



August 31, 2010

To TPF Clients:

## IMPORTANT CHANGES AFFECTING TPF POOLED FUNDS

Dear Colleagues:

At its meeting August 18, 2010, the TPF Investment Committee made some important changes in the allocation of the TPF Fixed Income Fund and the TPF Balanced Fund. These changes will be implemented as of October 1, 2010.

### TPF Fixed Income Fund - Allocation

The allocation to the core-only U. S. fixed income portfolio managed for us by Barrow Hanley Mewhinney & Strauss is being reduced by 10% (from 55% to 45%) of the total Fixed Income Fund. Also, as originally planned when the investment was first made in March 2009, we are eliminating the remaining 10% allocation to the PIMCO Investment Grade U.S. Credit Portfolio. That resulting 20% of the Fixed Income Fund will be invested in the PIMCO Unconstrained Bond Fund, a very flexible portfolio that seeks an absolute return and capital preservation.

This is a relatively new PIMCO fund, but not a new strategy for that company. As its name implies, the fund will not be constrained by management against a bond index; rather, its benchmark is the 3-month LIBOR rate. Although the portfolio will remain primarily investment grade fixed income securities, the fund managers have wide discretion with regard to the duration, sector weightings, geographic diversification, allocation to high yield and currency exposures, and may invest in derivative instruments such as options, futures, contracts or swap agreements, short sales and other strategies. The average portfolio duration may vary from (negative) 3 years to (positive) 8 years based on PIMCO's forecast for interest rates. This is an unusual mandate when compared to TPF's historic approach to managing fixed income investments, but these are unusual times. We have an extremely high confidence level in PIMCO, which as you know is the largest fixed income manager in the country, perhaps in the world, and led by legendary bond expert Bill Gross.

The changes in the TPF Fixed Income Fund are intended to provide broader diversification, and position the portfolio to be more responsive and more defensive against the possibility of rising interest rates and inflation in the future.

<b>TPF Fixed Income Fund</b>	<b>Current</b>	<b>Effective 10/1/10</b>
Core (U.S. investment grade only) (BHM&S)	55%	45%
Core Plus (limited, value-added non-core tactical investments) (PIMCO)	20%	20%
Investment Grade U.S. Credit (PIMCO)	10%	0%
Unconstrained (absolute return, capital preservation) (PIMCO)	0%	20%
TIPS (U.S. Treasury, inflation indexed) (Northern Trust)	10%	10%
Emerging Markets (non-U.S. emerging market debt) (Stone Harbor)	5%	5%
Total	100%	100%

**TPF Balanced Fund - Allocation**

A 10% allocation is being made to a newly-created *TPF Defensive Strategies Fund* employing investment strategies with low correlation to traditional stocks and bonds. This allocation is being funded by reducing U.S. equity from 45% to 40%, and reducing fixed income from 30% to 25% of the Fund. We believe these changes broaden the opportunity set for the Fund, enhance potential returns, and provide a more diversified and defensive posture in anticipation of possible rising interest rates, inflation, and continued market volatility.

<b>TPF Balanced Fund</b>	<b>Current</b>	<b>Effective 10/1/10</b>
Large Cap U.S. Equity	35%	31%
Small Cap U.S. Equity	10%	9%
Developed Markets International Equity	15%	15%
Emerging Markets International Equity	5%	5%
Fixed Income (U.S. and Global)	30%	25%
Defensive Strategies (Absolute Return, Market Neutral, Long/Short)	0%	10%
U.S. Real Estate	4%	4%
Oil & Gas Royalty Interests	1%	1%
Total	100%	100%

Attached is a page that describes the new TPF Defensive Strategies Fund in some detail. In addition to being a component of the TPF Balanced Fund, this new Portfolio is also available for direct participation by TPF investment clients.

