

The Executive Council Investment Committee

Minutes of the Meeting

Date: June 5, 2018

Committee members:

Mr. David Alvarez
Mr. Michael Kerr, Chair
Ms. Dena Moore
Ms. Maibeth Porter (by phone)
Mr. Ron Radcliff (by phone)
The Rt. Rev. Rodney Michel (by phone)

Regrets:

The Rt. Rev. Clifton Daniel
Mr. Waring Partridge IV
The Rev. Andrew Walter

Consultants:

Ms. Carissa Tepovich, *Mercer Investment Consulting, Inc.*
Mr. Chris Cozzoni, *Mercer Investment Consulting, Inc.*

Staff:

Mr. Doug Anning (by phone)
Mr. Kurt Barnes
Ms. Joanne Brockway (by phone)
Ms. Nancy Caparulo (by phone)
Ms. Margareth Crosnier de Bellaistre
Mr. Lloyd Mondal

1.0 General

Mr. Kerr called the meeting to order at 9:04 AM with prayer.

The minutes from the February 21, 2018 meeting were moved (Moore), seconded (Barnes) and approved as presented.

The revised agenda was reviewed and no additions made.

2.0 Treasurer's Report

2.1 Mr. Barnes reported a clean opinion from Grant Thornton (GT), independent auditors, on the 2017 audit, which remains unsigned until the final information for 2017 is received from Blackstone. One adjustment was made to account for the forgiveness of the \$5.9 million loan to the Diocese of San Joaquin. No adjustments were necessary for government program and contracts.

2.2 The 2018 budget is in line with expectations. In April, Executive Council (EC) approved \$1,200 per diocese, about \$15,000 total, for aided dioceses to attend General Convention (GC), and an additional grant of up to \$300,000 to Navajoland was approved to help them through 2018.

2.3 The draft budget approved by EC for 2019-2021 has been online for several months. Very few comments have been received, one of them specific to the work of the IC having to do

with reducing the dividend draw. The budget includes a line for compensation for the President of the House of Deputies, if that is approved. The summary that is online is the version used for provincial presentations and includes a video overview so that a standard presentation is being heard. Dioceses continue to make additional co-investments with the DFMS portfolio.

- 2.4 EJLC loans are current with no issues.
- 2.5 In Austin, a new parking lot manager began operating the facility in May 2018 and was requested to resurface the lot prior to GC. The new manager understands that the property ownership is going to change in the near future. The developer must close by mid-December this year. Mr. Barnes explained approval issues with an alleyway and other matters involving the closing. If the current plan cannot go forward, another direction will be taken. The value of the holding is secure and other developers continue to be interested. The Archivist is sanguine about the alternatives.
- 2.6 The Development Office is working on several projects: Archives, Historically Black Colleges and Universities (St. Augustine's in Raleigh, in particular), Episcopal Migration Ministries, Navajoland, and the first ever annual campaign. They have identified 250-300 new donors that were previously unknown owing to the lack of development work over the past thirty years. A major thrust had been the funding of the rebuilding of the cathedral in Haiti. A new bishop has been elected in Haiti who must receive consents from the bishops with jurisdiction before a decision is made about how to proceed. Since Ms. Tara Holley has been director, a full staff has been established in the development office.
- 2.7 Twenty-seven new trust funds were added in 2017 with an initial investment totaling \$6.651 million and eight in 2018 thus far adding another \$6 million to the portfolio.
- 2.8 Conversations are happening with an attorney advisor (Mr. Dan Peterson, a partner of Mr. Anning) concerning the number of co-investors and the need to approach the SEC on a no-name basis for an exemption from registration. Mr. Anning discussed the current thinking. Mr. Kerr explained the way in which Virginia dealt with this matter. GT suggested that an additional schedule for the audited financials be made to list the asset values of the trusts involved as co-investors. Ms. Porter raised a question about how the agreements might impact the ability to invest in private equity. This was discussed in some detail. Ms. Crosnier de Bellaistre and Mr. Anning will continue to work together on this.
- 2.9 Mr. Kerr participated in a conference call for the Committee on Corporate and Social Responsibility in March. They discussed the ECIC response to the fossil fuel resolution (C045) from GC 2015. The May advocacy report was issued outlining activity with Mercy Investments. Dick's Sporting Goods withdrew firearms after the Parkland shootings. The next meeting date has not been set.

2.10 Mr. Barnes talked about the DFMS proxy policy. It was discovered that the Church Pension Group and DFMS were on different sides on several issues. Agreement has been reached on modifications so that the SRI Committee can update the guidelines.

