

ANNUAL REPORT



2013

OUR MISSION

*To encourage, receive and manage
charitable gifts for Baptist institutions.*



*Inspired by our legacy of
innovative thinkers,
we continue to
enrich our offerings
to ensure the
highest standards of trust
and endowment management
for all our Baptist family.*

NEW DAY

A HISTORY OF FAITH AND FORESIGHT

From the dark days surrounding the Great Depression emerged a story of dedication, innovation and trust – a sacred trust – Baptist Foundation of Texas. Created in 1930 to offset the crippling economic disaster that threatened the mere existence of Texas Baptist universities and hospitals, Baptist Foundation of Texas was a daring endeavor undertaken by a handful of businessmen who had faith, foresight and a firm belief in putting the Lord's business ahead of their own.

The vision was bold, the strategy brilliant, the purpose true.

To build a Foundation that gives men and women, from all walks of life, a practical application for the stewardship they heard preached from the pulpit every Sunday. To parlay a unique business enterprise into a means of contributing, conserving and compounding assets of Texas Baptist institutions – yet own no property in its own right or claim a dime of profit for the Foundation. To manage the gifts of philanthropy wisely, enabling each Baptist institution to receive income earned on their own endowment assets. To ensure a brighter future for generations to come.

The history of Baptist Foundation of Texas is one of faith, determination, sacrifice – and above all, a legacy of service and success.

MANAGING THE GIFTS OF PHILANTHROPY

Solely dedicated to serving the Baptist community, we take seriously our role as faithful stewards of the gifts of philanthropy so generously given by Baptists through wills, trusts, and other arrangements. Funds entrusted to us for management are invested according to the needs of the client institutions we serve to further their own mission. The Foundation offers a host of unique services to aid client institutions and individual donors alike including consultation and planning of charitable trusts, gift annuities and scholarship funds; properly managing endowment funds and assets; account monitoring, financial reporting and more.

FAITH

LETTER FROM **JEFF W. SMITH,**
PRESIDENT AND CHIEF EXECUTIVE OFFICER

As iron sharpens iron, so one man sharpens another.

PROVERBS 27:17

As I often do, I was in the file room and came across a 1943 Western Union telegram from one of our Baptist institutions. It was a heartfelt request that the Foundation “look after interests” of the college because it needed all the help it could get. I was struck by the similarities of sentiment we hear from our institutions today. Although the landscape has changed since that telegram was received 70 years ago, trying to maximize resources and raise additional funds to fulfill missions and ministries remains a challenge.

The heart of Texas Baptists has always embodied the idea that we work together for the greater good. Chronicled in *A Sacred Trust – The Story of Baptist Foundation of Texas*, our history is one of looking after the monetary interests of the institutions we serve, as requested in that telegram. A sacred trust was given to the Foundation 84 years ago to administer and manage the endowment assets of our Baptist institutions. From its inception, Baptist Foundation of Texas was “not the centralization of authority over Baptist freedom, but rather the concentration of business administration over funds for greater efficiency and security.” And we are dedicated to carrying on that legacy of service, working together to pool endowment assets providing cost efficiencies and greater access to top financial expertise.

Texas Baptists stipulated that the Foundation would own no property in its own right and would make no grants on its own initiative. Property would be held and managed for the various denominational institutions, and each institution would receive income earned on its own endowment assets. This remains today. Baptist Foundation of Texas is committed to serving every institution, to meeting the unique and ever-changing needs of each with innovation and forethought.

One of our initiatives for 2013 was to strengthen, improve and more efficiently manage communication. We created several mechanisms that will allow us to share and exchange information more readily. From an investment performance standpoint, 2013 was a particularly good year. The Foundation’s Group Investment Fund (GIF), our primary endowment vehicle, returned 17.9% (net of fees) for the period January 1, 2013 to December 31, 2013. The NACUBO Commonfund survey shows that endowments returned an average of 11.7% for the fiscal year ended June 30, 2013. By comparison, GIF returned 13.1% for the same period.

Baptist Foundation of Texas strives to undergird the work of all Baptist institutions enabling greater good to be achieved. As ideas are exchanged and communication enriched, institutional needs are sharpened and focused. Staying true to the innovative thinking that inspired the Foundation’s creation, we remain fluid and agile to provide meaningful service and positive results for our Baptist family today and for generations to come.

