmented at the level of each asset class. All managers also present purchases and sales for the quarter, portfolio holdings at cost and at market value, and an analysis of their portfolio by sector. Managers communicate regularly with the Investment Committee concerning their investment strategy and outlook.

The Investment Committee may request that investment managers be present at periodic meetings to present their portfolios and results. The Investment Committee will report to the Board of Trustees at its regularly scheduled meetings on the performance of the portfolio.

**DOMESTIC/INTERNATIONAL/EMERGING MARKETS EQUITY**

**Domestic Capitalization Definitions**

- SMALL CAP = Less Than $1.5 Billion
- MID CAP = $1.5 Billion to $10 Billion
- LARGE CAP = Greater than $10 Billion

1) The domestic equity portfolio will be diversified according to economic sector, industry, number of holdings, and other investment characteristics. However, it is recognized that any actively managed portfolio will not be as diversified as the market. To produce overall diversification, equity managers will be selected to employ different management strategies that together achieve the desired degree of diversification.

2) Domestic equity managers are not permitted to hold securities in corporations whose primary business activity is the manufacture, distribution or marketing of alcohol, tobacco, pornography, gaming, gaming facilities, or munitions. The Army will also screen the managers’ portfolios in order to avoid holding securities in companies that are currently involved in very severe environmental controversies.

3) Domestic equity managers are not permitted to hold foreign securities except American Depository Receipts (“ADRs”).

4) No more than 5% of a manager’s portfolio, at cost, may be held in the securities of a single issuer.

5) Domestic equity managers should not participate in short selling of securities, the use of derivative instruments, such as financial futures and options, or any speculative device.

6) A manager may only deviate from these guidelines with advance permission of the Territorial Finance Council.

**International/Emerging Markets Equity**

The following definitions may be used to distinguish between developed and emerging international securities.

International Developed Market Equity: Listed equity securities traded on developed non–U.S. markets. Developed markets are defined as those included in Morgan Stanley’s EAFE index.

**Total public support received during the year equaled more than**

$362 million

**in The Salvation Army Eastern Territory**
Emerging Markets Equity: Listed equity securities traded on emerging non-U.S. markets. Emerging markets are defined as any market that is not included in Morgan Stanley’s EAFE index.

All restrictions listed for Domestic Equity also apply to International/Emerging Markets Equity with the following additions and modifications:

1) Managers must hold securities in a minimum of three countries at all times.
2) Currency exposure may only be hedged back to the U.S. dollar. The decision to hedge is left to the manager’s discretion. Derivative instruments may be used to achieve currency hedging as permitted under this policy.

**FIXED INCOME**

1) Fixed income managers are not permitted to hold securities in corporations whose primary business activity is the manufacture, distribution or marketing of alcohol, tobacco, pornography, gaming, gaming facilities, or munitions. The Army will also screen the managers’ portfolios in order to avoid holding securities in companies that are currently involved in very severe environmental controversies.

2) All bond managers are expected to maintain an average quality rating for their portfolio that does not fall below an S&P rating of A. In addition, no more than 15% of the securities can be rated below investment grade.

3) No more than 5% of a manager’s portfolio, at cost, may be held in the securities of a single corporate issuer. This restriction does not apply to securities issued by the U.S. Government or a U.S. Government Agency backed by the full faith and credit of the U.S. Government.

4) The use of 144 (A) securities is allowed.

5) Total exposure to foreign securities cannot exceed 25% of the entire portfolio, and foreign-denominated bonds may not exceed more than 20% of the portfolio. The total foreign exposure must maintain an average quality rating of AA.

6) All fixed income managers are prohibited from using private placements, leveraged derivatives of any sort, margin or commodities, hedging except for currency where foreign denominated bonds are allowed, or any speculative device of any sort.

7) A manager may only deviate from these guidelines with advance permission of the Territory.

