

Investment Committee of the Executive Council

New York, New York

Minutes of the Meeting

August 29, 2024.

Committee members:

Mr. Dale Akinla
Mr. Kurt Barnes
Ms. Janet Brown
Mr. Gordon Fowler
Mr. Charles Garland
Mr. Timothy Gee
Ms. Kirsten McElroy
Mr. James Simon

Regrets:

The Rev. Andrew Walter

Staff:

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

Regrets:

Mr. Kent Anker

Consultants from *Mercer Investment Consulting*:

Mr. Chris Cozzoni
Mr. James Barrett

Guests from LGIM America

Mr. Bradley Wynn
Ms. Michelle Stephens
Mr. David Barron
Mr. Aodhagan Byrne
Ms. Shauna Hewitt

- 1.0 Mr. Barnes called the meeting to order at 12:01 PM EDT with prayer.
- 2.0 The Minutes from the May 30 meeting were moved (Garland), seconded (Gee), and approved as presented.
- 3.0 Treasurer's Report
 - 3.1 Mr. Barnes went through his posted report, sent to banks as an unconsolidated balance sheet. There are two covenants for notes payable, there is a low ratio of debt to equity. The budgetary statement is in line with diocesan payments up to date. Mr. Barnes looked at expenses, which have been in line or below budget through June. Debt financing and repayment are recorded at year end when paid to US Bank. The loan was taken to renovate the church center building in 2006 with a 25-year amortization. It is renewed every 5-6 years and is currently at 3.2% annually. \$1.4 M is paid at the beginning of each year.
 - 3.2 Government contracts have grown with the increase in refugee activity.

- 3.3 The only resolution from GC having an impact on this committee is one that creates a loan portfolio for a Care of Creation program for dioceses. Mr. Barnes is not in favor and has spoken with the PB-Elect of his concerns around that. In the past a number of diocesan loans have been forgiven owing to the inability to repay. A CCSR meeting in a few weeks will ask EC for approval to stay invested in some fossil fuel companies in order to remain in dialogue with them.
- 3.4 The Joint Budget Committee (JBC) meets in September to determine what requests will be funded, in consultation with the PB-Elect and staff managers.
- 3.5 A question arose about loans outstanding: the figure is arrived at by EJLC loans and loans to dioceses.
- 4.0 Committee Reports
- 4.1 For CCSR Janet reported an upcoming meeting and there is nothing outstanding since the last meeting. Resolutions with corporations are ongoing as are sign-on letters. Mr. Gee asked about the divestment issue with the committee. Unless the church holds a certain number of shares in a given company, it cannot hold dialogues or file resolutions.
- 4.2 EJLC – Ms. Crosnier de Bellaistre went over the posted June 30 report. Most of the loan funds are deployed. \$250K is available for new loans. The committee will consider a few new investments at its next meeting including the New York credit union request. EC passed a resolution to add money to the baseline portfolio, beginning in 2026.
- 4.3 A communication sent to the church at large asking for loan partners resulted in three requests *for* loans. Interest is paid monthly or quarterly and all borrowers are current and in good standing. In the 25 years the program has existed only one borrower couldn't meet its obligation, a company for which EJLC did its own underwriting. Loans charge below market rates, keeping interest as close to 3% as possible. Many borrowers ask right away for a new loan when one is paid off. There is now a loan west of the Mississippi with an indigenous organization.
- 5.0 Market Review
- 5.1 Mr. Cozzoni went through the market performance of major asset classes. The Market is doing very well. It is anticipated that the FED will soon (September) lower interest rates.
- 5.2 The S&P magnificent 7 stocks are responsible for more than 60% of upmarket activity. Active management underperformed this year. Returns were captured through the index fund. Inflation is down to 3%, going toward the 2% goal. Wages are still elevated, and home prices are likely to stay elevated as Millennials are beginning to buy. The growth rate is coming down.
- 5.3 Regarding earnings, the Market has high expectations. When earnings come below expectations there will be an impact on the equity market.
- 5.4 Mr. Cozzoni talked a bit about what is happening more broadly, specifically with Japan.

