



Investor Update



"Positioning for the Long-Term"

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The U.S. equity market rallied in 2003 as investors gained confidence that economic improvements would be felt broadly across the economy. Corporate profits closed 2003 at all time highs, as companies, slow to rehire, benefited from cost cutting and strong productivity gains. Earnings expectations also rose as the year progressed. In the first quarter, the market posted negative returns as conflict in Iraq loomed larger, and investors doubted the economic recovery. The second quarter brought victory state-side, while consumers continued to spend and the market started to discount a stronger outlook. In early summer, without any evidence of employment improvement, stocks stalled as investors second-guessed the strength of the recovery and started a move toward higher quality stocks for the first time in the recovery. Growing confidence by the end of the summer drove investors back toward more speculative names. This confidence was probably due to the realization on the part of investors that the recovery is taking hold and is here to stay.

While the returns of the Foundation's Socially Responsible Stock "Pool" were good on an absolute basis, up 23.09%, they lagged the benchmark S&P 500 Index, which rose 28.68%. What were the reasons behind this underperformance and what have we done about it?

In 2003, we held to our long-term investment philosophy and process of owning companies with above-average probability of strong earnings growth and where we could identify a sustainable advantage to protect those attractive characteristics. As is often the case in the early stages of a market recovery, investors in 2003 were attracted to companies that were benefiting from the high level of fiscal and monetary stimulation being injected into the economy, even though their longer-term prospects were less viable. The outperformance of these often smaller, less profitable, higher beta companies has lasted longer than usual, in large part due to the duration and degree of monetary and fiscal stimulus that has been applied both in the U.S. and around the world. We believe this "*upside-down*" period when the best are last, has almost run its course. Valuations for the highest quality companies are now depressed in comparison with their less well-positioned competitors across virtually all sectors of the economy.

As the impact of the tax cuts, mortgage refinancing, and low interest rates starts to fade through 2004, we expect companies with sources of more sustainable earnings growth - new products, pricing power, culture

of cost control and strong financial discipline - to attract investor attention once again. With the portfolio changes we made in 2003, along with a strong cadre of companies that are well positioned to meet our long-term earnings, profitability and sustainable advantage investment philosophy, we think the Foundation's equity portfolio is structured to perform well in the coming year.

Warren Buffett, one of the most successful investors in history, advises people to "Only buy something that you'd be perfectly happy to hold if the market shuts down for 10 years". We think holding companies with strong balance sheets, excellent brand identities, superior technologies, or defensible market niches, will reward patient investors handsomely over time.

* State Street Global Advisors are the Investment Managers for the United Methodist Foundation.

FAQ's

Frequently Asked Questions... a reminder for you

"When are Quarterly Statements and checks sent out to us?"

Our policy is to mail Quarterly Statements and checks (if income is not reinvested) *within 30 days of the close* of a calendar quarter. **Example:** Fourth Quarter Statements (as of December 31) and checks will be mailed by the end of January (December 31 + 30 days).

"Why do we need two signatures to make a disbursement from our funds?"

This is a common accounting practice in churches. Having two signatures protects the church against theft or mismanagement of funds. It is also a safe-guard for the Foundation and part of our internal control policy.

"Why do we need to request a disbursement from invested funds by the 25th of the month?"

To process your request, units in a particular fund need to be sold. The value of those units is determined at the end of each month. Requests for disbursement received after the valuation date will be processed in the following month.

"Can we receive daily valuation of our accounts?"

The Foundation operates collectively invested funds that are valued monthly, so only monthly valuations are available. The exception being the Money Market Fund which is available daily.

"How do we change authorized contact persons?"

You need to fill out a TRUST AGREEMENT AMENDMENT, SCHEDULE A form and send it to the Foundation. Please note that the original form needs to be received *before* we can release funds for which the new contact persons have signed.

"Is there a minimum deposit required to open new accounts?"

Yes. All new accounts require a minimum deposit of \$2,500.

"One of our church members wants to give us stock. Can the Foundation help us?"

We do courtesy stock transfers to assist people in making donations to their church. It is absolutely necessary that you *call Judy Vining X10 at 800-595-4347* regarding every stock transfer *before* any action is initiated; people often forget to follow this procedure.

If you have any further questions please contact us at 800-595-4347.