

The Management of Investments for the Pooled Endowment Fund of the Episcopal Diocese of Hawai'i

The Pooled Endowment Fund of the Episcopal Diocese of Hawai'i had a value of approximately \$26.7 million as of July 31, 2010. Of that total, approximately \$11.4 million belongs to the diocese; the balance is owned by other churches and organizations in the Diocese.

This fund functions like a mutual fund: all participants own shares in all of the holdings. Currently the fund is divided among five managers, each with a different "style":

Atalanta Sosnoff Capital Corporation – a Domestic Balanced Manager
C.M. Bidwell & Associates – a Domestic Equity Manager
NWQ Investment Management – a Domestic Equity Manager
Wentworth, Hauser and Violich – an International Equity Manager
Froley Revy Investment Management – a Domestic Convertible Bond Manager
Froley Revy Investment Management – a Short Term Fixed Income Manager

The diocese has a contract with Morgan Stanley Smith Barney to serve as the independent investment monitor and advisor. Morgan Stanley Smith Barney does not manage any money; instead, it monitors the performance of each manager against the diocesan investment policy and the agreed-upon performance benchmarks. The monitor arranges for the Stewardship Department (SD) of the Diocesan Council to meet annually with each manager. The monitor also advises the Council (through SD) on the selection and replacement of managers asset allocation and provides quarterly reports on the performance of all the managers.

The Diocesan Council has adopted an investment policy that is binding upon each of the managers. The Morgan Stanley Smith Barney monitor checks for compliance with this policy. In addition, the monitor provides SD with a list of each manager's holdings so that the Department can also review them.

The policy includes a section on social investment screens, as follows:

As a responsible member of society, The Diocese Pooled Endowment Fund wishes to avoid investments in enterprises whose purposes, products or philosophies are deemed destructive to a harmonious and equitable society. Therefore, the investment manager(s) should only purchase investments in companies that do not derive revenues from the production, sale or distribution of liquor, tobacco, or from the ownership or operation of gambling establishments. In addition, the Fund has subscribed to the principles and guidelines of Social Responsibility in Investments, a Committee of the Episcopal Church.

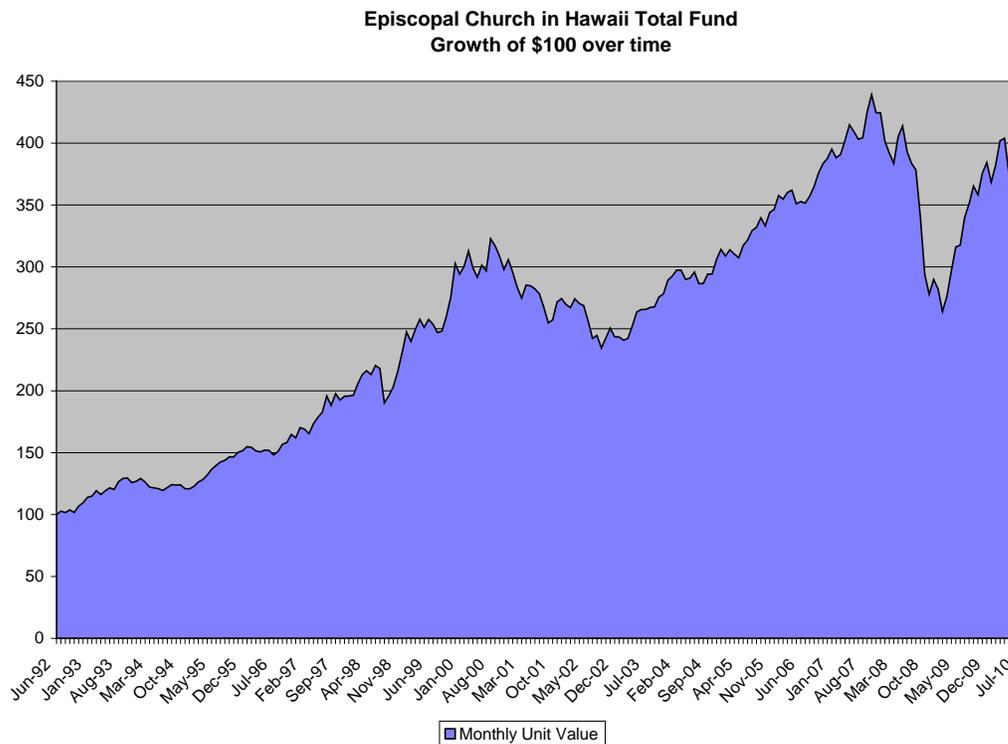
As noted, the policy states that the Diocese has adopted the principles and guidelines of Social Responsibility in Investments (SRI); this action resulted from the adoption of Resolution #2 at the Annual Meeting of Diocesan Convention in October, 2006. SRI publishes a short "Do Not Buy" list of companies who are tobacco manufacturers, companies doing business in the Sudan, and companies among the top five Department of Defense contractors that receive more than fifty percent of revenues

from military contracts. SRI also works in partnership with other denominations to practice “constructive engagement”: to engage in dialogue with and, where appropriate, to file shareholder resolutions with companies whose policies and practices violate the social principles of the Episcopal Church as adopted by various General Conventions. (For more information, visit the SRI section of the Episcopal Church website: www.episcopalchurch.org).

The diocese has also signed up for ProxyEdge, a service in which proxies of securities owned by the Pooled Endowment are voted by the Church Pension Fund. By combining the voting power of many different participating organizations, the Pension Fund is able to exert influence upon corporations whose policies do not meet the ethical standards held by the Church.

Through its investment policy, the Diocesan Council has in place sufficient means to monitor the fund both for performance and for compliance with social policies. The Council receives regular reports (through SD) from the investment monitor and reviews the investment policy at least annually.

The Fund invests with a targeted equity exposure of 60-70% and as of July 31, 2010 has returned -0.84% year to date, +12.08% for the trailing 1 year, -1.86% annualized for the trailing 3 years, and 2.96% annualized for the trailing 5 years. Since its inception date of June 30, 1992 the Fund has returned a compounded rate of 7.68% annually. All of the long-term performance numbers are net of investment fees and above the comparable benchmarks. The chart below illustrates the return that a participant has achieved with a starting value of \$100 in June 1992 through July 2010.



The fund offers participants the opportunity to invest in a well diversified investment fund that has the oversight of both the Stewardship Department and a third party consultant. Additionally, participants in the fund benefit from the lower expenses associated with a larger investment pool in both investment management fees as well as institutional commission rates that the fund utilizes.

All Episcopal Churches and Episcopal Schools and related entities of the Diocese can participate in the Pooled Endowment Fund of the Diocese. The Fund allocations are done by an Independent CPA firm. No members of the Diocesan staff or Diocesan Council benefit from this Fund. The Diocese does not charge any fees and does this as a service for our congregations and schools. The Diocesan Council and Standing Committee and senior staff annually complete a Conflict of Interest disclosure form. There are no conflicts of interest. This fund is audited annually by another CPA firm, independent of the CPA firm that does the Pooled Endowment Fund allocations. If you need more information, please contact Peter Pereira, Diocesan Treasurer