

# Iowa United Methodist Foundation

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June 30, 2017

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## Included in this edition **Who We Are and What We Do**

*Special Announcement.... We are welcoming Katharine Yarnell to our staff in August. Katharine has most recently served as the Field Outreach Minister in the North Central District and has an extensive background in philanthropy. She will replace Kevin Gowdy as the Executive Director upon his retirement at the end of this year.*

In addition to your regular quarterly report regarding your investments with the IUMF we would like to share with you more about who we are and what we do. We encourage you to contact our office by phone or email if we may be of further assistance with any of your confidential financial needs or concerns. We want to be your partner in stewardship.

The IUMF is a charitable not-for-profit corporation that has been serving churches, and individuals across Iowa for over 50 years. The IUMF resources our local churches and institutions through financial support services including investments, loans and endowment programs. We also manage trust funds and estate gifts made by individuals for charitable purposes.

The next time your church is looking for a place to invest their money, consider the IUMF.

- All of our investment funds are invested according to the Social Principles. Your church can earn competitive market rates with our Balanced Fund, Equity Fund, and Bond Fund.
- Consider the IUMF Certificate of Participation. Your investment enables the IUMF to provide capital project loans to churches as you earn money.
- Contact the IUMF to learn more about the Building Fund Trust Loan program so that your church may build, renovate or add to enhance your current facilities.
- Contact the IUMF to explore the many different tax advantaged ways individuals can leave a legacy to benefit your United Methodist Churches and ministries.

Your Partner In Stewardship,

*Amy Foust*

Investments adhere to the Social Principles of the United Methodist Church and are monitored quarterly by the Foundation's Investment Committee. Our Equity Manager is Parametric, who has built a social principles index fund for these investments. Our Bond Manager is Telemus, who actively constructs the Bond Portfolio. A disclosure statement on the funds can be found at [www.iumf.org](http://www.iumf.org) under the "Forms" tab.

## Bond

Since April, the Federal Reserve has raised interest rates by another 25 basis points at their June 2017 meeting...pushing the Fed Funds rate to 1.00-1.25%. This marks the second rate hike this year and the fourth since 2015. Although inflation continues to remain below the Fed's 2% target, the Fed has indicated its intention to continue raising rates in light of the current economic environment. The gradual unwinding that the Fed has outlined will cause upward pressure on interest rates, which combined with actual Fed rate hikes will create meaningful tightening in a market that has become overly dependent on easy money.

Duration is a measure of the sensitivity of a price of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Bond prices have an inverse relationship with interest rates; therefore, raising interest rates indicate bond prices are likely to fall and vice versa. It is also noteworthy that the BB-focused component of all three portfolios has duration positioning of approximately 2.0 to 2.6 years versus 3.9 for the benchmark. Within the top-tier high yield investments, our higher quality, lower duration BB securities did not capture as much return as the benchmark for the quarter, however, the total return for the IUMF portfolios in the 1-year, 3-year and 5-year returns are competitive with the weighted benchmark.

We have utilized investment grade securities to shape and lengthen the overall duration. The portfolio continues to have an aggregate duration of approximately 3 years versus the benchmark duration of approximately 4 years. We are committed to defensively managing duration of our portfolios, with a moderately shorter duration than the respective benchmarks as well as maintaining our focus on higher quality issues in non-cyclical industries. Our goal continues to be socially responsible investing prioritizing capital preservation with competitive returns over complete market cycles.

## Equity

**DOMESTIC** The U.S. equity market, as measured by the S&P 500 Index, was up a moderate 3.1% in the second quarter. The market returns came steadily each month, and this stability was evidenced in the behavior of the VIX index. Widely known as the "fear index," this index fell to its lowest level in over two decades in May. Investors looked past current events to future growth prospects, allowing domestic equity markets to continue their strong start to the year. Growth stocks outpaced value, and large-cap stocks outperformed small-caps.

