

ARKANSAS BAPTIST FOUNDATION
10117 Kanis Road
Little Rock, AR 72205

The Arkansas Baptist Foundation ("Baptist Foundation") was established in 1949 as an incorporated agency of the Arkansas Baptist State Convention for the purpose of managing the endowment assets of other Baptist institutions and agencies affiliated with either the Arkansas Baptist State Convention, the Southern Baptist Convention or other state Baptist conventions, as well as managing trusts, endowments, and other assets in which such related Baptist causes or other Christian evangelical causes have a beneficial interest. The Foundation is a charitable organization exempt from income taxation under §501(c)(3) of the Internal Revenue Code ("Code"). Contributions to the Foundation are deductible for income, gift, and estate tax purposes under §170(c), §170(b)(1)(A), § 2055(a), and § 2522 of the Code. Responsibility for governing the Foundation is vested in a Board of Directors comprised of Arkansas Southern Baptist church members who are elected for a three-year term by the Convention. At December 31, 2008, the market value of total assets managed by the Foundation was approximately \$145 million.

Many of the assets managed by the Foundation are organized as common funds. The Foundation staff administers these funds according to the investment guidelines set forth by the Investment Committee of the Board of Directors. The Foundation staff responsible for the investment and operation of common funds is led by W. David Moore, President of the Foundation since 1994. Moore holds a Ph.D. degree from Baylor University in Religion, is a Certified Financial Planner, a Certified Specialist in Estate Planning, a Graduate Estate Planning Consultant, and has passed the Series 7 Securities exam. He is assisted by Jeffrey W. Steed who holds a Master's in Business Administration from University of Texas at Arlington and a Doctor of Ministry degree from Gordon-Conwell Theological Seminary. Steed has served as a security analyst for two professional money management firms in prior years before coming to the Foundation.

Some of the assets in the common funds may be invested through professional money manager firms which specialize in a style of investments which is used by the Foundation. The guidelines are implemented to meet the investment objectives of each fund within reasonable risk levels and to guard against investment in assets which are contrary to Baptist faith and beliefs.

The common funds operated by the Baptist Foundation include only assets of charitable trusts and other specified types of accounts allowed by federal law to be jointly invested, as well as general endowment funds of Baptist institutions and agencies affiliated with either the Arkansas Baptist State Convention, the Southern Baptist Convention, other state Baptist conventions, or other Christian evangelical charitable entities that have a primary purpose that is consistent with the purposes of the Arkansas Baptist State Convention.

The Foundation is audited annually, and provides an accounting of its transactions with respect to each account invested in its common funds as requested by the grantor or the grantor's authorized representative.

Net income from each common fund is distributed regularly to participating accounts. Contributions and withdrawals from each common fund are allowed at the net asset value. Some common funds place restrictions on purchases or withdrawals (for example, only on the last day of the month). There are no charges assessed in connection with contributions or withdrawals. For the specifics concerning the operation of each common fund, please read "Operation of Common Funds" below.

Common funds managed and utilized by the Foundation are exempt from registration requirements of the federal securities laws, pursuant to the exemption for collective investment funds and similar funds maintained by charitable organizations under the Philanthropy Protection Act of 1995 (P.L. 104-62), and are exempt from registration requirements of Arkansas state securities laws, pursuant to an order given by the Arkansas Securities Commissioner.

The common funds administered, utilized, or under consideration for use by the Baptist Foundation are the following:

FIXED INCOME FUNDS:

Demand Cash Fund: The Demand Cash Fund is invested in AAA-rated assets such as cash, money market investments, treasuries, CD's, and short-term assets to provide earnings and liquidity for short-term funds. The Fund is managed toward the objective of maintaining a constant net asset value. Although the Fund seeks to preserve the value of your investment at \$1 per share, it is possible to lose money by investing in the Fund. In exchange for the emphasis on stability and liquidity, the Fund may offer lower long-term performance than other stock and bond investments.

Limited Maturity Income Fund: The Limited Maturity Income Fund is designed for reasonable income with an objective of maintaining a reasonably stable principal value. Investments are made only in AAA-rated assets such as Treasuries, CD's, money market funds, mortgage-backed securities, government bonds or bond funds.

Fixed Income Fund: The Fixed-Income Fund is a diversified portfolio of bonds and preferred stocks. The Fund primarily serves life income trusts and endowments, and it is designed to seek to provide a stable source of income. All purchases are investment grade.

Global Bond Fund: The Global Bond Fund is a broadly diversified portfolio of U. S. and international bonds and other fixed income-type investments which is designed for total return.

