Investment Committee of the Executive Council

New York, New York

Minutes of the Meeting

May 30, 2024.

Committee members:
The Rev. Andrew Walter (Chair)
Mr. Dale Akinla
Mr. Kurt Barnes
Ms. Janet Brown
Mr. Gordon Fowler
Mr. Timothy Gee
Ms. Kirsten McElroy
Mr. James Simon

Regrets:
Mr. Charles Garland

Staff:
Ms. Nancy Caparulo
Ms. Margareth Crosnier de Bellaistre

Regrets:
Mr. Kent Anker
Mr. Lloyd Mondal

Consultants from *Mercer Investment Consulting*:
Mr. Chris Cozzoni
Mr. James Barrett
Mr. Kenny Pittman

1.0 Fr. Walter called the meeting to order at 9:06 AM EDT with prayer.

2.0 The Minutes from the February meeting were moved, seconded, and approved as presented with two abstentions (Misters Gee and Simon).

3.0 Treasurer's Report

3.1 Mr. Barnes briefly went over the 2023 finances. The audit is to be completed in a couple of weeks. Income is in line with expectations except rental income from the assumed occupancy of the 6th floor. Going forward and subject to approval within the week, the Lyceum Kennedy School will expand onto a second floor. They have asked for a 15-year lease, which EC must approve.

3.2 Spending was below budget in 2023 so there is a budgetary surplus, which will not be recognized until the end of 2024. For 2024, income is in line with the budget. Expenses to date do not reflect activity for the rest of the year. Mr. Barnes opined that the balance sheet is outstanding. There is a single requirement of the bank – a 1.25X investment to debt ratio. Debt of about $20 million is paid down on a 25-year basis. The short-term line of credit is zero and Sort Term Reserves are at an appropriate level. There is $10 million in available operating cash.

3.3 Performance: the first quarter of 2024 was good, April was not, but May is up. There would be more discussion of this area later in the meeting.

3.4 The Office of Development continues its work. They created a new campaign that raises funds to honor Bishop Curry and to enable the new Presiding Bishop (the next and future ones) to have cash off budget available for his/her mission. Mr. Barnes and Julia Alling spoke with 30 diocesan bishops and individual investors about this new fund such that close to $1 million will be received/pledged by GC. There is reason to believe the goal will be reached by summer's end. This is not a discretionary fund but one for programmatic initiatives with approval of the PB's Council of Advice. The Sacred Ground initiative was given as an example.

3.5 The 2025-27 budget adopted in January by EC is on the GC website. Mr. Barnes noted it can be amended at GC but if it is not, time from July through September will be used to look at all concurred resolutions with funding to see whether the item already exists in the budget and reconciliation made where necessary so that EC can approve an amended budget at its fall meeting. The draw continues at 5% on a 5-year rolling average. The budget process assumed a 7.5% annual return.

4.0 Committee Reports

4.1 Mr. Barnes began the CCSR report by observing several companies having met with DFMS on social and racial matters and agreed with the church's resolutions, so they have been removed. The work is ongoing. Ms. Brown informed that the work plan for the year was approved by EC. She discussed the defense of sustainable/ethical/responsible investing as a Committee focus. A Freedom to Invest group was formed to educate people on the issues. One member did a workshop on EPN about the CCSR work. There will be a CCSR presentation at GC and a special event to honor Paul Neuhauser. Additions were made to the no-buy list including a military no-buy section that was passed last year. All this information is on the church website's finance page.

4.1 Mr. Gee, speaking on the budget process, explained some of the thought behind the fund to honor Bishop Curry and restriction by the budget for a new PB's spending. Fund will carry forward for subsequent new PBs, helping them to proceed with their new programmatic agenda. Mr. Gee explained that there will be six (6) resolutions aimed at reducing diocesan assessments to 10%. There were also two EC efforts to increase the draw to 7.5%. The Budget Committee looks to the future as stewards and has determined that budget development education is needed.

4.2 Fr. Walter reported that EJLC met in March and approved two loans. There will be loans maturing later this year that will free up some cash for future lending. It was noted that the Diocese of New York, after meeting with the Treasurer, asked DFMS to consider investing in its credit union.

5.0 MERCER

5.1 Mr. Cozzoni introduced Mercer's Private Equity Research Associate Kenny Pittman. He then went on to review the current market environment. Interest rates moved higher during the quarter, leading to negative returns in fixed income markets; however, equity markets experienced appreciation during the period. More specifically, the S&P returned 10.6%, while large cap and growth stocks outperformed small cap and value stocks. He asserted that a smaller number of US large cap growth stocks have driven market performance. The economy is slowing but remains strong and demonstrates growth. There is no expectation for a recession in the near term.

