

# Investment Committee of the Executive Council

## Minutes of the Teleconference

Date: August 16, 2019

Committee members:

The Rev. Andrew Walter  
Mr. Dale Akinla  
Ms. Marion Austin  
Mr. Kurt Barnes  
Ms. Janet Brown  
Mr. Gordon Fowler  
Ms. Holli Powell  
Mr. James Simon

Consultants:

Ms. Carissa Tepovich, *Mercer  
Investment Consulting, Inc.*  
Mr. Chris Cozzoni, *Mercer  
Investment Consulting, Inc.*  
Jake Robbe, *Mercer  
Investment Consulting, Inc.*  
Max Messervy, *Mercer  
Investment Consulting, Inc.*

Regrets:

Mr. John Talty

Staff:

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

1.0 General

Fr. Walter called the meeting to order at 10:02AM ET without a quorum present. He began with prayer. Mr. Barnes joined at 10:04 to create a quorum.

The minutes from the May meeting were moved (Fowler), seconded (Austin), and approved as presented.

2.0 Treasurer's Report

- 2.1 Mr. Barnes reviewed the posted report. Income and expense are in line with the budget and align with expectations. Next Tuesday there will be an Assessment Review Committee meeting to review additional waiver applications. 80% of dioceses are pledging at 15%. The decline from 12% to 5% debt to equity ratio resulted from the sale of the Austin property.
- 2.2 Funds are being raised (\$800K) for clergy pensions in Cuba so that they can be readmitted as a full diocese. Only 45 dioceses contributed thus far, so efforts will be made to increase that number to illustrate greater support for the return.
- 2.3 Senior Management has told Executive Council that there will be a plan/recommendation to move forward the relocation of the Archives before the end of 2019. Meetings are planned in September.
- 2.4 In the EJLC report it appears a write-off is handled as a deduction from the original amount of \$7 million. Question arose about making the number whole. Mr. Barnes explained that, if there is demand the level might be reconsidered.

### 3.0 Liaison Reports

- 3.1 Ms. Brown posted a summary of CCSR activity, centered around the resolutions concerning Israel/Palestine and recommendation to divest from HR no buy list. The intent is to change behavior (TripAdvisor, e.g., continued engagement status after a few years with little response). Ethical investing in gun manufacture inspired lengthy discussions. Ms. Brown lauded the senior members and consultants who are so aware of the issues. One very important thing is the SEC legislation to limit shareholder advocacy rights. SEC took it up and intends to revise the rule. Efforts are afoot to develop a website to keep the democratic process in place. Voting guidelines were discussed at length. Mr. Barnes reported that EC expressed its concern on the tone of the CCSR proposal which could be viewed more as an anti-Israel proposition and less as a human rights issue. ~~discussed at length the concern that CCSR was proposing a very anti-Israel posture rather than a human rights focus.~~ Bishop Fisher was asked to revisit the focus of criteria based on human rights. Resolutions were referred back to the CCSR.
- 3.2 Fr. Walter for EJLC said no meeting has been held but will be in September and reported out at this committee's November meeting.

### 4.0 Mercer Reports

- 4.1 Mr. Cozzoni reviewed in detail the discussion materials on the market environment were provided to the Extranet, particularly the year-to-date status of various market sectors and reasons behind the down market. Worldwide there is slow or negative growth. The US is still growing fairly well but, on the negative side, the bump up from corporate tax cuts is running out. Businesses are not investing, and tariffs are in place. There is low unemployment now but that could change owing to lower consumer spending, new tariffs, and lower consumer confidence. Mercer anticipates a slow-down in the US, not necessarily a recession. Possible interest rate cuts may be seen in 2020.
- 4.2 Asset allocation. The current payout is 5%. The portfolio needs a 7.2% return to maintain principal. Mercer projects a 6% return owing to high equity valuation and low interest rates. Mr. Cozzoni highlighted the 9.9% return over the past 10 years. Long-term, the DFMS portfolio has beaten the objective but Mercer believes that it will be difficult to maintain such performance in the coming years.
- 4.3 Each asset class was reviewed. US equities are fairly highly valued while non-US stocks are relatively attractive. No recommendations were made to change the allocation. It was noted that growth has out-performed value recently. Mercer is keeping an eye out in this area. International stocks have been lagging US stocks. European profit margins have been relatively flat. Europe is beginning to slow down and may be approaching a recession. Emerging markets have struggled due to trade tariffs. Within fixed income, yields are low and credit spreads are tight. The only manager that has underperformed is that in Global REITs, which are preferred over US REITs. Mercer continues to like hedge funds because of

the limited return potential for fixed income due to low interest rates. They provide portfolio diversification as they have a low beta to both equities and fixed income.

