



# TEXAS METHODIST FOUNDATION INVESTMENT OPPORTUNITIES INFORMATION STATEMENT

This Information Statement describes the terms and conditions under which the Texas Methodist Foundation offers its investment services through its Investment Portfolios to United Methodist churches and organizations related to the United Methodist faith. This Information Statement is directed only to persons and entities resident or organized within the Constituent Community and that are one of the following (each, an "Eligible Participant"): (i) United Methodist Churches; (ii) other tax-exempt not-for-profit organizations with significant connections to The United Methodist Church; and (iii) with respect to the Methodist Loan Portfolio, not-for-profit organizations.

This Information Statement may not be distributed by the initial recipient hereof to any other person or entity or for any other purpose. ***This Information Statement contains a description of certain investment risks associated with an investment in the Investment Portfolios (See "Risks of Investment.") herein.***

**THIS INFORMATION STATEMENT HAS NOT BEEN REVIEWED OR APPROVED BY THE SECURITIES EXCHANGE COMMISSION, THE TEXAS SECURITIES BOARD, OR ANY OTHER FEDERAL OR STATE REGULATORY AUTHORITY. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.**

## TEXAS METHODIST FOUNDATION

*Incorporated under the Not-for-Profit  
Corporation Law of the State of Texas*

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**TEXAS METHODIST FOUNDATION  
INVESTMENT OPPORTUNITIES  
INFORMATION STATEMENT**

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## ABOUT THE FOUNDATION

The Texas Methodist Foundation (the “Foundation”) is a Texas not-for-profit corporation operated as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1986 (“Code”). The Foundation was formed in 1938, during the Great Depression, from the vision of leaders of the Methodist Church across the State of Texas, and has served the financial needs of the United Methodist Church in Texas for seventy years. While the United Methodist Church provides for foundations in many other states, the size of the Texas Methodist Foundation and the strength of its denomination in Texas make the Foundation unique. The Foundation serves five separate geographically designated conferences in Texas as well as the Rio Grande conference which includes New Mexico (the “Constituent Community”).

The Foundation’s financial services include the following Investment Portfolios which are governed by the Foundation’s Investment Portfolio Policy (the “Investment Policy”) established from time to time by the Foundation’s Board of Directors (the “Board”):

**Short Term Portfolio**  
**Methodist Loan Portfolio**  
**Balanced Portfolio**

**Fixed Income Portfolio**  
**Equity Portfolio**  
**Individual Portfolio**

Eligible Participants may obtain a copy of the Investment Policy by making a written request for a copy to the Foundation. *See “Additional Information” herein.*

In addition to managing the Investment Portfolios, the Foundation provides various other financial services to the Constituent Community including:

- Assistance for local churches and institutions in building their permanent funds
- Assisting individuals with endowment gift arrangements
- Consulting on proposed building projects, including financing and debt service capabilities
- Services to congregations in connection with stewardship campaigns to meet annual budgets as well as special needs
- Grants to launch, perpetuate, and strengthen human service efforts, particularly those giving priority to children living in poverty
- Educational events for clergy, church staff and lay leadership in the areas of management, theology and leadership development.

## THE INVESTMENT PORTFOLIOS

### SHORT TERM PORTFOLIO:

**Purpose:** The principal purpose of the Short Term Portfolio is to provide a vehicle by which Eligible Participants can invest money in an investment pool to achieve current income consistent with the preservation of capital and the maintenance of liquidity through investments in short term investments.

**Investments:** The Short Term Portfolio pools invested money and purchases cash equivalents, money market funds, certificates of deposits and high-grade government, government agency and corporate bonds and commercial paper. In addition, the Foundation may direct investment of up to 25% of Short Term Portfolio assets in the Methodist Loan Portfolio administered by the Foundation. An investment in the Short Term Portfolio does not entitle the investor to an interest in any particular assets in the Short Term Portfolio. All of these investments are made pursuant to the Investment

Policy, which requires, among other things, that all investments have a term of less than three years, that at least one-third of all investments mature within one year and that no more than 40% of the Short Term Portfolio assets be invested in corporate bonds.

**Terms of Investment:** The Short Term Portfolio is designed for Eligible Participants who seek secure short term investments. There is no minimum investment and no suggested minimum retention period. Investors may request a withdrawal at any time. Although the Foundation has 90 days to honor all proper withdrawal requests, the Foundation historically has processed withdrawals within one business day of receipt. See “*Liquidity*” herein. The Foundation receives reimbursement from the Short Term Portfolio of the costs incurred by the Foundation in operating the Short Term Portfolio. See “*Administration and Management Fees*” herein.

**Returns:** The Short Term Portfolio has historically provided a stable rate of return on investments comparable to that of money market accounts. The Board meets semi-annually to, among other items, examine returns and earnings payments to investors, prepare and approve budgets for the next annual period and review budget performance for the current period. Operating within the budgets and goals set by the Board, the Foundation’s staff sets and modifies the rate of return paid to investors in the Short Term Portfolio on a monthly basis. The rate of return paid is based in large part on changes in broader interest rates and changes in the financial markets.

Earnings at the applicable rate of return on investments the Short Term Portfolio are credited monthly and paid at the times requested by each individual investor (*e.g.*, monthly or quarterly), but not more often than monthly. Earnings are prorated for partial periods and computed daily based on the amount invested.

**Portfolio Stability:** The overall stability of the Short Term Portfolio is dependent on the nature and quality of its assets. Historically, the rate of return paid on investments in the Short Term Portfolio has been stable and comparable to that of money market accounts.

**Suitability:** The Short Term Portfolio is suitable for Eligible Participants who desire a stable investment with reliable income, consistent with short-term cash management.

