

## ANNUAL REPORT OF THE TREASURER INVESTMENT PORTFOLIO 2002

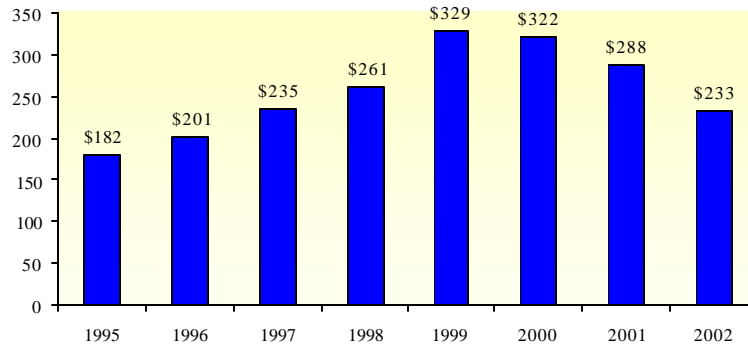
The Investment Committee of the Domestic and Foreign Missionary Society has the authority of the Executive Council to act in the investment and reinvestment of the funds of DFMS. The Committee works with the Treasurer's Department, independent investment advisors, and selected investment managers in carrying out its responsibilities and reports and makes recommendations to the Administration and Finance Committee of the Executive Council.

### **Economy and Stock Market**

These are times of tremendous uncertainty in the stock market and on the world political scene. Stocks fell sharply in 2002 as the S&P 500 index (-22.1%) and NASDAQ Composite (-31.3%) each posted significant losses despite a fourth quarter market rally. This marked the worst calendar year return for stocks since 1974, and the first time since 1939-1941 that the market has declined for three consecutive years. While the economy and corporate profits did show slight improvement, both struggled throughout the year and the outlook for each remained uncertain. Additionally, failures of corporate governance served to further damage investor confidence. By year end, these issues began to wane and the market regained its footing, but concerns over a then-possible war in Iraq curtailed the year-end rebound. Over the past year, interest rates have remained at or near their lowest levels in 40 years.

### **DFMS Portfolio**

**DFMS Portfolio Values  
1995 - 2002  
\$ in Millions**



The chart above displays the valuation of the Trust Funds Portfolio over the past eight years, representing the two preceding trienniums and two-thirds of the current one. The DFMS trust fund portfolio consists of domestic and international equities and fixed income investments managed by seven outside investment managers. The total return for the portfolio reflected a (14.5%) loss for the year ended December 31, 2002. The portfolio has achieved a time-weighted rate of return of (6.3%) for three years and 3.6% for the past five years.

**INVESTMENT PORTFOLIO 2002**

Over the past three years, the total fund results were significantly better than the custom benchmark loss of (8.7%). During this period, the domestic equity portfolio, which represents the largest portion of the plan, produced a loss of (9.0%), but significantly outperformed its benchmark, the S&P 500, which declined (14.6%). For the five-year period, the total fund return of 3.6% is well ahead of the benchmark of .9%, and domestic equities achieved a 1.9% return compared to (.6%) for the S&P 500.

The Society does not pursue a strategy of market timing and has been successful in managing its portfolio by diversifying across asset classes. Taking the longer view, over the past 10 year period, the portfolio has achieved an annualized return of 8.6% against the custom benchmark return of 7.9%.

The DFMS endowment funds provide operating income (restricted and unrestricted) to the DFMS budget. For the current triennium, these contributions have been \$8.9 million, \$9.0 million, and \$8.0 million (estimated) for 2001 to 2003, respectively. For at least the past two trienniums, these draws from the endowment have been predicated on 5% of the three-year moving average of the Trust Funds' portfolio value.