In the coming months, equities may be presented with a host of market-moving events such as ongoing geopolitical turmoil, fiscal policy uncertainty, investigations into President Trump, and rising rates.

**INTERNATIONAL** The developed equity markets outside the U.S., as measured by the MSCI EAFE Index, were up a solid 6.1% in the second quarter as economic data remained positive while political risk receded. This rally was consistent across the quarter, with the index rising each month. Nearly all twenty-one countries in the index posted positive returns. Energy was the only sector with a negative return. The energy sector dropped in response to crude oil prices weakening.

Against a backdrop of improving confidence in the economic outlook for the global economy, equities may experience a host of market-moving events in the coming months such as Brexit negotiations and the Italian elections.

# Fund Performance Report as Total Assets Under Management

June 30, 2017

## The actual net returns for each of the Funds as of June 30, 2017

		Month to Date	Quarter to Date	Year to Date	Trailing 12 Months
Equity Fund	=	1.01%	4.79%	8.99%	17.83%
Balanced Fund	=	0.97%	2.74%	6.39%	12.17%
Bond Fund	=	-0.19%	0.48%	0.85%	2.04%
Short Term Income Fund	=	-0.70%	0.43%	0.80%	0.44%

## Benchmark average annual gross returns for each of the Funds as of June 30, 2017

		Month to Date	Quarter to Date	Year to Date	Trailing 12 Months
Equity Fund <sup>1</sup>	=	0.59%	4.16%	10.41%	19.59%
Balanced Fund <sup>2</sup>	=	0.37%	3.16%	7.54%	13.22%
Bond Fund <sup>3</sup>	=	-0.04%	1.31%	2.35%	2.07%
Short Term Income Fund <sup>4</sup>	=	-0.08%	0.19%	0.47%	-0.08%

<sup>1</sup> MSCI EAFE / 40% S&P 500 / 20% S&P 1000

<sup>2</sup> MSCI EAFE / 24% S&P 500 / 12% S&P 1000 / 75% Barclay's Government Credit / 10% ML US High Yield BB 1-10 yr.

<sup>3</sup> 75% Barclay's Government Credit / 25% ML US High Yield BB 1-10 yr.

<sup>4</sup> Barclay's 1-3 yr Gov Index

## Average Annual Net Returns (2012 -2016):

Performance		1 Year	3 Year	5 Year
Equity Fund	=	8.10%	3.99%	11.34%
Balanced Fund	=	6.17%	2.63%	7.33%
Bond	=	3.00%	1.72%	2.20%
Short Term Income Fund	=	1.70%	0.97%	0.71%
Benchmark		1 Year	3 Year	5 Year
Equity Fund	=	9.76%	4.93%	11.88%
Balanced Fund	=	7.94%	4.11%	8.36%
Bond Fund	=	4.56%	2.88%	3.07%
Short Term Income Fund	=	0.87%	0.69%	0.59%

# Balanced Portfolio

June 30, 2017

## Balanced Portfolio Bond Characteristics

Duration	2.87
Average Credit Quality	BBB
Convexity	0.14

## Long-Term Bond Characteristics

Duration	2.93
Average Credit Quality	BBB
Convexity	0.13

## Balanced Fund Bond

Sector	% of Portfolio
Treasury	16.14
Corporate (IG)	57.66
Corporate (HY)	24.80
Mortgages	0.00
Cash	1.40

Balanced Fund Equity	% of Allocations
Large Cap	35.66
Mid Cap	17.13
Small Cap	6.76
International	39.87
Cash	-

## Balanced Fund Stock Sectors

Sectors	% of Equities
Consumer Discretionary	12.7
Consumer Staples	8.2
Energy	4.9
Financials	18.9
Health Care	12.5
Industrials	13.7
Information Technology	15.0
Materials	6.0
Real Estate	1.1
Telecommunication Services	2.4
Utilities	3.4
Others	1.3