- 4.4 The current allocation lines up closely with the recommended allocation. A higher return is possible but only with a more aggressive allocation. A less aggressive mix was also presented without sacrificing too much of the return. Generally, Mercer is happy with the current allocation owing to its diversification. Mr. Cozzoni said the question to be answered is whether more risk is desired for greater return. Mr. Barnes would support the additional risk by adding to the equity position. The fund was de-risked a few years ago owing to the recommendation by Mercer to increase hedge fund exposure at the expense of convertibles.
- 4.5 To the question asked: Does spending get cut when there is a downturn in the market? The answer: the budget is based on the GC budget. In 2009 GC reduced staff by 30% in response to the financial crisis. The combination of recession and impact on diocesan income created a huge gap. Diocesan income represents 2/3 of budgetary income. In 2009 5.5% had been the draw. Discussion included the level of the draw being decreased over time by ¼% and reducing overall spending while doing so. Also discussed was increasing the equity position and, again, a look at private equity, which was discussed at length in May.
- 4.6 Fr. Walter suggested that the asset allocation might be revisited in November, having the conversation in person and seeing what the market is doing at that time. Question was asked about what should be shared with the Executive Council. Mr. Barnes explained the IC's interest to lower the draw in the past. Should there be a resolution from IC about the unsustainability of the 5% draw and the gap? The discrepancy being faced is an issue. Mr. Barnes suggested something along the way of guidance. The EC budget developed for the 2022-24 triennium could be based on dividend draws reduced from 5% to 4% over the triennium. Ms. Powell agreed that this would be a good approach. General sense of the committee was to develop such a resolution before October, with accompanying back-up analysis and support, to be circulated via memo to recommend reduction of the draw. This committee would have the opportunity to approve the memo. Ms. Austin preferred a resolution to hold feet to the fire with the probability of achieving the 7.2% goal now unrealistic. IC Minutes can be shared with the finance committee on the Extranet. Ultimately, it was agreed that something will be prepared and circulated in the next weeks for approval, before the October EC meeting. Mr. Barnes will put in the Treasurer's opening remarks something on this subject.
- 4.7 Mr. Cozzoni discussed the new tool Mercer is using, mapping of 2019 events and scenarios that will impact the portfolio. Over a one-year period, the analysis shows that several scenarios can result in a decrease in the portfolio of more than 5%. The goal is to build an all-weather portfolio that can perform well in different market environments.

- 5.0 Responsible Investment. Ms. Tepovich and Mr. Max Messervy talked about responsible investment guidelines and the screens. Fossil fuel guidelines are relatively new. Mr. Messervy gave Mercer's background in responsible investing, the beliefs and policies. The IP statement will reflect these beliefs and policies. Discussed at length was Mercer's ability to be helpful with responsible investment and a process for discussing where the portfolio might be taken in the future. Possible actions were outlined, to include: (1) survey on committee beliefs (additional fee); (2) explore gaining further thematic exposure to key sectors; and (3) could Mercer's approach aid in asset allocation decision-making. Mr. Barnes noted that the Committee on Creation Care might participate in such a survey. He asked if the fee is based on the number of people surveyed. No, it is a flat fee. Mr. Fowler noted: Capture the beliefs of the Church as expressed by the General Convention, not personal beliefs but the perception of what the whole church is saying. Fr. Walter wondered how to coordinate with CCSR, and EC, so that more people could weigh in in order to implement the goals of the EC and larger church. Mr. Barnes asked what actions might DFMS take to increase the ESG component? There was a big focus in discussion on the importance of ESG ratings when recommending managers. Request was made to put ratings for current managers in the Mercer quarterly report. Mercer agreed to do this. Fiduciary responsibility with regard to ESG inclusion in the portfolio was raised.
- 5.1 Ms. Tepovich returned to the matter of responsible investing by asking if the committee wanted to look at the survey. Ms. Brown supported having the climate analysis done. Suggestion was made to differentiate between ESG3 and ESG4 in considering any actions with managers. Mr. Barnes observed that any action the committee takes comes out of GC. The bottom line: IC takes its lead from GC and EC.
- 6.0 Active vs passive discussion will take place at the next meeting. Performance – Cozzoni talked about the six-month portfolio performance, which was up 14.7% vs benchmark of 12.7%. July was essentially flat. Overall performance is strong and managers doing well. REITs manager will be brought back for next time.
- 6.1 There being no reason for an executive session, motion was made, seconded, and carried to adjourn. Fr. Walter adjourned the meeting at 12:18 PM.

Next meeting: Friday November 15, in NYC. A resolution will be developed and circulated.

Respectfully submitted,  
Nancy Caparulo  
Staff support to the committee