The Territory employs investment managers, partnerships or other similar vehicles to pursue alternative strategies (other than traditional long only purchases of stocks or bonds) for the purpose of diversifying the market exposure of the portfolio and enhancing its overall return. No more than 5% of the portfolio may be managed by any single such alternative investment manager. Alternative investments may include venture capital investments, private equity, timber, real estate, commodities, oil and gas interests, and derivative instruments based on the foregoing, as well as domestic, international, high-yield and distressed securities. Currently the alternative investment policy asset allocation is 30% (increased in January 2007 by 10%) of the portfolios’ market value; allocating 12% to hedge funds, 5% each for private equity, timber, and real estate, and 3% to commodities. In each case, the manager (as with traditional managers) will be expected to operate within the guidelines adopted when the Investment Committee approved the strategy.

**Corporate Trust Portfolio**

The Corporate Trust Portfolio of the Territory, displayed on the following pages, is comprised of the pooled assets that have been received through unrestricted gifts, wills, trusts, or similar instruments, and surplus funds from Territory operating units. It also includes funds that have been received as a result of donations from wills or donors who designated a permanent endowment account to be created, and donations from wills and other donors who placed specific restrictions on their gifts.

**NOTE:** Grant Thornton LLP, Independent Certified Public Accountants, audits the consolidated statement of financial position, and the related statements of activities, functional expenses and cash flows for the Territory, as of and for each fiscal year ending 9/30. Copies of its Audit Report are available upon request.
CORPORATE TRUST INVESTMENT

**Description Of Assets**
Funds have been created by unrestricted gifts, wills, trusts, or similar instruments. This portfolio also includes surplus general operating funds from Army units.

**Investment Objective**
Preservation of real (inflation–adjusted) asset value plus a 5% annualized total rate of return, net of fees, before the impact of withdrawals. Exceed the rate–of–return of passive investments in market–driven benchmarks, as specified, net of fees.

**Asset Allocation Parameters**

<table>
<thead>
<tr>
<th>Operating Range</th>
<th>Long–Term Optimal</th>
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<tbody>
<tr>
<td>25% – 34%</td>
<td>29%</td>
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<tr>
<td>2% – 7%</td>
<td>4%</td>
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<td>12% – 18%</td>
<td>15%</td>
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<td>20% – 40%</td>
<td>30%</td>
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<tr>
<td>10% – 30%</td>
<td>15%</td>
</tr>
<tr>
<td>0% – 2%</td>
<td>0%</td>
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</tbody>
</table>

**Benchmarks (Net of Fees)**
Assets are expected to exceed these benchmarks over a full market cycle (three to five years). Investment managers are expected to achieve their objectives while consistently adhering to their investment style.

**Total Fund**

CPI + 5%

Passive Investment in Optimal Asset Allocation Portfolio

**U.S. Equity Large/Mid Cap**

S&P 500

**U.S. Equity Small Cap**

Russell 2000

**International Equity**

Morgan Stanley GDP Weighted EAFE Index

**Emerging Markets**

Morgan Stanley Emerging Markets Free

**Fixed Income**

Barclays Aggregate Index
Barclays Intermediate Government Index
CORPORATE TRUST INVESTMENT PORTFOLIO

Total AUM: $2,494,546,548

Actual Asset Allocation as of 12/31/2017

<table>
<thead>
<tr>
<th>Optimal Asset Allocation</th>
<th>Actual Asset Allocation</th>
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</thead>
<tbody>
<tr>
<td>U.S. Equity Large/Mid Cap</td>
<td>15%</td>
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<tr>
<td>U.S. Equity Small Cap</td>
<td>29%</td>
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<td>International Equity</td>
<td>0.7%</td>
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<td>Emerging Markets</td>
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<td>Alternate Investments</td>
<td>28.2%</td>
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<td>Fixed Income</td>
<td>7.5%</td>
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<td>Cash (residual)</td>
<td>18.5%</td>
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</table>

Investment Results (Net Rates of Return)

