

## **“Background Statement” Regarding the December 5, 2007 Decision by the United Methodist Foundation Board to Appoint a New Investment Consultant**

It is a goal of the Foundation to have the best possible investment program available for the churches and agencies that we serve. Such a program will be characterized by the following:

- Returns at or above established benchmarks over an investment horizon of 3-5 years;
- Options to meet the needs of various investors (i.e. short term vs. long term, income vs. growth, etc.);
- Commitment to the Socially Responsible Investment guidelines of the United Methodist Book of Discipline;
- Sufficient diversification to achieve an optimum level of return for the risk (volatility) we are willing to bear; and
- Reasonable and competitive costs.

As a part of its investment program, pursuant to our Investment Policy statement, the Foundation appoints an investment consultant to provide professional guidance to our program. The Foundation has had one investment consultant for the past 24 years. That consultant has been Al Guernsey, most recently the lead partner of a team within the Consulting Group at Smith Barney. **Over the course of the past several years, the investment funds of the Foundation have not reached their established benchmarks.** During this period our returns were lower than the returns which were represented as reasonable to expect. **The other objectives in “bullets” above were being met.**

In light of these “below market” returns, in early 2006 the Foundation Board of Directors advised our team at Smith Barney that, should our returns remain below the stipulated benchmarks during the year 2006, the Foundation would begin exploring other consultant options for our investment program. Because the returns from our total fund were 9.91% (gross of fees) for 2006, compared to a benchmark of 11.00%, we elected to begin a search for a new investment consultant.

Our approach to this search was comprehensive. We appointed a five person committee from the board’s investment committee to manage this search. In addition to this group of five, Janet Boryk and I met with this committee. We solicited the names of 14 different firms mostly from other agencies similar to us. We sent a request for a proposal to these 14 firms. Thirteen responded. Of these thirteen, we interviewed 5 in early 2007. During the early summer of 2007, we followed up with two of these for further dialogue, and also interviewed the General Board of Pensions as an option. We had multiple conversations and meetings with these three groups between June and September of 2007.

By October of 2007, the committee identified one group to recommend to the Board at its December 5<sup>th</sup> meeting. **The group we have selected is Hammond Associates, Institutional Fund Consultants, of St. Louis, MO.**

The primary reasons for this selection are these:

1. Hammond **communicated efficiently and clearly** at every level of this process.
2. Hammond has a clearly established way of working with clients to set up investment programs that we believe will meet our needs well. In particular, they **focus on innovation and diversification**.
3. **The firm specializes in organizations like ours.** It has a national practice and provides investment consultation to groups with a total of more than \$56B in assets.
4. The firm has an **excellent reputation with regard to customer service** based on references with whom our committee members spoke.
5. The firm has an impressive list of **United Methodist clients**, including three UM –related foundations (Missouri UMF, Oklahoma UMF, and Texas Methodist Foundation). Other UM-related clients include Texas Methodist Pension Board, the General Board of Church and Society, and several UM-related colleges, universities and health and welfare agencies.
6. Clients of Hammond have experienced very **impressive investment returns**, based on 1-year, 3-year and 5-year performance. Consider the following data from Wilshire Associates, is a leading global investment firm. The Wilshire Analytics business unit compiles the returns of more than 2,000 institutional investment portfolios each quarter. Hammond Associates' clients have performed very well compared to this peer group in recent years. For example, 76% of Hammond clients ranked in the top half for the one-year period, 86% ranked in the top half over the three-year period, and 92% ranked in the top half over the five-year period ended June 30, 2007.

Here is **how this change will affect you** immediately. The assets of the Foundation will be transferred to a new custodian under Hammond's direction on February 1, 2008. **For the first few months you will notice no change in your allocations. Your funds will be invested at all times.** All of our investment accounts (Domestic Equities, International Equities, Income/Bonds, and Convertible Bonds) will remain as they are though with different managers. The asset classes in which you are invested and the proportion in each class will not change.

**You will be able to make both deposits and withdrawals as before.** Reports will be provided as before. Assistance from our fine office staff will be uninterrupted.

During the initial months with our new consultant the Foundation's staff and Investment Committee will be working with Hammond to determine what specific investment products to offer. During this time we will provide **opportunities for you to meet with Hammond in order to**

***hear what investment options will be available, to ask questions, and to make decisions about how you wish your funds to be invested.***

We are very confident that the result of this two year process and the choice of Hammond Associates as our investment consultant will be an investment program which will bring enhanced value to your account(s) at the Foundation. You will receive additional correspondence from us as decisions are made, events are planned, and feedback required from you.

One of the United Methodist Foundations with which Hammond Associates works is the Missouri United Methodist Foundation. If you follow this link you will be able to see how the Missouri foundation has benefited from Hammond's consultation:

[http://www.mumf.org/view\\_page.php?page=17](http://www.mumf.org/view_page.php?page=17). You can also peruse Hammond's web site if you have that interest: [www.haifc.com](http://www.haifc.com).

The next several months as we work through this transition will present challenges for the staff of the Foundation and for you, our investors. We look forward to it. We are very optimistic that at the end we will be working with you to "multiply resources for ministry within God's family."