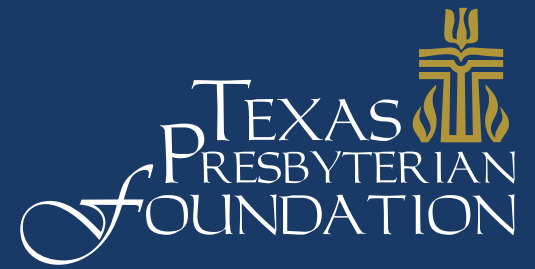


# 2012



# ANNUAL REPORT

## Finding Returns Amid Volatility



If only our financial crystal ball had been in focus at the end of 2011, we would have known that the volatility of daily markets should not upset or surprise us, because the markets would continue to recover from the doldrums. The year 2011 brought a great deal of uncertainty. We had seen the beginning of the fraying of economies in Europe, slowdowns in the mercurial growth of China and Brazil, a looming presidential election in the United States and a Congress that seemed to be stuck in a quagmire of partisanship. We felt that 2012 would be a year of high volatility and lower expected returns. The term “fiscal cliff” was not even a part of everyday news or conversation yet.

The year 2012 lived up to its billing. It was a tumultuous year for the markets, and left many wondering which direction the market would go on any given day. One percent or greater swings in the market became commonplace. Many looked for safe harbors, and they were hard to find. Texas Presbyterian Foundation’s assumptions for long-term investing were proven sound and productive. Very few would have guessed that returns would be as robust as they were. The added value of managed funds was evident, and TPF’s policy of pairing managers in asset classes provided quality returns as well as reduced risk. The asset allocation of the TPF Balanced Fund is regularly reviewed by the Investment Committee of the Board of Trustees. This year the committee spent a great deal of time focusing on the Fixed Income allocation and investment options, and at the end of the year made some minor modifications to the allocation. The Balanced Fund portfolio performed as hoped, with a return of 13.6%. For those who have followed a strategic rather than tactical investment plan, the last five years have returned a healthy percentage. The returns, cost-efficient staffing, and an eye to best practices allowed TPF to provide its services for approximately 61 basis points.

TPF was pleased to open over twenty new relationships with churches, organizations and agencies throughout the United States. We now have clients in 24 states and continue to provide the highest level of customer service to all of our partners.

Looking ahead, 2013 brings its own challenges for the financial world, but I assure you Texas Presbyterian Foundation will continue to offer quality service and results to our Ministry Partners in a cost-effective manner.

## Expressing Appreciation and Gratitude



Laura Mendenhall

Reverend Dr. Laura Mendenhall announced her retirement as full time Senior Philanthropy Consultant effective September 30th this past year. Laura provided invaluable assistance to TPF and congregations throughout the denomination with resources on generosity and stewardship. In the past year, she spent much of her time spreading the understanding of TPF’s endowment funds and how those benefit all of the ministry partners through the reduction of costs. Laura continues to co-pastor Presbyterian Church of Lake Travis with her husband, Chuck, and will enjoy being grandmother to two new grandchildren. Laura serves as the Senior Philanthropy Consultant for TPF on a contract basis with an emphasis on the legacy project.

## Start an Endowment, Grow an Endowment

Does your church or institution have an endowment fund? Whether the answer is yes or no, TPF may be able to help you build or enlarge one. Often TPF works with churches and institutions that don’t have any permanent funds and want to begin the process of establishing an endowment fund. We also frequently work with those that have an endowment fund that hasn’t received any new gifts for several years. Growth of the fund through positive market conditions is wonderful, but in this economic climate, it shouldn’t be the only growth strategy!



The ways we work with organizations to help them expand ministries include endowment program policies, endowment education and gift planning. We can provide ideas and materials for communicating with your members and potential donors. From our experience, it is important to plan the work AND work the plan. Endowment program planning and education is about doing both. If you don’t tell people about your endowment, they won’t contribute to it.

TPF’s Ministry Services and Support Team is available to assist you in not only creating an endowment, but also expanding it. That is our ministry and mission – to partner with Presbyterian churches and institutions to expand ministry through the use of permanent funds.

Call us if you’d like to visit with us to explore how we might work together to accomplish this.

## Connect With Us:



We’ve gone social! Join in the conversation with other Presbyterians!

