

**THE PROTESTANT EPISCOPAL CHURCH  
COUNCIL OF THE  
DIOCESE OF TEXAS**



**THE PARTICIPATING FUND**

# The Participating Funds of the Diocese of Texas

## **What are the Participating Funds?**

The Participating Funds were established by the Diocese of Texas to offer parishes, missions and other entities professional investment management thereby providing them the opportunity for better investment returns and adequate diversity at a lower cost. The Participating Funds include bequests, trusts, endowments, general funds and special funds held under agreements between the owner of the funds and the Trustees of the Church Corporation. Some members of the diocese have left funds to the Church Corporation as legacies while others have been left to parishes that have placed their funds in the Participating Funds for investment purposes.

## **Who may participate?**

The Funds are open to any diocesan entity but not to individuals. These funds include rectory funds, endowment funds, scholarship funds, building funds, general funds and bequests.

## **How do they operate?**

Funds held in the Participating Funds are managed by outside investment managers under a contract with the Church Corporation. Deposits may be made at any time. Withdrawals may be requested as a recurring payment or may be made upon written request. All withdrawals are paid at the end of the month. Separate records are kept of all of the Participating Fund accounts and participants receive monthly statements.

## **How are they invested?**

The investment policy as established by The Church Corporation Trustees for the Participating Funds contemplates a long-term (5-year) time horizon. The funds are typically invested 40-60% in equities and 30-45% in fixed income vehicles, up to 25% in securities not correlated to the overall market (providing downside protection), and about 5% in money market instruments. The latest asset allocation is included in this report.

## **Who is responsible for the investments?**

The Trustees of the Church Corporation oversee the investments of the Participating Funds. They also choose the managers of the Participating Funds and evaluate their performance. The owners of the Funds do not participate in management of the investments. Graystone Consulting currently serves as the lead investment advisor.

## **What is the cost to participate in the Funds?**

The costs of the investment managers, custodians, accounting, and administration are prorated among the Funds on the basis of their size. Currently the total annual expense is .84% of the market value of the funds invested.

# Performance

**The Protestant Episcopal Church Council of the Diocese of Texas  
Participating Fund Historical Performance**

<u>Year</u>	<u>Participating Fund</u>	<u>Benchmark Index **</u>
2003	23.89%	18.56%
2004	8.10%	7.76%
2005	6.21%	3.65%
2006	12.21%	11.01%
2007	8.45%	6.39%
2008	-26.49%	-22.08%
2009	19.48%	18.25%
2010	7.85%	9.33%
2011	-3.70%	-0.28%
2012	8.64%	10.07%
2013	11.35%	8.08%
2014	4.61%	4.99%
2015 *	1.81%	1.98%

\* Year to Date through June 30, 2015

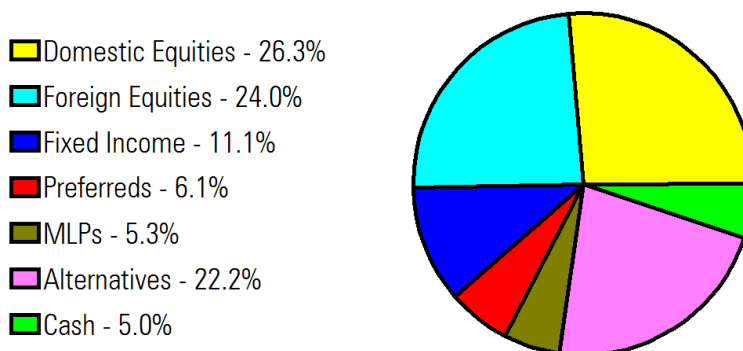
\*\* Benchmark Index = custom blend of major indices based on current asset allocation

