

Diocesan Investment Trust

Report to Convention

January 18, 2007

The table attached to this report provides a summarized overview of the composition and investment performance of the Diocesan Investment Trust (DIT) as of the end of 2006. As can be seen, the DIT now exceeds \$38 million in size thanks to good gains over the last several years including 2006 when total return (the change in value for each share together with the dividends received) exceeded 11%. The trustees voted in October to increase the monthly dividend 3% to 16.5 cents. This dividend rate provides a current yield of 4.15%, very competitive in today's interest rate environment. Growth in the dividend is dependent upon the gains in a three year moving average of the value of the DIT, providing stability and increases in income over time.

Since they were given their current assignments on March 1, 2001, our two investment managers, U.S. Trust for the bond portion of the portfolio and Legg Mason for the equity portion as well as the hedge fund of funds shown in the assets, have outperformed their respective benchmarks and provided the DIT with excellent returns. During 2006 the DIT benefited from further diversification into international equities, begun in late 2005, since returns in most other markets outstripped U.S. gains this past year.

The Trustees meet quarterly to review investment performance including meeting with our managers on a regular basis. The quarterly meetings can also include other topics relevant to our stewardship of these assets. During 2006, in conjunction with our equity manager, Legg Mason, the Trustees spent portions of several meetings as well as a special meeting later in the year, discussing our equity diversification. Diversification, when managed appropriately, provides a means of increasing the likelihood that investment returns will be as robust as they should be for the level of risk deemed to be right for the assets. The objective of our discussions has been to explore whether it might enhance the risk/reward profile of the DIT to add additional asset categories such as exposure to smaller company equities or real estate. While the immediate reaction to this kind of diversification might be one of fear regarding risk, the more analytical conclusion is dependent upon how assets classes change in value relative to other asset classes.

The assets that are controlled by the Diocese itself represent about 70% of the assets of the DIT with the balance being the participation by individual parishes and missions in the fund. The DIT continues to provide a widely diversified and very competitive investment vehicle to all the participants with the benefits of intense and intelligent supervision and an expense burden that is low by mutual fund standards.

The Trustees of the Diocesan Investment Trust