DFMS INVESTMENT COMMITTEE (IC) MEETING MINUTES

FINAL

Date: May 18, 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.
Carol O'Neale
Dennis E. Stark
Robert C. Wilkins
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*
Andrei Braudo, *DFMS Staff*

Investment Managers: Calamos Advisors (Craig Mauri & Martin Coughlan)
Advent Capital Management (Tracy V. Maitland, David Hulme, and Cara Drum)
Blackstone Alternative Asset Management (John McCormick and Matthew Weidemoyer)
Federal Street Partners (Edgar W. Barksdale, Jr.)

Apologies: The Rev. Maurice L. Goldsmith

1.0 General
1.1 Dennis Stark opened the meeting with prayer.
1.2 Future meeting dates were set at August 17th, November 16th, & February 29th, 2008.
1.3 The minutes of the February 23, 2007 meeting were adopted with the following amendments:
   a) Correction in the name of Ms. Carol O'Neale
   b) Section 6.0: amend the sentence to emphasize that "SRI wants to focus on resolving global warming" in lieu of "use the funds for global warming."

2.0 Lloyd Mondal presented the DFMS investment reports.
3.0 **Socially Responsible Investing (SRI) –** Sally Zimmerman reported that she did not attend the most recent joint meeting of the SRI and the EJLC. However, she spoke to Richard H. Gillons, a member of the SRI, who briefed her on the meeting in San Francisco. The two committees are exploring the idea of merging together, following a request from the Presiding Bishop and Bonnie Anderson that invited all the CCABs to re-examine their work in light of current objectives and missions.

4.0 **Economic Justice Loan Committee (EJLC) –** Rusty Goldsmith was absent and was not able to report on the activities of EJLC. However, Margareth Crosnier de Bellaistre reported that she attended that meeting earlier in the week. In sum, one new loan for $200,000 was approved at 4% - Pelham Fund; the disbursement will be in annual increments of $50,000. She also mentioned that the committee is considering extending the maturity date of the 7-year loan given to the Diocese of Atlanta at its request because of a delay in starting up the project. The loan was given in 2001 but because of several delays, the project started only last year.

4.1 Art Bjontegard commented that the EJLC should review its policy and not disburse loan funds until it has assurance that the project is ready to begin.

5.0 **Administration & Finance Committee (A&F) –** Kurt Barnes presented the audit report: the DFMS books are in excellent shape according to our independent auditor Grant Thornton. The audits of DFMS, ERD and OMB-133 financial statements (federal contracts of the DMFS) all received unqualified "clean" opinions with no findings. There were only three post year-end audit adjustments compared with an average of six recorded in most nonprofit organizations.

5.1. He also informed the committee that the 2006 budget had an income shortfall as a result of non payment of commitments from dioceses such as the Diocese of Pennsylvania that pledged $800,000 but sent in only $40,000. However, that revenue decline was offset by higher registration fees at the General Convention. In 2007, diocesan commitments are up 1% compared to 2006.

5.2 Kurt also mentioned that the Executive Council at its meeting of February 2007 approved a resolution authorizing DFMS to access up to $2.3 million from the short term reserve to cover the 2007 anticipated budget shortfall. The Executive Council also approved a payout of 5.5% for 2007 only.

5.3 Jim mentioned that the IC was not apprised of the payout rate of 5.5% although he understood that it was presented and discussed at the A&F meeting. Dennis stated that as an Executive Council member he took part on the deliberations and approved the increase in the payout to address the $3.8 shortfall in the budget; he informed the committee that after reviewing an analysis of investment performance during the last 10 years, it was recognized that a higher payout rate would not de-capitalize the corpus.

6.0 Margareth reported on the status of the Unitrust through April 30, 2007, which included the performance and benchmark for every account. Issues with the payout and investments arose from Dennis & Art. Subsequently, the Chair appointed Bob Wilkins, Dennis Stark, Margareth and Kurt to review with State Street, the custodian, and report back to the IC.

7.0 Dennis reported that the Archives were conducting more research on the three locations that were selected by the Archives Relocation Strategy Task Force. The lease concludes at the end of 2009 at the Episcopal Theological Seminary of the Southwest, and A&F asked the task force to do additional due diligence and report its findings at A&F meeting in June 2007.

8.0 The current guidelines allow 144A securities in the domestic equity and fixed income markets but not in the non-US markets. The staff communicated the request of NewStar, one of the non-U.S. equity managers who wanted permission to trade under the rule 144A on the international markets. The committee recommended in favor of the request.