3.0 Mercer Review

3.1 Ms. Tepovich noted that there would be a retirement from American Century at the end of the year, which does not concern Mercer, but it is felt DFMS should be aware. Cramer Rosenthal notified Mercer in March that they would stop their international strategy. A conference call with Mercer, Mr. Barnes, Ms. Crosnier de Bellaistre and Mr. Kerr resolved that the assets were liquidated and moved to a matching Vanguard ETF for the short-term. CRM had about 75% in small and mid-cap stocks. Overall international exposure had been 66% in large cap with Cramer Rosenthal included. Ms. Tepovich talked about the exposure. **Motion was made (Mr. Radcliff) to not hire another manager but to keep the ones in place. Motion was seconded. After a short discussion the motion was tabled until later in the meeting pending a decision on proposed successor in International Equity.**

3.2 First State was discussed with the issue of underperformance being the concern. As explained in distributed materials, First State is planning to do an IPO and is adding new board members, which may have an impact on the firm. There is uncertainty as a result although their strategy is performing as would be expected. Mercer is seeking more detail via their research staff. They're looking at potential replacement options if a change is desired. The manager and all of their strategies are on watch. Ms. Moore expressed her concern and Mr. Radcliff recommended that this be considered very formally. First State has a quality focus. Mr. Kerr asked Mercer to have replacement options ready for August. Mercer will update in the August conference call but if something occurs before then, they will be in touch.

3.3 International equity search. Mr. Cozzoni discussed Mercer's summary in this area. Altrinsic is focused on undervalued opportunities. Rockefeller is neutral value and growth. Altrinsic recently went on watch with Mercer. Key to the watch position is that Altrinsic is owned by Australia National Bank and it has not been decided yet as to which direction to take in management. Rockefeller is more highly correlated with current managers and Mercer likes the firm's decision-making process. Altrinsic brings differentiation with current managers. Returns are about the same over longer periods but Altrinsic takes less risk.

3.4 Brandywine was discussed with a focus on the materials distributed in the discussion book. Following the prior work done on ESG, this strategy was the lowest ESG ranked at level four. In February, Brandywine launched an SRI fund of the same investment structure but with negative screens on corporate issuances. They have other clients looking at that fund now. DFMS investment in Brandywine is about \$17 million. The only concern is that the new strategy is low on assets. Ms. Moore inquired about the risk of being an early investor. Liquidity might be an issue and fees are a bit higher. Mr. Barnes referred to the February discussion which noted financial prudence when shifting to ESG funds. It was felt that DFMS should be less than 10% in the new strategy prior to moving from the current pool.

Mr. Barnes suggested that this be monitored and discussed again in August. The Committee felt that a switch to the ESG option be deferred until the manager had at least \$250 million in the strategy.

3.5 The Investment Policy Statement (IPS) was discussed pertinent to the matter of modifications in the statement concerning fossil fuels. Mercer and Ms. Crosnier de Bellaistre will work together on this. Mr. Kerr suggested that an Exhibit D be added that fully explains the fossil fuel investment policy which Mr. Cozzoni felt was an appropriate step. The addendum was considered current. The document will be reviewed, edited, and circulated to the committee for approval.

3.6 Market Performance – Mr. Cozzoni noted that the S&P is up over three-percent and the Russell up eight-percent. International has not done well recently. Oil is up to \$66 per barrel. Mercer’s view of things going forward is that currently they see a positive global economy. Global growth is predicted to be strong this and next year. US is doing very well, is continuing to add jobs and unemployment is down to 3.8%. EU grew 2.4% and unemployment is down to a nine-year low. Japan is currently down after eight quarters of expansion. Mr. Cozzoni discussed the details in their posted report. Mercer’s concerns are that the picture is too rosy going forward. They have significantly lowered expectations looking ahead ten years. Corporate profits have been good and tech stocks look good in the short term. They’re watching what is going on with the Federal Reserve. Credit is thought to remain very tight. The big question is when there will be an increase in inflation. Tariffs are creating inflationary pressure as is the increase in oil prices. Wage increases typically have the biggest impact on inflation, as well as interest rates, but higher wages have not kept pace as expected. The international sector was reviewed. The new government in Italy may be an issue in the equity markets. The China technology sector was up 80% in 2017. Active management has added to the DFMS portfolio, which continues to do well.

