

How General Conference Investments Are Handled

Don Gilbert

GC Treasurer Explains How Wall Street "Crash" of '87 Affected the Church's Finances

Just one year ago, a bulging budget deficit, falling dollar, and sagging confidence in the United States economy triggered the worst tailspin in Wall Street's history.

October 19, 1987, quickly became Black Monday when the Dow Jones industrial average plummeted 508 points, from 2246.7 to 1738.7, for a record loss of more than 22 percent. From Tokyo to Melbourne to London, the shock was felt around the globe, dropping prices on nearly everything from oil in the Persian Gulf to commodity prices in Canada.

By year's end, stock market prices had recovered some, but not enough to overcome the dramatic declines suffered. Stock market losses from their high points in 1987 ranged from approximately 13 percent in Japan and 27 percent in the U.S. to 30-35 percent in Europe and 45-50 percent in some Far Eastern markets, according to estimates of Morgan Guaranty Trust Company of New York.

In the year since Black Monday, the world's stock markets have continued to rock back and forth as investors have become wary of the markets and uncertain of the outlook for the world's economy.

Church Impact

With the General Conference holding more than \$500 million in various investment funds, many church members have asked how well the church fared during the Year of the Crash-1987.

The answer is, quite well. Although the loss in book value of investments for the year totaled nearly \$23.4 million, the losses were more than offset by the realized capital gains, dividends, and interest income of \$64 million.

No one, of course, would say that the stock market crash didn't affect the church's earnings. It certainly did. But in a year when countless businesses and individuals suffered massive losses, the church still came through with a generous profit.

Why? I would attribute it to these factors:

First, and most important, only 26 percent of the money held by the General Conference was invested in stocks. This means that nearly three fourths (74 percent) of all invested funds were not directly susceptible to the stock market decline, although the bonds in our portfolio were not immune to fluctuation.

As of December 31, 1987, invested money held by the GC was diversified among these investments:

	Percentage
Stocks	26.1
Bonds	33.6
Short-term investments	4.6
Notes Receivable and Deposits	13.6
Real Estate	2.1

Second, the stock market regained some of its losses by the end of the year. On December 31, 1987, the Dow Jones closed at 1938.8, up 200 points from Black Monday's close and, surprisingly, 43 points higher than at the start of the year. This helped the church limit its "paper" losses.

Third was a plan enacted early in the year by the GC Treasury. The plan was to begin selling a portion of its nearly \$125 million in stocks and retaining the cash profits. Let me explain.

In many respects, 1987 was a banner year for stock market investors. The widely respected Dow Jones industrial average began the year at 1895.9 and then rose to its all-time high of 2722.4 on August 25, and so did almost every major stock market index worldwide. It was a bull market, and investors didn't want to be left out of the continually rising market.

Inevitably, the financial markets seemed so overpriced that a significant downward change seemed likely. But no one knew *when* an adjustment would take place or *how far down* stock prices would drop.

In this ongoing milieu, the GC Treasury decided in early 1987 to begin a specific program of selling stocks to cash in on some of the profits gained from their increased market values. Under the direction of GC associate treasurer Robert E. Osborn, the GC initiated its selling program in May and continued to sell stocks throughout September and on into early October.

Thus by early October-before the October 19 market crash-all planned selling had been completed and the church had reaped \$29,790,000 in capital gains (profits) from its stock sales. We were certainly pleased, and we believe that God was guiding His church through such unstable times.

To these stock profits we must add stock dividends and interest from all other investments (minus any losses, including book losses) to arrive at the total net return for the year. Though I can provide the dollar figures for the year (see earlier), it is difficult to determine the cumulative yearly percentage gain for all the church's investments because the capital amounts vary so much from day to day.

Source of Dollars

Whenever our members hear that the General Conference has more than a half billion dollars in investments, they almost always ask, "Why does it have so much money stored away?"

Here's the reason. After members' tithes and offerings are given to their local churches, specified percentages of these funds flow on to their conferences, unions, divisions, and the General Conference. These funds become part of the budgeted current operations of the worldwide church and are distributed immediately for their appropriate functions.

Some of the funds, though, may be designated for functions that may not need the funds right away, such as building projects, world church programs, radio stations, educational institutions. The GC then becomes the entity to hold these funds in short-term investments until the funds are needed.

