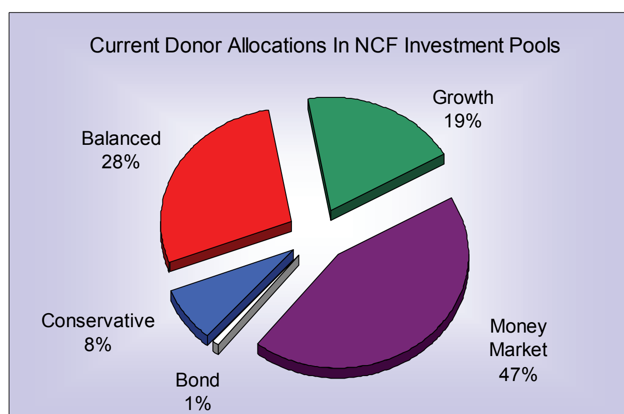
National Christian Foundation Investment Pools

Performance Report

March 31, 2008

Investment Pool Allocations

The primary goal of NCF's investment pools is capital preservation. We strive to provide investment options that maintain the value of donor funds. The different pools exist to accommodate the varying time horizons over which donor advised fund distributions may occur. The money market pool exists for donor advised funds which may be distributed in their entirety at any time. The Growth pool is available for donor advised funds with a long-term distribution horizon. In between, we provide Balanced, Conservative and Bond pools. Collectively, our investment choices reflect the fact that longer-term funds have greater exposure to inflation and must generally be invested for higher intended returns in order to truly preserve capital over time.



This chart shows the percentages of donor funds that were allocated to each of the five strategies as of March 31, 2008.

Summary of 1st Quarter Performance

NCF's first quarter Investment Pool performance was quite good, particularly in light of the extremely difficult market conditions. All four investment pools (Growth, Balanced, Conservative and Bond) outperformed their benchmarks on both a quarterly and one-year basis. The Growth Pool, for example, declined 5.3% in the first quarter vs a 7% decline in an 80% S&P500, 20% fixed-income blend. Even more heartening, the Growth pool is positive 2% over the past year whereas the blended index is down more than 2%. That story is essentially the same for all of our pools.

One reason for our outperformance was the allocation made in January to Common Sense Partners which is a fund of hedge funds. That allocation, equal to 10% of the Growth, Balanced and Conservative pools, returned a positive 3.1% for the quarter, while the S&P 500 was down 9.4%.

In the Money Market pool, NCF's stated rate dropped from 4.25% in December to 2.5% in March, reflecting the overall lowering of interest rates by the Fed.

Global Markets Overview*

The equity and fixed income markets in the first quarter of 2008 were roiled by the continued impact of the credit crisis and growing evidence that U.S. economic growth had stalled. Investors, concerned about corporate profitability, sold off equities in the U.S. and abroad. The S&P 500 Index fell 9.4% in the quarter. Concerns over U.S. growth spread through the world equity markets. The emerging markets of China and India, which were among the best performers in 2007, were among the lead underperformers so far this year. The U.S. fixed income markets overall fared better as investors sought out safer investments. Treasuries were top performers, rising 4.4%. The credit crisis, however, continued to spread, affecting areas that had been previously considered safe such as Municipal Bonds and Auction Rate Securities.

The slowing US economy is the result of several factors which, taken together, have exerted enormous downward pressure on U.S. consumer spending. These include declines in U.S. housing prices, tighter credit conditions, and a softening job market. Moreover, commodity prices have remained high, further draining consumer spending power.

The Federal Reserve Acts Decisively

Against this background, the Federal Reserve (the Fed) took exceptional measures in the first quarter. The Fed cut its benchmark Fed Funds Rate aggressively to 2.25% from 4.25%. It created lending facilities for financial institutions to help increase liquidity and shore up investor confidence in the markets. Overall, the markets appear to have viewed the Fed's action positively with market prices improving since the end of the quarter.

One difficult consequence of the Fed's aggressive lowering of interest rates is that all short term interest rates, including those paid in money market funds, have dropped accordingly. NCF's money market pool has not been immune from these changes with rates dropping rapidly as discussed below.

Diverging Central Bank Policies

The Fed's aggressive actions contrasted with the stance taken by other central banks in the quarter. The European Central Bank (ECB) was reluctant to cut rates, the Bank of England (BOE) eased monetary policy slowly and the Royal Bank of Australia (RBA) actually raised rates. This divergence in policies was related in part to inflation. The ECB, which has the sole mandate of price stability, was disinclined to ease rates because European inflation was above target. The Fed, on the other hand, which has the dual mandate of price stability and promoting growth, was focused aggressively on growth. The difference in central bank interest rates exerted downward pressure on the U.S. dollar which continued to decline in the quarter against most major currencies.

***** From Merrill Lynch's AIM Market Focus***