

Trustees of the Diocesan Investment Trust

Report to the 229th Diocesan Convention

Established and incorporated under Canon 37, the Diocesan Investment Trust (DIT) is “a common trust fund for the purpose of furnishing investments to the Convention and to the Trustees, incorporated or unincorporated, holding funds for the benefit of the missionary, religious, benevolent, charitable or educational purposes of the Diocese, and to any Diocesan Congregation, whether said funds are held as fiduciary or otherwise.”

As Trustees, we are responsible for the proper management of the Fund, including governance, oversight of the asset allocation, evaluation of performance, assessment of market conditions impacting performance and asset allocation, and oversight of the custodial bank, investment advisor and auditors.

As noted above, investments into the DIT can be made by any congregation in our Diocese in addition to any trustee group under the authority of our Diocese. As of December 31, 2012, the DIT consisted of approximately 194 separate accounts belonging to 91 congregations in addition to Diocesan accounts. Its total Net Asset Value was approximately \$35.7 million (\$44.26 per share), with about half of that amount representing Diocesan investments and the other half representing congregational or other trustee group investments. A summary of statistical and performance metrics on the DIT is included as the last page of this report. Its 2012 dividend rate of \$1.80 per share per year remains unchanged for 2013. Those dividends are paid out (or reinvested if so desired) monthly at a rate of \$0.15 per share per month.

Canon Phyllis Jones, our CFO, serves as primary liaison with the DIT's custodial bank, BNY Mellon, to process monthly transactions. Redemptions and investments are processed on the first business day of each month, which is the date that the net asset value for the fund is determined. Requests for redemptions and investments must allow for at least two business days to process the transaction. Redemption requests from congregations must be accompanied by a signed vestry resolution or minutes from the vestry meeting at which the withdrawal was approved in order to be processed. Statements of account are sent monthly from BNY Mellon directly to each accountholder at their address of record, and redemption checks when they occur are likewise sent directly to the accountholder.

For both congregational and Diocesan governance groups, who depend upon income generated from their investments to supplement pledge and other revenues in their operating budgets, the relative stability of the DIT and the steady, reliable dividends it pays are attractive features of the Fund. At our October quarterly meeting, we determine the dividend rate for the subsequent year. Using a baseline rate of 4.5% based on a total-return distribution policy, the proposed dividend is first calculated on a rolling twelve-quarter average of net asset values. The resulting dividend value, expressed in terms of a dollar value per share per year rather than a percentage of net asset value, is then evaluated against current and expected market conditions and a final decision is reached.

Once that dividend is set for the subsequent year, it is rarely if ever adjusted. Even as bad as the last few months were of 2008, the dividend rate that was declared at that October meeting remained in effect for all of 2009. We find it's that ability to be able to budget knowing that the income stream is dependable that has set the DIT apart from many other investment alternatives and made it a favorite among our congregations.

At our quarterly meetings, we review fund performance and an analysis of market conditions with the Fund's investment advisor, Legg Mason Investment Counsel. Mr. Michael Clarke, a principal with the firm has served as the representative in charge of our account for many, many years. This past year's significant

turnover on our Board has changed the character of that review equally significantly. New initiatives undertaken during the past year include:

- Questioning the traditional asset allocation percentage range for equities and fixed income investments in light of current conditions and future expectations; analyzing allocations of similar funds and considering improved asset mixes
- Investigating options to become more directly involved with proxy voting in order to ensure that our proxies are being voted in a manner consistent with Episcopal Church and Diocesan priorities and values
- Investigating socially responsible investment alternatives where stability and return on investment are comparable
- Evaluating performance against other metrics besides the traditional indices
- Updating the DIT policy guidelines, last updated in 2001, to conform to the investment, spending and conflict of interest policy developed by the Investment Advisory Committee in 2011 and approved at the 228th Diocesan Convention in 2012

Our area of continuing challenge has been in completing our audits. Initially delayed in 2009 by disagreement with the auditors over a potentially misleading note in the 2008 statements related to one particular investment, the changeover in the CFO's position in early 2010 only served to set things back further. Finally, it was determined that an equity rollforward schedule reconciling the journals and ledgers provided by BNY Mellon which had been done in the past by the auditors was really management's (i.e. the CFO's) responsibility. It should be noted that nothing during this intervening time has arisen to cause either ourselves or our auditors any concern about the Fund, its management or its accounting records, which are the responsibility of our custodial bank, BNY Mellon (themselves subject to audit).

Having favorably resolved the disagreement over the note, we anticipate imminent issuance of the 2008 audit report and will publish it immediately upon receipt.

We have consulted with the Audit Committee as to how to expedite the completion of the required schedule and audits for all remaining outstanding years. Both groups respect the current workload of the Finance Office, especially considering the recent implementation of a completely new accounting system for Diocesan administration. The Audit Committee has therefore recommended we provide resources from the Fund to allow the CFO to hire a contractor on a project basis to complete this work – a recommendation with which we concur and based on which we will proceed, with the intent to complete this work by next year's Convention.

We ask you to join us in giving thanks for the dedicated and dynamic leadership of our board members: Bishop Cuncell (President), Chris McCrudden (Vice-President), Bob McKnight (Treasurer), Bob Ashmun, Chris Daggett, Jack Holt, Bill Klun, Kathy Lowry, and the Rev. Dr. Susan Richardson. We are also grateful to Canon Connie White for serving as our Recording Secretary.

Respectfully submitted,
Canon Phyllis B. Jones, CFO and staff liaison to the Trustees of the Diocesan Investment Trust

Diocesan Investment Trust
Quarter Ending December 31, 2012

Size (000's):	\$35,698
No. of Participant Accounts:	194
No. of Parishes	91
Current Share Value:	\$44.26
Total Return - 2004	9.34%
Total Return - 2005	7.74%
Total Return - 2006	11.28%
Total Return - 2007	14.05%
Total Return - 2008	-29.21%
Total Return - 2009	23.69%
Total Return - 2010	16.18%
Total Return - 2011	1.39%
Total Return - 2012	3.14%

Performance:

	<u>Equities</u>	<u>S&P500</u>
Last Three Months	0.16%	-0.38%
Year to Date	17.52%	16.00%
Last Twelve Months	17.52%	16.00%
Since Inception* (Annualized)	5.58%	1.50%

	<u>Fixed Income</u>	<u>Barclays Index**</u>
Last Three Months	0.04%	0.35%
Year to Date	5.94%	3.89%
Last Twelve Months	5.94%	3.89%
Inception to Date	5.54%	5.01%

*March 1, 2001, when both current investment managers were hired

**Barclays Intermediate Govt/Credit Index

Asset Mix:

	Amount (000's)	Percent
Cash	\$ 1,350	4%
Equities	23,696	66%
Fixed Income	10,467	29%
Hedge Fund*	185	1%
Total	\$35,698	100.00%

*A hedge fund of funds designed as a bond alternative