The background of the slide is a solid blue color with a subtle, embossed texture that resembles a mountain range or a series of ridges. The lighting is slightly brighter in the center, creating a sense of depth and highlighting the texture.

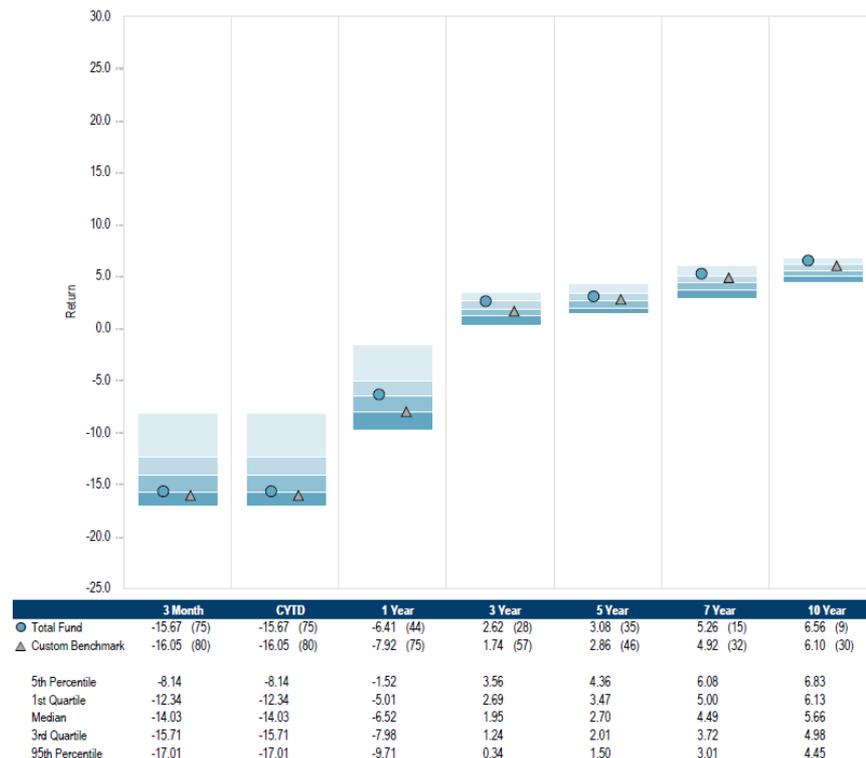
# **Investing with Us: DFMS Trust Fund Management**