Write on our wall and tell us how you use our products, or share your faith, vision and generosity stories with others.

Check our Facebook page on the first Tuesday of each month for “Trivia Tuesday” to learn fun and interesting facts about TPF.

*Texas Presbyterian Foundation serves Jesus Christ by supporting the long-term funding and investment needs of congregations, church-related institutions and agencies, and by educating, encouraging and enabling individuals to carry out Christian philanthropy.*



## TPF Technology Protecting Your Resources



With technology playing a major role in today's business, having a workable, well-thought-out plan for disaster recovery and ensuring IT processes and equipment are up-to-date are critical elements in protecting client information. Recent news stories of the devastation caused to businesses by Hurricane Sandy, and the upcoming spring season with its promise of new storms, draw attention to this unglamorous subject.

TPF takes the safeguarding of our clients' resources very seriously. We have a disaster recovery plan that is rigorously and regularly tested. The typical time to restore all business-critical data is roughly 4 hours. We rotate the staff members who participate in each test so that all will be familiar with the process. All major business software is tested to ensure continuity in an alternate facility. Over the last two years, the process has been changed and improved as minor deficiencies were identified.

Last Spring, a Technology Task Force, made up mostly of volunteers who are IT experts, was charged with conducting an in-depth security audit to identify and rectify any weak links. The test was very thorough, engaging staff as well as our technology consultants, and the results were very favorable.

Our technology landscape is constantly being tested and reformed in order to ensure you and all our clients that protecting your resources is our first priority.

## Account Information At Your Fingertips

What was the market value of my account at the end of last month? How did the funds do? How much income did our account earn last quarter? Each of these is a common question the administrative staff answers on a regular basis. In an effort to provide the most comprehensive information we can, TPF has enhanced our quarterly statement package to now include a performance report.

If you don't want to wait for your statements to arrive by mail at the end of each quarter, our staff will be happy to set you up with online access. This will enable you to easily ascertain account details – transactions and holdings – on your account in a more timely manner.

The home page of our website features a "RECENT NEWS" section, and our monthly performance information is loaded here as soon as it is available. On a quarterly basis you can find detailed fund graphics in the "INVESTMENTS" section of our "REPORTS" tab. If there is information you would like to see that we are not currently providing, please share your thoughts with us.

Your Ministry Partner Administrators are here to assist you; simply call or email to let us know how.

## Two Lives = One Legacy

A former Texas Presbyterian Foundation trustee and his wife lived a life of generosity supporting multiple causes that were dear to their hearts. When establishing a legacy plan, he made a decision to put their assets into a marital trust for his wife's continued support when he died. She lived comfortably for many years following his death, continuing with her own generosity and stewardship. Upon her recent death, bequests were distributed and the remaining assets created a legacy fund at Texas Presbyterian Foundation. The will stated that the legacy fund will be permanently invested by Texas Presbyterian Foundation, with the income distributed to five charities the couple greatly loved and assisted. Texas Presbyterian Foundation is blessed and honored to be one of these charities.

Texas Presbyterian Foundation has also been blessed with many who have included TPF in their estates throughout the years. These funds total over \$12 Million. Both of these are great examples that help reduce the management costs and keep them competitive for all of our Ministry Partners, which then provides more resources for mission.



Texas Presbyterian Foundation has established a legacy society, The Foundations of Texas Presbyterian Foundation. Those who are members of the Foundations of Texas Presbyterian Foundation include former and current Board of Trustee members, current and past employees and many friends of TPF. Those who have included TPF in their legacy will be recognized on our Wall of Honor. If you have included TPF in your legacy, we would like to include you in our list of Foundation members. We invite you to consider helping Presbyterians throughout the United States by remembering Texas Presbyterian Foundation in your estate. We are available to assist you with this; just give us a call.

## New Staff



**Jennifer Robles**  
Staff Accountant

TPF welcomed a new staff member in 2012. Jennifer Robles joined the Foundation in October. She studied Business at Central Texas Commercial College. In her position she will be working with back office Institutional Partners.

TPF looks forward to the help Jennifer will bring to support our mission efforts.



