



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES  
REPORT ON EXAMINATION  
OF THE  
SEGREGATED GIFT ANNUITY FUND  
OF THE  
SUDAN INTERIOR MISSION INC.

CONDITION:

DECEMBER 31, 2017

DATE OF REPORT:

AUGUST 10, 2018

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

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OF THE

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OF THE

SUDAN INTERIOR MISSION INC.

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EXAMINER:

IKENNA ONYEGWARA

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Maria T. Vullo  
Superintendent

November 15, 2018

Honorable Maria T. Vullo  
Superintendent of Financial Services  
New York, New York 10004

Madam:

In accordance with instructions contained in Appointment No. 31747, dated April 13, 2018 and annexed hereto, an examination has been made into the condition and affairs of the Segregated Gift Annuity Fund of the Sudan Interior Mission Inc., hereinafter referred to as the “Fund.” The Fund’s home office is located at 18430 Choate Circle, Charlotte, North Carolina 28273.

Wherever “Department” appears in this report, it refers to the New York State Department of Financial Services.

The report indicating the results of this examination is respectfully submitted.

## 1. EXECUTIVE SUMMARY

The examiner recommends that the Fund strengthen the diversification of its investment holdings. If the trustee has determined that it is in the interests of the beneficiaries not to diversify, then it should memorialize the reasons for that determination in terms of the Investment Strategy Statement's ("ISS") risk, return, and time horizon parameters. (See item 4 of this report)

The examiner recommends that the Fund adopt an Investment Strategy Statement that refers to the prudent investor standard as defined in Section 11-2.3 of the Estates, Powers and Trusts Law, which standard, as specified in Section 1110(b) of the New York Insurance Law, governs the manner in which the required admitted assets of a segregated gift annuity fund shall be invested. The Fund should exercise reasonable care, skill and caution to make and implement investment and management decisions as a prudent investor would for the entire portfolio. In doing so, the Fund should take into account present and future distributions to or for the beneficiaries and create a plan to meet the needs of those distributions to establish the ISS's risk, return, and time horizon objectives. (See item 4 of this report)

The examiner recommends that the Fund contract with a licensed bank or trust company to serve as the Fund's custodian for the Fund's securities. This is a repeat recommendation. (See item 6 of this report).

## 2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2012. This examination covers the period from January 1, 2013 through December 31, 2017. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2017 but prior to the date of this report (i.e., the completion date of the examination).

The examination comprised a verification of assets and liabilities as of December 31, 2017 to determine whether the Fund's filed 2017 annual statement fairly presents its financial condition. The examiner reviewed the Fund's income and disbursements necessary to accomplish such verification. The examiner also reviewed the corrective actions taken by the Fund with respect to the recommendations contained in the prior report on examination. The results of such review are contained in item 7 of this report.

This report on examination is confined to financial statements and comments on those matters which involve departure from laws, regulations, or rules or which require explanation or description.

### 3. DESCRIPTION OF FUND

#### A. History

The Sudan Interior Mission Inc. (the “Mission”) is organized for the purpose of glorifying God by planting, strengthening, and partnering with churches around the world as they evangelize the un-reached, minister to human need, disciple believers into churches and equip churches to fulfill Christ’s Commission. The Mission established a program to issue gift annuity agreements in return for gifts from donors, and it has done so since 1948. A permit was granted to the Mission, by the Department on August 13, 1957, for the purpose of issuing gift annuity agreements as specified in Section 1110 of the New York Insurance Law.

#### B. Services

Fidelity Investments (“Fidelity”) is the custodian of the Fund’s investments. Fidelity is a brokerage company. All operations related to the issuance, maintenance and settlement of annuity agreements are handled by the Fund. All other operations are outsourced. Investments are managed through Fund Evaluation Group, LLC (Delaware). Charitable Trust Administration Corporation handles the operational functions such as check issuance, state filings and calculation of actuarial reserve.

#### C. Corporate Governance

The management of the Mission and the Fund and all of its affairs and property are entrusted to a board of directors. As of December 31, 2017, the board consisted of 18 directors, of which 5 of whom are ex-officio members. The General Director and Home Director of the Mission shall be ex-officio President and Vice President of the Mission. The directors elect a secretary and a treasurer. The nomination and election procedures of the directors and their term of office are set by the by-laws.

