

**Unitarian-Universalist Church of Nashua, New Hampshire
Investment Review Committee Summary Report for Fiscal Year 2013**

OUR ENDOWMENT AND THE COMMITTEE

Our endowment increased from \$3,406,977 last year (corrected figure) to \$3,733,718 this year, a welcome 9.59% increase. This figure, as detailed below, includes the church's restricted and unrestricted accounts as well as the Nashua Cemetery.

The 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, Mike Ballantine, Steve Ladew, and I make up the Committee.

Our endowment includes two types of restricted funds, one type of which is restricted as to use of the income, examples being the Lyon Fund for "pulpit flowers", and the Phillip Ellis Stevens Fund for maintenance of musical instruments. The second type is funds for which the donor specified a manager, but did not restrict the use of the income. These are 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 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, and for the Restricted Funds (restricted as to use of income). The Church/Cemetery funds are comprised of bequests and accumulated gains, with 10.11% of the total belonging to the Cemetery.

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

We use Investment Policy Statements for both the Restricted and Unrestricted Funds to guide our thinking regarding risk, investment objectives, time horizon, distribution arrangements, investment restrictions, asset allocation, rebalancing strategy, and performance benchmarks. Copies of the statements are available from members of the Committee and from the Church Office.

As specified in our Policies, 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 funds, with further allocations into large, medium and small capitalization stock funds and foreign securities funds, plus smaller positions in real estate and tangible asset funds. For Unrestricted Funds, the equities portion is to be between 50% and 70% of the total invested, with 30% to 50% percentage for the fixed income portion. Real estate may be between 0.00% and 8.00%, with tangible assets between 0% and 6%. For the Restricted Funds, both the equities and fixed income portions may be between 37% and 57%; the real estate portion between 0% and 10%; and the tangible assets between 0% and 12%. The Bank's performance benchmark for equities is the Standard and Poor's 500 and for fixed income, the Barclays Capital Aggregated Bond Index. Long term, 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.

In accordance with our decision four years ago we now hold only mutual and exchange traded funds instead of a mix of funds and individual securities.

The total of the B of A funds as of May 31 was \$3,417,190 (\$3,107,078 at the end of May a year ago – corrected figure). The Restricted portion was worth \$122,995 (\$108,844 at the end of May 2012), and gave us \$2,904.00 of net dividend and interest income this year. The Unrestricted figures are \$3,294,194 (\$2,998,234) at the end of May 2012), with \$70,967.84 of net dividends and interest. Included in the B of A funds are two seven year notes totaling \$50,000 of the New Hampshire Community Loan Fund, yielding 4.0%. The Edington’s mortgage is paid off, and no longer part of the portfolio.

The Bank’s fee schedule is as follows:

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

In accordance with this schedule, our fees for the year were \$17,719.84. Mutual fund charges add about \$17,000 to our costs, making the total expense almost exactly 1% of the money under management.

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, 2012, the fund was worth \$283,617 (\$272,657 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 \$13,351. Trustee compensation and administrative expenses of \$3,012 (1.1%) were deducted from income of \$5,781, leaving \$2,769 of income returned to principal.

The two Boutwell Funds are held by the Unitarian-Universalist Association (UUA). The two funds were jointly worth \$32,911 as of December 31, 2012, (\$27,243 [corrected figure] a year earlier), and gave us \$1,675 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. The UUA charged fees, administrative costs and expenses of \$308 or 0.09% to the account.

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 have afflicted our averages, which except for the Boutwell Funds, are still not meeting our return objectives; over five or ten year spans.

TOTAL RETURN HISTORY (percentages)

FUND	FY13	FY12	FY11	FY10	FY09	AVERAGES	
						5 yrs.	10 yrs.
CHURCH/CEMETERY	12.36	(1.16)	22.12	20.19	(18.24)	7.05	7.68
BALCOM *	5.04	0.07	8.64	22.88	(20.16)	3.29	4.82
BOUTWELL*	26.95	1.71	13.68	27.66	(25.35)	8.93	8.87

* 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. The figures for each year are computed by adding the net income received to the net capital gain or loss, and dividing by the value at the beginning of the year. These figures are then averaged over five and ten year periods. This allows all three accounts to be compared on the same basis. We do also have a time-weighted figure for the Church/Cemetery Funds only, and this is shown on the last page.

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.

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.

Respectfully Submitted,

Investment Review Committee

Robert G. Sampson, Chairman