8.1 **A RESOLUTION was passed to amend the guidelines and include the use of 144A securities in non-US securities markets**.

9.0 **EAI Report** - David Hyman reviewed the 1Q2007 performance. He reported that J&W Seligman has now been downgraded from BUY to HOLD, largely due to the product's inconsistent return pattern and higher level of volatility, resulting from the firm's deeper value approach, which can be out of favor for extended periods of time. However, EAI noted that there has not been any change in investment professionals and/or philosophy and/or process. Mr. Hyman noted that no action was necessary at this time; EAI will continue to closely monitor the firm. He followed up with a status report on NewStar. He noted that 35% of the firm is owned internally. Its recent underperformance was primarily due to its large holding of large multi-national companies that have been out of favor for the past few years; and poor stock picks by its Japan desk, though recent changes were made in that area. Although David recognized NewStar's overall poor performance, he recommended that the IC continue to monitor the company and if its performance does not improve by year-end, a decision should be made to terminate the relationship.

9.1 David reiterated EAI's recommendation to add an alternative investment allocation in an effort to provide protection from down-markets as well as managing risks more efficiently. As instructed by the IC at the last meeting, the search committee (EAI included) that was appointed by the Chair selected four alternative investment managers to give a presentation at the end of this meeting.

10.0 **Calamos Advisors** - Craig Mauri & Martin Coughlan gave an overview of Calamos Advisors, headquartered in Naperville, Illinois, a firm that went public three years ago. It has an enhanced convertible strategy that includes 50-60% convertibles, 20% securities, and 25% common stock.

10.1 **Federal Street Partners -** Edgar W. Barksdale, Jr., the Principal and Chief Executive Officer, presented the firm and its hedge fund investment philosophy. Federal Street has $2.5 billion assets under management with a global focus.

10.2 **Advent Capital Management –** Cara Drum, Tracy V. Maitland, and David Hulme presented the structure and investment strategy of Advent Capital, a registered investment advisor with the SEC**.** Advent is headquartered in NYC and was founded in 1995 by Mr. Mailtland, a former director of convertible securities at Merrill Lynch. Advent's focus is on convertible and high yield markets. Advent has over $3B of assets under management and counts a wide range of institutional clients. The firm is 100% employee owned; it represents a niche for convertible bond investment and follows a disciplined process as shown by its well established performance track record.

10.3 **Blackstone Alternative Asset Management (BAAM**) **-** John McCormick and Matthew Weidemoyer gave an overview of Blackstone Asset Management, a hedge fund manager and a division of The Blackstone Group, an SEC-registered firm, with $20 billion assets under management with 65/80% equities and 35/20% bonds. BAAM is based in NYC and was founded in 1990. Close to 88% of BAAM's assets under management are from institutional investors (corporate and public pensions, foundations and endowments, Taft Hartley plans and insurance companies). BAAM follows a fund-of-hedge-funds approach to achieve diversification while maximizing risk-adjusted returns.

10.4 **After deliberation and evaluation of the 4 presentations, the IC moved a motion in favor of hiring Advent Capital Management as its convertible manager, and BAAM as its hedge fund manager. The IC approved an allocation of $10 million each, and instructed the staff to fund these investments from the 6 domestic equity accounts on a prorata basis. Advent's fee is 70 basis points. Blackstone's fee is 1% flat management fee with a 10% incentive fee over Constant Maturity Treasury hurdle rate, subject to a high water mark**

10.5 For the next meeting, EAI will review additional alternative investment options, including real estate. Joel Motley and Wes Williams will work with EAI.

10.6 David Hyman informed the Investment Committee of the recent addition of Steve Case, as managing director, to the firm.

11.0 The Chair adjourned the meeting at 2:00 P.M and met in executive session without Mr. Barnes.

12.0 Upon conclusion of the Executive Session, the Chair and Vice-Chair met with Mr. Barnes and asked him to pursue a conversation with DFMS Management and the Church Pension Group regarding the advisability and practicality of CPG managing the DFMS endowment assets. This request is made based on the belief that the DFMS endowment might: (i) enjoy lower investment manager fees from larger pool of assets; (ii) participate in more hedge funds and other non-traditional assets; and (iii) experience reduced swings (volatility) in performance, even though improved performance is not necessarily expected.