Investment Committee of the Executive Council

Minutes of the Videoconference

Date: May 29, 2020

Committee members:

The Rev. Andrew Walter  Mr. James Simon
Mr. Dale Akinla  Mr. John Talty
Ms. Marion Austin  Staff:
Mr. Kurt Barnes  Ms. Nancy Caparulo
Ms. Janet Brown  Ms. Margareth Crosnier de Bellaistre
Mr. Gordon Fowler  Mr. Lloyd Mondal
Ms. Holli Sturm

Mr. Chris Cozzoni, *Mercer Investment Consulting, Inc.*

1.0 General

Fr. Walter called the meeting to order at 11:03 AM EDT with prayer. The minutes from the last meeting were moved, seconded and approved as presented.

2.0 Treasurer’s Report

Mr. Barnes reported the Audit was in process but is now delayed because the auditors can’t do their field work. The first 3 months of 2020 reflect the budget. Income is as anticipated. The church center building is mostly empty with the exception of two tenants in residence. As a reminder, the Church’s budget is based on a lag. The assessments for 2020 were based on 2018 reporting. During the recession of 2008 and 2009, the church didn’t see income drop until 2010. But in 2010, 2011, and 2012, income fell 15%.

2.1 The church has received a loan from the government, for which it will seek forgiveness since staff will be retained and several underserved dioceses will be assisted. It was noted that any entity receiving more than $2 million will be audited. Matters surrounding the loan were discussed as was the state of the waivers for 2020.

3.0 Liaison updates

For CCSR, Ms. Brown reported on the meeting with consultants concerning voting proxies, items in place with Mercy, SCC update, means for engagement, etc. She explained the collaborative nature of the committee’s activities and the focus to have a presence with companies of concern. Mr. Barnes added that there is a new company, Heartland, that addresses concerns of Human Rights in a different way. The consultant is able to look more deeply into companies than the committee.
3.1 The 50th anniversary celebration is in the planning stages and a videographer has been engaged. This is considered a wonderful opportunity to let the wider church know about the activities of this committee. No face-to-face meetings are to happen until further notice.

3.2 Fr. Walter reported for EJLC, which met and intends to do so again in a couple of weeks. There are a number of loans maturing in 2020 that will return funds to the pool to reinvest. Mr. Akinla asked for additional information about the EJLC.

4.0 Mercer Update
Mr. Cozzoni discussed the market environment and went over the quarterly investment review as of March 30th. The coronavirus and associated shut-down were causes for an ‘ugly’ result. In April and May, things improved. A thorough review of Mercer’s posted report was done. Congress passing an economic relief package had a positive impact on the market.

4.1 Charts were looked at specific to fiscal policy responses. Banks and legislatures have taken steps to support the economy. There has been a rebound in the equity markets. Bond yields continue to fall. Credit spreads have widened, which is why Mercer likes multi-asset credit. The US dollar has strengthened. Over a longer term, the dollar strength may reverse. Virus uncertainty is the ‘wild card’ in making projections; there are so many unknowns. The faster the virus is controlled, the faster the economic recovery.

4.2 Mr. Cozzoni discussed the recommendation to terminate Brandywine and provided two possible multi-asset credit (MAC) strategies for the committee’s consideration. Loomis requires a 15-day purchase notification and Apollo can only be purchased at month-end. Two exchange-traded funds were discussed as an interim position for the proceeds from the sale of Brandywine.

4.3 Ms. Tepovich discussed the first quarter performance results. The portfolio was down 15.7% but Mercer was pleased that domestic and international equity managers, which have a quality bias, held up versus the broad benchmarks. The activity report was reviewed. Real estate showed a positive return, caused by timing of the switch into Principal Global REITs. A cursory review of managers was made for the quarter. Blackstone recently decided to make changes to the way their strategy is managed and is now more defensively positioned. They are looking to increase long-short exposure in the Park Avenue fund and increased volatility is expected. This strategy is on “watch” as a result of these changes and Mercer will continue to monitor it closely. Mercer believes this is a positive change as the strategy will be more reflective of its original objectives. Blackstone will have a higher beta to the equity markets and is paired with the Mercer fund which is more diversified and has a lower beta to equity markets.

4.4 The portfolio underperformed the peer group for the quarter, which was to be expected as it has a higher risk/return profile. In 2019, it outperformed 96% of peers because of a higher equity market. There was some discussion about the lack of a private equity in the DFMS
portfolio versus its peer group. Mercer is pleased with the managers overall as we’ve
generally outperformed the benchmarks. The Portfolio was up 8.6% in April against the
benchmark of 7.9%. The May estimate us up 3.6% with a market value $500 million. The
YTD return is negative 6.8%. Large caps outperformed small caps and growth stocks
significantly outperformed value. Emerging market managers have struggled to beat the
benchmark which is somewhat surprising given that emerging markets are so inefficient.
Active fixed income managers were down and behind the benchmarks as spreads widened
meaningfully during the quarter.

5.0 Apollo Total Return Fund
Azhar Mahmood, Alex Wright and Joanne Yee attended for their presentation. Mr.
Mahmood introduced them and Mr. Wright led the presentation that had been posted to the
Extranet. They have $216 billion in assets under management and are essentially a credit
business underpinned with other investments. Mr. Wright spoke to their risk-avoidance
and the management of credit risk. The loss rate has been 5 basis points. He talked about
the total return thesis and liquidity – 80% can be sold within a 30-day window.

