

DFMS INVESTMENT COMMITTEE (IC) MEETING MINUTES

Final

Date: November 16, 2007
Location: The Episcopal Church Center - 815 Second Avenue, New York, NY 10017
Time: 9:00AM – 2:30 PM

Committee Members: James S. Clarke, *Chair*
Joel Motley, *Vice Chair*
Arthur M. Bjontegard, Jr.
Robert C. Wilkins
Dennis E. Stark
Wesley Williams
Sally M. Zimmerman
N. Kurt Barnes

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

Investment Managers: Prudential Real Estate Investors (Jim Murphy & Philip Connor)
European Investors (Kirsten McElroy)
JP Morgan Infrastructure (Robert E. Pease & Michael Mondo)
DePrince, Race & Zollo (Katie Byrne & Kelly Carbone)

Apologies: Carol O’Neale
The Rev. Maurice L. Goldsmith

- 1.0 General
- 1.1 The Chair opened the meeting with prayer.
- 1.2 Esther Fajo was welcomed as the new Investment Administrative Assistant in the Treasurer’s Office.
- 1.3 The Chair expressed regrets from Ms. O’Neale and Fr. Goldsmith who could not attend.
- 1.4 Reconfirm future meeting dates set for February 29th, May 16th, August 15th & November 21, 2008.
- 1.5 The minutes of the August 17, 2007 meeting were adopted with the following amendment:
 - 10.0 To add “and” on line 8 between global REITS and infrastructure.
- 2.0 Lloyd Mondal presented the DFMS investment reports.
- 3.0 **Socially Responsible Investing (SRI)** – The latest No-Buy list revised by the Socially Responsible Investment was distributed. Sally Zimmerman pointed out that the number of prohibited companies had been increased from 34 to 76; the increase related primarily to foreign companies involved in tobacco.
- 4.0 Sally gave a briefing on the recent SRI resolution on global warming adopted by the Executive Council.

- 5.0 **Economic Justice Loan Committee (EJLC)** – Margareth Crosnier de Bellaistre reported that two loans due in September (*New Hampshire Community Loan and Vermont Community Loan Fund*) were paid off. At its November 8 meeting, after an extensive screening, EJLC approved three new loans: \$350,000 principal amounts; five-year terms; at 4% per annum. The borrowers are: *The Reinvestment Fund, Community First Fund, and New Hampshire Community Fund*. The next EJLC meeting is expected to be in early February 2008.
- 5.1 The Chair asked if the EJLC Liaison had a report on EJLC’s stance vis-à-vis micro loans. In the absence of Rusty Goldsmith, Margareth promised to raise the issue at the next EJLC meeting.
- 6.0 **Treasurer’s General Report** – Kurt Barnes indicated that diocesan pledges were in line with the 2007 budget and expenses were below the budget; he had every indication that 2007 might end with some savings due to unfilled personnel positions.
- 6.1 Kurt reported that 2008 diocesan pledges that have been received thus far indicated an overall increase of approximately 1.5 % over 2007, in spite of various unpleasant actions throughout the Church. The Treasurer confirmed that the 2008 budget will be prepared with a 5.0% payout as per the 2007 resolution. However, it is expected that at the end of the triennium the budget will be balanced.
- 6.2 The Treasurer reported on the Executive Council’s discussions centered on Title IV expenses and disclosure of legal costs incurred by the Society. These costs were twice higher than budgeted and did not include donated legal services.
- 6.3 In response to a question about how the Treasurer’s Office monitors the use of trust fund monies, Kurt explained that the Treasurer’s Office and counsel regularly reviewed the language of trust funds to ensure that income and appreciation were being used in accordance with the language of the trusts. An examination of trust funds is also included in the annual review by independent auditors.
- 7.0 **Endowment Outsourcing** – Kurt referred to an earlier e-mail he circulated about the response of the CPG President, Dennis Sullivan, on the IC Chair’s request to explore the possibility of outsourcing the DFMS endowment management. In summary, Mr. Sullivan reported that “after a lengthy and spirited conversation at its annual Offsite Meeting, the Trustees [decided] not to pursue such an initiative”. **The IC passed a motion not to pursue outsourcing of the endowment at this time.**
- 8.0 **Spending Policy** - Kurt reported that the spending policy for 2008 will be 5%.
- 9.0 **Unitrusts** - Margareth presented a report on the Unitrusts and Pooled Income funds.
- 9.1 A memorandum from Kurt & Margareth on the transferring of Unitrusts liability to ECF was thoroughly discussed. Margareth reported that in the opinion of legal counsel, the current administration of the portfolio was not a point of concern. In addition it will be costly to “remove” DFMS liability under these accounts. **A motion was passed to suspend all efforts relating to removing DFMS liability.** The motion further acknowledges DFMS fiduciary responsibility of the Unitrusts accounts, which the IC will continue to honor by monitoring the Pool Income Fund reports regularly.