**TPF Balanced Fund – 2011 Distribution Rate**

For the past several years the TPF Investment Committee has been concerned about the sustainability of the “spend rate” from endowment funds, given the current low return expectations from all asset classes coupled with fears of continued economic stress in the future. In response to this outlook, the “spend rate” – or distribution rate – built-in to the TPF Balanced Fund has been reduced gradually over the past few years from 5.0% in 2006 and earlier years, dropping incrementally to 4.75%, then 4.65% ,and, effective in 2009, the current rate of 4.5%.

The Investment Committee believes that 4.0% is a more prudent rate in the current environment and should be sustainable for the longer term. Therefore, the Committee decided to step the rate down over two years, to 4.25% in 2011, and then 4.0% beginning in 2012.

Using the 4.25% spend rate calculation, the 2011 distribution factor will be 0.036009 per share per month. This is a 6.57% decrease from the 2010 distribution.

Please remember that the distribution rate is essentially a suggested rate. TPF clients investing in the Balanced Fund (or in any of TPF’s Funds) may establish their own spend rates for funds deposited at TPF, which may be more or less than the distribution rate built-in to the Balanced Fund.

However the TPF Investment Committee and Board (comprised entirely of representatives of TPF’s client institutions and churches) believes both the investment allocation and the spend rate of the TPF Balanced Fund should always reflect our carefully considered, highest conviction, best ideas for the management of long term endowment funds for churches and church-related organizations.

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Please contact the administrator of your account if you would like to discuss the effect of these changes on your accounts, or if you have any other questions about the actions taken by the TPF Investment Committee.

It is a pleasure to serve in ministry with you!

Sincerely,



Daniel W. Klein  
President



John Furlow  
Vice President/Treasurer



## TPF DEFENSIVE STRATEGIES FUND

The **TPF Defensive Strategies Fund** is a broadly diversified portfolio of primarily institutional-class mutual funds employing a variety of alternative investment strategies, including merger arbitrage, put and call options, and long/short equity. Expected returns from these strategies have a low correlation to the traditional equity and fixed income markets, and thus provide real portfolio diversification that is important particularly in a volatile market environment.

The portfolio's goal is to provide positive absolute returns over time as well as downside protection when traditional equity markets fall. The **Defensive Strategies Fund** is a form of "portfolio insurance." In falling or volatile markets it is likely to reduce volatility and help overall performance. In a sharply rising stock market, however, this portfolio is likely to underperform the market.

An important objective of the **TPF Defensive Strategies Fund** is to be fully liquid and transparent, using daily-valued mutual funds and not private equity vehicles. The Fund will evolve over time, and TPF will add or remove strategies and particular managers.

Initially the **TPF Diversified Equity Fund** will employ five managers, allocated 20% each, using three strategies: Absolute Return, Market Neutral and Long/Short Equity.

- **The Arbitrage Fund** (ARBFX), managed by Water Island Capital, LLC, seeks capital growth by engaging primarily in merger and acquisition risk arbitrage.
- **The Merger Fund** (MERFX), managed by Westchester Capital Management, Inc., focuses exclusively on merger arbitrage and investing in companies involved in publicly announced mergers, takeover, and other corporate reorganizations that have a high probability of completion.
- **Gateway Fund** (GTEYX), managed by Gateway Investment Advisors, LLC, seeks to capture a substantial portion of the equity market total return while limiting volatility comparable to long-term bonds. The manager uses three components to implement this strategy: (1) stock portfolio to mimic the S&P 500 Index, (2) covered call sales and (3) out-of-the-money put protection.
- **Diamond Hill Long-Short Fund** (DHLSX), managed by Diamond Hill Capital Management, Inc., seeks long-term growth of capital by utilizing a fundamental long/short equity strategy and seeks positive total returns on both its long and short positions.
- **Hussman Strategic Growth Fund** (HSGFX), managed by Hussman Econometric Advisors, Inc., seeks long-term capital appreciation by investing in a portfolio of stocks the manager believes are undervalued while simultaneously either leveraging or hedging total portfolio exposure (depending on the manager's view of market conditions) using stock and/or index options.