5.1 The four pillars of total return strategies were discussed: US corporate credit, global credit,
real estate, and structured credit. The total return fund has no explicit asset class bias.
When COVID hit, the downturn in this fund was lessened by the purchase of investment
grade structured credit.

5.2 Ms. Yee reviewed performance. The fund is 6 years old and operates with a lower
volatility level. After the downturn in March, they’ve seen increases in both April and
May. She emphasized upside/downside capture – Apollo tries to deliver a stable return
profile over a full cycle. They believe ESG principles need to be part of the investment and
seek to determine whether there are ESG issues that impact the credit worthiness of an
investment.

5.3 The strategy is not managed to a specific benchmark. Duration is a function of the bottom-
up security selection. They don’t make active interest rate bets as that is not a primary
driver of performance. Around 2-2 ½ years is a typical duration for securities. They have
no investment in equities in the fund and no CLO equity; energy and CCC exposure is low
(1.2% of the fund). They don’t have a large position in rescue financing; it is a stable fund
with reliable characteristics. All three of the company’s founders remain active in the
business.

5.4 Mr. Wright concluded by saying that there is $60 million of employee investing in the
fund. Ms. Yee added that with the two different share classes there is a relationship with
Mercer and an offer of negotiated fees. They left the call at 12:30 PM.

6.0 Loomis Sayles Presentation
Andrea DiCenso and Chris Hermance joined the meeting at about 12:35 to introduce the
firm. The posted presentation was reviewed. Loomis is managing $300 billion in assets
with a commitment to proprietary research. They have over 60 credit research analysists
and a rating system in place since the 1930s. Mortgage and finance structured teams make recommendations in that sector. Mr. Hermance talked about the firm’s ESG focus and the goal of superior, long-term risk adjusted performance.

6.1 Ms. DiCenso discussed the Multi Asset Class (MAC) strategy, driven by the global economic cycle. Important in their approach is ‘who has control of the balance sheet.’ Management is done throughout the credit cycle, seeking strong returns. She talked about the credit asset strategy and a duration band of 0-7 years. Their allocations vary according to the opportunities they identify via a thorough review by the team.

6.2 The investment process includes a top down macro view. Analysts, traders, portfolio managers all participate. They set allocations and then work with research using an in-house rating system that looks at issuers by volatility, valuation, liquidity and ESG.

6.3 Risk management was discussed, evaluation and monitoring of the overall risk profile – portfolio sensitivity, investment oversight, attribution, scenario testing. Clients understand where returns come from based on this information. At the end of 2020 Q1, the yield was 6% and was up 5% in April. The fund is up 20 basis points YTD. Duration is around 5 years. The team recently increased investment grade exposure.

7.0 Discussion
Mr. Barnes liked Loomis Sayles for their ESG considerations and for the clarity of the presentation. Mr. Cozzoni suggested either firm would do well if there is a strong come-back post-COVID, but Apollo is likely to produce more alpha in the long run. Conversation about the choices covered which would be a better fit, strengths of the ESG approach, risk/reward perspective among other things. After questions were satisfied, it was moved (Mr. Fowler) that the proceeds from the sale of Brandywine be invested in Loomis, seconded (Mr. Simon), and carried with no opposition.

7.1 The matter of using an ETF or leaving the proceeds in cash remained. Following additional discussion a motion was made to leave the proceeds in cash and agreed by consensus. Mr. Talty advocated putting it in the market. Mr. Barnes mentioned that a broker would need to be chosen in order to get into the market and it was unknown what information the bank would need. The ETF would have to be worked out today. If Mr. Barnes and Ms. Crosnier de Bellaistre can make arrangements this afternoon, they will do so when the money comes in on Monday. Agreement was reached to get the money invested 50-50 in two separate ETFs (tickers LQD and JNK), if administratively possible.

8.0 Follow-up details on the ESG index fund was provided by Mr. Cozzoni and Ms. Tepovich. Ms. Tepovich discussed potentially replacing the US equity index with one with a higher ESG rating. She reviewed the last conversation on this subject. A comparison was requested between Crossmark and Legal and General Investment Management (LGIM). Crossmark is tracking the index and screening with DFMS’s policy guidelines. It has an ESG 4 rating and is not voting proxies or engaging, just tracking the index. Mercer likes LGIM because they take a pro-active stance to engage with companies and vote proxies.
She gave the comparison that showed not a huge difference from an investment perspective as they are close to the same in tracking and have the same benchmark. Discussion concluded with a **motion to switch from Crossmark to LGIM which was seconded and carried without opposition.** Mr. Cozzoni pointed out that COVID elevates the value of responsible investing.

9.0 IPS Review

Mr. Barnes went over his few changes and asked for approval. It was then **moved to accept the revisions, seconded and carried without opposition.**

The agenda having been covered, a reminder for the next Zoom meeting was given: August 21. There will be no face-to-face meeting until further notice.

The meeting was adjourned at 1:25 PM EDT.

Respectfully submitted,
Nancy Caparulo
Staff support to the committee