BLENDED FUNDS:

Balanced Fund: The Balanced Fund maintains primarily a balance of U. S. and international stocks and bonds, along with some alternative investments. The objective of the Fund is to provide current income and some growth to counteract inflation.

Total Return Fund: The Total Return Fund maintains primarily a balance of U. S. and international stocks and bonds, along with some alternative investments. The objective of the Fund is to provide growth with some current income.

Spending Plan Fund (SPF): The Spending Plan Fund is a broadly diversified portfolio designed for total return. It consists of such assets as U. S & international stocks and bonds, alternative investments (normally a position in Strategic Allocation Fund), principal-protected and principal-enhanced securities, etc. The Fund's objective is to seek total return while distributing a pre-determined annual percentage (the "spending rate") as set by the Foundation's Board.

Strategic Allocation Fund (SAF): The Strategic Allocation Fund is a broadly diversified portfolio of various alternative investments which are designed to generate returns independent of traditional bond and stock markets.

EQUITY FUNDS:

Group Equity Fund: The Group Equity Fund is a broadly diversified equity portfolio of U.S. and non-U.S. stocks. The objective of the fund is to expose the equity portion of an account to a broadly diversified range of equities.

For the details on the current investment restrictions of each fund, please refer to "Asset Allocation for Common Funds" below.

AMOUNT INVESTED/UNIT VALUES AS OF 12/31/08

FUND	Book Value	Market Value	Shares	Unit Value
<i>Blended Funds</i>				
Balanced Fund	\$26,558,321.64	\$22,873,666.71	820,407.46	\$27.8809
Total Return Fund	\$5,841,851.17	\$4,530,779.03	22,035.29	\$205.6147
Spending Plan Fund	\$45,998,663.98	\$36,052,151.99	1,435,291.57	\$24.6193
Strategic Allocation Fund	\$4,711,053.28	\$3,414,516.33	45,022.40	\$75.7404
<i>Bond Funds:</i>				
Demand Cash Fund	\$13,705,404.16	\$13,704,382.90	13,670,445.33	\$1.0000
Limited Maturity Income Fund	\$4,499,431.01	\$4,591,013.96	4,563,798.18	\$1.0060
Fixed Income Fund	\$21,197,206.03	\$20,417,325.84	412,713.79	\$49.4709
Group Bond Fund	\$18,437,901.15	\$16,340,521.62	182,550.23	\$89.5120
<i>Stock Funds:</i>				
Group Equity Fund	\$41,211,835.17	\$32,807,671.20	187,506.20	\$174.9685

Each of the common funds is predominantly, if not entirely, invested in financial securities. The Foundation will take reasonable risks in seeking to accomplish the objectives of each fund. Because these investments represent investment in financial securities, the market value of the assets will fluctuate due to general market conditions and specific investments within each fund. Common funds will have varying degrees of risk due to the investment parameters of each fund. Participants may lose money in any or all funds. For details on the investment restrictions for each fund, see "Asset Allocation of Common Funds" which follows and forms a part of this document.

Investments in the common funds involve certain risks to the investors. These risks are summarized as follows:

1. Market Risk -- the variability of return directly related to fluctuations in the overall stock market.
2. Interest Rate Risk -- the risk resulting from changes in interest rates.
3. Reinvestment Risk -- the risk of reinvesting income and redemptions in changing interest rate environments,
4. Inflation Risk -- the reduction in purchasing power due to inflation.
5. Exchange Rate Risk -- the risk of changing one currency into another (applies only to foreign investments).
6. Business Risk -- the risk of a company suffering losses, or profits being less than expected, because of adverse circumstances for that particular company or industry, not to the whole market.
7. Financial Risk -- the risk arising from the mix of debt and equity financing. The use of debt by a company introduces this leverage risk which magnifies swings in the company's profits (increases volatility).
8. Liquidity Risk -- the chance that you might not be able to sell an asset quickly for a fair price. Money market funds have very low liquidity risk, while real estate would have a high liquidity risk.

9. Default Risk -- the chance that the company will go bankrupt. There is no assumed default risk with the U.S. Government because it has the power to tax, and the government could print more dollars. Every other investment has some level of default risk (even municipal bonds).
10. Government and Political Risk -- the risk of the collapse or devaluation of a currency, which is primarily a concern for foreign investors.

INVESTMENT IN A COMMON FUND IS NOT A BANK DEPOSIT AND THUS IS NOT GUARANTEED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION (FDIC) OR ANY OTHER GOVERNMENT AGENCY. THE BOND FUNDS MAY OWN ASSETS THAT ARE GUARANTEED BY THE FDIC, BUT THE INVESTMENT IN THE COMMON FUND IS NOT GUARANTEED BY THE FDIC. IN OTHER WORDS, ANY GOVERNMENT GUARANTEES ON SECURITIES THE FUNDS OWN DO NOT EXTEND TO SHARES OF THE FUND ITSELF.

