

DFMS INVESTMENT COMMITTEE (IC) MEETING MINUTES

FINAL

Date: August 17, 2007
Location: The Episcopal Church Center - 815 Second Avenue, New York, NY 10017
Time: 9:00AM – 2:00 PM

Committee Members: James S. Clarke, *Chair*
Joel Motley, *Vice Chair*
Arthur M. Bjontegard, Jr.
The Rev. Maurice L. Goldsmith
Carol O’Neale
Dennis E. Stark
Robert C. Wilkins
Wesley Williams
Sally M. Zimmerman
N. Kurt Barnes

Consultant & Staff: David Hyman, *Evaluation Associates Incorporated*
Steven Case, *Evaluation Associates Incorporated*
Margareth Crosnier de Bellaistre, *DFMS Staff*
Lloyd Mondal, *DFMS Staff*

Investment Manager: Julius Baer - Stacey O’ Neill & Brett Gallagher

Apologies: None

- 1.0 General
- 1.1 Rusty Goldsmith opened the meeting with prayer.
- 1.2 David Hyman of EAI introduced his colleague Steven Case.
- 1.3 Future meeting dates were set at November 16, 2007, February 29, May 16 and August 15, 2008.
- 1.4 The minutes of the May 18, 2007 meeting were adopted with the following amendment:
 - 3.0 Replace Chair by Richard H. Gillons.
- 1.5 The Chair reviewed membership terms and recapped for the committee the November 2006 amendment to the By-Laws (AF-004) that was adopted to maintain continuity in membership so that informed investment decisions will be made without interruptions. Every member was in agreement with his term. The Chair agreed to a one year extension for Robert Wilkins *ex cathedra*.
- 1.6 The Chair continued with a review of today’s agenda followed by Margareth CdeB who highlighted major tasks for upcoming meetings as listed in the *DFMS IC Agenda and Responsibilities* grid.
- 2.0 Lloyd Mondal presented the DFMS investment reports that included a preliminary performance for July. The YTD performances through June and July were both well over

their respective custom benchmarks. The Treasurer pointed out a typing error in the YTD endowment performance 10-year total return. Margareth CdeB reported the savings on the custody fees (Custodian Bank of New York) in light of a new pricing agreement that took effect a year earlier.

- 3.0 **Socially Responsible Investing (SRI)** – Sally Zimmerman indicated that there had been no SRI meeting since the last IC meeting, and therefore there was nothing to report. The next SRI meeting will be in September 2007. An SRI report will be given to the IC in November.
- 4.0 **Economic Justice Loan Committee (EJLC)** – Rusty Goldsmith gave a brief but concise report on the status of outstanding loans. The Chair inquired about the prospect of collecting two loans scheduled to mature in September. Margareth CdeB indicated that from all indications both New Hampshire Community Loan and Vermont Community Loan Fund would repay their loans. VT Community Loan was preparing to submit another loan request to EJLC. The Diocese of Atlanta was seeking an extension because of a late start of its project co-funded by GA State. Bob Wilkins suggested that EJLC could explore micro-financing such as the Kiva program.
- 5.0 Treasurer's General Report – Kurt Barnes indicated that the DFMS books for 2006 were in excellent shape according to DFMS's independent auditor Grant Thornton. The audits of DFMS and ERD financial statements, as well as the OMB's A-133 audit for federal contracts received unqualified "clean" opinions with no findings.
- 5.1 The Treasurer also communicated that the 2007 diocesan payments are in line with pledges and are running slightly ahead of the comparable period in 2006. Revenues include an unexpected \$281,500 settlement related to the defunct WorldCom Corporation. Spending for the 1st six months was below budget, which is not unusual as most expenses take place during the second half of the year.
- 5.2 The Treasurer added that the building renovation was completed and that work on the upper 2 ½ floors is underway to enable Ad Council to move in by year end.
- 5.3 Kurt Barnes summarized the proposed ECC reorganization plan, which focuses the Mission Program work into four work centers. The Finance Office is working to develop new accounting codes and to analyze whether the reorganization maintains the programs approved by the 2006 General Convention. Art Bjontegard asked if there were major cuts expected; the Treasurer explained that program funding as approved by GC will be respected and that the restructuring was mission priority driven and not budget driven. A broad outline of the new structure will be shared with staff in early September and will be discussed at the Executive Council in October. If agreed, implementation is scheduled for January 2008.
- 6.0 Margareth reported on the status of the Unitrusts and Pool Income funds through June 30, 2007, which included the performance and benchmark for every account. The Chair recognized that performance exceeded benchmarks, and that there was no financial liability to DFMS as trustee. He recommended, however, that EAI conduct an

independent review of ECF's asset allocation (to determine its appropriateness) and report back to the committee. Art Bjontegard suggested turning over the portfolio to Episcopal Church Foundation. While the benefits of such an action remain unclear, the Chair directed the Treasurer's Office to investigate the feasibility of the proposed action and to have a report for November.

