

Unitarian-Universalist Church of Nashua, New Hampshire Investment Review Committee Summary Report for Fiscal Year 2014

OUR ENDOWMENT AND THE COMMITTEE

During the year, the Committee increased our Church's commitment to social responsible investing (SRI) by putting \$200,000 into an SRI account managed by our principal investment manager, Bank of America. We also increased our commitment to the New Hampshire Community Loan fund from \$25,000 to \$75,000. These changes resulted in about 5.5% of our total endowment being SRI investments.

Since last October, when the SRI account was established, it has had a total return of about 11.52% and is now worth \$220,144. For the fiscal year, our Bank of America, unrestricted fund, including the SRI account, has had a total return of about 12.62%, and is now worth \$3,533,719 versus \$3,207,388 in October. Because we have only seven month's experience with the SRI account, and because that account holds large capitalization U. S. stocks almost exclusively, comparison with the other part of the unrestricted account (which holds a variety of investment vehicles) is not practical.

Our total endowment increased from \$3,733,718 last year to \$3,998,322 this year, a 7.09% 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, Ellen Fisher and I make up the Committee. Harry Purkhiser has been attending our meetings since January of this year.

In addition to unrestricted funds, our endowment includes two types of restricted funds, one "*use restricted*" and the other "*manager restricted*". Use restricted means that the money may only be used for the purposes specified by the donor, examples being the Lyon Fund for "pulpit flowers", and the Phillip Ellis Stevens Fund for maintenance of musical instruments. Manager restricted funds have a manger specified by the donor, although the income may be used as the Church chooses. There are two such funds, the Sarah M. Balcom Fund, which is held by the TD Bank Investment Management Group as Trustee in perpetuity for the benefit of the Unitarian-Universalist Church of Nashua and the two Helen Willis Boutwell Funds, 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 10.007% (\$355,845) of the total belonging to the Cemetery.

For a summary of investment performance over the past five and ten years, turn to page 3 of this report and for an Account Performance Summary, see the last page. 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 both the Unrestricted and 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%. 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 five 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 \$3,668,445 (\$3,417,190 at the end May last year). The Restricted portion was worth \$134,726 (\$122,995 at the end of May last year), and gave us \$2,680 of net dividend and interest income this year. The Unrestricted figures are \$3,533,719 (\$3,294,195 at the end of May 2013), with \$54,209 of net dividends and interest. Included in the B of A fund figures are three seven year notes totaling \$75,000 of the New Hampshire Community Loan Fund, yielding 4.0%.

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 \$19,369 Mutual fund charges add about (\$15,800) to our costs, making the total expense almost exactly 1% of the money under management.

PLEASE NOTE THAT THE RPEORTING PERIOD FOR THE FOLLOWING FUNDS (Balcom and Boutwell) HAS BEEN CHANGED FROM A CALENDAR YEAR TO AN APRIL TO APRIL PERIOD, MAKING THE RESULTS MORE NEARLY COINCIDE WITH OUR CHUIRCH FISCAL YEAR. THE FIGURES THERFORE DO NOT TRACK THOSE IN LAST YEAR'S REPORT.

As noted on the previous page, we have two accounts, Balcom and Boutwell, not managed by Bank of America. The Sarah M. Balcom Fund is an irrevocable trust managed by the TD Bank Wealth Management Group for our benefit. As of April 1, 2014, the fund was worth \$294,855 (\$290,395 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 \$7,815 (12.6%) were deducted from principal and income of \$4,084.

The two Boutwell Funds are held by the Unitarian-Universalist Association (UUA). The two funds were jointly worth \$35,022 as of April 1, 2014, (\$29,911 a year earlier), and gave us \$1,460 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 \$299.64 or 0.08.5% of 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.

TOTAL RETURN HISTORY (percentages)

FUND	FY14	FY13	FY12	FY11	FY10	AVERAGES	
						5 yrs.	10 yrs.
CHURCH/CEMETERY	12.62	12.36	(1.16)	22.12	20.19	13.23	8.23
BALCOM *	10.13	5.04	0.07	8.64	22.88	9.535	5.47
BOUTWELL*	29.26	26.95	1.71	13.68	27.66	19.85	11.53

* Figures are for April to April. 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

UNITARIAN UNIVERSALIST CHURCH OF NASHUA - INVESTMENT REVIEW COMMITTEE REPORT FY 2014

Account Performance Summary as of May 31, 2014

<u>INVESTMENT ACCOUNTS</u>	Market Value @5-31-13	Market Value @ 5-31-14	% Increase (Decrease) of Principal	% Yield (Net)	Time Weighted Total Return (Net)
<u>Bank of America:</u> Church/Cemetery	\$ 3,294,194,	\$ 3,533,719	6.78%	1.98%	12.62%
<u>Banknorth:</u> Sarah Balcom Trust *	\$ 290,395**	\$ 294,855**	1.53%	0.06%**	1.76%*
<u>UUA</u> Boutwell funds*	\$ 32,911	\$ 35,022	6.41%	6.15%	13.64%*
<u>RESTRICTED ACCOUNTS</u>					
Bank of America:	\$ 122,995	\$ 134,726	9.53%	1.76%	11.56%
TOTALS	\$ 3,740,495	\$3,998,322			

COMPARATIVE INDICES for FY END 5-31-14

	% Total Return
Dow Jones Industrial Average (30 Companies)	13.26%
S&P 500 Stock Average (500 Companies)	20.43%
Barclay Aggregate Bond Index	2.69%
Consumer Price Index (A measure of inflation.)	2.60%

HISTORICAL PERSPECTIVE

S&P 500 Stock Average Performance for about 100 years: Average annual Total Return 9.1%
 Consumer Price Index (Inflation Measure) over a long period: 3.0% increase per year.

* Figures are for April 2013 to April 2014, and are not time weighted.

**The Balcom Trust is now required to distribute at least 5% of the total value, not included in this figure, which reflects net income only..