# **Investment Managers & Asset Allocation Summary**

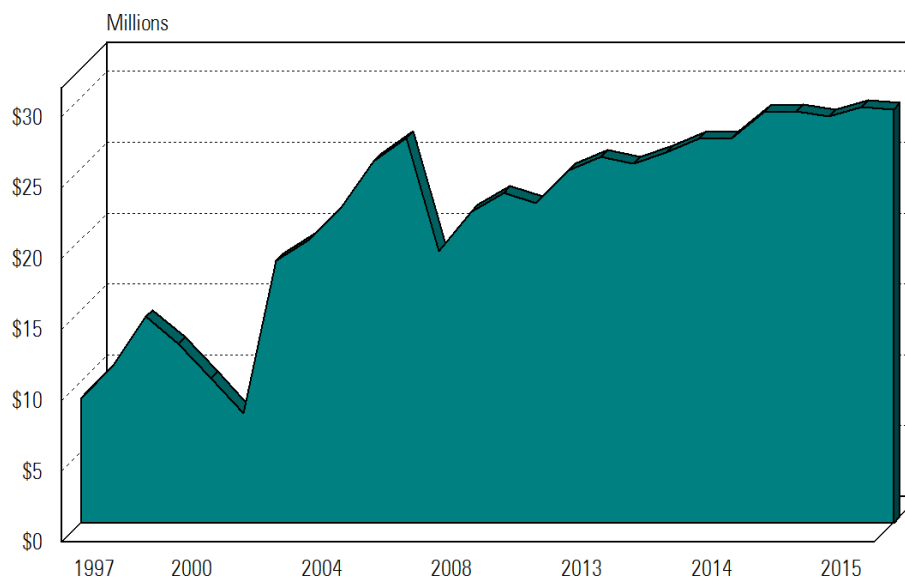
# Investment Managers, Asset Allocation, and Market Value

Manager	Objective
Scharf	Domestic Equity - Large Growth
Santa Barbara	Domestic Equity - Large Equity Income
The London Company	Domestic Equity - Small Core
Thomson Horstmann & Bryant	Domestic Equity - Micro Cap
Harding Loevner	International Equity - Large Growth
Lazard	International Equity - Emerging Mkt.
Tortoise	Master Limited Partnerships
Western Asset Management	Fixed Income - Core
PIMCO Real Return	Fixed Income - TIPS
Spectrum Preferred	Preferred Stocks
Ironwood	Absolute Return
Permal	Long/Short
Ceres	Managed Futures