**August 2020**

# Investment Strategy

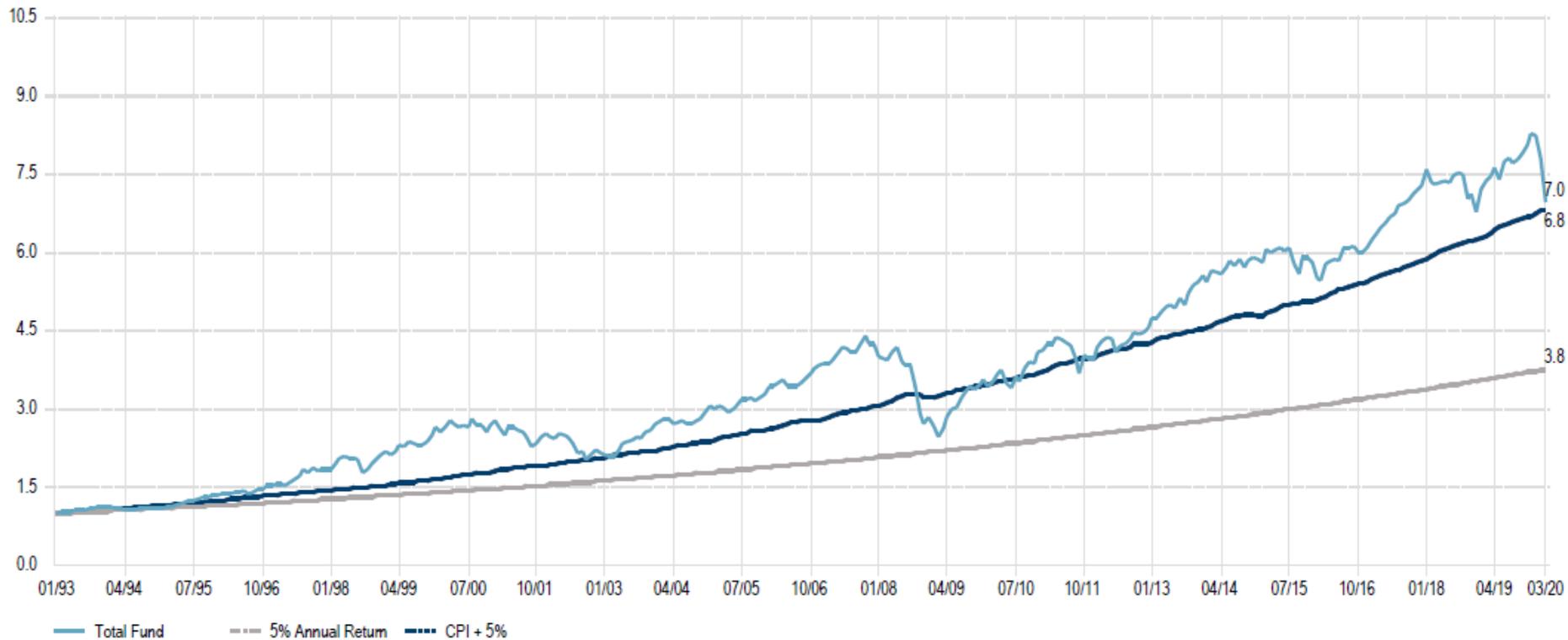
- Maximize total return with a strong emphasis on preserving capital in real terms
- Participate in rising markets, with defensive action in declining markets
- Overall portfolio should generally be less volatile than the market though individual investment managers may show higher levels of volatility
- Goal to generate an average annual real total return (after all fees and inflation as measured by the CPI index) in excess of the DFMS annual spending rate (approx. 5%) over rolling five-year periods

All Foundations \$250M-\$1B



# Total Fund Performance Measurement as of 03/31/2020

- Returns since 1Q2020 have recovered to the usual excess return



# Investment Oversight Participants

- 1. Executive Council Investment Committee (IC)**
- 2. Independent Investment Consultant**
- 3. SEC-registered Investment Managers**
- 4. Experienced DFMS Staff**

# Investment Oversight Responsibilities

**Investment Committee is empowered to:**

- **Recommend and review investment policies and objectives**
- **Determine asset allocation**
- **Select or remove investment managers and other advisors and service providers**

**Investment Consultant is retained by the Investment Committee**

- **Mercer and its predecessor have been in place since the late 1990s**
- **Assists in the overall strategic investment direction of the Trust**
- **Is reviewed annually**

**Investment Managers are responsible for making all investment decisions on a discretionary basis**

- **16 different managers, 16 different styles and approach add provide diversification and risk reduction from philosophy, style and security selection**

# Investment Oversight: Investment Committee

## Executive Council Investment Committee (IC)

**Nine-member committee of investment, business and legal professionals**

- **Recommends and reviews investment policies and objectives**
- **Determines asset allocation**
- **Selects or removes investment managers and other advisors and service providers**

<b>Member</b>	<b>Diocese</b>	<b>Member</b>	<b>Diocese</b>
<b>The Rev. Andrew Walter</b>	<b>Washington</b>		
<b>Mr. Dale Akinla</b>	<b>New York</b>	<b>Mr. Gordon Fowler</b>	<b>Pennsylvania</b>
<b>Ms. Marion Austin</b>	<b>San Joaquin</b>	<b>Ms. Holli Powell</b>	<b>Lexington</b>
<b>Mr. N. Kurt Barnes</b>	<b>New York</b>	<b>Mr. James Simon</b>	<b>Ohio</b>
<b>Ms. Janet Brown</b>	<b>California</b>	<b>Mr. John Talty</b>	<b>New York</b>