- 5.5 The possible impact of the election was looked at. A white paper from Mercer is forthcoming. Historically, a split government has seen better performance. The Market prefers a predictable climate and Market impacts after elections are historically short-lived. If Harris is elected the expectation is that tech will be better, healthcare will be worse, but the impacts will be short-lived. Mercer uses bank information to decide about interest rates.
- 6.0 Western Asset Management
- 6.1 Mr. Barrett reported that there have been changes in the company with the head having stepped down. Mercer has put them in a provisional rating but will not be surprised if there is a downgrading. Two groups (research and due diligence) from Mercer are looking more closely at the company. Mr. Cozzoni described WAMCO as a riskier manager.
- 7.0 LGIM America
- 7.1 David Barron was on hand to provide an overview of LGIM's focus and philosophy. They have the largest position in the portfolio, and described as a hands-off manager, a global firm with four portfolio managers as part of the team.
- 7.2 Mr. Wynn provided an update on the firm and their processes. Client strategy manages day-to-day client operations. LGIM is the largest asset manager in the UK and is in the top 10 globally. He went through the global platform picture and how benchmarks are formed. The home base is Chicago with about 270 employees. They support DEI. Mr. Wynn talked about ESG and their team approach.
- 7.3 Mr. Barron talked about the details of equity solutions and the DFMS mandate. Mr. Byrne, portfolio manager, went through the portfolio, just shy of \$100 M and up 25.46% at the end of June. Relative return is up 90 basis points, driven by energy and industrials. He discussed the details of the energy sector, emphasizing the restrictions of Exxon and Chevron. Mr. Barron expanded on the risk management focus in this area which led to a discussion of EC mandates for DFMS investment. What are the impacts to the companies as the world moves forward with climate issues? They focus on what the risks are to the investor. They will send a report on the focus points of some other corporations and the level of minutiae they are able to get into.
- 7.4 Discussion turned to LGIM's approach to risk minimization, the stewardship and engagement aspects of their work. They are very focused on responsible investing, having an A+ rating. Mr. Barron went through their sustainable investment toolkit. The fee schedule is now 10 basis points. Discussion turned to altering the DFMS focus to lower the fees. With thanks from Mr. Barnes, LGIM left the meeting at 1:21 PM.
- 8.0 Asset Allocation and Performance Review
- 8.1 Mr. Cozzoni talked about 7.2% return being DFMS's long-term need. Mercer doesn't think DFMS will get there. A look was taken at a 5% Private Equity return to get closer to the long-term goal.

- 8.2 Mr. Barrett recapped the prior discussion around Private Equity (PE) and the approval of a 5% position. Two discussions took place with other Mercer clients who had commitments in the sector. Whether to do a direct portfolio or fund of funds structure is now the question. Mr. Barnes talked about the conversations that took place with Grabel and the Community Foundation of Des Moines and their experiences. There was out-performance over time – and they have significant staff numbers.
- 8.3 Does DFMS split into two pools? If yes, DFMS does not have staff to handle the amount of activity required. If managed within an existing pool, in the guidance posted to co-investors, the pool can be run the way it is. Final K1s would be produced in late June or July. Estimates could be used for the audit, but Grant Thornton (GT) would have to approve. There is \$600 M in the portfolios right now. 5% would be \$30 Million and GT wouldn't answer whether that would represent a material change. Materiality is the amount in the portfolio, if something happens between December 31 and an audit sign-off, they might look at the difference between estimates in December and the Actuals in March or June. No material difference has existed since 2008-2009.
- 8.4 The Audit Committee has not been informed about this change. In Sum: the current staff is not capable of managing two pools so PE would have to be within our existing pool. Participant fee and information can be sent about PE. Mercer had recommended outsourcing some of the management. Outsourcing a CIO would be through a fund of funds structure. They would handle administrative things but there will still be administrative work. Mr. Cozzoni broke down the details of Mr. Barnes' discussion points. Fund of funds would require one document a year and one K-1, much less than a direct program. Mercer said most foundations do PE with no issues from auditors but there are more fees with PE. He talked about funding the sector over time rather than all at once and about fees at 35-50 basis points on committed capital with no carry on the fees for a fund-of-funds manager. Mercer looks at fees for all providers and Mr. Cozzoni observed Neuberger as consistently above the median with a strong climate base. Mr. Barnes asked for a firm presentation from Mr. Pittman of Mercer, whose area of expertise fits this sector more closely. Mercer will come back with Mr. Pittman to do a final presentation on a fund-of-funds position.
- 9.0 Mr. Barrett completed a portfolio performance review ended June 30. The portfolio iws underperforming by 150 basis points but is close to the top quartile. He looked at specific sector performance that had been posted for the committee. WAMCO's status will be reported immediately to Mr. Barnes and Ms. Crosnier de Bellaistre.

The next meeting is sch4eduled for Thursday, November 21 at 10:00 AM.

The meeting was adjourned at 2:02 PM.

Respectfully submitted,
Nancy Caparulo

Staff support to the committee