4.0 Altrinsic Presentation

4.1 Mr. John Hock and Mr. Niels Andersen were welcomed by Mr. Kerr. This is an employee-controlled and majority-owned global management firm. They are process driven with a specialty in undervalued equities and have a highly disciplined investment process. Mr. Hock discussed their organizational approach and went over their introductory handbook in detail. He stressed the team importance and their value focus along with flexibility, liquidity, diversity in decision-making, and the longevity of the team, among other things. A succession plan is in place within the partnership. He discussed the process they use to make investment decisions. A discussion covered the relationship with the Australia National Bank and how the nature of the relationship will change as Australia is mandating specific requirements that banks are no longer to be involved with asset management.

5.0 Rockefeller Presentation

5.1 Mr. Kerr welcomed the representatives from Rockefeller, Mr. David Harris, Dr. Mariela Vargova, and Mr. Michael Savva, and asked them to present their non-US Equity approach

to investing. Mr. Savva introduced his colleagues. Their approach is a highly collaborative, team activity that develops a partnership with clients. Their printed presentation had been posted to the Extranet and was reviewed in detail. They have been doing what they're doing with regard to ESG (environmental, social, and governance analysis) for some time. He stressed the continuity of the team and the process they use. They are ESG specialists and bring experience to the equity analysis and research. They aim for a corporate culture where individuals can thrive and succeed. Team consensus is essential before a stock appears in the portfolio. Dr. Vargova discussed the elements of sustainability, also included in the printed report. She outlined the expectations of companies to be good stewards and to have solid management practices. Management changes were discussed relevant to the board and administration.

6.0 Discussion

6.1 Mr. Radcliff opined regarding the quality of both presentations and companies. Mercer weighed in on the investment philosophy of the groups, Altrinsic being clearer about the strategy but the importance of the ESG focus of Rockefeller, where ESG policy is integrated into their portfolio. Rockefeller was a family office that was spun off and bought by Viking. Performance comparisons were looked at and both firms have done well with Altrinsic having done better more recently. Mercer had ascertained that both would apply the DFMS screens. Mr. Radcliff felt strongly about correlations with the other currently held international managers. Mr. Barnes noted that he had been swayed by Altrinsic's presentation. The energy and passion from Altrinsic's team was compelling. **Motion was made to move the Vanguard ETF assets (formerly held at CRM) to Altrinsic and split the balance between Lazard and American Century. The motion was seconded and carried without opposition.** A break was taken for lunch at 12:25 PM.

7.0 Performance Review

7.1 Ms. Tepovich reviewed performance – Year-to-date, the portfolio is up 0.7% and the total market value is currently \$446 million. The Mercer Executive Summary report was examined in-depth. The portfolio is close to asset targets except for being overweight slightly in equities and with a slight underweight in hedge funds. Wells is on watch owing to the issues with Wells Fargo and SEC requirements. For the one-year period, the portfolio is doing exceptionally well, likely owing to the exposure in US equities. The portfolio has outperformed the benchmarks. Various sections were examined closely.

7.2 Mr. Barnes talked about the rebalance occasioned by an inflow of assets from the Diocese of San Joaquin. Nothing needed to be discussed further with regard to the asset allocation as Mercer noted that all managers were within compliance norms. Mercer is waiting to hear further from the DFMS before the issue of private equity is addressed in greater depth. There was a short discussion as to creating separate accounts and varying the data base, introducing a separate portfolio that holds everything except for private equity. Mr. Mondal noted that accounting and record keeping for that would be simple. The governance and liability issues

concerning co-invested funds were raised. Mr. Anning is working on an appropriate SEC compliance and disclaimer policy.

- 7.3 Ms. Porter asked if there was anything other instance regarding loans that concerned Mr. Barnes where there is no reserve. Loans made to aided dioceses are treated differently from those involving South Carolina and San Joaquin. South Carolina has not asked for forgiveness of their loan. They are looking at repatriating the churches that have been returned to the diocese and grow.
- 7.4 Mr. Radcliff inquired about the November meeting. It was ascertained that the outgoing committee members would meet with the new committee. Mr. Radcliff, Ms. Porter, Mr. Alvarez, Mr. Kerr and Ms. Moore are all rolling off. Two, perhaps three, people have been identified to serve. Loss of continuity was considered critically important to resolve and options will be considered, particularly contacting those who have served prior terms.
- 7.5 The agenda having been concluded, a review of next meeting dates was done:
- *August 14 teleconference beginning at 10:00 AM EDT*
 - *November 13 at the Church Center, beginning at 9:00 AM EST.*

Mr. Kerr adjourned the meeting at 1:18 PM.

Respectfully submitted,
Nancy Caparulo
Staff support to the committee