## Balanced Fund Equity

Top 10 Holdings	% of Equities
Apple Inc.	1.29
Microsoft Corp.	0.97
Nestle SA ADR	0.97
HSBC Holdings PLC ADR	0.67
Facebook Inc. A	0.66
Amazon.com Inc.	0.66
Johnson & Johnson	0.63
JPMorgan Chase & Co.	0.62
Novartis AG ADR	0.56
Exxon Mobil Corp	0.55

Information contained herein has been obtained from sources considered to be reliable, but we do not guarantee the accuracy or completeness. Past Performance is no guarantee of future results. 801 Group with Morgan Stanley, 801 Grand Ave, Ste 3800, DSM, IA 50309. 515.283.7015.

# Balanced Fund

June 30, 2017

**The Balanced Fund:** This fund seeks to balance the objectives of long-term capital appreciation and present income. Therefore, the Balanced Fund is invested in a diversified portfolio of fixed income securities, equity securities (including those of foreign issuers and small capitalization companies), cash and cash-equivalents, and other alternative investments. The Product Mix and Diversification shall strive for a 60/40 balance between equity and fixed income investments, within the following ranges:

- 30% to 50% Fixed Income: U.S. Government notes & bonds, mortgage & asset backed securities, C.D.'s, corporate bonds, municipal bonds, and international mutual funds (up to 15% of fixed income investments), with up to 15% of fixed income investments in preferred stock, securities convertible to common stock, real estate and other hybrid issues as approved by the Investment Committee.
- 50% to 70% Equity: 40% Large cap domestic stocks, 20% small/mid cap domestic stocks, 40% international stocks.
- Up to 10% Cash: money market funds, treasury bills, and money market equivalents.

	Y-T-D		ROI						
	Fixed	Equity	(2012 - 2016)						
			Current Mo	QTR	YTD	1-Year	3-Year	5-Year	
Cash	1.40%	0.50%							
Investment Grade	57.70%		Actual*	.97%	2.74%	6.39%	6.17%	2.63%	7.33%
High Yield	24.80%		Benchmark	0.37%	3.16%	7.54%	7.94%	4.11%	8.36%
Treasury	16.10%								
Large Cap		35.0%							
Mid Cap		17.6%							
Small Cap		6.9%							
International		40.0%							

\*Net of Fees

# Bond Fund

June 30, 2017

**The Bond Fund:** This fund's primary investment objective is to maximize present income. The fund's holdings will consist primarily of fixed income securities. Rounding out the portfolio is a small allocation to cash and cash-equivalents. This fund has the following target allocation of investments:

Up to 100% Fixed Income: U.S. Government notes & bonds, mortgage & asset backed securities, C.D.'s, corporate bonds, mutual funds and municipal bond mutual funds, with up to 15% of fixed income investments in preferred stock, securities convertible to common stock, real estate and other hybrid issues as approved by the Investment Committee.

Up to 10% Cash: money market funds, treasury bills, and money market equivalents

\*All funds allow a variance of +/- 10 % from the stated "Strategic" allocation.

**Fixed income securities:** Fixed income securities in which the Funds may invest include debt securities of all types, including but not limited to obligations of the U.S. Government, Federal Agency obligations, corporate bonds and notes, sovereign debt of non-U.S. countries, and mutual funds whose underlying assets are primarily fixed income securities. All convertible securities are classified as equity securities. The average maturity of the fixed income instruments will be 3 to 5 years with an average investment grade ranking as ranked by S&P or Moody's.

**Equity securities:** Equity securities in which the Funds may invest include common stocks, securities convertible into equity securities, and mutual funds investing primarily in equity securities. As to individual common stocks, the Funds are limited to investing in companies, whose shares are traded on the New York Stock Exchange, Inc., the American Stock Exchange, Inc., or the National Association of Securities Dealers, Inc., National Market System. The Balanced Fund and the Equity Fund may also invest in securities of foreign issuers which are traded on major United States exchanges/markets.

