

What Is Third Church's Endowment Fund?

It's a fund

- that at yearend 2007 had a market value of about \$6.5 million.
- that was intended to provide Third Church this year about \$405,000 – over 28% of the church's budget for the year.

Where Did the Endowment Come From?

From bequests
and other special contributions.

What's Happened to the Endowment Over the Prior 26 Years?

| | |
|------------------------------------|------------------|
| Market Value of the Fund, Dec. '81 | \$ 767,000 |
| Plus: Contributions | 2,865,000 |
| Investment Returns | 9,780,000 |
| Less: Payouts to Third Church | <u>6,914,000</u> |
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Investment returns had equaled 12.7% per year.

How Do We Calculate Annual Income to the Church

The church has defined “income” not as interest and dividends . . .

. . .but as *Imputed Income* – currently 7% of the fund’s average market value over the last five year-ends.

For 2008 Imputed Income was calculated to be about \$405,000.

Who Invests Third Church's Endowment Fund?

The Endowment Fund is invested in a highly diverse group of 19 mutual funds or other commingled funds . . .

. . . which are selected by an Investment Committee that reports to the Board of Trustees:

Bill Coons

George Gotcsik

Ken Link

Rusty Olson

Doug Phillips

Bob Sterrett

Janet Chisholm, *ex officio*

Jon Schumacher, *ex officio*

Peter Weishaar, *ex officio*

What Kinds of Mutual Funds?

A well diversified group:

| | |
|---|-----------|
| Twelve equity funds – half invested in U.S. stocks, half in non-U.S. stocks. | 64% |
| One fund primarily in fixed income | 11 |
| Six hedge funds – which are expected to earn 5% or more above inflation and have lower volatility than the stock market | <u>25</u> |
| | 100% |

What Has Happened This Year?

- Triggered by sub-prime mortgages, the wheels came off the world's credit markets.
- Without normal credit, the world's economy falls apart, and the stock market went into a tailspin.
- For this year through November, the world stock market was down 44%.

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- For this year through November, the world stock market was down 44%.
- Third's equity mutual funds were down even more, 46%. Its hedge funds, expected to help protect, were hit by massive redemptions, forcing them to make sales at fire-sale prices, and were down 29%.

Impact on Third Church

- Third's entire endowment lost 39% -- nearly \$2½ million. Market value at the end of November was down to \$3.75 million.
- At that level, 2009 Imputed Income would be \$385,000, down \$20,000 from 2008 and implying further reductions in the next few years.

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- At that level, 2009 Imputed Income would be \$385,000, down \$20,000 from 2008 and implying further reductions in the next few years.
- Because of today's disastrous market prices, Third is postponing withdrawal of 4th quarter Imputed Income of \$101,000, hoping for somewhat better times ahead.

What Action Should We Take?

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- In the past, when oversold markets finally rebounded, they came back sharply and without warning. Now is not the time be more conservative.

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- In the past, when oversold markets finally rebounded, they came back sharply and without warning. Now is not the time be more conservative.
- We believe
 - Current market prices are well below intrinsic value.
 - Markets will rebound, but we can't guess when.
 - When they rebound, they won't reach 2007 prices.
 - Much belt tightening will be needed at Third.

