Investment Committee of the Executive Council

Minutes of the Videoconference

Date: November 20, 2020

Committee members:
The Rev. Andrew Walter
Mr. Dale Akinla
Mr. Kurt Barnes
Ms. Janet Brown
Mr. Gordon Fowler
Mr. James Simon
Mr. John Talty

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

Regrets : Ms. Marion Austin, Mr. James Simon, and Ms. Holli Sturm.

Consultants: Ms. Carissa Tepovich, *Mercer Investment Consulting, Inc.*
Mr. Chris Cozzoni, *Mercer Investment Consulting, Inc*.
Mr. Daniel Mazar, *Mercer Investment Consulting, Inc*.

Guests: Mr. Geoff Skillings and Mr. Harry Akidis, *Acadian Asset Management LLC*

1.0 General

Fr. Walter called the meeting to order at 11:02 AM with a Prayer for the Human Family. The minutes from the October meeting will be considered at the next meeting.

2.0 Treasurer's Report

2.1 Mr. Barnes went through the posted report. Income is in line with the budget. Spending is below budget and below the reduced budget that was approved in midyear. The budget for 2021 assumes a normal year, although travel is anticipated to be less. A three-year budget is also being developed. Reserves for GC80 have been provided. EC will hear about GC80 later today. The dividend payout for 2021 was approved at $1.13 per share.

2.2 Fifty-two pledges have been received for 2021, all at the full 15% Assessment. Commitments come in after annual Diocesan meetings are held.

2.3 In the middle of January 2021, the church's term loan matures. After conversation with US Bank an interest rate swap of 3.2%, or lower, is expected on the new loan. Liquidity is strong.

2.4 Shareholder resolutions have been developed for submission by the Committee on Corporate Social Responsibility (CCSR). $500K is available to be invested by the Economic Justice Loan Committee (EJLC). These funds will be used in December.

2.5 The Office of Development (OOD) goals for the annual appeal of $350K have been exceeded. OOD has received $370K and a final appeal for the year has already gone out. The mailing list is now in excess of 80K names and donors that are being stewarded. Julia Alling was hired to manage the annual appeal.

3.0 Liaison Updates

3.1 Mr. Barnes touched on the EJLC activity. There was no additional report.

3.2 Ms. Brown, for CCSR, said human trafficking is currently the main focus of this work. It was noted that more guns have been sold during the pandemic than ever before. The committee is creating care-focused with Bayer and Monsanto, continuing fracking issues, and activity with Crime in Action 100. There was a question about focusing on China in terms of cultural genocide. Mr. Barnes responded that it hasn't come up yet but Heartland has been hired to identify companies that may be unsuspected human rights abusers. The Co-chair of the committee has primarily focused on Palestine/Israel issues, but this topic will be referred to the committee.

4.0 Market Report

4.1 Mr. Cozzoni provided a market overview. Economic recovery is slower than expected. Mercer is watching the global shutdowns with COVID. A tough winter is anticipated but the market is looking to next year with the positive signs of vaccine development. He pointed out that the S&P is up 9%. Interest rates remain low. Congress may pass another bill to help the economy get through future tough times. The market is positive with the election and seems positive about the future despite a divided government.

4.2 Regarding performance, US large cap technology companies performed the best. Year-to-date, the Russell 1000 Growth Index is up 29%. On the other hand, value stocks, especially small cap value, lagged. Mr. Cozzoni noted that the market is looking out 12 months, assuming a vaccine is developed, travel will resume and the economy will improve. Edgewood Large Cap Growth was the portfolio's best performer (up 40%) while Boston Partners trailed due to its small/mid cap value mandate.

4.3 Ms. Tepovich discussed performance through the end of September. She noted a very strong equity market during the 3rd quarter in which the DFMS portfolio outperformed the benchmarks. Domestic equities were up over 9%; international and emerging markets were up as well. The multi-asset credit manager that was added after last meeting has added value as credit spreads tightened. The REITs manager change proved to be good timing as we missed the downturn and participated in the rebound. The portfolio is within its target asset allocation ranges and is being monitored closely given the volatility in the markets.

4.4 Manager updates: Blackstone was on watch for a while as they transitioned their strategy to long-short but have been removed from the watch status. Another manager update was on DFA as they recently reduced their management fees. All managers are performing well against their respective benchmarks with the exception of DFA Emerging Markets which is being terminated.

4.5 Mr. Cozzoni provided an update on Responsible Investing. Mercer recently began sending surveys to money managers asking questions around diversity and inclusion. Managers now need to answer specific questions about their hiring practices to illustrate diversity in their decision-making groups.

5.0 Acadian Asset Management LLC – Presentation

5.1 Mr. Geoff Skillings joined the meeting at 11:29 followed by Mr. Harry Gakidis shortly thereafter to present the Acadian Asset Management emerging markets strategy. Their presentation was posted to the Extranet for the committee. The key points they highlighted included:

- Pioneering equity investing in the 1980s.
- Targeting valuation, high quality balance sheets, and strong tech support.
- ESG fully integrated into their approach – the first to sign the PRI in 2009.
- A robust research agenda, a collaborative environment with multi-disciplinary investment teams.
- Making sure the portfolios behave as they are intended.