5.2 Mr. Cozzoni continued that the market still expects interest rate cuts this year but not as quickly, or as many, as originally anticipated. Inflation remains above 2%; home prices are elevated, and a shortage of homes continues; hourly pay has slowed or come down and there are more job openings than there are people to fill them. He observed that wages are typically the last things to come down. Mercer believes DFMS is in the right place regarding positioning the portfolio for inflation. Global valuations are high but are limited to certain sectors of the market, particularly U.S. growth equities.

5.3 The Asset Allocation was then discussed. Mr. Cozzoni observed the need to obtain a 7.7% nominal return to meet the long-term return objective; however, Mercer's expectation for the current portfolio is 6.3%-6.5% as expected returns for public equities have moved lower due to higher valuations. An allocation to private equity (PE) would increase the expected return but DFMS still needs to determine the appropriates size and implementation approach for the asset class. Mercer then reviewed expected returns for the current portfolio along with three alternative allocations with varying levels (5%,10%,15%) of private equity exposure. Mr. Pittman talked about some of the intricacies and focus of the asset class as well as its higher expected return profile.

5.4 Private also have the potential for greater ESG impact relative to their public counterparts. Depending on the investment design, an investor can determine the people/companies it wants to work with, with an eye toward understanding company policies responsibly. It is doable to design a PE position that is in-line with an organization's values. Discussion also covered Mercer's ESG ratings and a question arose regarding the use of returns on sustainable investing ("ROSI"). A Mercer team member is looking into this area.

5.5 Talk continued about the time required to implement (years) a diversified PE portfolio. It was suggested a beginning 5% of portfolio to see how it goes. Mr. Cozzoni said for the first couple of years there is a drag on the returns. In most sectors, Mercer is not screening for ESG due to their comingled fund structure. Control of the PE investment was also discussed.

5.6 Regarding determining the appropriate implementation model, Mr. Pittman cited three major considerations: customization, time, and cost. Ms. McElroy also mentioned diversification. Additional complexities of the asset class, such as lack of daily valuations and its illiquid nature, were also discussed. A deep discussion followed about fund-of-funds. These funds would be diversified, and commitments would be balanced over several years to maintain vintage diversification.

5.7 Conversation turned to implementation and the need for a dedicated staff person to oversee PE and what the demands are. A question arose concerning the impact PE reporting would have on audit and audit fees. Year-end valuations are likely to be delayed until April, leading to delayed audit reports. Mr. Barnes requested a bullet point document from Mercer to share with the Audit Committee and auditors. An education piece for co-investors and a communication plan are also needed. Co-investors would have to know in advance of any investment in PE. A conversation needs to be had with partners and Mercer about PE that will include Grant Thornton as well. Mr. Cozzoni suggested having a representative from one of his other community foundation clients also be included as they have years of experience in this area.

5.8 Fr. Walter observed that the Committee needs more information, conversation, and an implementation plan before the August meeting. A wide-ranging look was taken at PE, the philosophy behind it, and allocation size after which it was moved that a 5% initial investment in PE be made with the potential for incremental increases over time if considered prudent. Motion was seconded by Gordon. Discussion revealed that there had not been agreement by motion/second/vote to proceed with a PE investment. An amendment was moved that an annual review of the PE decision be added. Eventually, it was **Moved that the DFMS have a PE position beginning with a 5% initial investment and an annual review of the allocation subject to analysis of administrative requirements and cost**. Vote: unanimous approval with no abstentions.

6.0 Altrinsic Review

6.1 Mr. Barrett said that Mercer had downgraded public equity manager Altrinsic from B+ to B, largely due to the strategy being too risk adverse. Mr. Barrett went over three potential options moving forward within the non-U.S. developed equity portfolio. They believe the portfolio would remain well diversified and positioned to outperform if Altrinsic were liquidated with proceeds allocated to the other three current international equity managers. After considerable discussion and examination of Arga and Lazard (quality core growth) it was **Moved to terminate Altrinsic and reallocate appropriately to Arga and Lazard subject to the limitations of the IPS.** The motion was seconded and the vote to do this was unanimous.

Business having been concluded, Fr. Walter adjourned the meeting at 11:55 AM.

It was noted that Mr. Fowler's and Fr. Walter's terms end with GC but they will continue through November. New appointments are made by the PB and PHOD after GC.

Respectfully submitted,
Nancy Caparulo
Staff support to the Committee