General Board of Pension and Health Benefits of The United Methodist Church Stable Value Fund

Quarterly Investment Manager Review from BNY Mellon Cash Investment Strategies Third Quarter 2009

Amidst a domestic economic backdrop perhaps best described as having transitioned from recession to recovery, credit spreads continued to tighten throughout the third quarter while intermediate term interest rates moved slightly lower. By quarter end the two-year US Treasury note yield declined 16 basis points to 0.94% and the five-year U.S. Treasury note yield declined 24 basis points to 2.31%. Without question, headwinds still persist, namely 9.8% unemployment, burdensome debt levels and tight credit conditions, however, recent stabilization in the housing sector, encouraging retails sales and increased industrial output indicate the worst may be behind us. Growth, as measured by Gross Domestic Product (GDP), contracted just 0.7% in the second quarter, better than the 1.1% decline previously estimated. Third quarter GDP is forecast to turn positive marking a turning point for the domestic economy and providing further indication that the worst recession in seventy years is over. In terms of ongoing liquidity in the broader fixed income marketplace, the Federal Reserve continues to "employ a wide range of tools to promote economic recovery and to preserve price stability." The Federal Reserve's purchases of $300 billion in US Treasury securities will be completed by the end of October while purchases of $1.25 trillion of agency mortgage backed securities and up to $200 billion of agency debt will be completed by the end of the first quarter of next year. With the target Federal Funds rate reaffirmed at zero to 0.25% the Federal Reserve is delivering a clear message that cost pressures continue to be dampened and longer-term inflation expectations remain stable.

The Stable Value Fund ended the third quarter with 4.8% in short-term investments (cash), 34.5% in fixed maturity synthetic Guaranteed Investment Contracts ("GICs"), 0.2% in traditional GICs, and 60.5% in constant duration synthetic GICs. Positive Social Purpose investments constitute approximately 7.8% of Fund assets. Over the course of the quarter, intermediate term interest rates rallied as the two-year US Treasury note yield declined 16 basis points to 0.94% and the five-year US Treasury note yield declined 24 basis points to 2.31%. The Fund's negative cash flow experience subsided throughout the quarter due in large part to stronger equity market performance. The credit quality of the Fund remains high, with an average rating of AA+ from Standard & Poor's and Aa1 from Moody's Investors Services.

Data Source: Bloomberg

The above comments are provided as a general market overview and should not be considered investment advice or predictive of any future market performance.

These views are current as of the date of this communication and are subject to change rapidly as economic and market conditions dictate. Contact BNY Mellon Cash Investment Strategies at 415.399.4450 about our views of the economy and the markets.