## Responding to Market Change:

### Fine Tuning the Fund Portfolios

The TPF Investment Committee, along with a subcommittee, met several times during the second half of 2012 to address concerns in the fixed income segment of the market. They reviewed the current allocations to fixed income investments, evaluated options and made necessary changes. At a meeting on November 13th, the Committee decided to reduce the allocation to Treasury Inflation-Protection Securities (TIPS). Those funds were moved into Emerging Market Debt (EMD), raising the EMD allocation to 10% of the TPF Fixed Income portfolio. In addition, the share of the Fixed Income portfolio managed by Barrow Hanley (45%), was moved from a "core" investment strategy to a more flexible "core plus" strategy. In other developments, due to growth and success in the developed international value space, one of our long time international managers, Silchester International Investors, has closed to new contributions. For that reason, the Committee decided to hire Harris Associates as a complement to our Silchester holdings. Please feel free to contact your Ministry Partner Administrator at TPF if you have any questions about these or other investment matters.

## Be In The Know and Join our Mailing List

As a valued member of the Presbyterian family, we'd like you to be among the first to know the latest news and events relating to the mission of TPF. As a Presbyterian, you need to know that you have your own Foundation to help fulfill your philanthropy efforts.

The most efficient way for us to do that is through email. With email, we can send you this information in a method that is both kind to the environment and fiscally responsible. With the money saved, we can in turn devote ourselves to our mission of supporting financially the spiritual, educational and charitable needs of our Presbyterian community.

We are always available by phone to answer any questions you may have.

Call (800) 955-3155 or (214) 522-3155.

Log onto and sign up:

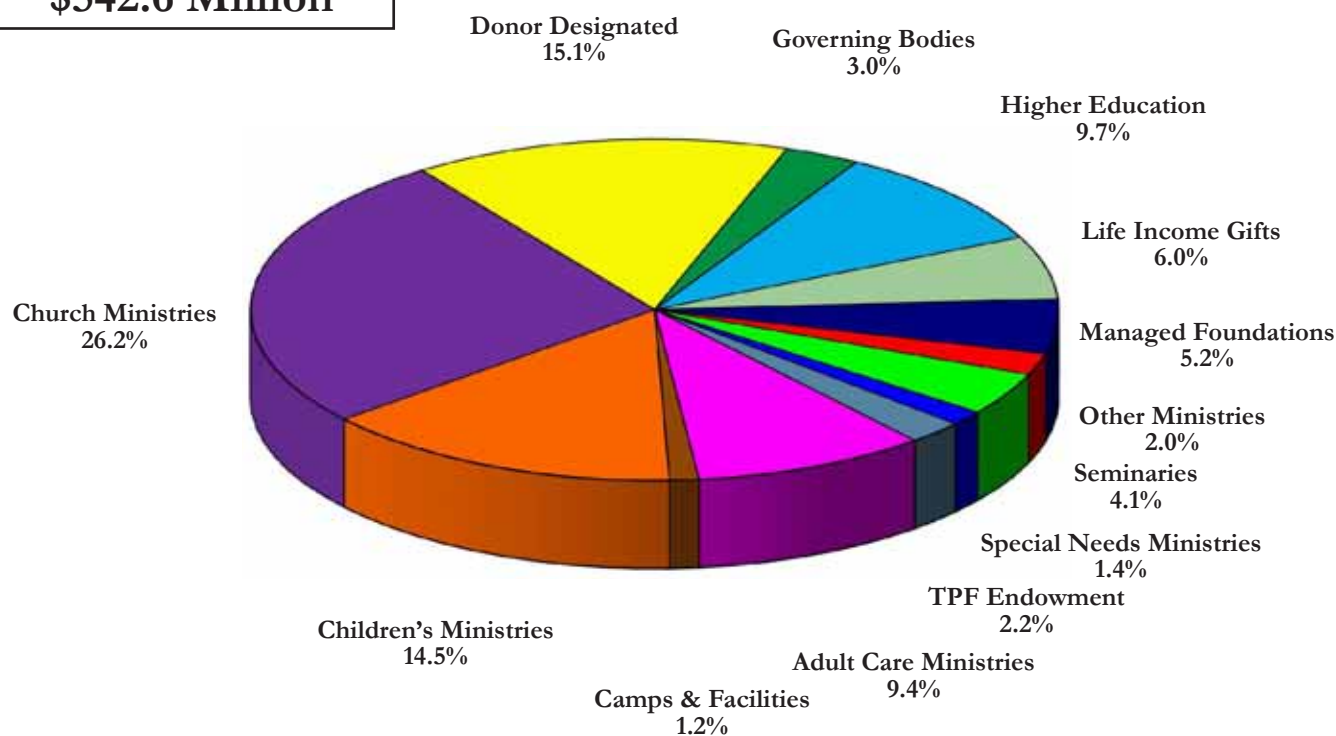
<http://tinyurl.com/texaspresbyterianfoundation>