- 10.0 **EAI Report – Unitrusts.** David Hyman, who was asked to conduct an independent review of the management of the Unitrusts, presented an extensive report by his firm. He gave a quick review of each account and of their investments. David mentioned that one of the SSgA's short term bond funds was down about 40% and that State Street was being sued.
- 10.1 The Chair noted that the EAI report was another example of the IC's fulfilling its fiduciary responsibilities.
- 10.2 The Chair and Vice-Chair, Joel Motley, will prepare and mail a letter to the Chair of the ECF's Board addressing the two underperforming funds in the portfolio and stressing the quality of reporting by EAI. They plan to request ECF to ask its Investment Consultant (Cambridge) to do a similar analysis periodically.
- 11.0 **EAI Report – Endowment.** David reported that all portfolios were in compliance with guidelines. He reviewed the 3Q2007 performance and indicated that the Total Fund gained +2.3%, outperforming the custom benchmark by 100 basis points and placing it in the third quartile of the Mellon all-foundation total fund universe. He added that domestic large cap managers Edgewood (+7.0%) and Westwood (+2.6%) outperformed the benchmark S&P 500 (+2.0%) placing them in the top two quartiles in their respective peer universes. ICAP produced a gain of +1.8%. Small cap manager Seligman (+0.3%) outperformed its benchmark Russell 2000 index (-3.1%) and ranked in the top quartile relative to its peers. Century Capital lost -2.3%. International manager New Star (+2.8%) bested its benchmark MSCI EAFE (+2.2%) and ranked in the second quartile among its peers. Julius Baer gained +1.9%. Fixed Income manager WAMCO (+2.4%) underperformed its benchmark LB Aggregate (+2.8%). Micro Cap manager DePrince (-4.1%) underperformed its benchmark Russell 2000 (-3.1%).
- 11.1 The Chair asked about DFMS's exposure to sub-prime mortgages in its short-term investment. Margareth replied that she checked with both State Street and Deutsche Bank and that DFMS had no exposure. The Chair requested that EAI inquire further on the issue.
- 11.2 David announced that EAI will meet with Century Capital in January 2008 and will give his report at the February meeting.
- 12.0 David summarized recent changes at EAI that resulted in a reduction of 6 consulting teams to 4; he stressed that the relationship with DFMS will not be adversely affected.
- 13.0 **Real Estate / Infrastructure** – In anticipation of the visits by 3 firms, David Hyman explained that today's visits with Prudential, European Investors & JP Morgan were for educational purposes not business solicitation.
- 13.1 **Prudential Real Estate Investors** – Jim Murphy and Philip Connor presented the firm's investment philosophy on the benefits and risks of investing in Private Real Estate as an asset class. They stressed that Real Estate is the third largest asset class globally and in the U.S. after fixed income and public equity. As of 3/31/07 total assets under management was \$27.6 billion.
- 13.2 **European Investors** – Kirsten McElroy presented the firm's investment philosophy on the benefits and risks of investing in Global REITS. The firm has over 20 years of

- experience investing in real estate and currently manages \$6.5 billion total assets of which \$5.1 billion in invested in global real estate securities.
- 13.3 **JP Morgan** – Robert Pease and Michael Mondo presented the firm’s investment philosophy on the benefits and risks of investing in Infrastructure. As of 6/30/07 total assets under management was \$1.1 trillion. The current geographic focus is global, within the OECD countries.
 - 13.4 **The IC passed a motion to include Real Estate as an Alternative Investment asset class.**
 - 13.5 After the February 2008 meeting, David will add Real Estate as an alternative investment class to the policy guidelines, which will result in a review of the target ranges
 - 13.6 The Chair appointed Joel, Wesley, Kurt and Margareth as a sub-committee and charged them to continue discussion about real estate and recommend potential real estate managers for the Committee to interview. It was the general feeling of the IC that Global REITS was more attractive than infrastructure.
 - 14.0 **A motion was passed to express the IC’s appreciation to David Hyman for his excellent analysis and comprehensive reports during the year.**
 - 15.0 **Asset Allocation** – As a result of its good performance, Edgewood was by far the largest investment manager with 17% of DFMS’s assets. Kurt underlined that at the end of every quarter the portfolio was rebalanced as per the target ranges. Discussions arose about setting up a limit of the DFMS assets on each manager.
 - 15.1 **The IC passed the motion to cap exposure of any single manager at 15%** with the understanding that the Bond Fund (Western Asset), now with 20%, will be brought into line after the review of the target ranges and when an additional Bond Fund manager is hired in 2008.
 - 16.0 **DePrince, Race, & Zollo, Inc.** – Katie Byrne and Kelly Carbone presented the firm’s investment philosophy and highlighted the performance of -4.1% (benchmark Russell 2000 -3.1%) for the 3Q2007. The underperformance was due to weak positioning and issue selection in the financial and information technology sectors. DRZ believes that a transition to higher quality, lower debt companies will provide a tailwind for the portfolio moving forward.
 - 16.1 The IC was very pleased with DePrince’s presentation. However, in the interest of time, the Committee decided that in 2008 no current manager would be invited to visit unless there was cause for concern.
 - 17.0 The IC met in executive session with members of the staff who expressed their positive experience with EAI, especially with David Hyman who is very responsive to their needs. The IC spoke of EAI’s performance; the Chair said that he was pleased with David, a sentiment echoed by the Vice-Chair as well. The IC reaffirmed a vote of confidence in EAI and in David Hyman.
 - 18.0 The Chair adjourned the meeting at 2:00 P.M and met in executive session.