#### 4. SIGNIFICANT FINANCIAL INFORMATION

The following summary table indicates the growth (decline) in various categories of the Fund's assets, liabilities, and fund balance during the period under review:

	<u>December 31,</u> <u>2012</u>	<u>December 31,</u> <u>2017</u>	<u>Increase</u> <u>(Decrease)</u>
Admitted assets	<u>\$3,877,640</u>	<u>\$3,119,216</u>	<u>\$(758,424)</u>
Liabilities	<u>\$2,978,438</u>	<u>\$2,057,232</u>	<u>\$(921,206)</u>
Minimum required fund balance	\$ 297,844	\$ 205,723	\$ (92,121)
Excess fund balance (surplus)	<u>601,358</u>	<u>856,261</u>	<u>254,903</u>
Total annuity fund balance	<u>\$ 899,202</u>	<u>\$1,061,984</u>	<u>\$ 162,782</u>
Total liabilities and annuity fund balance	<u>\$3,877,640</u>	<u>\$3,119,216</u>	<u>\$(758,424)</u>

The decrease in assets and liabilities reflects a decrease in the total number of annuities in force. Annuities decreased from 503 with annual payment amounts of \$402,834 as of December 31, 2012 to a total of 384 with annual payment amounts of \$269,845 as of December 31, 2017. The increase in annuity fund balance is due to gains on investments, interest and dividends.

The Fund's admitted assets, as of December 31, 2017, were invested mainly in common stocks (100%).

Section 1409(a) of the New York Insurance Law states,

“(a) Except as more specifically provided in this chapter, no domestic insurer shall have more than ten percent of its admitted assets as shown by its last statement on file with the superintendent invested in, or loaned upon, the securities (including for this purpose certificates of deposit, partnership interests and other equity interests) of any one institution.”

According to the 2017 annual statement the Fund reported 14.21% of its admitted assets invested in Doublin Total Return Fund. The Fund's current concentration in Doublin Total

Return funds makes it less likely that the Fund's other invested assets could provide a variability to offset the risks inherent in the fund.

Based upon the concentrations in the above fund, the examiner recommends that the Fund strengthen the diversification of its investment holdings. If the trustee has determined that it is in the interests of the beneficiaries not to diversify, then it should memorialize the reasons for that determination in terms of the ISS's risk, return, and time horizon parameters. A trustee using reasonable care, skill and caution should diversify the Fund's assets. A diversification is proper when it disperses the investments' risks consistent with the Investment Strategy Statement's risk, return, and time horizon objectives, and the various risks in the portfolio offset each other. Section 1409 of the New York Insurance Law is instructive. Limiting exposure to any assets of any one institution to ten percent of admitted assets would reasonably assure that the risks in the investment in that institution are offset by the rest of the portfolio.

The examiner's review of the Fund's Investment Strategy Statement showed that it does not contain reference to the prudent investor standard, as specified in Section 1110(b) of the New York Insurance Law.

The examiner recommends that the Fund adopt an Investment Strategy Statement that refers to the prudent investor standard as defined in Section 11-2.3 of the Estates, Powers and Trusts Law, which standard, as specified in Section 1110(b) of the New York Insurance Law, governs the manner in which the required admitted assets of a segregated gift annuity fund shall be invested. The Fund should exercise reasonable care, skill and caution to make and implement investment and management decisions as a prudent investor would for the entire portfolio. In doing so, the Fund should take into account present and future distributions to or for the beneficiaries and create a plan to meet the needs of those distributions to establish the ISS's risk, return, and time horizon objectives.

## 5. TREATMENT OF ANNUITANTS

The examiner reviewed the one annuity file issued in New York during the period under review, to determine whether the annuitant was treated fairly and in accordance with the provisions of the annuity agreement. The examination also consisted of a review of the various controls involved, a check of the accuracy of the computations and the tracing of accounting data to the books of account. Based upon the annuity file reviewed, no significant finding was noted.

## 6. CUSTODIAN

The Fund maintains Fidelity as custodian of the Fund's invested assets. The examiner determined that Fidelity is a brokerage firm, not a licensed bank or trust company.