**TPF CFO Client Conference \* June 19, 2013 (Houston, TX)**

*This event is for CFOs, Controllers, Finance/Operational Officers and Church Treasurers.  
For more information log onto [www.tpf.org/events](http://www.tpf.org/events) or contact us at (800)955-3155 or (214)522-3155*



**Managed Assets**  
12/31/12  
**\$542.6 Million**



(Does Not Include Assets held in Custody)

## 2012 Financial Statement

|                               |                    |
|-------------------------------|--------------------|
| Total Cash & Cash Equivalents | 42,084,581         |
| Pooled Investments:           |                    |
| Large Cap Equity Fund         | 45,117,408         |
| Large Cap Equity Growth Fund  | 1,438,022          |
| Large Cap Equity Value Fund   | 2,896,438          |
| Small Cap Equity Fund         | 11,481,586         |
| International Equity Fund     | 17,944,161         |
| Emerging Markets Equity Fund  | 10,311,138         |
| Fixed Income Fund             | 63,482,704         |
| Real Estate Fund              | 3,367,390          |
| Real Assets Fund              | 3,086,426          |
| Defensive Strategies Fund     | 4,728,231          |
| Alternative Strategies Fund   | 3,618,376          |
| Gift Annuity Pooled Fund      | 13,341,099         |
| Gift Annuity Pooled Fund (AR) | 1,230,884          |
| TPF Balanced Fund             | <u>277,001,279</u> |
| Total Pooled Investments      | 459,045,141        |
| Other Investments:            | 42,169,299         |
| Assets Held in Custody        | 89,757,191         |
| Total Other Assets            | <u>119,722</u>     |
| Total Assets                  | 633,175,934        |

## Reflecting on 2012 with John Furlow, Executive VP and COO

We sat down again this year to get John's take on 2012, as well as a quick look at the year ahead.

### 2012 was a volatile year in the investment world. How did the TPF Funds hold up?

We expected this would be a volatile year in the markets and the reality lived up to that. One day swings of one percent or more were not uncommon. Our mantra was to participate on the upside and protect on the downside. The Investment Committee created a strategy that did just that. If you look at our Balanced Fund, which continues to be the overwhelming choice for investment of long-term assets, the return for the year was a very healthy 13.6%.

### What about the portfolio has given you the most satisfaction in 2012?

Speaking generally, it is not easy for active portfolio management to beat benchmark indices. That being said, all of our equity funds have now outperformed their appropriate indices for one, three, five and ten-year periods. It's a validation of the multi-manager approach we employ, which brings together different active managers for each of the major asset classes.

### Apart from the multi-manager approach, what do you attribute the long term success to?

Everything goes back to the Board of Trustees. They set a very good policy for the staff to implement. This kind of disciplined approach is a key to successful investing. Each of our trustees is representative of one or more of our clients, with professionals from the fields of finance, banking, legal, real estate, energy and corporate management all bringing their experience to the table in formulating and fine-tuning our investment strategy. We also receive excellent research and analytic support from our consulting firm Segal Rogercasey.