## Asset Allocation

### Bond

Cash	.7%
Investment Grade	53.0%
High Yield	25.8%
Treasury	20.5%

## ROI

(2012 - 2016)

	Curr Mo	QTR	YTD	1-Year	3-year	5-year
Actual*	-0.19%	0.48%	0.85%	3.00%	1.72%	2.20%
Benchmark	-0.04%	1.31%	2.35%	4.56%	2.88%	3.07%
*Net of Fees						

# Equity Fund

June 30, 2017

**The Equity Fund:** This fund's investment objective is to seek long-term capital appreciation. Current income is a secondary objective. The fund pursues its objectives by investing primarily in common stocks and securities convertible or exchangeable into common stocks, including warrants and rights.

Up to 100%      Equity: 40% Large cap domestic stocks, 20% small/mid cap domestic stocks, 40% international stocks.

Up to 10%      Cash: money market funds, treasury bills, and money market equivalents.

Asset Allocation		ROI						
	Equity		(2012 - 2016)					
			Curr MO	QTR	YTD	1-Year	3-Year	5-Year
Cash	0.5%	Actual*	1.01%	4.79%	8.99%	8.10%	3.99%	11.34%
Large Cap	35.0%	Benchmark	.59%	4.16%	10.41%	9.76%	4.93%	11.88%
Mid Cap	17.6%							
Small Cap	6.9%							
International	40.0%							

\*Net of Fees

# Short Term Income

June 30, 2017

## The Short-Term Income Fund Investment Objectives and Asset Allocation

This fund's primary objective is to provide an investment vehicle for shorter term funds seeking to earn a better rate than traditional savings account or money market funds. Under normal market conditions, this fund's holdings will consist primarily of fixed income securities in US Government, government backed obligations, CD's or similar types of investments with average maturities of 3 years or less.

This fund has the following target allocation of investments:

100% Fixed Income: US government backed bonds, corporate bonds, treasury bills, CD's, mutual funds and cash equivalents. The fund shall have an average maturity of 3 years or less.

## ROI

(2012—2016)

	Curr MO	QTR	YTD	1-Year	3-Year	5-Year
Actual*	-0.70%	0.43%	0.80%	1.70%	0.97%	0.71%
Benchmark	-0.08%	0.19%	0.47%	0.87%	0.69%	0.59%

\* Net of Fees

# Building Fund Trust Loans    Certificate of Participation

Mortgage interest rates have been historically low for quite a period of time. If your church has a mortgage loan, it could be a good time to review the terms and conditions before rates begin to rise.

The Iowa United Methodist Church Building Fund Trust makes capital loans to local churches for building programs, capital improvement projects, site purchases and the refinancing of other financial institutions' loans.

The Trust currently has funds available at 5.25%\*. That rate is locked in for the first 5 years of the 15 year mortgage. The funds that make this possible come from Iowa United Methodist Churches and Individual Members, who invest in one, three or five year certificates of participation at fixed rates. This program is sponsored and administered by the IUMF.

Building Fund Trust loan applications and offering circulars may be found on the IUMF website at [iumf.org/church-building-loans](http://iumf.org/church-building-loans). Questions may be directed to the Executive Director of the IUMF by calling 515.974.8928 or by emailing [info@iumcbft.org](mailto:info@iumcbft.org).

\*Rates are updated monthly, please check website for current rates.

The Iowa United Methodist Foundation offers certificates of participation for both individuals and churches. The fixed rate certificates are offered in one-, three-, and five-years terms with a minimum investment of \$1,000.00. The funds are used to provide capital loans to help Iowa United Methodist Churches and related institutions with low cost financing to assist with building new buildings, repairs, renovations or additions to existing facilities, purchasing land or even buying a parsonage.

Current rates are\*:

1 year at 1.40% | 3 years at 1.90% | 5 years at 2.30%

Additional Information may be found on the IUMF website at:

[www.iumf.org](http://www.iumf.org).