The prior examination report contains a similar recommendation, in response to which the Fund stated, "We understand the examiner's application of best practices. We understand that Fidelity is in compliance with New York Code 1110. As such, we intend to continue using Fidelity's services for custodianship of investments for the Annuity Fund and stay in compliance with the New York Code." While stating the above, the Fund did not take the recommended action.

The examiner recommends that the Fund contract with a licensed bank or trust company to serve as the Fund's custodian for the Fund's securities.

## 7. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the recommendations contained in the prior report on examination and the subsequent actions taken by the Fund in response to each citation:

<u>Item</u>	<u>Description</u>
A	<p>The examiner recommended that the Fund comply with Section 312(b) of the New York Insurance Law by obtaining and maintaining signed signatures of each board member indicating that they received and read the prior report on examination.</p> <p>The Fund took corrective action by obtaining and maintaining signed statements from each board member indicating that they received and read the prior report on examination.</p>
B	<p>The examiner recommended that the board of trustees, or a committee thereof, approve the purchases and sales of all investments and note such approvals in the minutes.</p> <p>The Fund took corrective action. The board of trustees approved the Fund's investments reviewed by the Finance Committee.</p>
C	<p>The examiner recommended that Fund include the CUSIP identification number for all bonds and common stocks listed in its filed annual statements. This is a repeat recommendation.</p> <p>The Fund took corrective action. The Fund included CUSIP identification numbers for all bonds and common stocks listed in its filed annual statements.</p>
D	<p>The examiner recommended that the Fund divest itself of its alternative investments in Silver Creek. A similar recommendation was made during the prior examination</p> <p>The Fund took some corrective action. A liquidation of the investment in Silver Creek is currently in process, but will continue for several more years before all funds are divested. The Fund expects this to liquidate by 2021.</p>
E	<p>The examiner recommended that the Fund comply with OGC Opinion No. 96-50 by contracting with a licensed bank or trust company to serve as the Fund's custodian for the Fund's securities.</p> <p>The Fund failed to take necessary action. (See item 6 of this report)</p>

## 8. SUMMARY AND CONCLUSIONS

Following are the recommendations contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The examiner recommends that the Fund strengthen the diversification of its investment holdings. If the trustee has determined that it is in the interests of the beneficiaries not to diversify, then it should memorialize the reasons for that determination in terms of the ISS's risk, return, and time horizon parameters.	6
B	The examiner recommends that the Fund adopt an Investment Strategy Statement that refers to the prudent investor standard as defined in Section 11-2.3 of the Estates, Powers and Trusts Law, which standard, as specified in Section 1110(b) of the New York Insurance Law, governs the manner in which the required admitted assets of a segregated gift annuity fund shall be invested. The Fund should exercise reasonable care, skill and caution to make and implement investment and management decisions as a prudent investor would for the entire portfolio. In doing so, the Fund should take into account present and future distributions to or for the beneficiaries and create a plan to meet the needs of those distributions to establish the ISS's risk, return, and time horizon objectives.	6
C	The examiner recommends that the Fund contract with a licensed bank or trust company to serve as the Fund's custodian for the Fund's securities. This is a repeat recommendation.	8

Respectfully submitted,

\_\_\_\_\_/s/  
Ikenna Onyegwara  
Insurance Examiner

STATE OF NEW YORK     )  
  )SS:  
COUNTY OF NEW YORK    )

IKENNA ONYEGWARA, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

\_\_\_\_\_/s/  
Ikenna Onyegwara

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_

*APPOINTMENT NO. 31747*

*NEW YORK STATE*

***DEPARTMENT OF FINANCIAL SERVICES***

*I, MARIA T. VULLO, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:*

***IKENNA ONYEGWARA***

*as a proper person to examine the affairs of the*

***SEGREGATED GIFT ANNUITY FUND OF THE  
SUDAN INTERIOR MISSION, INC.***

*and to make a report to me in writing of the condition of said*

***FUND***

*with such other information as he shall deem requisite.*

*In Witness Whereof, I have hereunto subscribed my name  
and affixed the official Seal of the Department  
at the City of New York*

*this 13th day of April, 2018*

*MARIA T. VULLO  
Superintendent of Financial Services*

*By:*

*Mark McLeod*

*MARK MCLEOD  
DEPUTY CHIEF - LIFE BUREAU*