#### **METHODIST LOAN PORTFOLIO ALSO KNOWN AS METHODIST LOAN FUND:**

**Purpose:** The principal purpose of the Methodist Loan Portfolio is to provide loans to United Methodist churches and institutions within the Constituent Community for building programs and other capital investments. Safety and stability characterize the Methodist Loan Portfolio's lending history.

**Loans:** The Methodist Loan Portfolio pools money invested by Eligible Participants and provides loans to United Methodist congregations and institutions within the Constituent Community. An investment in the Methodist Loan Portfolio does not entitle the investor to an interest in any particular assets or loans in the Methodist Loan Portfolio.

Loans are made pursuant to the Foundation’s Loan Policy which is established by the Board from time to time and implemented by the Foundation’s Director’s Loan Committee and its Officer’s Loan Committee. The Director's Loan Committee and the Officer's Loan Committee must approve any exception to the Loan Policy. Typically, the loans are for (i) building programs and secured by first lien deeds of trust on the borrower’s real property; or (ii) capital improvements and acquisitions or working capital for borrowers. Real estate-secured loans comprise the vast majority of all loans originated by the Methodist Loan Portfolio. Most borrowers are located in the Constituent Community, but the Methodist Loan Portfolio may originate loans to borrowers outside of the

Constituent Community from time to time. In very rare circumstances, a loan may be originated which is not secured by a first lien deed of trust. In general, the loans are based on documentation typical of third party commercial lenders. The loans have terms not to exceed 23 years and may be fixed for a specific time period or provide for adjustable interest rates.

Eligible Participants may obtain a copy of the Loan Policy by written request for a copy to the Foundation. *See “Additional Information” herein.*

**Investments:** Most of the Methodist Loan Portfolio’s assets are placed in loans. When amounts invested in the Methodist Loan Portfolio exceed amounts placed in loans, the Foundation may invest in assets appropriate to the Short Term Portfolio and the Fixed Income Portfolio in accordance with the Investment Policy.

**Terms of Investment:** Investments may be made in the Methodist Loan Portfolio through either a “Variable Rate Investment” or a “Fixed Rate Investment.”

A Variable Rate Investment in the Methodist Loan Portfolio is designed for investments of one year or more at variable rates reset from time to time. Although the Foundation has 90 days to honor all proper withdrawal requests, the Foundation historically has processed withdrawal requests within one business day of request. Because most of the Methodist Loan Portfolio's assets are placed in loans, and therefore relatively illiquid, availability of sufficient liquid assets to return investments is contingent on available cash resources. The Foundation has implemented procedures designed to allow for withdrawals on a normal basis, consistent with prior withdrawal history. However, if an unusual number of investors demand repayment in a short period of time, the Methodist Loan Portfolio may not have sufficient liquid assets to honor all repayments at once. *See “Liquidity” herein.*

A Fixed Rate Investment in the Methodist Loan Portfolio is designed for investments at a fixed rate and for a fixed period of time in accordance with the terms offered by the Foundation at the time the investment is made. A Fixed Rate Investment account has a designated maturity date. Principal may not be added to the account after the initial investment is made and the account is opened. Principal may not be withdrawn from the account before the maturity date without the consent of the Foundation, and a penalty will be charged for such early withdrawal. The penalty for early withdrawal is four month’s interest on the amount withdrawn up to the amount of interest earned. The penalty will be charged first against any interest then in the account and then from principal. Upon maturity a Fixed Rate Investment account is automatically converted to a Variable Rate Investment account unless the account assets are withdrawn or another fixed rate investment opportunity is offered by the Foundation and specifically chosen by the participant.

**Returns:** Historically, a Variable Rate Investment in the Methodist Loan Portfolio has provided a stable rate of return on investments. The Foundation’s Board meets semi-annually to, among other items, examine returns and earnings payments to investors, prepare annual budgets and review budget performance. Operating within the budgets and goals set by the Board, the Foundation’s staff sets and modifies the rate of return paid on Variable Rate Investments on a monthly basis. The rate of return on Variable Rate Investments is based in part on changes in broader interest rates and changes in the financial markets.

A Fixed Rate Investment in the Methodist Loan Portfolio provides a fixed rate of return for a designated period of time. The Foundation’s staff, operating within the budgets and goals set by the semi-annual meetings of the Board of Directors, sets and modifies the rate of earnings on new Fixed Rate Investments on a weekly basis. Fixed Rate Investments are based on the needs of the Foundation for fixed rate obligations and the current market for fixed rate investments.

Earnings on both Variable Rate Investments and Fixed Rate Investments are credited monthly and paid at the time requested by the individual investor (e.g., monthly or quarterly), but not more often than monthly. Earnings are prorated for partial periods and computed daily based on the amount invested.

The Foundation receives reimbursement from the Methodist Loan Portfolio of the costs incurred by it in operating the Methodist Loan Portfolio. See “Administration and Management Fees” herein.

**Portfolio Stability:** The overall stability of the Methodist Loan Portfolio is dependent on the creditworthiness of its borrowers and the value of the collateral pledged to secure the loans. The standards in the Loan Policy established by the Board historically have been successful in generating performing loans, with a very low percentage of defaults.

To date, the Foundation has foreclosed on six loans originated by the Methodist Loan Portfolio (less than one-half of one percent of all loans originated.) In each case, the Foundation transferred the defaulted loans out of the Methodist Loan Portfolio by purchasing the defaulted loans with the Foundation’s capital at the then principal amount of the loans plus accrued and unpaid interest, thereby removing the risk of loss from the Methodist Loan Portfolio. The Foundation’s prior practice of repurchasing troubled loans has given greater security of investment return at par with the principal value of each investment. To date, no investor in the Methodist Loan Portfolio has suffered a loss of principal or interest on its investment. The Foundation generally intends, but is not obligated, to continue such policy.