OFFICERS

JEFF W. SMITH

President and Chief Executive Officer

BEN CURRY

Senior Vice President for Finance and Administration

JOE H. WRIGHT, JR.

Senior Vice President and Chief Investment Officer

JOE HANCOCK

Vice President and General Counsel

KARI L. MCGREGOR

Vice President and Chief Financial Officer

TRUST





BOARD OF DIRECTORS

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and Controller*

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JERRY TURNER

Partner

Andrews Kurth

LETTER FROM JOE HANCOCK, VICE PRESIDENT AND GENERAL COUNSEL

We are honored at Baptist Foundation of Texas to serve the many faithful stewards who have worked with us to establish charitable trusts, charitable gift annuities, endowment and scholarship funds, and who have made outright gifts to further the ministry efforts of numerous Baptist institutions. These individuals have generously shared their resources – making gifts of cash, securities, real estate, minerals and other assets – to support ministries that are furthering the gospel of Christ through missions, Christian education, health care, child and family services, elder care, and humanitarian aid. They excel in the grace of giving, and we are honored to serve them through our Baptist institutions as their generosity impacts the world.

During 2013, Baptist Foundation of Texas worked with donors, their professional advisors, and development officers to establish gift arrangements for the institutions totaling \$13.4 million. With improved financial markets and recovering real estate values, an increasing number of donors used appreciated assets to fund these gifts.

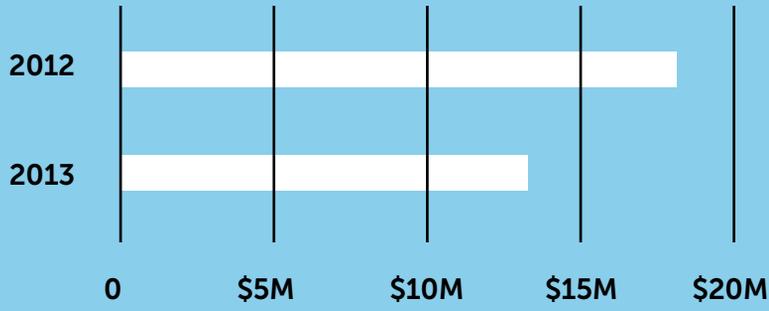
Though 2013 lagged 2012 deferred giving, the generosity of many donors provided a strong year that will make a lasting impact on the ministries we serve. And, the outlook for future giving is very encouraging. As we engage donors in conversations about giving strategies, we increasingly find they are more and more familiar with charitable giving methods and instruments. Likewise, a greater number of estate, tax and financial advisors have proficiency and experience with charitable giving techniques. The interplay with knowledgeable donors, their advisors, and development officers is resulting in greater synergy and the implementation of creative and tax effective giving plans that will grow in the years ahead.

While individuals in the age range of 45 to 65 are often in their peak earning years, they typically also have major financial obligations such as providing college education for children and preparing for their own retirement which dampen significant charitable giving. Of the estimated 78 million baby boomers in the U.S. today, the majority are in this age group. However, approximately 8 million baby boomers are over age 65, with 10,000 boomers turning 65 every day. As this group enters their retirement years with many of the major financial obligations behind them, the ability to increase philanthropy occurs. Planned giving vehicles such as the charitable remainder trust and the charitable gift annuity have great appeal for donors in their retirement years. These giving vehicles provide the donor with lifetime income which can supplement retirement income while also providing beneficial tax incentives. With dramatic growth occurring in this prime donor demographic in the years to come, we expect to see continual growth in the number of charitable planned gifts established.

Admittedly, many factors will affect philanthropy in the years ahead, including demographics, public policy, and the economy. And, while many of these factors are largely beyond our control, we are increasingly optimistic about the impact charitable giving will have on the ministries we serve.

