

# Investment Committee of the Executive Council

## Minutes of the Videoconference

Date: November 17, 2021

### Committee members:

The Rev. Andrew Walter, Chair

Mr. Dale Akinla

Mr. Kurt Barnes

Ms. Janet Brown

Mr. Gordon Fowler

Mr. Charles Garland

Ms. Holli Sturm

Regrets : Mr. James Simon

### Staff:

Ms. Joanne Brockway

Ms. Nancy Caparulo

Ms. Margareth Crosnier de Bellaistre

Mr. Lloyd Mondal

### Consultants from *Mercer Investment Consulting*:

Mr. James Bartlett

Mr. Chris Cozzoni

Mr. Dave McMillan

### 1.0 General

Fr. Walter called the meeting to order at 11:02 AM EST with prayer.

Charlie Garland was welcomed to his first meeting of the Investment Committee (IC). The new team member from Mercer, Jim Bartlett, was introduced as well as Dave McMillan, attending specifically for the hedge fund discussion. The minutes from June and August meetings were moved. Discussion resulted in an amendment to the June minutes but none to those of August. The motion was amended to reflect the addition to June and seconded (Sturm). Vote carried the motion without opposition.

### 2.0 Treasurer's Report

2.1 Mr. Barnes reviewed his posted report, indicating income in line with budget and diocesan payments in line with commitments. He made note of rental income changes, collections from refugee loan payments, and continuing lower costs owing to reduced travel and face-to-face meetings. The balance sheet remains strong and credit facilities are in line. The line of credit renews yearly and was renewed yesterday.

2.2 Short term reserves result from budget surpluses in previous triennia. EC agreed that those reserves should be at least one fourth of operating expenses (\$9.5 to \$10 million). Additional liquidity is the \$8-\$10 million cash held in the checking account. Cash has declined owing to EC's awarding grants of \$40K to each of the 110 dioceses to assist with the dislocations brought about by the pandemic. Ninety dioceses have requested the grants.

Investment Committee Minutes – November 17, 2021

Approved February 23, 2022

- 2.3 Four months ago there was a \$4.5 million settlement for property in the new Diocese of North Texas. The budget for 2022 was adopted by EC two weeks ago. Pursuant to a resolution from 2017, EC declared that in any triennium where there is a surplus, 80% of the surplus would be returned to the trust funds and the other 20% used for short-term reserves and/or to supplement the budget. \$2.3 million represents 20% of the surplus of 2019-21, and has been added to cover the 2022 budget. This provides a very small surplus in 2020.
- 2.4 At EC the Finance Committee presented an early draft of the 2023-2024 budget that will go to PB&F and then to GC next July. There is an \$8 million deficit, including a \$3 million provision for undetermined resolutions that might be adopted at GC. Much more work is anticipated for that budget before it goes to GC.
- 2.5 The Office of Development mounted an annual appeal of \$1 million for 2019-2021, which has been achieved. A final year-end solicitation recently went out. Mr. Barnes hopes that inflationary pressures brought about by COVID will be short-lived. For 2022, two thirds of budgetary income is from dioceses. For 40 dioceses that have pledged, those are up about \$80K.
- 3.0 Committee Reports
- 3.1 For CCSR Ms. Brown noted that EC approved the 2021-22 extensive work plan, which includes human trafficking, sex trafficking, high-risk areas – screens for Israel Palestine Burma Sudan. Immigration and migration are areas of focus, as is divesting from private prisons. Health and healthcare work targets the opioid epidemic. Gun safety by way of engagement with manufacturers on policies, promotion, and pricing. Climate change and sustainability have objectives of water stewardship, reduced greenhouse gas emissions, transparency in reporting. Diversity on corporate boards to include women and people of color is ongoing work. Anthem Health and J&J Pharma. The committee is very active in sharing information and reporting results, where applicable. Mr. Barnes discussed the resolutions that will be filed with Kraft and J&J this year along with Chewy, whose products ignore environmental justice. The Committee will sign onto letters to corporations. Defense companies are being looked at again.
- 3.2 EJLC - Fr. Walter reported on the September meeting, where two loans were approved, leaving funds (\$350K) for additional investments to consider when they meet again in early December.
- 4.0 Potential new IC members – Mr. Barnes had nothing to report at this time. He is looking for geographic diversification, people who represent the full diversity of the church. The committee was asked to provide potential member names to Fr. Walter.

4.1 Mercer Reports

- 4.1 Mr. Cozzoni did a brief market overview. One-year results continue to be strong. Returns generally are strong. Growth peaked this summer. Concerns now are that volatility is up, having increased recently. Equity valuations were looked at. Mercer is watching this in the US, less so overseas. Equity valuations are strong because earnings continue to grow. Looking at the bond market the yield curve is somewhat up. Fixed income spreads are very tight. The Fed announced backing off quantitative easing and rate hikes are expected early next year. Inflation may be peaking but needs to be watched. Energy has driven inflation along with food. Much of that is supply chain issues that will work their way out by next year. Higher prices are seen in wages, rents.
- 4.2 Asset allocation was looked at. US treasuries are not attractive at this time but, otherwise, no changes in the portfolio are recommended.
- 4.3 Mr. Bartlett took over from Mr. Cozzoni to discuss the quarterly summary. 3<sup>rd</sup>! in line with benchmark, driven by results from growth-equity managers. Weakness in 20-21 performance – growth bias within equities. Manager updates – for Blackstone – no reason for concern. There is a change in the leadership. Growth of the dollar – begun to see uptick in inflation. Went through slides. Growth bias driving strong results over 3-5-10 year period. Cautions – 2016 last year value outperformed growth and portfolio underperformed. More risk in the portfolio vs the benchmark. Talked about the rebalance toward neutralizing growth and value.
- 4.4 A discussion of the managers followed, noting Westwood outperformed in the quarter. Nothing of additional note was out of line. Value oriented stocks struggled vs the benchmark over the 1 and 3 year periods. An update will be made at next meeting. Emerging markets is the notable sector where value outperformed growth. Growth vs Value - value outperformed by 20%.
- 4.5 A question arose about Mercer Hedge Fund Investors. There had been discussion about moving that and Blackstone to a direct program. There is a 15% allocation goal to hedge funds. A direct program could save fees but it would be more of an administrative burden.
- 4.6 Mr. McMillan talked in depth about Mercer's hedge funds as manager of the comingled fund of funds for Mercer. He described their process for constructing a portfolio, prudently concentrated with 13 managers. He emphasized the attractive balance between risk/reward and discussed the choices in detail. Mercer excluded directional hedging strategies and achieved correlations across managers with good diversification and business risks. He talked about client control, of their having veto power. He opined about the level of transparency and that sometimes it is a benefit to have less. Fund of funds fees were looked at along with the need for 13 audits annually. Their fee structure was discussed in detail.
- 5.0 Fr. Walter had to leave so Mr. Barnes took over as chair for the rest of the meeting. Among matters discussed were 13 audits with possible delays, capital calls, timing for investing, and liquidity. One manager can only be accessed via the private equity process;

a commitment is required for 2 years. Mr. McMillan explained the effort to get a solid balance for risk/reward and finding that 13 strikes a good balance. He said that Mercer does its due diligence on all managers. Many questions arose having to do with cost and hassle, how Mercer vets its managers. Questions having been answered Mercer consultants left the meeting at 12:42 PM.

An executive session with Ms. Crosnier de Bellaistre remaining ended the regular session at 12:43 PM.

Respectfully submitted,  
Nancy Caparulo  
Staff support to the committee