**Suitability:** A Variable Rate Investment in the Methodist Loan Portfolio is designed for investments of at least one year with no minimum investment requirements. A Variable Rate Investment is suitable for Eligible Participants that desire a stable investment with a fair rate of return consistent with furthering the capital and borrowing needs of the United Methodist community.

A Fixed Rate Investment in the Methodist Loan Portfolio is designed for investments for a fixed period of time of a year or more. A Fixed Rate Investment is suitable for Eligible Participants that desire a fixed rate and fixed term investment and are interested in furthering the capital and borrowing needs of the United Methodist community.

**Additional Information:** Additional information regarding the Methodist Loan Portfolio and the performance of the loans therein may be obtained by written request to the Foundation. See “Additional Information” herein.

## **FIXED INCOME PORTFOLIO:**

**Purpose:** The Foundation’s Fixed Income Portfolio is an investment vehicle for diversification of its own funds with the goal of maximizing its returns with the least amount of risk. The Foundation also makes the Fixed Income Portfolio available as an investment vehicle for Eligible Participants with a similar investment purpose.

**Investments:** The Fixed Income Portfolio pools the Foundation’s own funds with money invested by Eligible Participants and purchases assets in the following classes: domestic fixed income, inflation-protected fixed income, high yield fixed income, global fixed income, emerging market bonds, cash equivalents and absolute return strategies. In addition, the Foundation may invest up to 30% of the assets of the Fixed Income Portfolio in the Methodist Loan Portfolio administered by the Foundation. Interim investments will invest in the Short Term Portfolio as described in the *Terms of Investment* subsection within this *Fixed Income Portfolio* section. All of these investments are purchased by the Foundation pursuant to the Investment Policy, which requires, among other things, that (i)

commercial obligations of any one issuer be limited to a maximum of the greater of \$250,000 or five percent of the total market value of the Fixed Income Portfolio, (ii) investments in corporate bonds be limited to those rated “A” or better, and (iii) investments in commercial paper be limited to those rated “A1” or “P1.”

Investments in the Fixed Income Portfolio are required to comply with the Foundation’s social principles. See “*Social Responsibility*” herein.

**Terms of Investment:** The minimum investment is \$25,000. Investors in the Fixed Income Portfolio should anticipate an investment of three years or more. The market value of the Fixed Income Portfolio, and each participant’s investment, is determined as of the close of the last business day of each month, also known as the valuation date. The market value, determined on a valuation date, is the value used for purposes of additions to and withdrawals from the Fixed Income Portfolio. Additions to the Fixed Income Portfolio must be received by the Foundation at least five business days prior to the valuation date to be able to invest in the Fixed Income Portfolio following that month’s valuation date. Any additions made within five business days of a valuation date or the following month, prior to that month’s valuation date, will be invested in the Short Term Portfolio until the funds are transferred into the Fixed Income Portfolio. All withdrawals must be requested at least five business days prior to a valuation date and will be paid within five business days following the valuation date. During the time from the first day of the month following the valuation date until the withdrawal is transferred, the withdrawal amount will be invested in the Short Term Portfolio. The Foundation receives an administrative fee from the Fixed Income Portfolio to reimburse it for the costs incurred by it in operating the Fixed Income Portfolio, and the Foundation’s investment consultant and portfolio managers are paid consulting and management fees by the Fixed Income Portfolio. See “Administration and Management Fees” herein.

**Returns:** The performance objective of the Fixed Income Portfolio is to return, over rolling 12 month periods, a nominal rate of return at least equal to the composite index return equal to the weighted average return on the investment indices designated by the Board as a performance benchmark for each class of asset over the relevant periods. Unlike the Short Term Portfolio and the Methodist Loan Portfolio, the Foundation’s staff does not set the return on the Fixed Income Portfolio. The return is based on the actual performance of the investments within the Fixed Income Portfolio.

Earnings on investments are reflected in the Portfolio’s total valuation. The valuation is established the last business day of every month. The value includes any interest and dividends earned, and any realized and unrealized gains or losses as a result of market fluctuations less fees charged to the Fixed Income Portfolio.

Earnings are disbursed to each participant based on its written election. Any changes in disbursement requests must be in writing. If the election for payment is anything except monthly, the earnings will be reinvested. If a participant requests disbursements on a set frequency, disbursements of earnings will be made within five business days following the valuation date. Unscheduled earnings disbursement requests must be made at least five business days before the valuation date and will be paid within five business days following the valuation date.

**Portfolio Stability:** The overall stability of the Fixed Income Portfolio is dependent on the nature and quality of its assets. The Fixed Income Portfolio invests primarily in fixed-income assets so the Board expects that the stability of return will be strong.

**Suitability:** The recommended term of investment in the Fixed Income Portfolio is three years or longer. If the need for the assets invested is a shorter period of time or if it is uncertain, this



investment choice would not be appropriate. A higher rate of return is usually associated with a greater risk of loss. If an Eligible Participant cannot sustain a loss of a significant portion of the investment, this investment choice would not be appropriate.

## **EQUITY PORTFOLIO:**

**Purpose:** The Foundation's Equity Portfolio is an investment vehicle for it to achieve a total return on its own funds consistent with a long-term investment horizon and growth potential yet with a bias towards reduced volatility when compared to the overall market. The Foundation also makes the Equity Portfolio available as an investment vehicle for Eligible Participants with a similar investment purpose.

**Investments:** The Equity Portfolio pools the Foundation's own funds and money invested by Eligible Participants to purchase equity stocks in the following asset classes: U.S. all-cap stocks, U.S. large-cap stocks, U.S. large-cap value stocks, U.S. large-cap growth stocks, U.S. mid-cap stocks, U.S. small-cap stocks, U.S. small-cap value stocks, U.S. small-cap growth stocks, international large/mid-cap stocks, international small-cap stocks, international emerging market stocks, real asset equities and cash equivalents. Interim investments will invest in the Short Term Portfolio as described in the *Terms of Investment* subsection within this *Equity Portfolio* section. Investments will be made pursuant to the Investment Policy.

