

**Unitarian-Universalist Church of Nashua, New Hampshire
Investment Review Committee Report for Fiscal Year 2009**

OUR ENDOWMENT AND THE COMMITTEE

In spite of a very difficult time for all investments, our Church is fortunate to still have a very substantial endowment, currently worth about \$3,028,000, down from about \$3,923,000 a year ago.

This 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 Executive Committee, performance of the Church's invested funds. Church Treasurer Mike Wilt, former Treasurer Jon Lasselle, Treasurer of the Cemetery Association Russ Leonard, Carol Houde, Joan Connacher, and I make up the Committee. 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, the Restricted Funds (restricted as to use of income), and the Retirement Pension for Louise Ekstrom (Church Secretary for many years). The Church/Cemetery funds are comprised of bequests and accumulated gains, with

10.02% of the total belonging to the cemetery. The Sarah M. Balcom Fund is held by the TD Banknorth 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 a summary of our investments and their recent performance, turn to the last page of this report. The paragraphs that follow discuss our investment philosophy and give details on the funds and their results.

OUR INVESTMENT POLICY AND RESULTS

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 instruments, with further allocations into large, medium and small capitalization stocks and foreign securities. The equities portion is to be between 50% and 70% of the total invested and the fixed income portion to be between 30% and 50% of the total. 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. This fiscal year, the principal has shrunk by about 23%, even though we did not use all of the available income.

Bank of America uses individual stocks and bonds as well as mutual funds, notably in small capitalization and foreign securities mutual funds. The mutual funds are products of Columbia Management, a subsidiary of B of A. B of A's size makes moving in and out of small caps difficult and they do not claim great expertise in foreign markets. At present, the Church/Cemetery Fund is about 13% invested in mutual funds, with the balance in individual securities. The expenses of the mutual funds are included in the overall management fee we pay B of A. While other funds might in some instances be more attractive, the expenses we would incur by using them would tend to eliminate any advantage.

At present, 48.00% of the Church/Cemetery Fund is in fixed income securities (bonds, cash, and the Minister's mortgage) and the remaining 52.00% is in common stocks, convertible bonds, and mutual funds. Late this year, we added a \$25,000, five year loan at 4.0% to The New Hampshire Community Loan Fund to our fixed income portfolio. This combines a good investment with a social purpose. Details of the Fund and its work are given in a separate report. The Church/Cemetery Fund had a Total Return of (18.24%) for the twelve months ending May 31, 2009. For the fiscal year ending May 31, 2009 the Fund paid a total of \$97,468.58 in income to the Church and \$9,528.17 the Cemetery Trustees. Under the Total Return principle, the Church also received \$30,531.42 from the principal side of its account, while the Cemetery withdrew no principal. To reiterate, this fund is completely unrestricted as how it is invested, and as to how both income and principal may be used.

Of the B of A managed Restricted Funds, 84.10% is fixed income, cash and equivalents, while 15.90% is in equities. Both funds are more heavily weighted than usual with fixed income securities, and B of A is seeking opportunities to profitably restore the balance between stocks and bonds.

Our other major invested account, the Sarah M. Balcom Fund, is an irrevocable trust managed by the TD Banknorth Wealth Management Group for our benefit. As a consequence, we have no direct control over the investments in the fund and can only express our needs and goals to the Bank; we have asked the Bank to maximize income for the Church from this fund. (Under the Trust, we receive only income; any capital gains are reinvested.) As of December 31, 2008, this Fund had a market value of \$242,198 (\$312,836 in 2007), and had provided the Church with \$7,545 during the calendar year 2008. (\$5,920 in the previous year.) At the end of 2008, the fund was invested in a variety of mutual funds, with \$115,494 in equities; \$210,302 in fixed income and cash or equivalent. TD Banknorth's management fees for the year were \$2,118 or 0.87% of the funds' value at year-end.

The two Boutwell Funds are held by the Unitarian-Universalist Association. The two funds were jointly worth \$22,771 as of December 31, 2008, (\$32,803 a year earlier) and gave us \$1,715 in income (\$1,730 a year earlier). 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.

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: Again, a poor market year has afflicted our averages, which are still not meeting our return objectives; over six or ten year spans.

TOTAL RETURN HISTORY

(Expressed as a percent of prior year-end value adjusted for time-weighted additions/withdrawals of principal.)

FUND	FY09	FY08	FY07	FY06	FY05	FY04	AVERAGES	
							6 yrs	10 yrs
CHURCH/CEMETERY	(18.24)	0.47	15.51	9.61	8.70	10.52	5.13%	5.91%
A. STEARNS (N/A in '08 or '09)	n/a	n/a	16.30	8.55	8.31	10.45	4.75	6.54
BALCOM *	(20.16)	8.29	9.28	4.24	6.28	9.27	2.87	1.76
BOUTWELL*	(25.35)	7.51	10.00	12.80	19.20	(12.80)	5.25	3.01

* Figures are for calendar years. For the Balcom Fund total return is shown even though we receive only income.

As previously mentioned, the next 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.

FEES

The new fee schedule charged by Bank of America replaces the fee schedule that was modified in 1994, and is given below:

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

The new fee increase is about \$4,000 a year, and went into effect June 30 of 2007. We were able to negotiate a reduction in the fee schedule originally proposed, and after consideration of other investment arrangements, decided to continue with B of A. We did not feel that any of the alternatives offered equal or better service for the same price, and appreciated the excellent service given us by B of A and its predecessors.

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. Note that total funds received by the Church from our Church/Cemetery Fund last year was \$137,528.17. This total of \$137,528.17 is about 3.84% of the combined average market value of Church endowment fund during the year. This is slightly less than the 4 or 4.5% we consider a prudent rate of withdrawal, but reflects the strong commitment you have made to not depleting our endowment and supporting the Church with your pledges.

Respectfully Submitted,

Investment Review Committee

Robert G. Sampson, Chairman

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Account Performance Summary as of May 31, 2009

<u>INVESTMENT ACCOUNTS</u>	Market Value @5-31-08	Market Value @ 5-31-09	%Increase of Principal	% Yield (Net)	Time Weighted Total Return (Net)
<u>Bank of America:</u> Church/Cemetery	\$ 3,452,714	\$ 2,647,446	(23.32)%	2.80%	(18.24)%
<u>Banknorth:</u> Sarah Balcom Trust *	\$ 312,386	\$ 242,198	(22.57)%	2.41%	(20.17)%
<u>UUA</u> Boutwell funds*	\$ 32,803	\$ 22,771	(30.58)%	5.23%	(25.35)%
<u>RESTRICTED ACCOUNTS</u>	Market Value @ 5-31-08	Market Value @ 5-31-09			
Bank of America:	\$ 98,022	\$ 100,524	2.49%	2.90%	(4.16)%
<u>PENSION ACCOUNT</u>	Market Value @ 5-31-08	Market Value @ 5-31-09		% Yield	Payments Made in FY
B of A Fbo Louise Ekstrom	\$ 16,582	\$ 15,344		6.20%	\$ 1,200

COMPARATIVE INDICES for FY END 5-31-09

	% Total Return
Dow Jones Industrial Average (30 Companies)	(30.41) %
S&P 500 Stock Average (500 Companies)	(32.55) %
Consumer Price Index (A measure of inflation.)	(0.70) %

HISTORICAL PERSPECTIVE

S&P 500 Stock Average Performance for about 100 years: Average annual Total Return 10.4%
Consumer Price Index (Inflation Measure) over a long period: 3.1% increase per year.

* Figures are for calendar year 2009 and are not time weighted.