## ASSET ALLOCATION (as of 6-30-15)



## GROWTH OF THE PARTICIPATING FUND (Through 6-30-15)

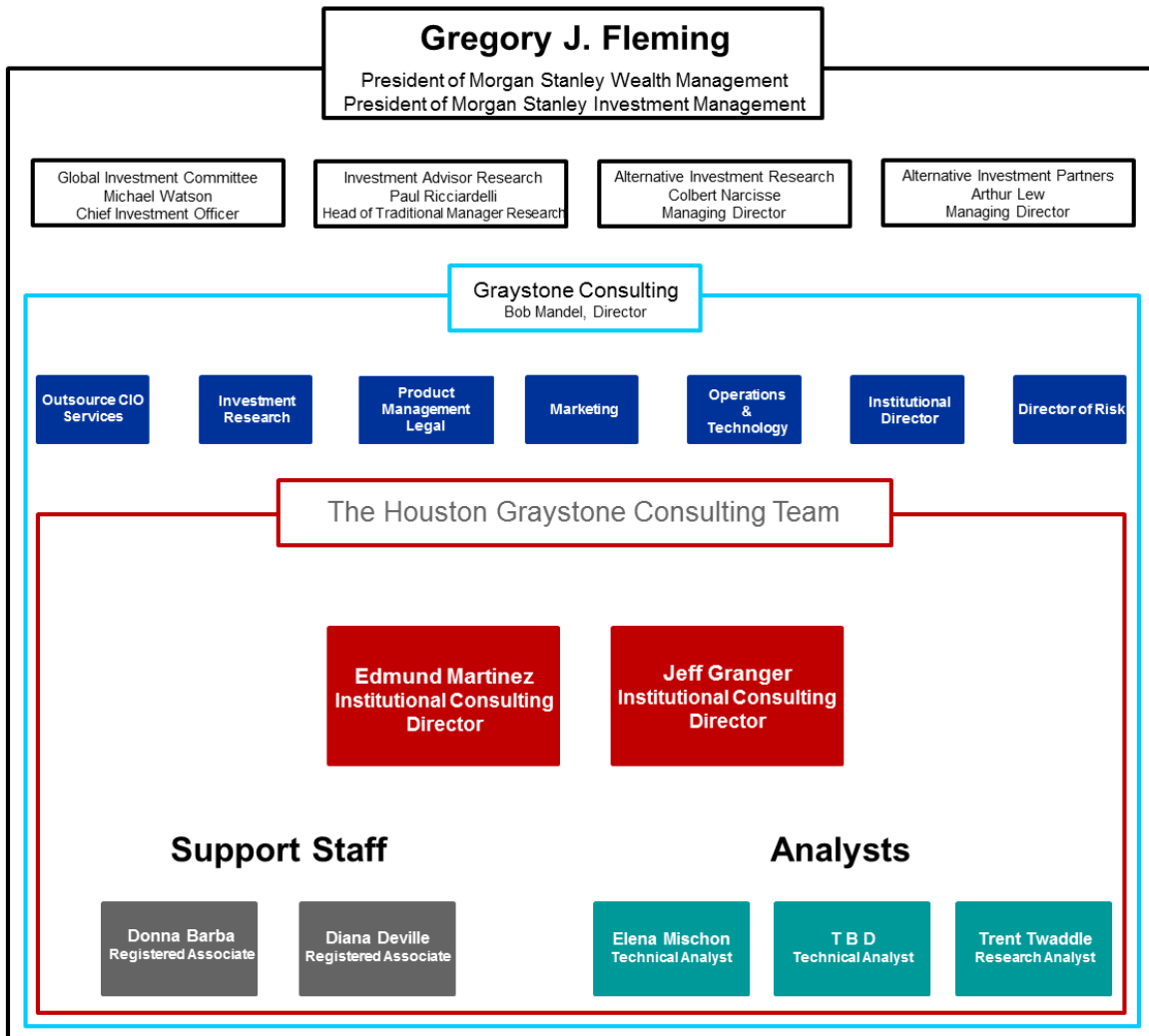


Current Market Value = \$29,132,594

# **Graystone Consulting Background**

Graystone Consulting, through its predecessors, has been providing investment consulting services to foundations and endowments since 1973; as of December 31, 2012, Graystone Consulting provides investment consulting services to over 2,200 institutions having over \$192 billion in assets. The Church Corporation's Graystone Consulting Team is based in Houston and your Institutional Consulting Director and lead consultant is Mr. Edmund Martinez.

## Morgan Stanley



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Graystone Consulting is based in New York and supports the 44 consulting teams and 85 Institutional Consulting Directors across the United States. Our consultants' average over 24 years of experience servicing the complex needs of their institutional client; the credential of the Institutional Consulting Directors vary across each team. Locally, your Houston based Graystone Consulting team's experience and credentials are summarized below.



**Edmund Martinez, CIMA**

Senior Vice President – Investments  
Institutional Consulting Director

Edmund Martinez joined Graystone Consulting in September 2005, where he brings over 30 years of investment consulting experience to Houston. He started his career at Citigroup as the President and Chief Investment Officer of Citigroup Institutional Trust Company, a trust company dedicated to servicing foundations, endowments, and affluent investors; he previously worked for Merrill Lynch and SEI Investments. During his 11 years at Merrill Lynch he spent 5 years as an Investment Consultant with Merrill Lynch Capital Markets and 6 years as Director of Investments for Merrill Lynch's Retirement Division where he was responsible for investment consulting services, product development, performance reporting, compliance, and key client relationships. At SEI, Edmund was a Senior Investment Consultant where he provided investment consulting services to corporate pension plans, private foundations and family offices.

Edmund graduated from Texas A&M Corpus Christi in 1981, majored in Accounting, is a Certified Public Accountant (CPA), a Certified Investment Management Analyst (CIMA), Chartered Retirement Plan Specialist (CRPS) and an Accredited Investment Fiduciary. He completed his certificate for Alternative Investment from the Investment Management Consultants Association through the Wharton School at the University of Pennsylvania in 2004. In Delaware he chaired the Investment Committee for the United Way of Delaware and participated on the Finance Committee; he currently participates on the Finance Committee for Texas Corinthian Yacht Club.

Edmund has an expert knowledge of investment products (traditional asset classes and alternative investments.), portfolio management theory, portfolio structure, and risk management.