<table>
<thead>
<tr>
<th>Ending 12/31</th>
<th>2016/17</th>
<th>2015/16</th>
<th>3 Years</th>
<th>5 Years</th>
<th>7 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trust Investment Portfolio</td>
<td>14.85%</td>
<td>6.75%</td>
<td>6.93%</td>
<td>9.01%</td>
<td>8.19%</td>
</tr>
<tr>
<td>Optimal Benchmark Indices</td>
<td>15.88%</td>
<td>7.44%</td>
<td>7.34%</td>
<td>8.81%</td>
<td>7.73%</td>
</tr>
<tr>
<td>CPI + 5%</td>
<td>7.43%</td>
<td>7.34%</td>
<td>6.80%</td>
<td>6.59%</td>
<td>6.85%</td>
</tr>
<tr>
<td>U.S. Equity Large/Mid Cap</td>
<td>17.45%</td>
<td>10.07%</td>
<td>8.32%</td>
<td>13.52%</td>
<td>12.27%</td>
</tr>
<tr>
<td>S&amp;P 500</td>
<td>21.83%</td>
<td>11.96%</td>
<td>11.41%</td>
<td>15.79%</td>
<td>13.96%</td>
</tr>
<tr>
<td>U.S. Equity Small Cap</td>
<td>6.98%</td>
<td>6.98%</td>
<td>8.94%</td>
<td>15.39%</td>
<td>12.43%</td>
</tr>
<tr>
<td>Russell 2000</td>
<td>14.65%</td>
<td>14.65%</td>
<td>9.96%</td>
<td>14.12%</td>
<td>11.62%</td>
</tr>
<tr>
<td>International Equity</td>
<td>27.02%</td>
<td>5.81%</td>
<td>11.18%</td>
<td>10.82%</td>
<td>8.24%</td>
</tr>
<tr>
<td>MSCI EAFE</td>
<td>25.03%</td>
<td>1.00%</td>
<td>7.80%</td>
<td>7.90%</td>
<td>6.04%</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>27.58%</td>
<td>14.76%</td>
<td>7.19%</td>
<td>3.83%</td>
<td>2.00%</td>
</tr>
<tr>
<td>MSCI Emerging Free</td>
<td>37.28%</td>
<td>11.19%</td>
<td>9.10%</td>
<td>4.35%</td>
<td>2.56%</td>
</tr>
<tr>
<td>Alternate Asset Classes</td>
<td>9.13%</td>
<td>7.85%</td>
<td>6.83%</td>
<td>8.17%</td>
<td>7.68%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>5.57%</td>
<td>5.39%</td>
<td>3.09%</td>
<td>1.87%</td>
<td>3.40%</td>
</tr>
<tr>
<td>Barclays Capital Aggregate</td>
<td>3.54%</td>
<td>2.65%</td>
<td>2.24%</td>
<td>2.10%</td>
<td>3.20%</td>
</tr>
</tbody>
</table>

NOTE: Optimum Benchmark Indices are the weighted average of the individual funds’ benchmark indices. All investment rates of return are net of fees.
Description Of Assets
Donations under split-interest agreements (charitable trusts, pooled income funds, and gift annuities) are either unrestricted, donor-restricted, or endowments, depending on the donors’ stipulation. The individual trusts have assets allocated from each of these pools appropriate for the trusts’ income distribution requirements. The investment of the gift annuity assets is segregated from all of the other assets as mandated by New York State law. The benchmarks for investment performance measurement are combined figures of standard indices, weighted proportionally to the allocation of the respective class of the specific State Street Global Asset Management Fund employed.

Investment Objectives
Equity Investment Pool: Growth of principal and attractive risk-adjusted returns to provide equity diversification and consistent growth for trust portfolios.
Fixed Income Investment Pool: Principal preservation and attractive current income to provide diversification of fixed income assets for trust portfolios.
Gift Annuity Assets: Preservation of principal to meet gift annuity liabilities, with modest growth of principal to provide inflation protection.