# Investment Oversight: Consultant and Managers

## **The Investment Consultant**

- Retained by the Investment Committee
- Mercer, the current advisor and its predecessor, Evaluation Associates, acquired in 2012, have been in place since the late 1990s
- Assists in the overall strategic investment direction of the Trust
- Is reviewed annually

**Investment managers** are responsible for making all investment decisions on a discretionary basis:

- Each is given return objectives and diversification guidelines
- Each must submit regular reports and meet with the IC, DFMS staff and consultant as requested
- Each must follow social responsibility guidelines approved by GC and EC

# Investment Policy: Asset Mix

<b>Asset Class</b>	<b>Min</b>	<b>Target</b>	<b>Max</b>	<b>06/30/2020</b>	<b>Benchmark</b>
<b>Domestic Equity</b>	<b>27%</b>	<b>33%</b>	<b>39%</b>	<b>36.0%</b>	<b>Russell 3000 Index</b>
<b>International Equities</b>	<b>10%</b>	<b>24%</b>	<b>28%</b>	<b>24.0%</b>	<b>MSCI All Country World ex US Index</b>
<b>Emerging Markets Equities</b>	<b>3%</b>	<b>6%</b>	<b>8%</b>	<b>6.0%</b>	<b>MSCI EM Gross Index</b>
<b>Hedge Fund of Funds</b>	<b>13%</b>	<b>16%</b>	<b>19%</b>	<b>14.0%</b>	<b>HFRI FOF Strategic Index</b>
<b>Fixed Income</b>	<b>14%</b>	<b>17.5%</b>	<b>21%</b>	<b>16.7%</b>	<b>Barclays US Aggregate Index</b>
<b>Real Estate</b>	<b>2%</b>	<b>3.5%</b>	<b>5%</b>	<b>4.3%</b>	<b>NAREIT Global Property Index</b>

See our Investment Policy Statement at  
<https://www.episcopalchurch.org/page/investing-us>

# Investment Selection: Portfolio Managers

## Portfolio Managers (are all SEC-registered Advisors)

Domestic Large Cap-Growth	Crossmark Edgewood Management Legal & General Investment Management (America)
Domestic Large Cap-Value Equity	Westwood Management
Domestic Small and Mid-Cap Equity	Boston Partners Wells Capital Management
Hedge Fund-of-Funds	Blackstone Alternative Asset Management Mercer Hedge Fund Investors
International and Global Equity	Altrinsic Global Advisors American Century DFA Emerging Mkts Social Core GW&K Investment Management Lazard International
Bonds	Loomis Sayles Multi-Credit State Street Global Advisors Western Asset Management
Real Estate	Principal Global REIT

# **Investment Selection: Portfolio Manager Changes in last 12 months**

**Principal Global Investors replaced REIT (real estate) manager  
Brookfield, effective February 2020**

**Legal & General Investment Management America, replaced Crossmark  
equities, effective June 2020**

**Loomis Sayles & Company replaced Brandywine global bonds, effective  
June 2020**

# Investment Administration and Accounting

**Staff members have all been with the DFMS for 15 years of more:**

- **Kurt Barnes, Treasurer & CFO, prior experience in corporate finance and managing pension funds at Morgan Stanley and International Nickel Company**
- **Margareth Crosnier de Bellaistre, Director of Investment Management & Banking**
- **Lloyd Mondal, Investment Accountant**

## **Audit Committee**

- **Six-member committee of the Executive Council and the Society, includes an annual review of the investment program through regular reports from the Treasurer and the annual audit by the external auditors**
- **The trust assets represent 80%+ of the consolidated total assets, so are a particular focus of the annual audit**

