



SEVENTH-DAY
ADVENTIST®
CHURCH

General Conference
World Headquarters

January 25, 2010

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Treasury

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Gentlemen,

I have your letter of November 3, 2009. Let me address the matters you raise.

Let me then address a couple of specific items which you have raised. Your assumption that the General Conference has engaged "in house" managers for the majority of investments under management is unfounded and inaccurate. The General Conference has outsourced the management of investment funds to registered and established managers. It does not outsource to brokerage firms as you have suggested. Outsourcing to brokerage firms would create a possible conflict of interest when portfolio managers' compensation may in part be based on fees earned by commission on trades. In those cases where a portfolio manager works for a firm that has a brokerage arm our contracts stipulate that portfolio managers are not allowed to self deal on trades.

Each portfolio manager at the time they are retained is given an Investment Policy Statement (IPS) that forms a part of the Investment Management Agreement. The IPS should not be confused with General Conference Working Policy which will be quoted later in this letter. The IPS is a document that sets the boundaries within which the portfolio manager must operate. It is the document that gives application to the General Conference Working Policy related to investments allowed for each portfolio manager. During the time frame under discussion the General Conference Investment Committee had retained 15 outside managers. These managers included Morgan Stanley, Lazard, State Street Global Advisors, Fiduciary/Franklin Templeton Investments, Boston Company, HSBC Asset Management, Deutsche Asset Management, Lord Abbett, Dresdner RCM, Credit Suisse, Harris, Citigroup and Western Asset Management. Two of the companies managed more than one portfolio such as Deutsch Asset Management which managed a large cap equity portfolio and a small cap equity portfolio. The vast majority of funds were managed by outside managers.

During the time period under discussion the Money Fund, Income Fund and part of the Bond fund were managed in house. These funds were all largely fixed income. The only equity fund managed in house was the Micro Cap Fund with the LifePoint investment.

Let me address the matter of the \$10,000,000 line of credit. LifePoint management noted the existence of this agreement in filings with the SEC but did not note the terms of agreement. To characterize the agreement as a traditional line of credit would not be complete. Rather than a line of credit, this would be better characterized as a convertible fixed income security which behaves as a bond but with the right to convert to equity with a maximum value of \$10,000,000. It has been General Conference Investment office practice to view such securities as equities. Due to the convertible feature in the indenture the transaction fell within policy – specifically S 45 15 g from the General Conference Working Policy 2000-2001. This convertible fixed income security was executed at rates of interest in keeping with the perceived risk. The security was collateralized with the intellectual property of LifePoint. The terms of agreement also included a number of performance hurdles that were to be met before further investment of funds would be authorized. At the end of the day the majority of these hurdles were not met to our satisfaction and only \$2,500,000 was ever invested and converted to equity.

Regards,

Roy E. Ryan
Associate Treasurer