5.2 Mr. Gakidis discussed active ownership and outlined the multi-factor, deep process used by Acadian. He stressed that they are active stock-pickers, looking, for the benefit of investors, for stocks that are otherwise overlooked or mispriced. 17,000 stocks are tracked in emerging markets alone. His presentation stressed the ESG focus in generating returns. They avoid offenders, tilting in the direction of companies with better environmental opportunities (green buildings, clean tech, renewables, etc).

5.3 The Acadian strategy follows a quantitative stock selection. With a broader universe it is easier for managers to meet the return target. They seek overlooked stocks and tilt toward those that are cheaper. The holding horizon is about 2 years, aiming to return 2-3% in excess of benchmark. Acadian signed off the meeting at noon.

6.0 Ninety-One (formerly Investec Asset Management)

Therese Nicklasson, Varun Laijawalla and Matthew Hagbom then joined the meeting to introduce Nintey-One's emerging markets strategy with a particular emphasis on ESG. The firm was founded in an emerging market in Cape Town, South Africa.

6.1 This team emphasized:

- Employee ownership having 22% equity owners.
- A global footprint with on-the-ground resources in China (Hong Kong) and new investment in China from the ground up.
- ESG and sustainability taken very seriously, having had that focus for a decade.
- EM is the flagship offering of the company.
- Organized investing around sustainability, having 200 professionals deal with the ESG component.

6.2 Ninety-One's 4-factor philosophy of investment was discussed. They do not rely on the market cycle to create returns but seek high-quality companies that are attractively valued. They stressed the importance of their work in China and the team based in Hong Kong, where cultural nuances are significant. As for their process, they are fundamental investors with 70-90 stocks in the portfolio. They have been running dedicated mandates for 10 years in EM around ESG. E, S and G areas are managed independently of one another.

6.3 In looking at performance, Ninety-One has outperformed the benchmark in seven of the nine years they have been doing this and generally do well during trending markets. EM stocks in 2020 have been volatile. The portfolio is adjusted with changes in market leadership. They believe the next decade will require a different, nimble approach.

7.0 <u>Artisan Partners</u>

7.1 At 12:31, after the departure of the team from Ninety-One, Meagan Nace and Sean McCoy from Artisan Partners joined the meeting. Their team has been working together since 1999 and works closely with Mercer. Objectives and expectations were discussed.

- Focus is to give the investment team everything they need to produce strong returns.
- Sustainability of companies is critical in the process.
- Major individuals' compensation is tied to the success of the strategy.
- A diverse team of 6 have worked together for years, born and raised in EM.
- A cross-sharing of ideas eliminates silos.

7.2 Artisan's investment process and philosophy was discussed. They anticipate EM will grow faster but the road will be bumpy, the boom/bust continuing into the future. They invest in companies that withstand volatility either with unique access to growth or a sustainable competitive advantage. Sustainability is an integral part of their analysis. They do not eliminate sectors based on history but look at what a given company is doing now and what positive changes are being made. Independent analysts are used to help assess companies.

7.3 Mr. McCoy discussed the Artisan portfolio as it relates to the EM strategy. The EM team is separate from others in the company. Reputational risk is always considered. ESG is now part of their business model, having formalized ESG scoring in 2014. They departed the meeting at 1:00 PM.

8.0 <u>Discussion</u>

8.1 Mr. Cozzoni recapped Mercer's thoughts about the three presenting firms. It was agreed that a choice was difficult because all were impressive. Artisan's style is similar to GW&K Trilogy Emerging Markets which is currently held in the portfolio. Mercer prefers either Acadian or NinetyOne as their value-bias complements GW&K Trilogy's growth-bias. Acadian, it was pointed out, is enormous in terms of asset size. Artisan's performance has been strong and they are likely to pivot with changes in the market.

8.2 In summary, favor tilted slightly towards Artisan although the growth-bias was a potential concern. The correlation statistics were similar across all three candidates, providing some comfort around Artisan's growth bias. Others favored Ninety-One because of their value-bias but were impressed with Artisan also. There was some discussion around Artisan's B+ rating and Ninety-One's name change. Mr. Cozzoni offered to gather additional research on Artisan and Ninety-One to help facilitate a decision, specifically looking to see if there is a real difference between high quality value and growth or if it is just semantics. Both Artisan and Ninety-One have a high quality bias. It was agreed that additional information would be obtained, posted on the Extranet for everyone to review, and a meeting called ASAP after the information is distributed. The final decision could be made via e-mail. Mr. Barnes pointed out that New York Corporate law requires a unanimous decision if voting by e-mail. Therefore, it was agreed to vote via email and, if necessary, a Zoom meeting could be held to make the change prior to year-end.

The meeting was adjourned at 1:26 PM.

Respectfully submitted,
Nancy Caparulo
Staff Support to the Committee