NOTE: For individuals creating charitable gift annuities, most of the information in this disclosure will not be relevant. The obligation to make the annuity payment under the charitable gift annuity agreement will be backed by (a) the contribution and all of its earnings, (b) the Gift Annuity Reserves Fund held by the Foundation, (c) the general assets of certain institutions and agencies benefiting from the gift if they have agreed to ensure the annuity payments, and (d) the general assets of the Foundation.

Assets, inasmuch as practical, are kept in safekeeping at national and regional brokerage firms, savings and loans, or commercial banks which serve as custodians. As of December 31, 2008, most financial assets were held at Merrill Lynch, UBS, Stephens, Regions Bank, Bank of the Ozarks, Bancorp South and Lieblong & Associates.

Performance data is available upon request.

The Foundation is a Cooperative Program ministry of Arkansas Baptists. The administrative overhead costs over and above Cooperative Program receipts and other miscellaneous receipts, are shared among the accounts under management. Currently, the Foundation charges each account an annual amount of 20 basis points (.2%) of the fair market value, collected monthly, to recover a portion of these costs. To the extent that an account is invested in a common fund, this charge is paid by the common fund rather than the account directly.

Individual accounts may have additional fees. Any fees such as real estate taxes that are directly applicable to an account are charged to that account. An extra fee of 20 basis points (.2%) is charged for specialized assets (real estate, mortgages, and mineral interests), an extra fee of up to 30 basis points (.3%) for "Total Care" individuals (where the Foundation pays the bills, files the insurance and taxes, etc.), and an extra fee of 30 basis points (.3%) for accounts where the majority of distributions are made to non-Southern Baptist charities. The Foundation currently charges \$80 per tax return prepared, \$5 for each 1099 prepared, and \$5 per check beyond the first twenty checks per account per year. No interest is paid on income earned prior to its distribution to beneficiaries or until reinvestment into principal. Fees for the funds may change by vote of the Foundation's Board of Directors. A complete fee schedule is available upon request.

Professional investment managers or investment advisors may be retained by the funds, and may be compensated out of the assets of the common funds. Details of the current specific fees paid to investment managers are available upon request. As of December 31, 2008, the approximate average weighted investment fees for the various funds were as follows:

- Demand Cash Fund – 0.00% (most assets managed internally)
- Limited Maturity Income Fund – 0.07%
- Fixed Income Fund – 0.00% (most assets managed internally)
- Balanced Fund – 0.22%
- Total Return Fund – 0.49%
- Group Equity Fund – 0.44%
- Spending Plan Fund – 0.51%
- Strategic Allocation Fund – 1.09%
- Group Bond Fund – 0.47%

EACH DONOR OR MINISTRY IS ADVISED TO CONSULT HIS OR HER OWN ADVISORS REGARDING THE RISKS, TAX TREATMENT, AND OTHER ASPECTS OF INVESTING THROUGH THE FOUNDATION.

OPERATION OF COMMON FUNDS

DEMAND CASH FUND (DCF)

All cash deposits are placed into a cash fund and then allowed to purchase shares of the Demand Cash Fund at \$1 per share on each Wednesday. All income is posted on Wednesday mornings.

All withdrawal requests must be received by Tuesday at 5 p.m. for the next day check. All withdrawal requests will be assumed to be paid on the following Wednesday. If a client wishes to have funds withdrawn before the next Wednesday, that client must indicate that specifically in writing and will forfeit the interest earned since the past Wednesday.

Due to the nature of the weekly posting of interest, the Foundation posts the net expected rate of return proportionately to each account. This rate of return is computed based upon Board-approved formulas.

The payout of the Demand Cash Fund will fluctuate from time to time and is set by management based upon the return of the Fund's assets less any fees and allowances for the Fund's stability and liquidity. Large deposits (over \$1MM) may require prior Foundation approval, and large withdrawals (over \$250,000) may require prior notice.

ALL OTHER FUNDS (Balanced Fund, Total Return Fund, Spending Plan Fund, Group Equity Fund, Limited Maturity Income Fund, Fixed Income Fund, Strategic Allocation Fund, Group Bond Fund)

All cash deposits are placed into a money market fund and then automatically swept into the appropriate fund as of the last day of each month after the fund's assets are valued (or more often if the Foundation is able to value the Fund within the month).

All income is posted as of the last day of each month.

All withdrawal requests must be received by 5 p.m. on the last day of the month to be considered for withdrawal as of that date. Since the fund's assets have to be valued before the income can be distributed and the withdrawal checks written, there may be a delay before funds are available.

