

Unitarian-Universalist Church of Nashua, New Hampshire Investment Review Committee Summary Report for 2015-16

NOTE

This report covers the twelve months May 1, 2015 to May 1, 2016 for the Bank of America and UUA managed funds and the twelve months ending April 1, 2016 for the Balcom Fund. Neither of these periods reflects our current fiscal year.

OUR ENDOWMENT AND THE COMMITTEE

Our total endowment decreased from \$4,015,215 last year to \$3,787,289 as of April 30th, 2016. We continue our commitment to socially responsible investing (SRI) with three New Hampshire Community Loan Fund seven year notes totaling \$75,000 and yielding 4%. A further SRI investment is an account managed by our principal investment manager, Bank of America (B of A). The account is now worth \$552,567, down from \$572,817 a year ago.

The endowment is managed by the Investment Review Committee, which is chartered under the Church bylaws to monitor, subject to direction from the Board of Trustees, the performance of the Church's invested funds. It is further charged by the Board with recommending a withdrawal rate for the unrestricted and UUA-managed funds. During the year, we updated our Investment Policy Statements and for the first time, elected a Clerk of the Committee Steve Ladew. At our May meeting, I retired as Chair of the Committee, which elected Joan Connacher as the new Chair.

The Committee's current members are Former Treasurer Jon Lasselle, Treasurer of the Cemetery Association Russ Leonard, Joan Connacher, June Haskell, Kathy Grossman, Steve Ladew, and Robert Sampson. Our Minister, Alison Palm, and President David Hudson attended all our meetings.

The \$3,787,289 figure cited above includes the Church's restricted and unrestricted accounts as well as the Nashua Cemetery fund, which comprises 10.252% (\$350,414) of the total. The Church has 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 manager 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. The Balcom Fund has a further aspect in that it is actually a trust, which under Federal law, must distribute 5% of its assets each year. We have therefore chosen to take only the required 5%, leaving all income and capital gains in the trust so that it will not be depleted over time.

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 have and use Investment Policy Statements to guide our thinking regarding risk, investment objectives, time horizon, distribution arrangements, investment restrictions, asset allocation, re-balancing strategy, and performance benchmarks for both the Restricted and Unrestricted Funds.

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 (income plus principal growth) 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 Restricted 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 over several years, which many investment advisers 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.

Our SRI account, which B of A calls their S21M account, holds individual stocks, although we have no say in their selection. The rest of the B of A funds are in mutual and exchange traded funds, reflecting a decision made seven years ago after considerable thought and consultation.

The total of the B of A funds, including the Community Loan Fund and the Cemetery, as of May 1st was \$3,488,999 (\$3,693,728 last year), and produced net dividend and interest income of \$70,227 (\$61,474 last year). The Unrestricted portion is worth \$3,417,947 (\$3,566,096 last year), producing net dividend and interest income of \$68,578. The Restricted portion is worth \$71,052 (\$127,632 last year), and produced \$1,709 of net dividend and interest income this year. **NOTE** that these income figures are not the total received by the Church, which gets the 4.5% of rolling quarters, as described above. The figures for actual receipts are in the Treasurer's report.

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 \$19,103, with mutual fund charges adding \$8,636 to our costs, making the total expense 0.80% of the money under management.

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, 2016, the fund was worth \$270,306 (\$290,363 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 \$2,450 (1.75%) were deducted from principal and income of \$4,736. All Balcom figures are my estimates, based on a single quarter. As full years figures not available in time for this report.

The two Boutwell Funds (UUA account numbers 610038 and 610088) are held by the Unitarian-Universalist Association. The two funds were jointly worth \$27,984 as of May 1, 2016, (\$31,124 a year earlier), and gave us \$1,370 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 4.5% draw based on thirteen rolling quarters (we use twenty), and an effort to be socially responsible.

TOTAL RETURN HISTORY (percentages)

FUND	2016	FY15	FY14	FY13	FY12	AVERAGES	
						5 yrs.	10 yrs.
CHURCH/CEMETERY	(1.07)	5.85	12.6 2	12.36	(1.16)	7.32	6.52
BALCOM estimated for 2015-16, April to April	-5.28	(0.08)	10.13	5.04	0.07	5.79	3.90
BOUTWELL	(0.07)	6.88	29.26	26.95	1.71	6.70	10.12

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, Former Chairman