<table>
<thead>
<tr>
<th>Description Of Assets</th>
<th>Equity Pool</th>
<th>Fixed Income Pool</th>
<th>Gift Annuity Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Equity Large/Mid Cap</td>
<td>64%</td>
<td>35%</td>
<td></td>
</tr>
<tr>
<td>U.S. Equity Small Cap</td>
<td>14%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>International Equity</td>
<td>15%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>7%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Corporate/Government Bonds</td>
<td>85%</td>
<td>35%</td>
<td></td>
</tr>
<tr>
<td>U.S. Inflation Protected Bonds</td>
<td>5%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>High Yield</td>
<td>0%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Cash (Residual)</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Benchmarks (Net of Fees)
Assets are expected to exceed these benchmarks over a full-market cycle (three to five years). Investment managers are expected to achieve their objectives while consistently adhering to their investment style.

Total Fund .................. CPI + 3%
U.S. Equity Large/Mid Cap ... S&P 500
U.S. Equity Small Cap ....... Russell 2000/2500
International Equity ........ Morgan Stanley EAFE Index
Emerging Markets .......... Morgan Stanley Emerging Markets Free
Fixed Income
U.S. Treasury Bills ........ 30-Day U.S. Treasury Bills
High Yield ............... Barclays High Yield Index
Corporate/Gov’t .......... Barclays Aggregate Index
PLANNED GIVING INVESTMENT PORTFOLIO

Actual Asset Allocation as of 12/31/2017

Investment Results (Net Rates of Return)

<table>
<thead>
<tr>
<th></th>
<th>Ending 12/31</th>
<th>2016/17</th>
<th>2015/16</th>
<th>3 Years</th>
<th>5 Years</th>
<th>7 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planned Giving Assets</td>
<td>15.0%</td>
<td>8.5%</td>
<td>7.6%</td>
<td>9.0%</td>
<td>8.4%</td>
<td></td>
</tr>
<tr>
<td>CPI + 3%</td>
<td>5.3%</td>
<td>5.2%</td>
<td>4.7%</td>
<td>4.5%</td>
<td>4.7%</td>
<td></td>
</tr>
<tr>
<td>Equities Pool</td>
<td>21.2%</td>
<td>9.6%</td>
<td>9.8%</td>
<td>13.0%</td>
<td>11.0%</td>
<td></td>
</tr>
<tr>
<td>Optimum Benchmark Indices</td>
<td>22.5%</td>
<td>11.5%</td>
<td>10.7%</td>
<td>13.7%</td>
<td>11.7%</td>
<td></td>
</tr>
<tr>
<td>Fixed Income Pool</td>
<td>4.6%</td>
<td>4.9%</td>
<td>3.0%</td>
<td>2.1%</td>
<td>3.4%</td>
<td></td>
</tr>
<tr>
<td>Optimum Benchmark Indices</td>
<td>3.9%</td>
<td>4.2%</td>
<td>2.7%</td>
<td>2.4%</td>
<td>3.6%</td>
<td></td>
</tr>
<tr>
<td>Gift Annuity Fund</td>
<td>15.0%</td>
<td>8.5%</td>
<td>7.6%</td>
<td>9.0%</td>
<td>11.2%</td>
<td></td>
</tr>
<tr>
<td>Optimum Benchmark Indices</td>
<td>13.5%</td>
<td>7.4%</td>
<td>6.8%</td>
<td>8.3%</td>
<td>7.5%</td>
<td></td>
</tr>
</tbody>
</table>

NOTE: Optimum benchmark indices are the weighted average of the individual funds’ benchmark indices. All investment rates of return are net of fees.

In compliance with changes in New York and New Jersey laws related to the investment to the annuity reserve fund, The Salvation Army is now utilizing the more diversified Prudent Investor strategy as opposed to the previously state mandated investment in government securities.
MISSION STATEMENT

The Salvation Army, an international movement, is an evangelical part of the universal Christian church. Its message is based on the Bible. Its ministry is motivated by the love of God. Its mission is to preach the gospel of Jesus Christ and to meet human needs in His name without discrimination.