

Trustees of the Diocesan Investment Trust

Report to the 230th 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, 2013, the DIT consisted of approximately 206 separate accounts belonging to 94 congregations in addition to Diocesan accounts. Its total Net Asset Value was approximately \$40.8 million (\$48.89 per share; up from \$44.26 per share at the end of 2012), 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 2013 dividend rate of \$1.80 per share per year was increased to \$1.92 per share for 2014. Those dividends are paid out (or reinvested if so desired) monthly at a rate of \$0.16 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. 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. With his help, our Board of Trustees continues to:

- Thoroughly analyze market conditions to determine optimum asset allocation percentage range for equities, fixed income and alternative investments in light of current conditions and future expectations
- 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
- Investigate socially responsible investment alternatives where stability and return on investment are comparable, and screen existing asset allocations for objectionable investments such as firearms
- Evaluate performance against other metrics besides the traditional indices
- Monitor the DIT policy guidelines, last updated in 2011 and approved at the 228th Diocesan Convention in 2012

We are extremely pleased to report the finalization of all our audits from 2008 – 2012, all with clean opinions and no causes for concern noted. At this time last year we reported facing a number of challenges in getting these audits completed. I am grateful for the consistent, diligent effort and intensive coordination on the part of Mr. Jim McCormick from Your Part-Time Controller (the consulting firm hired to assist in the workpaper preparation) numerous people from several divisions of BNY Mellon (our custodial bank, transfer agent and fund accounting provider), and our audit team at Withum Smith + Brown in getting this significant project completed.

As a result of the process developed through the work of completing these past audits, we are equally pleased to report that at this writing, our auditors are completing final review of our 2013 audit. Those audited financial statements are expected to be issued sometime within the next three weeks.

We ask you to join us in giving thanks for the dedicated and dynamic leadership of our board members: Bishop Stokes (President), Chris McCrudden (Vice-President), Bob McKnight (Treasurer), Bob Ashmun, Chris Daggett, Jack Holt, Bill Klun, Richard Murphy, and the Rev. Dr. Susan Richardson. We are also indebted to Canon Connie White for her invaluable service 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, 2013

Size (000's):	\$ 40,775
No. of Participant Accounts:	206
No. of Parishes	94
Current Share Value:	\$48.89
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	13.07%
Total Return - 2013	18.60%

Performance:

	<u>Equities</u>	<u>S&P500</u>
Last Three Months	8.57%	10.51%
Year to Date	26.41%	32.39%
Last Twelve Months	26.41%	32.39%
Since Inception* (Annualized)	6.95%	4.10%

	<u>Fixed Income</u>	<u>Barclays Index**</u>
Last Three Months	-2.92%	-0.02%
Year to Date	-4.90%	-0.86%
Last Twelve Months	-4.90%	-0.86%
Inception to Date	2.23%	2.86%

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

**Barclays Intermediate Govt./Credit Index

Asset Mix:

	<u>Amount</u> (000's)	<u>Percent</u>
Cash	\$ 1,424	3.5%
Equities	33,376	81.9%
Fixed Income	3,241	7.9%
Alternative Investments**	2,607	6.4%
Hedge Fund*	127	0.3%
Total	<u>\$ 40,775</u>	<u>100.0%</u>

*A hedge fund of funds designed as a bond alternative

** Commodities as inflation hedge and MLP Fund