In addition, some excess or reserve funds held by conferences, unions, and divisions around the world are invested with the GC, which in turn combines all funds and invests them in larger amounts, and returns any profits to the respective institutional investors. This is a service provided by the GC to the world field. It provides an especially valuable service to entities that do not have the time, expertise, or quantity of funds to invest funds wisely or effectively, or who would prefer to invest their funds outside their local countries.

Yet, out of the approximately \$550 million invested by the GC, the bulk of the funds is in two retirement funds—one for the general church employees of North America (currently \$120.1 million) and one for the Adventist Health System (now \$302.4 million).

As stated earlier, these funds are diversified mainly into stocks, bonds, and short-term investments—including banker's acceptances, commercial paper, intradenominational loans, and other instruments backed by the U.S. government. Even the funds we have only overnight earn interest. They are placed in interest-bearing accounts, for we believe that proper money management is critical to the operation of the church.

Categories of Funds

All moneys received by the General Conference for investment are placed into one of five funds, depending upon the source or specific purpose of the investment. Presently these funds total about \$550 million.

1. Investment Fund. Investments in this category are usually long-term-both income and appreciated value are sought. This fund includes portions of the general retirement funds, some GC allocated funds, and funds invested for field organizations.

2. Income Fund. This fund serves the same entities but, as the name indicates, has maximum spendable income as its primary objective.

3. International Fund. Money in this fund is invested primarily in a few major world financial markets to provide a worldwide base of investments.

4. Hospital Retirement Fund for North American Division Health-Care Institutions. This fund contains only health-care retirement funds and accounts for more than half the total invested funds of the GC.

5. Miscellaneous Investments. This fund includes various annuities, estate funds, and other similarly restricted funds.

The first three funds-investment, income, and international-are recorded and held in units and operated like mutual funds.

Annual Performance

A comparison of fund performances for 1987 with other sample years, I believe, shows the result of careful management. Here are the statistics:

	Investment Fund	International Fund	Income Fund
	Percent	Percent	Percent
1982	+ 18.3	- 13.3	+ 28.1
1984	+ 7.0	- 11.5	+ 12.7
1986	+ 12.7	+ 48.3	+ 17.5
1987	+ 5.9	+ 2.1	+ 2.2

The Hospital Fund had substantial earnings through 1986, but ended 1987 with a decline in stock valued of \$9.6 million. At the time of this writing, the net deficit has dropped to \$2.4 million, and an overall gain is expected by the end of 1988.

Safety Fund

As a safety precaution, the church maintains a Reserve for Securities Fluctuation Fund to blunt the effect of a severe market decline. This fund is funded entirely from realized capital gains and is maintained at the minimum of 20 percent of the book value of fluctuating securities.

The funds in this reserve account would be used, if needed, to counter major losses sustained when a severe market decline occurs. I am happy to say that even after Black Monday's loss we did not need to tap this reserve. If this reserve were ever to be depleted, then and only then would general church funds be affected.

The Securities Fluctuation Fund has also become a valuable source of nontithe income for the church`s annual world budget. From 1977 to 1987, earnings above church policy requirements in this account have added \$35.8 million to the world budget-a yearly average of \$3.3 million. Only during two years, 1978 and 1982, were earnings in this fund insufficient to provide funds above policy for distribution.

World Currencies

A related challenge facing the church is the decline in the value of the U.S. dollar to some major world currencies. In some areas of Europe and Africa the dollar decline has meant fewer local moneys available after exchange of the GC appropriations. We estimate the overall loss of available funds for local needs has approached the \$2 million mark. However, we are grateful for the continued acceptance of the U.S. dollar in most countries throughout the world, which has been so important in the advancement and support of God's work.

As God's family grows, new members accept their responsibility for the support of His work. The need for this become clearer when we realize that nearly 80 to 90 percent of the funds for the church's global work is supplied and consumed locally. The funds that flow through the General Conference provide the additional moneys needed. This sharing of resources is vital.

The present financial plan to keep the world work going has not faltered. Funds continue to be safely distributed for their intended purposes. In reviewing the growth of God's work and the distribution of funds, we can say thank You to God for letting us all have a part "as God's fellow workers" (2 Cor 6:1, NIV).

Even as we look forward to the day when the gospel shall be preached in all the world and Jesus comes, we must not be discouraged at adverse situations during the present time. Today's economic conditions continue to appear unstable. This should emphasize our need to press forward together with the power of the Holy Spirit. We thank God for the privilege of participating in His work.