# Trust Funds Assets and Performance

**Total assets at 06/30/2020 million \$483 million**

**Annual performance net of all fees and expenses: 8.0% since 1992; 9.1% last 10 years**

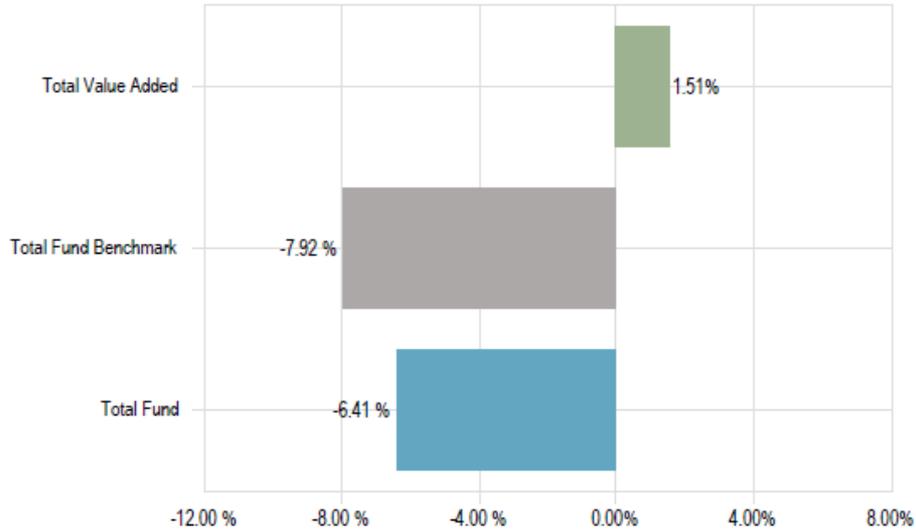
- **Covers annual dividend of 5% plus historic inflation at 2.1%**
- **Consistent performance in the top 20% among peers (holding trusts assets in excess of \$250 mil)**

## PORTFOLIO PERFORMANCE

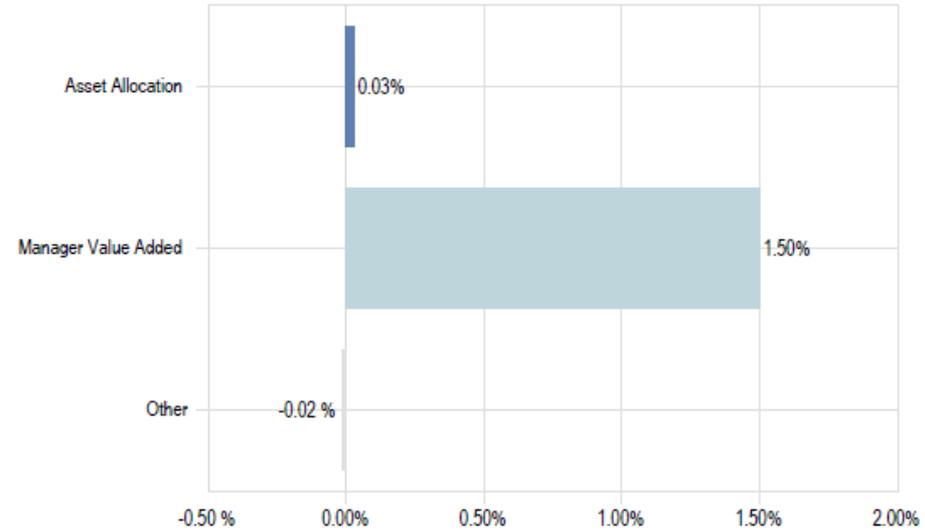
	<b>2nd Quarter</b>	<b>YTD</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
Portfolio Return (gross)	16.8%	-1.3%	5.5%	7.1%	6.8%	9.8%
Portfolio Return (net)	16.7%	-1.6%	5.0%	6.5%	6.2%	9.1%
Custom Benchmark (gross)	14.2%	-4.2%	2.0%	5.1%	5.6%	8.4%
S&P 500 (gross)	20.5%	-3.1%	7.5%	10.7%	10.7%	14.0%
No. shares outstanding	20,376,976.36					
Market Value	\$483,390,643					