All purchases and withdrawals are made at the then current net asset value (total market value of fund's assets divided by the number of outstanding shares).

Asset Allocation of Common Funds (Approved 8/7/2008)

FUND¹	Fixed Income²	Equities³	Alternatives⁴
<u>Blended Funds⁵</u>			
Balanced Fund (BF)	60%	30%	10%
Total Return Fund (TRF)	30%	60%	10%
Gift Annuity Fund (GAF)	60%	40%	
Spending Plan Fund (SPF)	40%	50%	10%
<u>Fixed Income Funds</u>			
Demand Cash Fund (DCF) ⁶	100%		
Limited Maturity Income Fund (LMIF) ⁷	100%		
Fixed Income Fund (FIF) ⁸	100%		
Group Bond Fund (GBF) ⁸	100%		
<u>Stock Funds</u>			
Group Equity Fund (GEF) ⁹		100%	
<u>Alternative Investments</u>			
Strategic Allocation Fund (SAF)			100%

Notes:

¹Due to contributions, cash flow needs, or defensive strategies, all funds may hold positions in cash or cash equivalents including but not limited to money market mutual funds, discount notes, and short-term commercial paper. The Foundation staff and investment consultants will be responsible to maintain desired managers and percentages based upon performance and any tactical decisions that are deemed helpful to the portfolio. All funds may purchase pooled investment vehicles so long as these vehicles own assets in the assigned investment class and have an average credit quality at least equal to the minimum requirement for the Fund. Pooled investment vehicles are investments where investors own shares of the fund, but do not own the underlying investments of the fund. These investments have controlling documents and the investment advisor(s) to the fund have a fiduciary and legal obligation to abide by these documents, but do not have a fiduciary obligation to the Foundation." Investments will not be made directly in companies that are perceived to derive the majority of their income from alcohol, tobacco, gambling, movies, or other items that would be offensive to Baptist positions on morality. Assets held by funds that change in nature (example: credit rating, maturity, and other) from the investment requirements described within this document may continue to be held within the funds when deemed prudent.

²"Fixed Income" includes primarily treasuries; insured certificates of deposit (CD's); securities including debt, mortgage-backed securities, and collateralized mortgage obligations (CMO's) issued by government, government agencies, or BAA-or-better corporate or independent companies; and BAA-or-better rated preferred stock – but may also include smaller positions in promissory notes and church bonds.

³"Equities" include primarily common stock, but may also include preferred stock, securities convertible into common stock, covered call options, and managed short positions. Also, SPF may purchase principal-protected securities such as market index target term securities (MITTS) as needed for equity market defensiveness.

⁴"Alternatives" include non-traditional investments that seek to provide diversification through innovative and flexible strategies that are not expected to be directly correlated to the fixed income or equity markets, including such assets as REITS, commodities, natural resources, real return assets, and global allocation strategies. Investments in these vehicles carry special risks including liquidity risk. Alternatives will comprise no more than 20% of any individual account, unless otherwise directed by the account owner.

⁵The above percentages are goals for the blended funds which may vary some due to gains and losses, as well as economic trends. With regular principal cash inflows, rebalancing can be regulated in light of desired goals. However, the funds will be rebalanced at

least upon a variance of 15% from the desired goal. The blended funds may also hold relatively small positions in real estate, church bonds, oil and gas leases, and other less liquid assets (most of which have been gifted to the Foundation and can be held until maturity or until sold).

⁶DCF is limited to cash, money market securities or instruments, treasuries, insured certificates of deposit (CD's), and AAA-rated securities including debt, mortgage-backed securities, and collateralized mortgage obligations (CMO's). The goal is to provide steady income with limited volatility in market prices by utilizing assets with stated maturities (or liquidity at par value) of no longer than two years or expected average life of less than two years even with a 300 basis point rise in interest rates. Longer CD's may be purchased with the ability to cash out with reasonable penalties.

⁷LMIF is limited to treasuries; insured certificates of deposit (CD's); securities including debt, mortgage-backed securities, and collateralized mortgage obligations (CMO's) issued by the U.S. Government, U. S. Government agencies, or AAA-rated corporate or independent companies. The objective is reasonable income with less volatility and credit risk than the Fixed Income Fund. This is accomplished by utilizing assets with stated maturities or expected average life of no more than ten years even with a 300 basis point rise in interest rates.

⁸FIF has primarily an income-generating objective, while GBF has a total return objective.

⁹GEF will focus on large-cap U.S. companies including a global emphasis, but up to 25% of the fund may be invested in more smaller, more aggressive companies and up to another 25% of the fund may be invested in international companies. GEF is both passively and actively managed.