

## Investment Committee of the Executive Council

### Minutes of the Videoconference

February 23, 2023

#### Committee members:

Mr. Kurt Barnes  
Ms. Janet Brown  
Mr. Gordon Fowler  
Mr. Charles Garland  
Mr. Timothy Gee  
Mr. James Simon  
The Rev. Andrew Walter (Chair)  
Ms. Kirsten McElroy

#### Consultants from *Mercer Investment Consulting*:

Mr. James Barrett  
Mr. Chris Cozzoni  
Daniel Mazar

#### Staff:

Ms. Nancy Caparulo  
Ms. Margareth Crosnier de Bellaistre  
Mr. Lloyd Mondal

Regrets: Mr. Dale Akinla

- 1.0 Father Walter called the meeting to order at 11:04 AM EST with prayer.
- 1.1 Introductions were made around the group.
- 1.2 The Minutes from the November meeting were **moved, seconded and approved** without opposition but with one abstention.
- 2.0 Treasurer's Report
  - 2.1 Mr. Barnes went through the report that he had posted, focusing first on income in 2022, particularly ENS sponsorship and the Bless Annual Appeal. Income shortfalls owing to a canceled GC were anticipated but income overall was in line with the amount budgeted. Expenses were under budget. Now the Treasurer's Office (TRO) is in process of doing the audit, which is sched for completion the 2<sup>nd</sup> week in June.
  - 2.2 Mr. Barnes then talked about the move from PB&F to the new Joint Budget Committee (JBC), which will create and monitor the next budget (2025-2027). Thus far the committee continues as a work in progress because of some items unspecified in the canons governing the committee's scope of responsibility.
  - 2.3 The Development Office was discussed specific to the work they are doing with HBCUs (the Absalom Jones Fund) and the annual Bless Appeal. They have raised about \$90K in 2022, up from \$40K in 2021 on this date for Absalom Jones fund.
- 3.0 Liaison Updates
  - 3.1 Ms. Brown reviewed the work of CCSR. The committee will attend the IB meeting in Cleveland at the end of March. Sarah Lawton is now chairing the committee and has

developed a work plan. Push-back by corporations against ESG is something that CCSR is working on to help corporate America “behave better.” Mr. Barnes noted a court action reaffirming church exemptions from ERISA rules if elected. He also observed that TEC’s advocacy has an impact often in unexpected places.

3.2 Fr. Walter explained that EJLC oversees \$7M that are deployed in small loans to Community Development Financial Institutions (CDFIs) at below-market interest rates. The committee meets quarterly to review the portfolio and loan applications. Two loan renewals were made in December 2022 and several will mature in 2023 and will be re-deployed.

#### 4.0 Mercer Reports

4.1 Mr. Cozzoni, in addressing the yearly asset allocation review, said there were few positives in 2022. He reviewed the posted Mercer report.

4.2 Notable in Mr. Cozzoni’s review was the correlation between stocks and bonds at present. The markets were up in the 4<sup>th</sup> quarter; expectations are that inflation will decline; the market priced 5% target rate is optimistic; a mild recession is anticipated with a smooth landing; in housing rents and housing prices are high; wage growth is weak.

4.3 Mr. Cozzoni remarked on high inflation, looking at historical behavior with landings after inflation. Mercer anticipates a mild recession. The UK has been hit really hard. Equity valuations on an absolute basis look attractive; Mercer once favored value over growth, but is now neutral. TEC’s growth position is now in line. International equities returns have been strong lately, driven by currency. Mr. Cozzoni observed the dollar gained a bit in 2022 and discussed the causes for that and the picture ahead.

4.4 Themes and opportunities were looked at for 2023, scenario considerations that would be applied across the portfolio. Mr. Cozzoni suggested another discussion on the area of private markets.

#### 5.0 Portfolio Performance

5.1 Mr/ Barrett went over the activity of 2022, using Mercer’s posted report. He pointed out that ESG screens hurt the portfolio, specifically for Westwood and Boston Partners. Developing International had the best performance last year. Travel-related stock was a good move. Within Hedge funds HFI Mercer was the best performer. WAMCO rebounded over the last 4 months. Mercer met with them; they thought inflation would peak earlier and have made changes. Mercer has no major concerns with the portfolio as the return to a more normal equity market occurs.

5.2 A question arose concerning possible turnover in a manager or high-level defections for any of the portfolio managers across all strategies. While there were none, Mercer did meet with one manager where a change was made from two CIOs to one. Also asked was

how SRI and ESG policies were affected by Russian holdings. TEC now has zero valuations on those holdings.

- 5.3 Mr. Barrett discussed Mercer's evaluation of the profitability of asset managers and the methods used to achieve the valuation. Among other things they look at the depth and breadth of client base, retention of talent, the ownership structure. When a major person leaves a company, Mercer monitors.
- 6.0 Asset Allocation
- 6.1 In order to support a 5-5% spending rate a 7.2-7.7% return target is needed. TEC is below because of the equity position. Long-term return is good over time. 2022 was below target. In 2008 the 32% decline was recovered 28% in 2 years. Discussion followed about the impact of inflation, expected at 2.2%. Mercer's 10-year assumptions were reviewed, with expected return of 7.0%
- 6.2 Looking at market sectors, Asset Allocation considerations were looked at over three portfolio scenarios offered as "food for thought." Mercer thinks it is important to talk again about private equity. Mr. Barnes commented that TEC has always been hesitant about private equity because of leveraged buyouts and company restructuring. In a more conservative portfolio a significant increase is anticipated by a private equity allocation. In discussing this further, the pros of private equity are higher alpha, higher performance, and diversification, while the cons are high fees, high complexity, and less flexibility/liquidity.
- 6.3 A full discussion concerning private equity covered possible EC or GC rulings about private equity investment, engaging the Finance Committee of EC in the discussion (perhaps having EC make a decision about it), or the CLO of TEC could make a directive for the committee. It was noted that EC approves the IPS each year. A question about the existence of private equity groups bringing ESG into their philosophy and actually doing it. Mercer knows of managers focused on green energy and observed that big growth is in solar and energy transition. Mr. Barnes saw this as a legal and administrative question and suggested special arrangements would have to be made for co-investors to be considered. It was learned that Mercer would search out and screen using TEC's directive. Affordable housing was pointed to as another area of growth.
- 6.4 Additional discussion, considering legal and administrative issues, co-investors, and investment agreements, concluded in agreement that Mercer will prepare a presentation for the next meeting pursuant to further conversation about private equity.
- 6.5 Mr. Barret then looked at the global scenarios in Mercer's report and reviewed the efficient frontier. They expect the portfolio to recover even in an adverse situation. Mercer has no recommendation for changes at this time. The managers had been ranked only by ESG ratings. Mercer always looks at ESG and has seen managers taking a more pro-active approach to improving their rating. Mr. Cozzoni talked about Mercer's qualitative

approach to ESG ratings and the implementation of ESG into a manager's process. They wait a year after implementation to evaluate.

- 7.0 Mercer's reports concluded, the committee looked at using TEAMS for communication and meeting preparation. TEAMS costs much less than the Extranet. Portals will be set up for the three Mercer representatives.

The next meeting is in May. Suggested is the 3<sup>rd</sup> Thursday, May 18<sup>th</sup> at 11:00 AM EDT. A poll will be sent to confirm. A meeting in August will be included in the poll.

With thanks to the group Fr. Walter adjourned at 12:31 PM.

Respectfully submitted,  
Nancy Caparulo  
Staff support to the committee