Investments in the Equity Portfolio are required to comply with the Foundation's social principles. See "*Social Responsibility*" herein.

**Terms of Investment:** The minimum investment is \$25,000. Investors in the Equity Portfolio should anticipate an investment of three years or more. The market value of the Equity Portfolio, and each participant's investment, is determined as of the close of the last business day of each month, also known as the valuation date. The market value, determined on a valuation date, is the value used for purposes of additions to and withdrawals from the Equity Portfolio.

Additions to the Equity Portfolio must be received by the Foundation at least five business days prior to the valuation date to be able to invest in the Equity Portfolio following that month's valuation date. Any additions made within five business days of a valuation date or the following month, prior to that month's valuation date, will be invested in the Short Term Portfolio until the funds are transferred into the Equity Portfolio. All withdrawals must be requested at least five business days prior to a valuation date and will be paid within five business days following the valuation date. During the time from the first day of the month following the valuation date until the withdrawal is transferred, the withdrawal amount will be invested in the Short Term Portfolio. The Foundation receives an administration fee from the Equity Portfolio to reimburse it for the costs incurred in operating the Equity Portfolio and the Foundation's investment consultant and portfolio managers are paid consulting and management fees by the Equity Portfolio. See "*Administration and Management Fees*" herein.

**Returns:** The performance objective of the Equity Portfolio is to return, over rolling 12 month periods, a nominal rate of return at least equal to the composite index return equal to the weighted average return on the investment indices designated by the Board as a performance benchmark for each class of asset over the relevant periods. Like the Fixed Income Portfolio, the Foundation's staff does not set the return on the Equity Portfolio. The return is based on the actual performance of the investments within the Equity Portfolio.

Earnings on investments are reflected in the Equity Portfolio's total valuation. The valuation is established on the last business day of every month. The value includes any interest earned,

dividends earned and any realized and unrealized gains or losses as a result of market fluctuations less fees charged to the Equity Portfolio.

Earnings are disbursed to each participant based upon its written election. Any changes in disbursement schedules must be in writing. If the election for disbursement is anything except monthly, the earnings will be reinvested in the Equity Portfolio. If earnings disbursements are on a set frequency, disbursements will be paid within five business days following the valuation date. Unscheduled earnings disbursement requests must be made at least five business days prior to a valuation date and will be paid within five business days following the valuation date.

Although each participant will have the choice to receive earnings on a scheduled basis, the Foundation encourages those investing in the Equity Portfolio to receive earnings by request. This allows the investment to grow through the reinvestment of earnings. Many institutions choose to establish a distribution rate set at a pre-determined rate to provide periodic cash flow (e.g. between three percent and five percent), with any excess earnings re-invested. This option minimizes the effects of the market fluctuations and still provides the long-term growth of the investment within the Equity Portfolio. However, if actual earnings are less than the selected distribution rate, disbursements at the distribution rate will reduce the principal investment.

***Portfolio Stability:*** The overall stability of the Equity Portfolio is dependent on the nature and quality of its assets. The Equity Portfolio carries inherent risk associated with investments of this nature, thereby creating potentially higher returns due to that risk.

***Suitability:*** The recommended investment term for the Equity Portfolio is three years. If the need for the assets invested is a shorter period of time or if it is uncertain, this investment choice would not be appropriate. A higher rate of return is usually associated with a greater risk of loss. If an Eligible Participant cannot sustain a loss of a significant portion of the investment, this investment choice would not be appropriate.

## **BALANCED PORTFOLIO:**

***Purpose:*** The Foundation's Balanced Portfolio is an investment vehicle for its charitable gift annuity, trust and endowment assets to provide growth and income through a portfolio mix of equities and interest earning investments. It is designed for long-term growth and income and its purpose is to provide an investment vehicle for assets of a permanent or long-term nature. The Foundation also makes the Balanced Portfolio available as an investment vehicle for Eligible Participants with a similar investment purpose.

***Investments:*** The Balanced Portfolio is a blended portfolio that invests in the Foundation's Equity Portfolio and Fixed Income Portfolio and may also invest in the Foundation's Methodist Loan Portfolio. Interim investments will invest in the Short Term Portfolio as described in the *Terms of Investment* subsection within this *Balanced Portfolio* section. The portfolio mix is determined by the Investment Committee upon recommendation by staff and is reviewed semi-annually. The current investment ranges are: 50% to 80% in the Equity Portfolio 10% to 50% in the Fixed Income Portfolio and 0% to 30% in the Methodist Loan Portfolio.

Due to the nature of investing, actual holdings may at times fall outside the target asset allocation ranges. The goal is always to move toward compliance with the stated asset allocation ranges unless the Investment Committee makes a specific decision to do otherwise.

**Terms of Investment:** There is a minimum investment amount of \$25,000 and investors in the Balanced Portfolio should anticipate an investment of three years or more.

The market value of the Balanced Portfolio, and each participant's investment, is determined as of the close of the last business day of each month, also known as the valuation date. The market value, determined on a valuation date, is the value used for purposes of additions to and withdrawals from the Balanced Portfolio. Additions to the Balanced Portfolio must be received by the Foundation at least five business days prior to the valuation date to be able to invest in the Balanced Portfolio following that month's valuation date. Any additions made within five business days of a valuation date or the following month, prior to that month's valuation date, will be invested in the Short Term Portfolio until the accounts are transferred into the Balanced Portfolio. All withdrawals must be requested at least five business days prior to a valuation date and will be paid within five business days following the valuation date. During the time from the first day of the month following the valuation date until the withdrawal is transferred, the withdrawal amount will be invested in the Short Term Portfolio. The Foundation receives reimbursements of its costs from the Balanced Portfolio for costs incurred in operating the Balanced Portfolio. See "Administration and Management Fees" herein.