Applications for both individuals and churches may be found on the IUMF website at: [www.iumf.org/forms/](http://www.iumf.org/forms/).

The Offering Circular is also available on the Foundation's website at: [www.iumf.org/forms](http://www.iumf.org/forms).

\*Rates are updated monthly, please check website for current rates

# Planned Giving

A planned gift is any gift of any kind for any amount for any purpose. Let the IUMF help you plan today for tomorrow to last forever. We believe that you will gain personal value as you explore the benefits of planned giving.

## Gift Options:

- Find out what types of assets make the best planned gifts.
- Learn about gifts of cash, securities and property.
- Learn how to make a gift that provides tax benefits and event life income. Discover the best gift option to meet your goals.

## Wills and Bequests:

- What are the benefits to making a bequest?
- How do I make a bequest?
- What are my options?
- How do I get started?

The IUMF Executive Director provides confidential assistance to individuals who are exploring ways to plan for special gifts to their church or favorite missions and ministries. To schedule your confidential consultation with IUMF Executive Director please call 515.974.8928.

# Estate Planning

To assist with your estate planning needs the IUMF offers estate planning tools. A good estate plan will provide for and protect your family.

The IUMF offers an online Wills Planner to complete your estate plan. The Wills Planner will help you with your planning goals, who can assist you with managing your estate, legal and healthcare decisions if you are unable to make these decisions yourself. You will also learn how to compile a complete list of assets and make provisions on the distributions of your assets. Learn how select the plan that is right for your. There is no obligation to share any information with the IUMF however, we are here to help with the decision making process.

Thank you for your interest in helping the good work of the IUMF. We serve our friends by offering ways for them to be the good stewards for the resources given to them. The IUMF is here to assist you with estate planning so that your values will extend to future generations.

Today | Tomorrow | Forever

# Higher Education

Due to the generosity of many United Methodists who have given funds through bequests and direct gifts to establish scholarships for United Methodist students, the Iowa United Methodist Foundation awarded over \$180,000 in scholarships for the upcoming 2017-18 academic year.

The IUMF offers thousands of dollars in scholarships every year to students who demonstrate a faithful membership with the United Methodist Church. **General Scholarships** are awarded to students of the United Methodist church. **Iowa United Methodist Colleges Scholarships** are awarded to students who will attend a United Methodist college. **United Methodist Seminary Scholarships** are awarded to students following the call to join the ministry. **Westmar College Scholarships** are awarded to students who will attend United Methodist colleges in Iowa.

For those interested in helping the students of today prepare to make tomorrow last forever; creating a scholarship through the IUMF may be for you. No amount is ever too small to award. Individuals can be as specific or as general as they desire when establishing selection criteria for their scholarship.

For those who choose to establish a scholarship fund the IUMF is here assist you. Please schedule your confidential consultation with the Executive Director of the IUMF by calling 515.974.8928.

# Following the Call

The United Methodists of Iowa have the ability to help the world. Have you received God's call? Do you have the ability to help those who have received God's call?

The Clergy Tribute Scholarship Fund was established to help students attending United Methodist seminaries with the annual expense of their tuition. A scholarship is awarded annually to qualified a seminary student.

A low interest loan program, HELP (Higher Education Loan Partners), was established as an opportunity for Pastors and Deacons serving at least three years in the Iowa Annual Conference to refinance their student debt. In it's first year this program helped Pastors and their families save approximately \$82,000 over the next ten years.

Please consider supporting to those who have answered God's call.

To support the Clergy Tribute Scholarship Fund please complete the Covenant Agreement available at [www.iumf.org/forms/](http://www.iumf.org/forms/). Each small gift grows a fund that can help make a huge difference.

To offer your financial support with the HELP loan program for Pastors and Deacons serving in the Iowa Annual Conference of the United Methodist Church please contact the Executive Director of the IUMF by calling 515.974.8928.

# Partners In Stewardship

Contact Us - Follow Us

We Are Here To Help!

Alyssa Mills

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