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Church Agencies See 'Minimal' Impact FROM ENRON DEBACLE

By Tim Tanton

The collapse of utility giant Enron has affected some United Methodist Church investment portfolios, but denomination executives say the impact has been minimal.

THE UNITED METHODIST BOARD OF PENSION and Health Benefits, the Board of Global Ministries and the United Methodist Foundation had relatively small amounts of Enron stock in their portfolios, and their portfolio managers sold those holdings last year after the company's trouble became public.

Texas-based Enron is in bankruptcy, and Congress is investigating the company's management and collapse.

Despite the dollar amounts involved, the losses incurred by the Board of Pension and Health Benefits, the Board of Global Ministries and the foundation represented a small part – less than 1 percent – of their total investment portfolios.

The pension agency lost about \$26 million, or less than one-quarter of 1 percent of its approximately \$11.5 billion portfolio. "For every \$100, we lost 25 cents," said Dave Zellner, managing director of finance and investments in Evanston, Ill. However, participants in the board's Diversified Investment Fund (DIF) are protected by reserves.

The missions board, which has a much smaller portfolio, lost about \$300,000, or less than half of 1 percent of its \$500 million-plus in investments, according to Connie Takamine, associate treasurer for the New York-based agency.

Two of the United Methodist Foundation's eight investment managers had some "extremely minor holdings in Enron," and those were sold in November, said Byrd Bonner, executive director. The foundation absorbed a loss of \$120,625, or less than one-tenth of 1 percent of its \$51.6 million portfolio, he said.

Investment Funds The Board of Pension and Health Benefits has a broadly diversified investment portfolio, managed by carefully chosen firms. Some of the board's investment managers sold their Enron holdings in late September and early October, while others sold at the end of November, according to Michael Lee, the agency's communications strategist. "We are very lucky that our exposure's minimal," he told United Methodist News Service.

In a press release on its Web site, the board explains that two of its index funds had Enron stock, and several of the investment managers for the DIF also had holdings in the company. "The impact of these losses on participant assets is minimal," the board said, citing its diversification as a reason. The statement can be found at www.gbophb.org/releases/20020130enron.html.

The board manages the pension and health benefits for 65,000 United Methodist clergy, employees, retirees and spouses.

Participants' accounts are protected by a reserve cushion that the board maintains on the DIF, the agency's largest pool of investment dollars. The cushion currently equals about 1 percent of participant account balances. Though below the board's 14 percent goal, it is an improvement from the reserve deficit of 7 or 8 percent at the end of September, when terrorist attacks on America drove down an already declining stock market.

About 65 percent of the DIF is in stocks, and Zellner doesn't see that changing. "The board is very committed to its long-term strategic asset allocation," he said.

"It believes and strongly believes that trying to time the market is a loser's game, and it's just not going to do it." The board will not be influenced by short-term gyrations, he said.

"Risk always accompanies any investment," the pension and health benefits board said on its Web site. "We will continue to see some spectacular stock successes (such as Microsoft and Intel) and failures (such as Enron and the Internet stocks). As a disciplined investor with a broadly diversified portfolio, the general board believes that, over the long run, prudent risk taking, coupled with qualified investment management, works to the benefit of our participants."

Enron's stock, which had a 12-month high of about \$82 per share on the New York Stock Exchange, was trading at less than 40 cents a share as of Feb. 7.

Two growth-stock managers for the Board of Global Ministries had investments in Enron, but one sold out in October and the other did so in November, Takamine said. Both the Board of Global Ministries and the Board of Pension and Health Benefits were in touch with their investment managers as the Enron mess worsened.

"Our managers who owned the stock have said that they had never before seen such a sort of a misreporting," Takamine said, "and I think that ... the lesson to be learned is that when a company has such a rapid growth spurt as Enron had, that you really need to see how true that growth is." That would have been hard because of the way Enron did its reporting, she added.

When Enron's problems became known, "not only did we call and grill our managers that owned it, we also called in and had serious discussions with our managers that didn't own it," Zellner said. Those that had bought it did so because the stock had been doing well or had gone down and seemed to represent a good value, he said. "I am skeptical that they all did the level of research that they should have done because the ones that did (do their research) figured out that it wasn't the right stock to hold."

Enron was on the agenda when the board's Asset/Liability Committee met Feb. 10-11 in Orlando, Fla., Zellner said.

He foresees the board getting involved in legal action to recoup some of its losses. "Certainly we will be participating in class-action lawsuits," he said. "We're not going to take a lead role, but we will participate along with everybody else. ... Our participants should get their proportionate share of whatever the settlement's going to be." However, he added, any settlement is unlikely to be much unless the lawsuits target Enron executives and Arthur Andersen, the company's accounting firm.

The Board of Global Ministries will also probably join in legal action, though not taking a lead role because it didn't have a large amount of Enron stock, Takamine said. "We certainly think that there's a great deal of evidence that points to there being legitimate lawsuits."

The Board of Global Ministries has been contacting national institutions of mission -- autonomous local ministries started by the agency or its Women's Division -- and telling them that the Enron situation offers lessons to be learned about governance, Takamine said. "Our boards have to take their fiduciary responsibility more carefully than maybe they have in the past because this isn't an isolated incident to Enron."

"This was bound to happen," Zellner said, explaining that if the situation hadn't occurred at Enron then it would have happened at another company. He has long felt that "there's a lot of obfuscation that has taken place at the corporate level in terms of accounting." Some firms are transparent and clear in what they do, but others manipulate their data, he said. The silver lining is that greater attention will be paid to the importance of accounting and accounting regulations, he said. ■

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