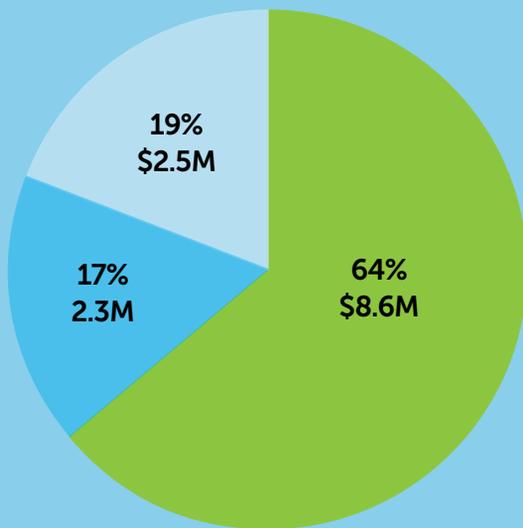
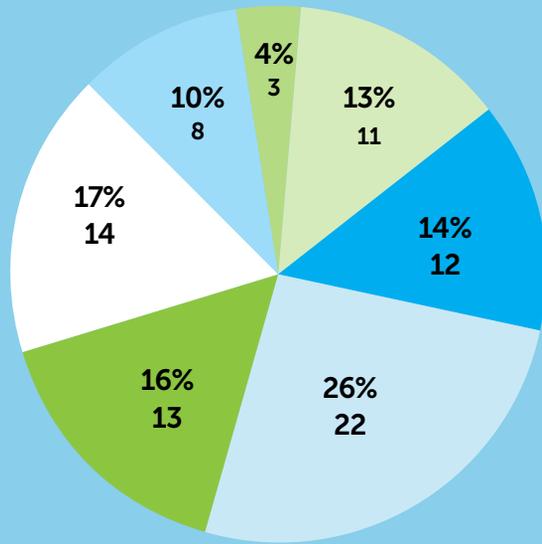
This expectation is attributed in large part to those donors who, through the Lord's leading, excel in the grace of giving!

NEW GIFTS AND ADDITIONS TO EXISTING GIFTS



NUMBER OF GIFTS BY TYPE

- Advise & Consult ■
- Charitable Trust ■
- Endowment ■
- Fund Management ■
- Gift Annuity ■
- Outright ■
- Trust ■



GIFTS BY ASSET TYPE

- Cash
- Securities
- Real Estate and Other

LETTER FROM JOE H. WRIGHT, JR., SENIOR VICE PRESIDENT AND CHIEF INVESTMENT OFFICER

It is a privilege to steward the financial resources entrusted to the Foundation which benefit Baptist institutions. We are pleased to report that investment performance in 2013 was one of the best in the Foundation's history with all asset classes contributing and investments in publicly-traded stocks producing the best results. The Foundation's private investments also performed well adding double-digit returns. Although fixed income securities moderated during the year, bond performance has been an important source of return over the last five years. The Foundation's strong results in recent years have been an important contributor to the recovery of investment values following the 2008 financial crisis.

Baptist Foundation of Texas continually strives to ensure all investment portfolios are in the best position possible to achieve objectives in the face of ever-increasing economic uncertainty. Over the last year, the Foundation formally reviewed its long-term asset allocation policy for endowment funds resulting in the addition of marketable alternatives (hedge funds) to the strategic investment mix. We expect the addition of hedge funds to improve the risk-adjusted performance and long-term value of endowment funds by reducing the volatility of returns and their sensitivity to sharp declines in the capital markets.

Although we are pleased with recent results, we remain cautious as there are numerous potential head winds looming on the horizon. In our view, stocks are reaching full value and the possibility of increasing interest rates from historic lows threatens investments in bonds. Moreover, record monetary expansion by central banks around the globe portends higher rates of inflation, while global economic growth continues to be elusive. In the face of increasing uncertainty, we believe the best course is to focus on the basics – maintaining discipline by adhering to investment policies, taking opportunities to reduce risk by further diversifying investment portfolios where possible, and intently monitoring all portfolios to ensure they remain appropriate to meet objectives.

