

**Unitarian-Universalist Church of Nashua, New Hampshire
Investment Review Committee Summary Report for Fiscal Year 2011**

OUR ENDOWMENT AND THE COMMITTEE

This has been a much better year than was last year for investments, and our Church is fortunate to have had an increase in our endowment, currently worth about \$3,616,300, up from about \$3,207,393 a year ago. We have still not completely recovered from the two very poor years; we had about \$4,100,000 at this time in 2007.

This endowment is managed by the Investment Review Committee, which is chartered under the Church by-laws to monitor and control, subject to direction from the Board of Trustees, performance of the Church's invested funds. Former Treasurer Jon Lasselle, Treasurer of the Cemetery Association Russ Leonard, Joan Connacher, June Haskell, Kathy Grossman, John Brobst, and I make up the Committee. You will note two membership changes and an expansion of the Committee during the past year. June, Kathy, and John have been valuable additions to the Committee, although I am sorry that Carol Houde and Mike Wilt are no longer members.

Another change, with sadness in it, is the return of the principal of the late Louise Ekstrom's pension fund to the Church Fund, from which it was withdraw to establish Louise' pension.

For those funds whose donors did not specify a manager, the Committee may employ advisors to assist it, and currently uses the Bank of America (B of A) for the Church and Cemetery Trust Fund, the Restricted Funds (restricted as to use of income). The Church/Cemetery funds are comprised of bequests and accumulated gains, with 10.22% of the total belonging to the Cemetery. The Sarah M. Balcom Fund is held by the TD Bank Investment Management Group as Trustee in perpetuity for the benefit of the Unitarian-Universalist Church of Nashua. Two Helen Willis Boutwell Funds are also held in perpetuity by the Unitarian-Universalist Association for our benefit.

For a summary of investment performance over the past five and ten years, turn to the last page of this report. The paragraphs that follow discuss our investment philosophy, with details of the funds, their composition, and their results.

OUR INVESTMENT POLICY AND RESULTS

A major change during the year was the decision, approved by the Board of Trustees, to hold only mutual and exchange traded funds instead of a mix of funds and individual securities. Advice from several sources, over several years, was that endowments of our size should not hold individual securities, and a study by Bank of America showed that over the past 10 years, we would have been 3.98% better off with funds rather than the holdings we had. Note that as a result of this change, our long-standing of not owing securities in the alcohol, gambling, and tobacco industries can no longer be followed, as we have no control over the composition of mutual funds.

The investment objective for all our B of A funds is Balanced Return, which is defined as seeking long-term Total Return opportunities through investment in both equities and fixed income instruments, with further allocations into large, medium and small capitalization stocks and foreign securities . The equities portion is to be between 50% and 70% of the total invested, and the fixed income portion to be between 30% and 50% of the total. We seek an 8% Total Return (income plus principal growth) over several years, which many investment advisors consider reasonable for a Balanced Return account. This should allow us to draw about 4% to 4.5% of the average value of the funds over twenty quarters, leaving about 3% for inflation and about 1% for growth. This fiscal year, the principal increased by about 8.47%, partially reflecting the fact that we did not use all of the income that would have been available with a 4.5% withdrawal.

In converting to mutual funds, Bank of America will be selling our individual stocks and bonds as

appropriate opportunities arise, allocating the proceeds as described above. At present, the Church/Cemetery Fund still has about 22% invested in individual securities. The expenses of the mutual funds are included in the overall management fee we pay B of A; that is, we do not pay both metal fund fees and B of A's fees.

At present, 31% of the Church/Cemetery Fund is in fixed income securities (bonds, cash, the Minister's mortgage and the Community Loan Fund note) and the remaining 69% is in common stocks, convertible bonds, and equity mutual funds. Of the B of A managed Restricted Funds, 74.80% is fixed income, cash and equivalents, while 25.20% is in equity funds.

Our other major invested account, the Sarah M. Balcom Fund, is an irrevocable trust managed by the TD Bank Wealth Management Group for our benefit. As December 31, 2010, the fund was worth \$292,778 (\$272,418 a year earlier). We have no direct control over the investments in the fund, which under Federal regulations must annually distribute 5% of its principal. This year the net principal distribution we received was \$12,342, with net income of \$3,181 returned to principal. Since the fund's income does not equal the capital distribution, the principal of the fund will be slowly depleted unless capital gains make up the difference (as they did this year). The Committee is still considering what should be done to insure keeping the intent and memory of Sarah M. Balcom alive.

The two Boutwell Funds are held by the Unitarian-Universalist Association. The two funds were jointly worth \$29,327 as of December 31, 2009, (\$27,293 a year earlier), and gave us about \$1,700 of income. These funds are managed according to policies very similar to those B of A and we are following; i.e., Total Return, a 5.0% draw based on thirteen rolling quarters (we use twenty), and an effort to be socially responsible.

As stated above, and in consultation with Bank of America, the Committee has set our annual Total Return expectation for the B of A-managed funds at 8%. This Total Return will be calculated as a rolling average over the previous 20 quarterly accounting periods. The longer-term performance is shown for each account on a Total Return basis in the table below:

Several poor market years, both recently, and in the first part of the last decade, have afflicted our averages, which are still not meeting our return objectives; over five or ten year spans.

TOTAL RETURN HISTORY (percentages)

FUND	FY11	FY10	FY09	FY08	FY07	AVERAGES	
						5 yrs.	10 yrs.
CHURCH/CEMETERY	22.12	20.19	(18.24)	0.47	15.51	8.01	5.03
A. STEARNS (N/A in '08, '09, 10, or '11)	n/a	n/a	n/a	n/a	8.55	4.75**	n/a
BALCOM *	8.64	22.88	(20.16)	8.29	9.28	5.79	3.51
BOUTWELL*	13.68	27.66	(25.35)	17.51	10.00	8.70	5.24

* Figures are for calendar years. For the Balcom Fund net total return is shown, and does not include the now required five percent distribution of principal.

** Figure for the five years prior to 2008.

As previously mentioned, the last page shows the performance record of these accounts for the past fiscal year and also shows for the same period the change in value of the commonly followed Dow Jones Industrial Average and S & P 500 stock average, and as a measure of annual inflation, the Consumer Price Index.

FEES

The current fee schedule charged by Bank of America is given below.

- 1.01% of first \$1, 000,000
- 0.63% of next \$2,000,000
- 0.48% of next \$2,000,000

CONCLUSION

It is important for each member of the Church to recognize that while the endowment can be counted on to provide substantial support for our budget, we must remember that our primary source of funding has to be the annual contributions of the Church members. By making our own individual contributions we become a constituency which is more invested in our institution and its programs than if we stand on the sidelines and wait for others to pick up the tab. From the Church/Cemetery Fund the Church received \$112,000, with \$7,752.57 going to the Cemetery, for a total of \$119,752.57. This is about 3.40% of the combined average market value of Church endowment fund during the year., and is less than would have been taken under the 4 or 4.5% 20 quarters policy we consider a prudent rate of withdrawal. But it does reflect the strong commitment you have made to not depleting our endowment and supporting the Church with your pledges.

Respectfully Submitted,

Investment Review Committee

Robert G. Sampson, Chairman