



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES
REPORT ON EXAMINATION
OF THE
SEGREGATED GIFT ANNUITY FUND
OF THE
JEWISH NATIONAL FUND (KEREN KAYEMETH LEISRAEL), INC.

CONDITION:

DECEMBER 31, 2015

DATE OF REPORT:

JUNE 27, 2016

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EXAMINER:

HASAN AHMED

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

October 4, 2016

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

Madam:

In accordance with instructions contained in Appointment No. 31458, dated April 25, 2016 and annexed hereto, an examination has been made into the condition and affairs of the Segregated Gift Annuity Fund of the Jewish National Fund (Keren Kayemeth Leisrael), Inc., hereinafter referred to as the "Fund," at its home office located at 42 East 69th Street, New York, NY 10021.

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 to deviate from such a recommendation, 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's review of the Fund's treatment of annuitants did not reveal significant instances which deviated from the New York Insurance Law, Department regulations and circular letters and the operating rules of the Fund. (See item 5 of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2010. This examination covers the period from January 1, 2011 through December 31, 2015. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2015 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, 2015 to determine whether the Fund's filed 2015 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 violation and recommendations contained in the prior report on examination. The results of such review are contained in item 6 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

The Jewish National Fund (Keren Kayemeth Leisrael), Inc. (“JNF”) was founded in 1901 and incorporated in the United States on February 3, 1926. JNF was organized for the purpose of promoting the historic Zionist aim of reclaiming, developing and protecting the land and resources of the land of Israel, and sponsoring programs that advance these objectives. JNF is involved in Israel advocacy and education throughout the United States. JNF’s Israel projects are primarily carried out by its agent in Israel – Keren Kayemeth Leisrael (“KKL”). Under the provisions of its by-laws, JNF is permitted to issue gift annuity agreements and it has done so since June 15, 1978. A special permit was granted to JNF by the Department on September 25, 1970, authorizing it to issue gift annuity agreements as specified in Section 1110 of the New York Insurance Law. The Fund solicits new gift annuities and maintains the issued annuity files at its home office. The Fund files the annual statements with the Department. All other operations related to the maintenance of gift annuities are handled by the Fund’s custodian, Comerica Bank and Trust N.A. JP Morgan Securities Limited is the Fund’s investment advisor.

The management of JNF and the Fund and all of its affairs and property are entrusted to a board of trustees. The number of trustees is limited to 110 members plus any of its former presidents. As of December 31, 2015, the board consisted of 110 trustees. With the exception of the election of national officers, the full power of the board of trustees is vested in the board of directors. As of December 31, 2015, the board of directors consisted of 40 members. The trustees elect a chairman of the board, a president, a first vice president, eight vice presidents, a vice president of zone and regional operations, a treasurer, a secretary and an assistant secretary. The nomination and election procedures of the trustees and their terms of office are set by the by-laws.

4. SIGNIFICANT FINANCIAL INFORMATION

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

	<u>December 31,</u> <u>2010</u>	<u>December 31,</u> <u>2015</u>	<u>Increase</u>
Admitted assets	<u>\$23,009,100</u>	<u>\$28,985,062</u>	<u>\$5,975,962</u>
Liabilities	<u>\$20,382,683</u>	<u>\$25,289,486</u>	<u>\$4,906,803</u>
Minimum required fund balance	\$ 2,038,268	\$ 2,528,949	\$ 490,681
Excess fund balance (surplus)	<u>588,149</u>	<u>1,166,627</u>	<u>578,478</u>
Total annuity fund balance	<u>\$ 2,626,417</u>	<u>\$ 3,695,576</u>	<u>\$1,069,159</u>
Total liabilities and annuity fund balance	<u>\$23,009,100</u>	<u>\$28,985,062</u>	<u>\$5,975,962</u>

The increase in assets, liabilities and annuity fund balance reflects an increase in the total number of annuities in force. Annuities increased from 1,298 with annual payment amounts of \$2,735,988 as of December 31, 2010 to a total of 1,550 with annual payment amounts of \$3,208,589 as of December 31, 2015.

The increase in assets and annuity fund balance is also attributable to investment income from the Fund's investments and an increase in the market value of investments in common stocks. Specifically, the Fund reported investment income of \$1,196,515 in 2014 and realized capital gains of \$1,628,338 in 2014.

The Fund's admitted assets, as of December 31, 2015, were invested mainly in common stocks (70.64%) and cash and money market accounts (29.24%).

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 2015 annual statement on file, the Fund reported 12.71% of admitted assets invested in the securities of Alliance American CL Global Bond Fund mutual fund. The Fund's current concentration in the mutual fund makes it highly unlikely that the Fund's other assets could provide a variability to offset the risks inherent in the mutual 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 ("ISS") 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.

5. TREATMENT OF ANNUITANTS

The examiner reviewed a sample of annuity files to determine whether the annuitants were treated fairly and in accordance with the provisions of the annuity agreements. Based on the reviewed samples, the annuitants were fairly treated. 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 sample reviewed, no significant findings were noted.

6. PRIOR REPORT SUMMARY AND CONCLUSIONS

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

<u>Item</u>	<u>Description</u>
A	<p>The examiner recommends that the board of trustees, or a committee thereof, review the Fund's investments and approve the purchase and sale of all investments at least annually, and note such approvals in the minutes. This is a repeat recommendation.</p> <p>The examiner's review of the board minutes revealed that the board of trustees reviewed the Fund's investments and approved the purchases and sales of investments at least annually, and noted such approvals in the minutes.</p>
B	<p>The examiner recommends that the Fund correctly reconcile the broker's confirmations and any other documentation provided by its custodian, to its annual statements, going forward.</p> <p>The Fund reconciled the broker's confirmations and any other documentation provided by its custodian, to its annual statements.</p>
C	<p>The Fund violated Section 1110(a) of the New York Insurance Law by using gift annuity agreement forms that differed from the gift annuity agreement forms that were filed with the Superintendent.</p> <p>The examiner's review of a sample of annuity agreement forms used during the examination period revealed that the Fund used gift annuity agreement forms on file with the Superintendent.</p>
D	<p>The examiner recommends that the Fund file with the Superintendent all gift annuity agreement forms that were used and not previously filed with the Superintendent.</p> <p>The examiner's review of a sample of annuity agreement forms used during the examination period revealed that the Fund used gift annuity agreement forms on file with the Superintendent.</p>

<u>Item</u>	<u>Description</u>
E	<p>The examiner recommends that the Fund prepare and maintain a general ledger, trial balances and transaction registers that reconcile to its annual statements.</p> <p>The Fund prepared and maintained a general ledger, trial balances and transaction registers that reconcile to its annual statements.</p>

7. SUMMARY AND CONCLUSIONS

Following is the recommendation 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

Respectfully submitted,

_____/s/
Hasan Ahmed
Insurance Examiner

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

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

_____/s/
Hasan Ahmed

Subscribed and sworn to before me
this _____ day of _____

APPOINTMENT NO. 31458

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, MARIA T. VULLO, Acting 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:

HASAN AHMED

as a proper person to examine the affairs of the

**SEGREGATED GIFT ANNUITY FUND OF THE
JEWISH NATIONAL FUND (KEREN KAYEMETH LEISRAEL), 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 25th day of April, 2016

MARIA T. VULLO

Acting Superintendent of Financial Services

By:



MARK MCLEOD

DEPUTY CHIEF - LIFE BUREAU