**Returns:** The Balanced Portfolio is a pooled portfolio, made up of a blend of the Foundation's Methodist Loan Portfolio, Fixed Income Portfolio and Equity Portfolio. The Balanced Portfolio seeks to provide growth and income through a mix of equities and interest earning investments. The performance objective for the Balanced Portfolio is to generate a return comparable to the performance objectives of the Fixed Income Portfolio for the fixed income portion of the pool and to the performance objectives of the Equity Portfolio for the equity portion of the pool.

Earnings on investments are reflected in the Balanced Portfolio's total valuation. The valuation is established on the last business day of every month. The value will include any interest and dividends earned, and any realized and unrealized gains or losses as a result of market fluctuations.

Earnings are disbursed to each participant based on its written election. Any changes in disbursement requests must be in writing. If the election for payment is anything except monthly, the earnings will be reinvested. If a participant requests disbursements on a set frequency, disbursements of earnings will be made within five business days following the valuation date. Unscheduled earnings disbursement requests must be made at least five business days before the valuation date and will be paid within five business days following the valuation date.

Although each participant will have the choice to receive earnings on a scheduled basis, the Foundation encourages those investing in the Balanced Portfolio to receive earnings by request. This allows the investment to grow through the reinvestment of earnings. Many institutions choose to establish a distribution rate set at a pre-determined rate to provide periodic cash flow (e.g. between three percent and five percent), with any excess earnings re-invested. This option minimizes the effect of the market fluctuations and still provides the long-term growth of the investment within the Balanced Portfolio. However, if actual earnings are less than the selected distribution rate, disbursements at the distribution rate will reduce the principal investment.

**Portfolio Stability:** The overall stability of the Balanced Portfolio is dependent on the nature and quality of its assets. A significant portion of the Balanced Portfolio will be invested in the Equity Portfolio which carries inherent risk associated with investments of this nature, thereby creating potentially higher returns due to that risk. The fixed income portion of the Balanced Portfolio is invested primarily in fixed-income assets so the stability of return is expected to be strong. The portion invested in the Methodist Loan Portfolio is dependent on the creditworthiness of its borrowers

and the value of the collateral pledged to secure the loans. The Loan Policy standards set by the Foundation's Board have been successful in generating performing loans, with a very low percentage of defaults. To date, no investor in the Methodist Loan Portfolio has suffered a loss of principal or interest on its investment.

**Suitability:** The Balanced Portfolio is designed for Texas Methodist Foundation to use for its long term investments and is available to Eligible Participants that likewise seek a vehicle for long term growth and understand and desire a return associated with a significant investment in stocks. Because the recommended investment term is three years, if the need for the assets invested is a shorter period of time or if it is uncertain, this investment choice would not be appropriate. A higher rate of return is usually associated with a greater risk of loss. If an Eligible Participant cannot sustain a loss of a significant portion of the investment, this investment choice would not be appropriate.

## **SOCIAL RESPONSIBILITY**

The Foundation's policy is to follow the guidelines for socially responsible investing as described in *The Book of Discipline of The United Methodist Church*, 2004, paragraph 716:

**...Foundations, "shall, in the investment of money, make a conscious effort to invest in institutions, companies, corporations, or funds whose practices are consistent with the goals outlined in the Social Principles: and shall endeavor to avoid investments that appear likely, directly or indirectly, to support racial discrimination, violation of human rights, sweatshop or forced labor, gambling, or the production of nuclear armament, alcoholic beverages or tobacco, or companies dealing in pornography."**

The Foundation acknowledges that many corporations invest in a wide range of enterprises, some portion of which may not be in alignment with the Social Principles. For purposes of this policy, any significant source of revenue for corporations in which the Foundation invests must meet the guidelines for socially responsible investments. In no way does this section remove any restriction on investment in companies practicing the unfair treatment of employees or potential employees such as mentioned above. The website of the United Methodist Church's Board of Pensions (<http://www.gbop.org>) is used as a reference tool for money managers to screen for ineligible companies.

## **RISKS OF INVESTMENT**

Participation in the Investment Portfolios is subject to a number of investment risks, some of which are inherent in investments of the types contemplated by the Investment Portfolios and some of which are unique to the Investment Portfolios. The following is a non-exclusive listing of possible risks of investment. Eligible Participants should consult their own advisers, and consider carefully the following risk factors, in addition to other information contained in this Information Statement, before participating in the Investment Portfolios.

**Market Risks:** The Short Term Portfolio, Methodist Loan Portfolio, Fixed Income Portfolio and Equity Portfolio are each unique in that each concentrates on one part of the general debt or equity market. However, each of these Portfolios along with the blended Balanced Portfolio is also subject to general market conditions, national economic conditions, and global market conditions. Adverse changes in global or national economic markets will affect all of the Investment Portfolios. Although the Foundation and its advisers attempt to anticipate adverse economic conditions, many of these factors are beyond the control of the Foundation and its advisers.

***Unsecured Obligations:*** A participant's investment in any Investment Portfolio is not a secured investment. Participants have no direct right, either individually or as a group, in the assets of the Investment Portfolios, or to direct actions of the Investment Portfolios or the Foundation. The Foundation and its advisers will make all decisions regarding investments, sales, collection, amendment, enforcement and management of the Investment Portfolios' assets, all in the sole discretion of the Foundation's Board and its staff and officers.

***No Trust Agreement:*** Participation in the Investment Portfolios is not issued pursuant to any trust agreement or indenture, and no indenture trustee or other agent has been appointed to represent the interests of investors. If the Foundation fails to pay interest or earnings or make requested distributions or disbursements or violates any other term of investment, the investor must seek damages or other remedies against the Foundation and will have no direct recourse against any other entity or agency of The United Methodist Church.