**John Granger II, CIMA**

Senior Vice President – Investments  
Institutional Consulting Director

John began his career as an institutional consultant at UBS Financial Services before joining Citi in 2008. He has 12 years experience with Taft-Hartley, Foundations and Endowments as well as Healthcare and Religious organizations. He specializes in asset allocation and manager research. He is a member of the Graystone Research Committee

John graduated from the University of Texas at Austin with a B.B.A in Economics specializing in Money and Banking. He is a member of the Chartered Alternative Investment Analyst (CAIA) Association and the Investment Management Consultant's Association (IMCA). John holds the Certified Investment Management Analyst (CIMA) designation and holds the Chartered Alternative Investment Analyst designation. John received the Alternative Investment Certificate from the Wharton School. John is on the board of a Texas based insurance company Employee Benefit Systems, a member of the Board of Directors of Valencia Hotels Inc., and a member of the Finance Committee of River Oaks Country Club.

**Trent Twaddle, CFA**  
**Research Analyst**

Trent began his career as a Research Analyst at Morgan Stanley Smith Barney before joining Graystone Consulting in 2010. He graduated from the University of Missouri with a B.A. in Physics in 2007 and graduated from The Gordon E. Crosby, Jr., MBA Program at the University of Missouri in 2009.

**Elena Mischon**  
**Technical Analyst**

Elena as worked in the financial services industry for over twelve years. Before joining Graystone Consulting, Elena was employed by Citigroup as an operations supervisor in their Stock Plan Services division where she gained valuable experience servicing employee benefit plans. With Morgan Stanley, Elena has served as Vice President/Complex Service Manager of the Houston Post Oak Complex which is a first tier complex.

Elena graduated with a BA from Saint Mary's University and received her MBA from the Dillard College of Business at Midwestern State University. She holds her Series 7,9,10, 63 and 66 licenses.

# **Sample Agreement**

(SUGGESTED FORM OF LETTER FROM PARISHES,  
MISSIONS OR OTHER DIOCESAN ORGANIZATIONS REGARDING  
HANDLING OF FUNDS BY PROTESTANT EPISCOPAL CHURCH  
COUNCIL OF THE DIOCESE OF TEXAS)

Date

Protestant Episcopal Church Council of the Diocese of Texas  
1225 Texas Ave.  
Houston, Texas 77002-3504

Dear Sir or Madame:

In connection with this letter, we are delivering to you an initial deposit in cash which we are requesting that The Protestant Episcopal Church Council of the Diocese of Texas (the "Church Corporation") invest on our behalf. Please style this account:

\_\_\_\_\_  
\_\_\_\_\_. By this letter we are giving you full investment authority with respect to the moneys so delivered and any and all accumulations thereto (collectively, the "Fund"). You are authorized to invest and re-invest the Fund as you deem appropriate in your sole discretion on the same or on a basis similar to that in which you invest other funds owned or held by the Church Corporation from time to time. In this connection you shall have the right to commingle the Fund with other funds invested by you from time to time.

In connection with your handling of the Fund pursuant to the terms of this letter, we understand that you may use third party investment advisors. You shall have no liability or responsibility with respect to the Fund or the investment thereof except for your willful misconduct or gross negligence.

The undersigned and the Fund will be responsible for its pro-rata share of all costs and expenses incurred by you in connection with the handling of the Fund hereunder and of the investment activity. You may deduct the pro-rata portion of such costs and expenses attributable to the Fund directly from the Fund from time to time as necessary.

In consideration of your accepting the Fund pursuant to the terms of this letter, the undersigned hereby indemnifies and holds the Church Corporation, its Trustees, officers, employees and agents (collectively the "Indemnified Parties") harmless from any and all costs, damages, expenses and liabilities which the Indemnified Parties, or any one of them, may incur by reason of any action taken or omitted to be taken by any one of them hereunder.

You agree that you will return the Fund or any portion thereof requested by the undersigned not more than 60 days following written notice.

We would like Quarterly \_\_\_\_ or Annual \_\_\_\_ automatic distributions of the interest and dividend income of the Fund **OR** we would like all earnings to be reinvested \_\_\_\_\_. We realize the income cannot be distributed until a quarterly compilation or annual audit has been conducted by either the Treasurer, Business Manager of the Diocese of Texas, or the Church Corporation's auditors.

If the foregoing meets with the understanding of our agreement, please execute in the space provided below.

St. Paul's Episcopal Church, Anywhere

By: \_\_\_\_\_  
Name and Title

ACCEPTED AND AGREED this  
\_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

PROTESTANT EPISCOPAL CHURCH COUNCIL  
OF THE DIOCESE OF TEXAS

By: \_\_\_\_\_