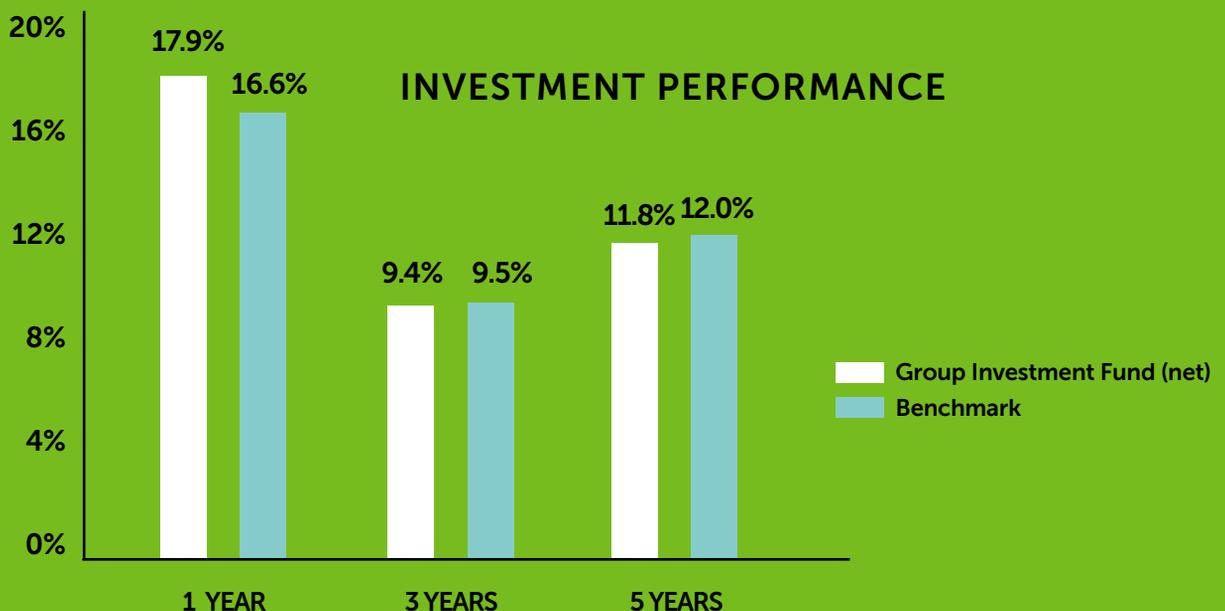
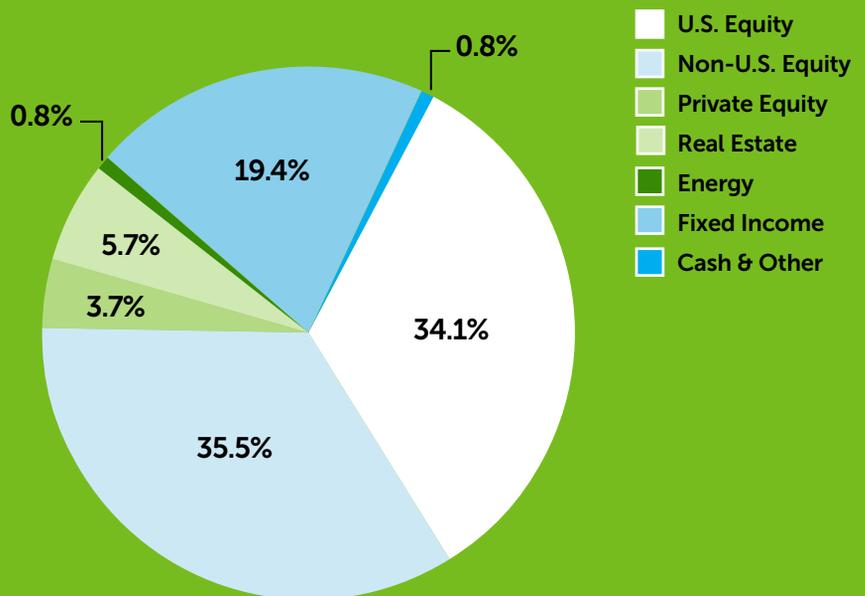
We are indeed pleased with the Foundation's investment performance and believe the recent modifications in our asset allocation policy for endowment funds will improve long-term asset values in what has become an increasingly uncertain investment landscape. Looking ahead, we acknowledge our responsibility to carefully manage assets entrusted to the Foundation's care, while taking opportunities to grow those resources to extend God's blessings to both current and future beneficiaries of the Baptist institutions we serve.