***Investment Return:*** An investment in the Investment Portfolios is returnable on written demand (within 90 days for the Short Term Portfolio and the Methodist Loan Portfolio, within 5 business days after a valuation date for the Fixed Income Portfolio, Equity Portfolio, and Balanced Portfolio, and with a penalty for early withdrawal from a Fixed Rate Investment in the Methodist Loan Portfolio) and, at any given time, a substantial portion of each Investment Portfolio's assets are invested in stocks, bonds, loans, and other permissible investments. It is, therefore, likely that the Foundation would be unable to fully and timely return investments if a substantial number of investors requested to close their accounts within a short period of time.

To date the Foundation has always redeemed an investment on demand. The Foundation's staff has been able to anticipate upcoming cash withdrawals and plan accordingly. See "*Liquidity*" herein.

***No Deposit Account or Guaranty:*** The Investment Portfolios represent an obligation of the Foundation under the Investment Management Agreement. Participation in the Investment Portfolios is not the same as or similar to deposit accounts with banks or other financial institutions; are not regulated by any federal or state governmental authority; and are not guaranteed by any person or entity.

***No Licensing:*** Due to certain provisions of the Philanthropy Protection Act of 1995, the Foundation and its personnel are exempt from investment adviser registration requirements applicable at both the federal and state levels. Although Foundation personnel that administer the Investment Portfolios have substantial experience in investment management, they are not licensed or registered as investment advisers with any federal or state authority. The Foundation employs outside licensed investment advisers for certain of its management decisions in the Fixed Income Portfolio and Equity Portfolio.

***No Minimum Interest Rate or Rate of Return:*** There is no minimum interest rate that must be paid by the Foundation to participants in the Short Term Portfolio or in Variable Rate Investment in the Methodist Loan Portfolio. Likewise, there is no minimum rate of return on the Fixed Income Portfolio, Equity Portfolio or Balanced Portfolio. The rate of interest payable to investors in the Short Term Portfolio and variable rate investments in the Methodist Loan Portfolio are variable and will be set by the Foundation's staff within guidelines established by the Board. The rate of return on the Fixed Income Portfolio and the Equity Portfolio will be entirely dependent on the performance of the investments in such funds. The rate of return on the Balanced Portfolio is entirely dependent on its investment in the Short Term Portfolio, Fixed Income Portfolio, Methodist Loan Portfolio and Equity Portfolio.

The rate of return offered on Fixed Rate Investments in the Methodist Loan Portfolio will be set by the Foundation's staff on a weekly basis within guidelines established by the Foundation's Board. Both the interest rate and maturity date on a Fixed Rate Investment will be established when the investment account is opened or renewed.

***Liquidity of Investment:*** There is no public trading market for the Investment Portfolios, and no trading market is ever likely to develop. The transferability of the interests in the Investment Portfolios is subject to restrictions that are established by applicable state and federal securities laws and as set forth below. An investment in the Investment Portfolios is returnable upon proper written demand.

***Transferability of Investment:*** Except as provided below, investment accounts are not transferable. Upon receipt of proper authorization, including evidence of authority and written assignments, investment accounts may be transferred:

- (i) on the merger of two or more local United Methodist churches, agencies or other tax-exempt not-for-profit organizations with significant connections to The United Methodist Church in accordance with the procedures set forth by *The Book of Discipline of The United Methodist Church*;
- (ii) on the merger of a one or more local United Methodist churches with one or more churches of another denomination, if the procedures in *The Book of Discipline of The United Methodist Church* are followed and the denominational connection of the merger church is United Methodist;
- (iii) on the discontinuance of a local United Methodist church or agency when the investment account is passed on as directed by and in accordance with *The Book of Discipline of The United Methodist Church* and the entity receiving the investment account is a local United Methodist church, agency, or is a tax-exempt not-for-profit organization with significant connections to The United Methodist Church.

***No Publicly Available Information:*** The Foundation does not, and is not required to, file annual or other periodic reports with the Securities Exchange Commission. Accordingly, there is no publicly available information relating to the Investment Portfolios.

## **CONSULTANT**

Hammond Associates Institutional Fund Consultants Inc. (Hammond Associates) is a nationally-recognized, independent consulting firm that provides advice on all aspects of institutional investing. The firm works with institutions in structuring investment portfolios designed to meet their specific goals and objectives. Their services include, but are not limited to, advice on asset allocation, investment manager selection, performance measurement and implementing socially responsible investment guidelines. The firm has dedicated consulting teams in specific practice areas that understand the unique perspectives of each of their clients. These account teams are focused on foundations, higher education, healthcare, corporate and public retirement plans and private wealth clients. The firm is not affiliated with any money managers, brokers, banks or custodians. It works with more than 100 foundations and endowments and consults with respect to over \$50 billion of assets.

## MANAGERS

The Consultant selects and monitors the investment managers, see Appendix A for a current listing of managers.

## ADMINISTRATION AND MANAGEMENT FEES

***The Foundation.*** The Foundation is a not-for-profit corporation whose primary goal is to provide financial and educational assistance and support to United Methodist congregations and affiliated organizations within the Constituent Community. The Foundation achieves this mission, in part, through its own funds, separate endowments and expense reimbursements from the programs it administers, including the Investment Portfolios.

Expense reimbursements to the Foundation are intended to cover its direct costs of administration and its indirect overhead costs. The Foundation believes that it provides its services at below the costs for the same or similar services from independent third parties.

