

EXECUTIVE COUNCIL INVESTMENT COMMITTEE

Membership

Mr. Michael John Kerr, <i>Chair</i>	Virginia, III	2018
Mr. David L. Alvarez-Roldan	Puerto Rico, IX	2018
Mr. N. Kurt Barnes	New York, II	2018
The Rt. Rev. Clifton Daniel, 3 rd , D.D.	Pennsylvania, III	2018
Ms. Dena Frith Moore	Virginia, III	2018
The Rt. Rev. Rodney R. Michel	Pennsylvania, III	2018
Mr. Benjamin Waring Partridge, IV	The Virgin Islands, II	2018
Ms. Maibeth J. Porter	Alabama, IV	2018
Mr. Ronald Radcliff, Jr.	South Carolina, IV	2018
The Rev. Andrew Walter	Washington, D.C., III	2018
The Most Rev. Michael Bruce Curry, <i>Ex-Officio</i>	North Carolina, IV	2018
The Rev. Gay Clark Jennings, <i>Ex-Officio</i>	Ohio, V	2018

Mandate

In accordance with Executive Council By-laws, the Investment Committee has all the authority of the Council and Board of Directors of The Domestic and Foreign Missionary Society of The Protestant Episcopal Church (DFMS, or the Society) under the law to act on the investment and reinvestment of institutional funds or assets of The Episcopal Church, the General Convention, the Council, and the Society; as well as any on other funds or assets held by the foregoing for investment.

Summary of Work

The Investment Committee recommends investment objectives designed to provide a sustainable and increasing level of income to support the ministries of The Episcopal Church in accordance with the wishes of the donors or owners of those funds, while preserving the real (inflation-adjusted) purchasing power of the funds. It also develops and regularly updates Investment Policies that assist the Committee in effectively supervising, monitoring, and evaluating the investment of the Endowment's assets.

The Committee establishes strategies and policies for the management of the investment portfolio, which includes the trust funds of the official corporation – The Domestic and Foreign Missionary Society – and other Episcopal entities that wish to co-invest with the DFMS.

The portfolio is diversified and continues to be focused on equities, with approximately 63 percent invested in equities; 17.5 percent invested in fixed income; and 19.5 percent in convertibles, hedge fund

of funds, and real estate. The Committee continues to evaluate portfolio return, while maximizing risk protection by reducing U.S. equity allocation and increasing non-U.S. equity and alternative investments.

Long-term performance of the trusts has been exceptional, with annual returns, after all fees and expenses, of +4.9% for the 10 years ending June 30, 2017, which includes the 2008-2009 economic downturn. The current one (1) year net return ending June 30, 2017 reflects a 15.0% gain. Over the one (1), three (3) and five (5) year periods, the portfolio performance has been ranked in the top twenty (20) percent of all foundations with assets between \$250 million and \$1 billion, as tracked by the InvestorForce Performance Reporting Network (subsidiary of MSCI Inc.). Since inception of the current portfolio on January 31, 1993, the annualized net performance has been 8.1%. Since June 30, 2015, the market value of the portfolio has risen from \$373 million to \$420 million as of June 30, 2017.

During the triennium, ECIC has worked closely with the Committee for Corporate Social Responsibility (CCSR) and the Economic Justice Loan Committee (EJLC), with liaisons to each of those committees. ECIC thanks the chairs of those committees, the Rev. Canon Brian Grieves and Mr. Warren Wong, for their responsiveness to our interdependent work. ECIC continues to be well-served by Mr. Kurt Barnes and a very dedicated staff from The Episcopal Church Center.

Over the last three (3) years, ECIC has reviewed and revised the Investment Policy Statement with approval from the Executive Council. ECIC has also dealt with two (2) primary goals during this triennium beyond ongoing portfolio oversight.

First, ECIC has worked very closely with our investment consultant, Mercer, on how to respond as fiduciaries to the General Convention resolution C045, requesting a divestment of fossil fuels from the portfolio. To do so, ECIC is adhering to the resolution and is approaching the broadly stated resolution in a fiscally responsible and fiduciary-minded prudent manner. ECIC has worked with specialists in the field of socially responsible investing and have made adjustments to portfolio holdings with an eye towards ESG (Environmental, Social and Governmental) issues. ECIC has reviewed structures for portfolio screening based on ESG Quality rankings, percentages of fossil fuel reserves and Weighted Average Carbon Intensity (WACI). Classifying investment opportunities along a continuum involving sustainability and active ESG integration into investment decisions will be a focus of ECIC in the second half of 2017. The resolution is contrary to the long-standing position of The Episcopal Church of engagement rather than divestment. The Episcopal Church has made socially responsible investments at least since the 1960s – and ECIC continues this practice, following a trinity of avoidance, affirmative action, and advocacy:

1. Avoidance: Not investing in companies whose activities are contrary to our social and moral values.

2. **Affirmative Investing:** Investing in institutions that can provide financial resources to underserved communities.
3. **Advocacy:** Voting proxies and activism that focus on constructively influencing corporate behavior.

ECIC is cognizant of the important work of CCSR in addressing current issues by means of ECIC retaining shares in specific companies. Without ownership, CCSR cannot engage companies in pursuit of social justice, from board diversity to human trafficking or from climate change to the Dakota Pipeline access.

To this end, subsequent to its November 2017 meeting, the committee adopted a formal strategy resolution on implementation of a response to Co45. A copy of which is attached to this report.

Second, ECIC has worked with Mercer on numerous Monte Carlo simulations on the spending rate imposed on the portfolio from the actions of General Convention. The current Investment Policy Statement allows for a spending rate ranging from 4.0% to 5.0%. The current spending model for the triennium has been a base of 5% plus an additional allocation from the floor of General Convention pushing the actual spending rate to 5.7%. 10,000 simulations involving expected return, expected inflation and spending rates of 4.5%, 5% and the current 5.7% were generated over a prospective ten (10) year period. The difference in median case estimates of portfolio market value is a \$55 million gap. The projections on such ongoing and excessive draws adversely impact the long-term sustainability of the portfolio to support the ministries of The Episcopal Church of the future. ECIC proposed a gradual reduction of the spending rate over the coming triennium and appreciates the June 10, 2016 agreement and endorsement of the Executive Council in reducing the planned budgetary draw on the portfolio from five (5) percent to four (4) and one-half ($\frac{1}{2}$) percent (each based on a trailing five (5) year market value average) during the 2019-2021 triennium.

The DFMS investment portfolio consists of the following three (3) types of funds:

- Endowment funds held and managed by DFMS and benefiting DFMS;
- Funds owned by and benefiting other Episcopal and Anglican entities in the United States and abroad, for which the DFMS is the trustee;
- Custodial funds held and managed by the DFMS, but owned by and benefiting other Episcopal and Anglican entities in the United States and abroad.

There are almost one thousand one hundred (1,100) trust funds maintained in a common portfolio, managed by sixteen (16) investment managers and participating on a pro-rata basis in all returns of that portfolio. The Society is also trustee for nineteen (19) charitable trusts, which are separately invested and managed, but are not commingled with any other fund, as required by law. The

Treasurer's Office publishes an annual trust fund book, and the Investment Committee reports regularly to the Executive Council.

Budget

The Committee meets four (4) times each year, generally in person, to review performance and discuss current investment issues. The Committee's expenses are charged to the income of the endowment.