

DFMS INVESTMENT COMMITTEE (IC) MEETING MINUTES

Final

Date: February 27, 2009
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.
Carol O’Neale
Dennis E. Stark
Robert C. Wilkins
The Rev. Deacon Wesley Williams
Sally M. Zimmerman
N. Kurt Barnes, *DFMS Treasurer*

Apologies: The Rev. Maurice Goldsmith

Consultant & Staff: David Hyman, *Evaluation Associates Incorporated*
Rob Farrington, *Evaluation Associates Incorporated*
MaryAnn DiMaggio, *Evaluation Associates Incorporated*
Tom Duggan, *DFMS In-house Legal Counsel*
Margareth Crosnier de Bellaistre, *DFMS Staff*
Lloyd Mondal, *DFMS Staff*
Esther Fajo, *DFMS Staff*

Episcopal Church Foundation:
Craig Bossi
Kate Adams
James Murphy
Matt Freeman

State Street Global Advisors:
Dennis Dwyer

Investment Manager: **Western Asset Management** - Sandy Goodman & James Ho

1.0 General

- 1.1 Art Bjontegard opened the meeting with prayer.
- 1.2 The Chair reconfirmed upcoming meeting dates set for May 15 & August 21.
- 1.3 A motion was passed to accept the four recommended potential candidates presented by the Nominating Committee. Stark will submit a resolution to Executive Council.
- 2.0 The minutes of the November 15, 2008 meeting were approved with minor changes to 5.0, 8.1, and 10.4.
- 3.0 Lloyd Mondal went over the 4Q2008 DFMS investment reports.

- 4.0 **Securities Lending Program with BNY Mellon** – Margareth CdeB briefed on a meeting with representatives from Bank of New York Mellon about the securities lending program. Tom Duggan distributed a handout and reported on his evaluation of the impending losses in the stock loan portfolio, particularly those associated with Lehman Brothers securities and an over concentration of holdings in the financial services sector.
- 4.1 A sub-committee that included Duggan, Motley and Bjontegard was formed to evaluate and make a decision whether to accept the recent BNY Mellon’s proposed financial settlement as outlined in Duggan’s handout.
- 4.2 The staff was directed to complete a factual investigation of the stock loan program, including timeliness and nature of information produced by the custodian.
- 5.0 **Corporate Social Responsibility** – MCdeB distributed a copy of the 2009 Executive Council resolution on shareholder proposals.
- 6.0 **Economic Justice Loan** – MCdeB reported that EJP loans were current. There were \$1.3m in funds available for investment. Loans maturing later in 2009 will restore another half a million to the fund.
- 7.0 **Treasurer’s Report** – Kurt Barnes presented his report and reviewed his handout. He gave a progress report on the 2008 financial statements, described assumptions included in the 2009 budget and the 2010-2012 draft budget. Liquidity remained a concern for the Treasurer’s Office.
- 7.1 **Archives** – Barnes stated that due diligence was being conducted and that fundraising strategy was being devised. The task force selected a preferred fundraising consultant who was asked to refine its plan and fees.
- 8.0 **Western Asset Management**
- 8.1 David Hyman of EAI discussed the memo to IC concerning Western Assets in which EAI maintains a favorable opinion of Western. He stated that clients’ patience will ultimately be rewarded with meaningful outperformance when the fixed income market rebounds from its current depressed state.
- 8.2 Sandy Goodman talked about WAMCO, its long term value approach and investment philosophy. While there has not been any layoff, some staff assumed new functions. During the medical leave of WAMCO’s CIO, Stephen Walsh had assumed a senior role.
- 8.3 James Ho reviewed the portfolio and its performance.
- 9.0 **Episcopal Church Foundation & State Street Global Advisors**
- 9.1 Barnes provided background information on deferred gifts, PIF and Unitrusts, which were administered for many years by the DFMS Treasurer’s Office. In 2004 ECF was given Client Relationship responsibility for that portfolio for a modest administrative fee.
- 9.2 Kate Adams of ECF gave an overview of the Foundation’s mission in raising the awareness of planned giving programs throughout the Church. She also introduced the accompanying members of her team.
- 9.3 Dennis Dwyer of State Street talked about the firm and its investment philosophy. He reviewed the Pooled Income and Unitrusts portfolios, their asset allocations and their performance. The Committee was very appreciative of the presentation.

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10.0 EAI Report

- 10.1 MaryAnn DiMaggio reviewed handouts on bank loans and distressed investments. She also discussed TIPS as an investment option. Among the alternatives, the Committee found bank loans that offered a five-year horizon to be the most attractive now. However the committee decided against an investment in bank loans at the moment.
- 10.2 Rob Farrington reviewed the Emerging Markets manager candidates; two ranked well and would be a better fit because of DFMS social responsibility restrictions. The Committee will consider such an investment in the future with no more than 3%-5% of the portfolio as recommended by EAI.
- 10.3 Hyman reported that all managers were in compliance with the guidelines. Although J. W. Seligman's letter was not available before the meeting, Rob expected it momentarily. Hyman will continue to monitor Seligman given that Seligman was recently acquired by Riversource.
- 10.4 A discussion on rebalancing concluded with the agreement that it was not necessary to rebalance at the present time.
- 10.5 Farrington presented Artio Global's request to trade warrants since DFMS provided no guidance on the matter. The Committee was not convinced how Artio Global would protect itself from third party risks, so decided against the use of warrants. The Chair asked EAI to communicate this decision.
- 10.6 After deliberation on the merits of a temporary move to cash as an active asset allocation, the IC approved a request from Artio Global to increase its cash holding from 10% to 20% until the end of the 2nd quarter of 2009. EAI will review and circulate updated guidelines to reflect the above.
- 10.7 The Chair asked EAI to review the current allocation and make a projection for the next 10 years at the next meeting.
- 11.0 The meeting was adjourned at 2.30 PM. There was no executive session.