- 7.0 Dennis Stark reported on the Archives that the Relocation Strategy Task Force researched three locations and decided on downtown Austin because of its proximity to the airport and universities etc. A block of land was identified of which 75 % could be used for office space/parking lot to generate income. He indicated that 2 development partners were approached with one showing some interest in the project, adding that as much as \$9 millions would be needed to buy the land and fund the building. Dennis reiterated that the IC did not have to consider any request from the Archives Relocation Strategy Task Force today, but wanted to put the Committee on notice that it might be approached for an investment of \$9 millions by the Archives. The current lease with the Seminary of the Southwest expires at the end of 2009; and the Archives will have to leave within 3 to 6 months of 2010. The Chair cautioned that such a request was not one fitted for this Committee, a sentiment echoed by Art Bjontegard. Other members of the Committee suggested the idea of a complete digitalization of the Archives that will eliminate the need for an attractive and spacious location and the construction of a major edifice.
- 8.0 **EAI Report** - David Hyman reported that all portfolios were in compliance with guidelines. He reviewed the 2Q2007 performance and indicated that the Total Fund gained 6% which outpaced the custom benchmark 4.6% gain, placing in the top quartile of Mellon's all foundation total fund universe, highlighting the excellent performance of domestic large cap managers ICAP (+6.8%), Edgewood (+8.4%) and Westwood (+8.0%); all outperformed their benchmark S&P 500(+6.3%) placing them in the top two quartiles in their respective peer universes. Small cap manager Seligman (+9.6%) outperformed its benchmark Russell 2000 index (+4.4%) and ranked in the top quartile relative to its peers. International managers Julius Baer and New Star bested their respective benchmark indices and ranked well ahead of the median manager.
 - 8.1 He mentioned that the yearly review of the asset allocation will be done at the November's meeting.
 - 8.2 David informed the IC that Rob Lyon, President and CIO of ICAP has passed away. EAI recently met with Paula Rodgers and Jerry Senser (new President and CIO – former Co-CIO) and finds no cause for concern or change at this point, but will continue to closely monitor.
 - 8.3 David summarized the sub-prime mortgage bubble and its repercussion in the market, particularly for fixed income and equity managers. At this time, he said that there was no concern for any change in asset allocation.
- 9.0 **Blackstone Alternative Asset Management** – Margareth CdeB circulated a status report about investments with Blackstone. A thorough review of Blackstone subscription documents involving many telephone and e-mail exchanges with Grant Thornton, EAI and Blackstone managers was done; the document was signed earlier in the week. An on-site visit as part of due diligence by the Treasurer's Office was postponed for the

following month when most people return from vacation. The Committee agreed to proceed with the \$10 million funding to be effected in August 2007.

- 10.0 **Real Estate** – David Hyman went over two excellent detailed reports prepared by EAI on real estate in general and about a selection of Real Estate Managers. Wesley Williams offered his opinion on private real estate and expresses his hesitation as to the timing of investing into real estate within the current market. The Chair echoed the same, although he recognizes that for firms that have a good strategy, real estate may prove to be a timely investment. Both Steven Case and Joel Motley endorsed the idea of infrastructure funds with reliable credit rating. The Chair appointed Wesley Williams and Joel Motley to work with David Hyman about infrastructure and real estate and to report at the next meeting. Meanwhile, the Chair asked that Prudential Real Estate Investors be invited to present to the IC at the November meeting to discuss investing in private real estate. The smaller committee will also invite firms to discuss global REITs and infrastructure.
- 11.0 **Julius Baer** – Stacey O’Neill and Brett Gallagher presented Julius Baer’s investment philosophy. Julius Baer (JB) makes no distinction between value and growth but looks for opportunities. The relationship with DFMS is in its seventh year; the benchmark for DFMS is the MSCI EAFE. For the first half of 2007, only Russia proved to be unprofitable to the company. Brett forecasts that the sub-prime mortgage issue will be at the forefront until mid 2008, adding that JB’s strategy will remain the same. Stacey highlighted the +9.9% (benchmark +8.4%) 2nd quarter DFMS performance. Brett indicated that the positive result was due to being underweight in Japan and overweight in Europe. At the sector level, the portfolio benefited from its financial allocation. He believes that Emerging markets are attractive for the long term.
- 11.1 The IC’s feedback about JB’s presentation was good; with the exception of a potential change in ownership, EAI added that there were only positive comments about JB, a feeling shared by the Treasurer’s Office and the IC.
- 12.0 **Endowment Outsourcing** – Kurt presented a memorandum analyzing the potential outsourcing of the endowment to the Church Pension Group (CPG) in response to a request from the Chair after the last meeting. Wesley Williams wanted to grasp the difference between CPG’s pension and DFMS’s endowment. Following a brief reply, the Chair went on to explain the genesis of the outsourcing issue, which was brought up to explore efficiency and possible higher returns. The Treasurer’s memo showed that DFMS performance exceeds CPG in the most recent three years – a period during which significant changes have been made in the investment manager lineup. The Chair noted, however, that CPG’s performance exceeds DFMS’s performance in the longer 10-year period during which CPG had significant assets in alternative investments. A member questioned whether the Board of CPG was in favor of taking on outside portfolios. It was suggested to halt the discussion until the Treasurer hears from CPG’s President on the issue, recognizing that the outsourcing of DFMS’s portfolio was on the agenda of the upcoming meeting of CPG Boards in September 2007. Any further discussion on the issue will be done only if CPG is interested to take DFMS’s endowment as an account.
- 13.0 The Chair adjourned the meeting at 2:00 P.M and met in executive session.