

ESPERANTO-USA
CAPITAL FUND INVESTMENT COMMITTEE

14 April 2009

To: Phil Dorcas, President, Esperanto League for North America, Inc.

From: The Capital Fund Investment Committee

Subject: Investment Report for the year 2008

Attached is a detailed statement prepared by committee member Anna Bennett showing the status of our investments as of the end of 2008 and reporting investment income for the final quarter of that year and for the year as a whole.

We ended 2008 with a balance of \$355,458.85, which I regret to say represents a decline of \$3914.48 (about -1.1%) from the balance at the end of 2007.

Because of our conservative investment policies, a loss is very unusual for us. In this case it resulted from a single investment, specifically 1200 shares of Fannie Mae preferred stock series T, purchased for \$30,000 on 13 May 2008 on advice from our broker. While we were aware at the time of problems with mortgage-related investments in general and with Fannie Mae in particular, many the federal government was widely expected to intervene to protect Fannie Mae's investors in order to encourage a continuing flow of private-sector funds into the government-created institution. Unfortunately, when the intervention came, it did not protect investors, and future dividend payments were suspended even for holders of preferred stock. As a consequence, the value of our Fannie Mae investment plummeted as soon as this news became public, and as of the end of the year its market value was still just \$912.00. At this point there is very little remaining downside risk, and since there is some possibility of price recovery, continuing to hold it is for now probably our best option.

The rest of our investments did much better during 2008. We received a quite respectable \$22,167.89 in dividends and interest—the highest amount for any of the past 10 fiscal years, in fact—and realized an additional net capital gain of \$1177.91. Combined with an overall rise in the market value of our other holdings as a consequence of the general decline in interest rates (when rates fall, the resale price of existing bonds increases), the gains offset most of the loss from Fannie Mae.

During the fourth quarter of the year, we achieved a net investment income of \$20,845.33, including \$7956.70 in dividends and interest.

During the third quarter the committee elected to sell our shares of common stock in Armstrong World Industries. While Esperanto-USA's investment policy does not normally allow us to invest in common stock, in this instance a preferred stock we held

was converted to a combination of cash and common stock by direction of the court overseeing that company's emergence from Chapter 11. We received that cash and stock in a series of transactions over several months and waited to sell until it was clear that no further shares would be forthcoming and that they were trading at a reasonably good price.

As of the end of 2008, about half of our portfolio was in the form of federally insured bank certificates of deposit. Our remaining investments in bonds and preferred stocks appear to be reasonably secure.

Thanks to the generosity of our membership and the success of the Central Office in keeping down costs, for several years there has been no need to draw on our investment account for operating funds. This has allowed us to build our balance with the aim of providing long-term support of the organization. Despite the regrettable investment loss this year, our balance at the end of 2008 was more than 60% higher than at its low point at the close of the fiscal year ending 30 April 2001, giving us an average annualized compound rate of return of 6.4% over that time span.

Because of the current recession, interest rates on safe investments are now near record lows, which will make it difficult to maintain recent yields. However, because of the timing of the maturities of our holdings, only a small fraction will need to be turned over during 2009. In the meantime, our existing investments are paying what is for the current market a very good rate of return, 5.67% as of year-end.

Respectfully submitted,

D Gary Grady
Chairman, ELNA Capital Fund Investment Committee

cc: Anna Bennett, William B. Harris, ELNA CO