

Investment Committee of the Executive Council

Minutes of the Videoconference

May 25, 2023

Committee members:

Mr. Dale Akinla
Mr. Kurt Barnes
Mr. Gordon Fowler
Mr. Charles Garland
Mr. Timothy Gee
The Rev. Andrew Walter (Chair)
Ms. Kirsten McElroy

Regrets:

Ms. Janet Brown
Mr. James Simon

Consultants from *Mercer Investment Consulting*:

Mr. James Barrett
Mr. Chris Cozzoni
Mr. Daniel Mazar
Mr. Reid Smith
Ms. Amanda Wirth

Staff:

Ms. Joanne Brockway
Ms. Nancy Caparulo
Ms. Margareth Crosnier de Bellaistre

- 1.0 Mr. Barnes called the meeting to order at 11:01 AM EDT with prayer.
- 1.1 The agenda was accepted as presented.
- 1.2 The Minutes from the February meeting were considered, moved, seconded and approved as presented without opposition.
- 2.0 Treasurer's Report
 - 2.1 The report had been posted in summary form for FY 2022 and 2023. Income is in line with expectations; shortages were loan collection income in EMM, which will continue to be constrained because the number of refugees anticipated has not happened. Expenses were less than budgeted. At year-end 2022 it looks like \$7 million exceeding expenses. \$4.5 million was carried over from savings and surpluses from 2019 and 2021, and the delay of GC 21-22. It is too early in the year to report 2023 results. There was a brief discussion about income expectations for 2023.
- 3.0 Reports from Affiliated Committees
 - 3.1 For CCSR Mr. Barnes reported for Ms. Brown. There have been several sign-ons, most recently for a conversation with Meta owing to concerns about its actions and restrictive policies for the Rohingya people in Myanmar.
 - 3.2 Ms. Crosnier de Bellaistre reported on EJLC. At the March meeting a loan was completed for a repeat borrower and another considered to a well-known CDFI. Capital for Change met with Mr. Barnes and OFN has been asked to review this company. The committee will meet in June. For the rest of 2023, six more pay-offs are expected. There are no defaults to

report. Mr. Barnes reminded the group about the direct, positive social impact of the \$7 million DFMS deploys to CDFIs around the country.

4.0 Mercer Reports

- 4.1 Mr. Cozzoni introduced Mr. Smith and Ms. Wirth, who were present to give an overview of private equity and impact investing. Mr. Cozzoni walked through the market review that had been posted, noting the market rebound through the first quarter of 2023. Large cap growth is the place to be rather than value. International is outperforming US stocks at present and the portfolio overweight to international has been a plus. He touched a bit on the debt ceiling issue in congress and the likely market response [plus or minus]. That has caused volatility in interest rates, which are going up. Performance-wise, we still have not overcome the down market from last year. Mr. Cozzoni discussed in brief the stress in the banking sector and the likelihood of seeing more regulation in this area going forward.
- 4.2 As for the market, growth is negative, and a predicted mild recession loomed till the end of this year with recovery in 2024. If there is a deeper recession, the market will go down. The Federal Reserve is at 5.25% now with the market expecting a decrease in interest rates. Inflation has come down and expectations are that interest rates will continue to fall. Wage growth is elevated.
- 4.3 In 2022 there was high correlation between stocks and bonds; they are moving in tandem now. Mr. Cozzoni observed the growth in fixed income and noted that Mercer prefers value in the longer term, and international developed over US. The US dollar is currently at a high point. Emerging markets is the more volatile space in the market and China represents half the emerging market index. Mercer is watching this area closely. There was a very brief chat about the debt ceiling issue at the present time.
- 4.4 Mr. Barrett discussed the return objective for the portfolio: perpetual growth in excess of spending. The model is spending at 5%-5.5% and inflation rate (2% for this year), higher last year. The long-term expected return for the portfolio is 6.5% but DFMS needs 7.2%-7.7%. Mr. Cozzoni noted that private equity has a higher expected return that could get the return closer to 7.2%. Mercer thinks a 20% allocation would close the gap. Return assumption for private equity would be 290 basis points over public equity in a mature portfolio, net of fees.
- 4.5 Performance: growth-oriented strategy has rebounded. When equity market does well, the portfolio does well. Mr. Barrett took a look at some of the managers – Edgewood, which is very concentrated in its approach; Westwood, US large cap, is underperforming in its peer group due to energy screens we have in their portfolio; Wells Capital, US mid-growth manager, struggled in 2022 but doing well in 2023 is still long-term under-performing but closing the gap. International Equity was net positive in the past year, outperforming MSCI. Talked about the details including the impact of being out of fossil fuels. Seeing a comparison was of interest to some on the committee. Artisan struggled last year but has turned around (they are underweight in energy). Performance for emerging markets

composite has a positive outlook. Blackstone struggled and now has more value bias and energy specific exposure. Mercer HFI has done well since it was added to the portfolio. WAMCO has under-performed by 2.5% over the past year. Mr. Gee asked about the impact of companies laying off large numbers of employees in tech. Performance varies company by company/stock by stock.

5.0 Private Equity Discussion

5.1 Mr. Smith and Ms. Wirth were present to talk about Private Equity. Mr. Smith said private markets generate incremental returns having a longer-term investment horizon and a degree of illiquidity. They generate incremental returns over public markets. Longer term opportunities that are not available in public markets because companies are too small or in their early stages to be in public. Private debt has taken off in recent years. Mr. Smith discussed the elements/strategies of private equity investing including the wide range of opportunities, returns drivers, aid for smaller companies to grow and increase value. Return profiles across several strategies were reviewed. Implementation options were looked at and discussed. A fund of funds possibility as well as high-quality venture capital were looked at. Mr. Garland prefers the direct relationship over the fund of funds. Diversification within the sector was reviewed. Liquidity in the different asset classes was explained. It was also noted that there is a much bigger administrative burden in this sector.

6.0 Global Impact presentation.

6.1 Climate-related impacts, multinational level to national. A conversation in depth occurred around the liquidity issues, specifically how non-DFMS investors would be affected. Mr. Barnes pointed out \$170 million are unrestricted funds from about \$600 million in the portfolio. \$430 million (70%) is composed of other people with specific beneficiaries. Custodial accounts equal upwards of \$140 million. Mr. Cozzoni, Mr. Barnes, and Ms. Crosnier de Bellaistre will meet about this.

The dates for upcoming meetings were reviewed: Thursdays August 24 and November 30. Members were asked to send their conflicts to Mr. Barnes and Ms. Caparulo. Fr. Walter will be asked to decide about a face-to-face meeting. Committee members would like to meet in person. Considering the first meeting in 2023 for in-person was suggested.

Reactions to private equity were aired across the group. It was noted that there is no administrator available on staff. A liquidity analysis, governance, and administration will be Mercer's next analysis. Mercer will outline the pros and cons in order to understand what could be manageable. Mr. Barnes left the call at 12:54 PM and the meeting ended at 12:57 with a summary review of Mercer's next information on private equity.

Respectfully submitted,
Nany Caparulo
Staff support to the committee