The Foundation will receive cost reimbursement from the Investment Portfolios in the following manner:

- **Short Term Portfolio:** Periodically, the Board reviews the performance and rate of return on the Short Term Portfolio. The rate of return payable to participants is lower than the actual rate of return earned by the Short Term Portfolio. This difference is retained by the Foundation to cover its general costs of working with the Constituent Community, as well as the direct costs of operating the Short Term Portfolio.
- **Methodist Loan Portfolio:** The Board also reviews the performance and rate of return payable on the loans in the Methodist Loan Portfolio. The rate of return payable to participants is lower than the actual rate of return earned on the loans in the Methodist Loan Portfolio. This difference is retained by the Foundation to cover its general costs of working with the Constituent Community, as well as the direct costs of operating the Methodist Loan Portfolio.
- **Fixed Income and Equity Portfolios:** The Foundation receives administration fees in connection with management of the Fixed Income Portfolio and the Equity Portfolio. In each case, the annual administration fee is 35 basis points (0.35%) of the market value of the respective assets invested up to \$2.5 million and 25 basis points (0.25%) of the market value of the respective assets invested over \$2.5 million. These fees are payable monthly based on the market value of the investment accounts on the monthly valuation dates. The administration fees are intended to cover the costs of administering the Fixed Income Portfolio and Equity Portfolio. The Foundation reserves the right to increase or decrease the administration fees based on actual experience. Any increase or decrease will be effective only on thirty days' prior written notice to all participants.
- **Balanced Portfolio:** The Foundation does not receive any costs or fees for the Balanced Portfolio in excess of those received by it from the Investment Portfolios included in the portfolio mix.

***The Consultant and Investment Managers:*** The Foundation has engaged Hammond Associates to provide advice and consulting on all aspects of the Foundation's investment activities. See "*Consultant*" herein.

Based in part upon the recommendations of Hammond Associates, the Foundation selects and appoints investment managers for the Investment Portfolios. For a description of the current

investment managers engaged by the Foundation to manage the Investment Portfolios and the fees charged by such managers, see Appendix A. These fees are charged to the Portfolios.

## **LIQUIDITY**

The Foundation is mindful of the liquidity needs of the Investment Portfolio participants. The Foundation's staff and officers have experience in estimating withdrawal requests and plan accordingly. Historically, the Foundation has honored withdrawal requests from the Short Term Portfolio and the Methodist Loan Portfolio within one business day. In addition, the Foundation may draw on the line of credit it maintains in accordance with guidelines set by the Board. Information regarding the current line of credit is available upon request. The Foundation utilizes its line of credit as a matter of convenience and as a cash management tool. The Foundation is not obligated to draw on the line of credit to return investments. The Foundation may also sell loan participations within the guidelines determined by the Board. The return of investment, principal and interest or dividend is dependent upon the performance of each Investment Portfolio.

## **TAX ASPECTS**

Except for individuals and certain other qualified not-for-profit organizations that may participate in the Methodist Loan Portfolio, all Eligible Participants must be organizations exempt from income tax under Section 501(c)(3) of the Code. Each Eligible Participant (other than individuals and other not-for-profit organizations participating in the Methodist Loan Portfolio) must provide proof of tax-exempt status.

Income earned by a Section 501(c)(3) organization is subject to income tax if the income results from the conduct of an unrelated business. Generally, the investment income of a Section 501(c)(3) organization is not subject to the tax on unrelated business income imposed by Code Section 511 et seq. Code Section 512(b) provides that dividends, interest, royalties, gains and certain other payments with respect to investment property are excluded from unrelated business income. The Foundation believes that all earnings and returns from the Investment Portfolios will qualify as investment income, not subject to the tax on unrelated business income.

Notwithstanding the foregoing, if an Eligible Participant utilizes debt to acquire all or any portion of its investment in the Investment Portfolios, all or a portion of the income realized from the investment could be subject to the tax on unrelated business income. Acquisition indebtedness in this context would include: debt incurred to acquire the Investments Portfolios; debt incurred before the acquisition of the Investment Portfolios, if such debt would not have been incurred but for such acquisition; and debt incurred after the acquisition of the Investment Portfolios, if such debt would not have been incurred but for such acquisition and was reasonably foreseeable at the time of the acquisition.

**ELIGIBLE PARTICIPANTS ARE URGED TO AND SHOULD CONSULT THEIR OWN TAX ADVISERS REGARDING THE CONSEQUENCES OF THEIR INVESTMENTS IN THE INVESTMENT PORTFOLIOS.**

## **WHO MAY INVEST**

Except for the Methodist Loan Portfolio, investment is limited to United Methodist churches, institutions and related organizations. United States tax exempt organizations may participate in the Methodist Loan Portfolio. Residents of the state of Texas or New Mexico may participate in the



Methodist Loan Portfolio through the Individual Portfolio. As used in this Information Statement, the term Eligible Participant means: (i) United Methodist Churches, institutions and related institutions; and (ii) United States tax exempt organizations and residents of the states of Texas or New Mexico who participate in the Methodist Loan Portfolio. Foreign individuals or entities may not participate in any of the Investment Portfolios. The Foundation reserves the right to refuse investment participation to any person, church or organization. Organizations affiliated with the United Methodist faith may be asked to establish proof of affiliation and federal tax-exempt status.

#### **MANNER OF INVESTMENT**

In order to participate in the Investment Portfolios, each Eligible Participant must complete and return the **Participation Request** and **Master Investment Management Agreement**. An investment is completed only upon acceptance by the Foundation. The **Participation Request** contains the terms of its investment and information regarding investment choices and re-investment alternatives and the **Master Investment Management Agreement** governs all investments made by the Eligible Participant in the Investment Portfolios as outlined in this Information Statement. Checks should be made payable and delivered to Texas Methodist Foundation, Attn: Sara Beltran, 11709 Boulder Lane, Suite 100, Austin, Texas 78726-1808.

#### **ADDITIONAL INFORMATION**

Each Eligible Participant is urged to contact the Foundation with any questions or requests for additional information or documents. For additional information concerning the Investment Portfolios, wiring instructions, or assistance with any questions, please contact Sara Beltran or Investor Services at the Foundation at (512) 331-9971 or (800) 933-5502.