GROUP INVESTMENT FUND

Group Investment Fund (GIF) is the Foundation's primary investment fund for endowment accounts. Specifically designed for endowment assets, GIF's long-term allocation is well-diversified, investing in global equities, fixed income, real estate, private equities and energy. GIF is socially screened to eliminate certain companies whose business activities are inconsistent with Baptist faith and beliefs. The fund's annual expense ratio as of December 31, 2013 was 0.81%. Specific objectives of GIF are:

- ... MAXIMIZE TOTAL RETURN WITHIN REASONABLE RISK LEVELS
- ... PRESERVE ENDOWMENTS IN REAL DOLLARS
- ... PROVIDE INSTITUTIONS WITH A STABLE DISTRIBUTION

ASSET ALLOCATION



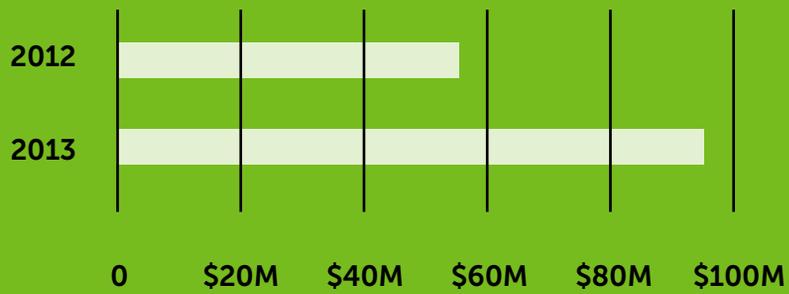
CONSOLIDATED BALANCE SHEETS (IN THOUSANDS)

	2013	2012
ASSETS		
Cash and cash equivalents	\$ 144,093	\$ 116,462
Cash equivalents held as collateral for securities on loan	29,663	76,901
Equity securities	900,775	725,894
Bonds	350,095	320,428
Investments in private equity funds	45,155	33,696
Accrued interest, dividends and royalties	9,052	6,364
Securities on loan to borrowers	28,766	74,668
Receivable from sale of securities	11,548	39,480
Mortgage loans and notes receivable	10,124	9,722
Real estate, properties and funds	71,615	84,767
Mineral rights and royalties	288,472	138,040
Other	<u>1,761</u>	<u>1,528</u>
Total assets	\$ <u><u>1,891,119</u></u>	\$ <u><u>1,627,950</u></u>
LIABILITIES AND FUNDS ADMINISTERED		
Liabilities		
Accrued liabilities	\$ 1,962	\$ 1,862
Payable for purchases of securities	42,085	77,655
Liability for collateral held for securities on loan	29,663	76,901
Distributable income	<u>36,151</u>	<u>23,410</u>
Total liabilities	109,861	179,828
Funds administered		
Institutional funds	1,207,551	1,153,196
Annuity and life income trust funds	90,130	94,845
Net unrealized gains on investments	<u>483,577</u>	<u>200,081</u>
Total funds administered	<u>1,781,258</u>	<u>1,448,122</u>
Total liabilities and funds administered	\$ <u><u>1,891,119</u></u>	\$ <u><u>1,627,950</u></u>

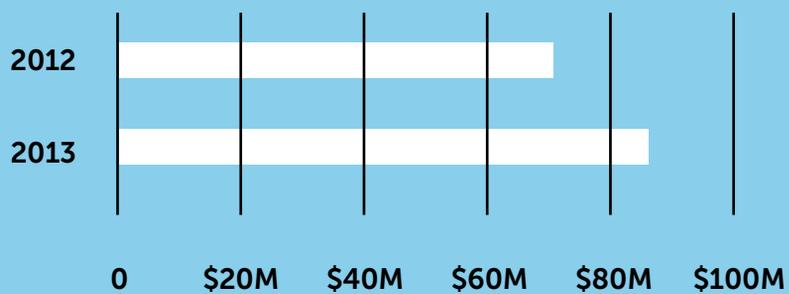
NET ASSETS



NET INCOME



DISTRIBUTED TO INSTITUTIONS



FUTURE

ENSURING A FUTURE OF GOOD WORKS

A new day is on the horizon, and with it, a renewed opportunity. Infinite possibilities lie ahead, for our devoted donors, our Baptist institutions – our Foundation community as a whole.

At Baptist Foundation of Texas, we understand the challenges that face today's ever-changing Baptist environment. And we welcome them. Drawing from our legacy of innovative thinkers and uncompromising pursuit of excellence, we are prepared to meet them head on.

Our vision is clear, our strategy forward-thinking, our purpose true. We move forward inspired to continue the growth of the mission – and poised for even greater momentum.





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