## Performance Of Investment Funds vs. Benchmarks Periods Ending 12/31/12

|  | 1 Year       | 3 Years      | 5 Years      | 10 Years     |
|--|--------------|--------------|--------------|--------------|
| <b>TPF Balanced Fund</b>                       | <b>13.6%</b> | <b>9.1%</b>  | <b>4.1%</b>  | <b>8.1%</b>  |
| Lipper Balanced Index*                         | 13.7%        | 8.4%         | 2.6%         | 7.0%         |
| <b>TPF Large Cap Equity Fund</b>               | <b>18.1%</b> | <b>12.0%</b> | <b>3.0%</b>  | <b>8.3%</b>  |
| Lipper Large Cap Core Fund Index               | 15.3%        | 9.2%         | 1.0%         | 6.1%         |
| <b>TPF International Equity Fund</b>           | <b>20.5%</b> | <b>7.3%</b>  | <b>0.6%</b>  | <b>10.1%</b> |
| Lipper International Fund Index                | 19.7%        | 4.5%         | -2.7%        | 8.9%         |
| <b>TPF Emerging Markets Equity Fund</b>        | <b>24.5%</b> | <b>6.5%</b>  | <b>-0.6%</b> | <b>N/A</b>   |
| Lipper Emerging Market Fund Index              | 20.1%        | 5.6%         | -1.5%        | 15.9%        |
| <b>TPF Small Cap Equity Fund</b>               | <b>18.8%</b> | <b>16.8%</b> | <b>7.4%</b>  | <b>10.4%</b> |
| Lipper Small-Cap Fund Index                    | 16.4%        | 12.0%        | 3.9%         | 9.9%         |
| <b>TPF Fixed Income Fund</b>                   | <b>7.4%</b>  | <b>6.8%</b>  | <b>6.6%</b>  | <b>5.4%</b>  |
| Lipper Intermediate Inv Grade                  | 7.8%         | 7.6%         | 6.3%         | 5.3%         |
| <b>TPF Money Market Fund*</b>                  | <b>0.16%</b> | <b>0.14%</b> | <b>0.65%</b> | <b>1.80%</b> |
| Lipper Institutional Money Market Fund Average | 0.06%        | 0.06%        | 0.47%        | 1.43%        |

This information represents compounded annual returns for our most utilized funds. Please refer to our website for detailed information for all of our funds. \*TPF Returns are net of all operating expenses. All Lipper Indexes are commercially available mutual fund indexes that are also reported net of fees. Past performance is not necessarily indicative of future investment results. †Lipper Balanced Index is the most aggressive Mixed Asset Target Allocation of the Lipper Meta Indices.

### Tell me about the growth in new clients TPF has seen in the last year.

We have been very careful in taking on new clients or adding new services. We want to make sure we can stick to our core values while continuing to provide a competitive product and exceptional service at a low price. In 2012 we established 22 new relationships with churches and organizations who had not previously worked with us. TPF now serves clients in 24 states.

### What steps does TPF take to safeguard client accounts?

Client assets are kept in trust, with a majority held by the Northern Trust Bank in Chicago. These days digital security is also important, and we back up all data remotely on a daily basis. Twice a year we perform a complete simulated disaster test, with the goal of being up and running with 100 percent of client data recovered within four hours. In a real-life situation, the process could of course take longer depending on the scope of the disaster, but we still expect to minimize client disruption to one day or less if at all possible with no loss of client data.

### With all the talk of "fiscal cliff" and tax law changes, has anything changed for charitable gift annuities?

The American Council of Gift Annuities (ACGA) calculates gift annuity rates based on actuarial tables. The rates are designed so that approximately

50 percent of the gift should remain if the donor lives a normal lifespan. While the ACGA typically announces new rates in January, they reviewed the current rates in November and decided not to make any changes. The Planned Gifts Calculator on our website, [www.tpf.org](http://www.tpf.org), is always up to date with the latest rates. You can use this tool to create examples with One and Two-Life Gift Annuities, Unitrusts and more. If you have any questions, you can call or email Tracy Shawn here at TPF.

### How can TPF help a church or organization with their permanent funds ministry?

Everyone knows about our investment services, but I want to promote our full spectrum of offerings. For instance, we can send staff out to visit donors. We can arrange seminars to educate committees, sessions or potential donors. We can also help an organization establish gifting policies for the first time. Too often, we see cases of a major donation catching a church off-guard, with no plan in place for how to handle the gift or use the money. Unfortunately these situations can devolve into acrimonious disputes that could have been avoided with a policy in place. As a start, our website has quite a bit of educational content, and we also have printed materials we are happy to send out. We want clients to consider us a resource and not hesitate to contact us with their questions and needs.

## Distributions For Mission in 2012

*During 2012, TPF distributed \$12.2 Million of income and \$56.2 Million of investment gains and principal to churches and institutions to further their missions. In addition, TPF manages over \$32.5 Million in life income gifts that will benefit charities in future years.*