## GOVERNANCE

A Board of Directors representing all of the conferences that we serve governs the Foundation. The Board represents a diversity of backgrounds and experiences in and out of the Church. Approximately two-thirds of its members are laypersons and one-third is clergy. The Board sets the policies for the Foundation, and monitors the performance of staff in following policy.

The present members of the Board, as of the date of this Information Statement are:

### Board of Directors:

Robert W. Dupuy  
Board Chair – Dallas, TX

#### Abilene

Bynum Miers

#### Amarillo

Charles King  
\*\* Clifford E. Trotter

#### Austin

Jefferson K. Brim, III  
James A. Cox, Jr.  
Beverly S. Silas

#### Bryan

Dr. Donald R. House

#### College Station

Dr. W. Earl Bledsoe

#### Corpus Christi

Rev. Barbara J. Ruth

#### Dallas

Bishop W. Earl Bledsoe  
Robert W. Dupuy  
Terry Kelley

#### DeLeon

Hiram Smith

#### DeSoto

Dr. Thalia Matherson

#### Fort Worth

Dr. Timothy K. Bruster  
Tom Harkrider  
Bishop J. Michael Lowry

#### Frisco

Joseph W. Holmes

#### Houston

Bishop Janice Riggle Huie  
Jacki Lammert  
James V. Walzel

#### Hurst

Bliss Dodd  
Rev. Michael McKee  
\*\*Dr. Sidney Roberts

#### Lubbock

Rev. Ava B. Berry  
\*\* Harold O. Harriger

#### Mission

Dr. Roberto L. Gómez

#### Missouri City

George E. Johnson Jr.  
Rev. Gail Ford Smith

#### Perryton

Randy Brillhart

#### Richardson

Dr. Clayton Oliphint

#### Rowlett

Rev. Katherine Glaze Lyle

#### San Antonio

Bishop James Dorff  
Robert T. Rork  
Robert C. Scott  
Robert B. Sunderland  
Abel Vega, Jr.

#### Texarkana

\*\* Gloria J. Moores

#### Wichita Falls

Patricia M. Deal  
Kay Yeager

### Advisory Directors:

#### Albuquerque, NM

Bishop D. Max Whitfield

#### Coppell

Cheryl Haynes

#### Dallas

Bishop Alfred L. Norris, Sr.

#### Fort Worth

Bishop Ben R. Chamness

#### Houston

Ruth Palmer

#### San Antonio

Bishop Joel Martínez

\*\* Directors Emeritus

### The officers of the Foundation are:

Thomas R. Locke, President  
David McCaskill, Senior Vice President - Loans  
Curtis Vick, Senior Vice President - Operations  
Candy Gross, Vice President – Investor Services/Grants  
Robert Hoppe, Vice President – Loans  
Darrell Loyless, Vice President – Advancement  
Patti Simmons, Vice President – Foundation Relations  
Kerry Afflerbaugh, Asst. Vice President – Operation  
Carol Lynn Nelson, Asst. Vice President – Loans  
Patsy Wilson, Asst. Vice President -Operations

Appendix A  
CURRENT INVESTMENT ALLOCATIONS, MANAGERS AND FEES  
March 1, 2008

ASSET CLASS	ALLOCATION	MANAGER	Annual Fee %
<b>Equity Portfolio</b>			
<b>Growth Assets</b>			
<i>U.S. Stocks</i>			
U.S. All-Cap Stocks	22%	Capstone Asset Management (11%) / Bernstein Structured Equity (11%)	.18 / .40
U.S. Large-Cap Stocks	9%	Ed Benson - Individual Stocks *	0.25
U.S. Large-Cap Growth Stocks	11%	Capstone Asset Management	0.18
<i>U.S. Stocks</i>	<u>42%</u>		
<i>International Stocks</i>			
International Large/Mid-Cap Stocks	28%	Capstone Asset Management (22%) / UMC Foundation - International Fund (6%)	.18 / .85
International Small-Cap Stocks	6%	Dimensional Fund Advisors	0.56
International Emerging Market Stocks	7%	Vanguard Emerging Markets	0.30
<i>International Stocks</i>	<u>41%</u>		
<b>Total Growth Assets</b>	<u>83%</u>		
<b>Inflation Protection Assets</b>			
Real Asset Equities	17%	Vanguard REIT Index (10%) / iShares GS Natural Resources (7%)	.12 / .48
<b>Total Inflation Protection Assets</b>	<u>17%</u>		
<b>Total</b>	<u>100%</u>		
<b>Fixed Income Portfolio</b>			
<b>Risk Reduction Assets</b>			
Domestic Fixed Income / Methodist Loan Fund	30%	PIMCO Total Return III	0.50
Global Fixed Income	15%	Templeton Global Bond	0.78
Absolute Return Strategies	25%	PIMCO All Asset	0.24
<b>Total Risk Reduction Assets</b>	<u>70%</u>		
<b>Inflation Protection Assets</b>			
Inflation-Protected Fixed Income	30%	Vanguard TIPs	0.11
<b>Total Inflation Protection Assets</b>	<u>30%</u>		
<b>Total</b>	<u>100%</u>		
<b>Balanced Portfolio</b>			
	<b>Target %</b>	<b>Range %</b>	
Equity Portfolio	65	50-80	
Fixed Income Portfolio	25	10-50	
Methodist Loan Portfolio	10	0-30	

**Fees:**

Manager Fees - as noted above

Hammond Associates - .25% on first \$35 million / .10% over \$35 million

\* Dr. Ed Benson is an independent registered investment adviser. He served on the General Board of Pensions of the UMC, for 16 years and chaired their Investment Committee for 8 years. Dr. Benson holds the following degrees: B.S., Purdue, M.S., Trinity University and Ph.D., Finance, University of Texas.