# Total Fund Performance Attribution: 12 months through 3/30/2020

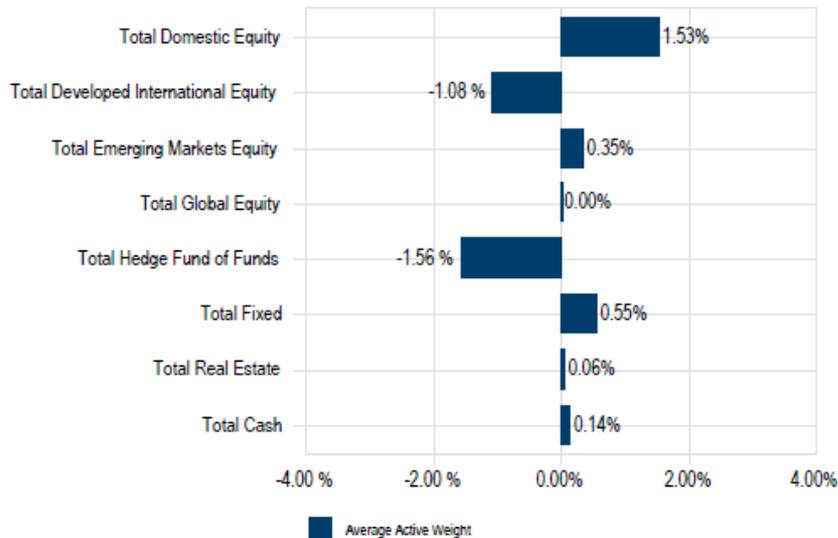
**Total Fund Performance**



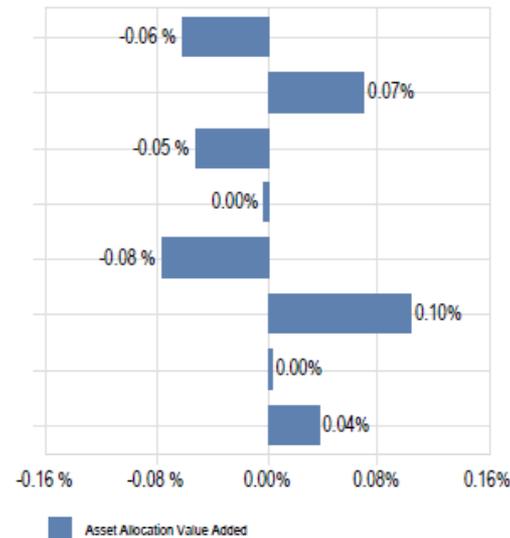
**Total Value Added: 1.51%**



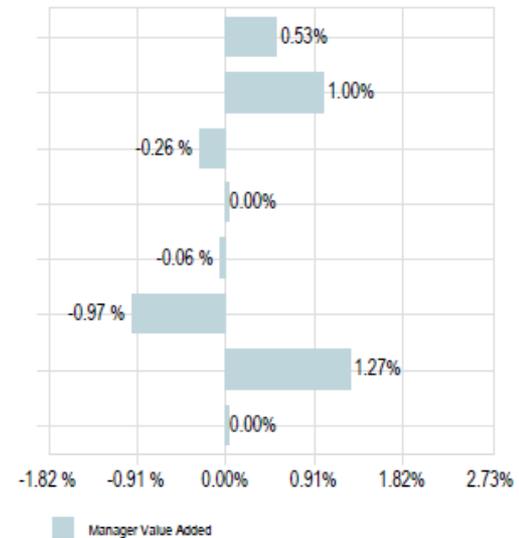
**Average Active Weight**



**Asset Allocation Value Added: 0.03%**



**Total Manager Value Added: 1.50%**



# Market Turbulence 2020

**Equity markets have been extremely volatile recently, with significant daily moves**

- The S&P 500 moved more than 10% over three consecutive trading days
- The VIX Index of implied volatility in options prices spiked to over 80, the highest level since the 2008 financial crisis (normal range 10 to 30)

**The economic toll of the COVID-19 pandemic is highly uncertain**

- Maybe a 3% decline in GDP this year

**Government responses will influence growth**

**Fiscal policy makers have responded erratically with large stimulus measures**

- Supporting industries
- Sending cash to households
- Direct assistance related to unemployment and paid family or sick leave

**Monetary policy (and central banks) will underpin financial conditions**

- Interest rate cuts
- Increased Fed purchases to provide market liquidity (buying corporate bonds and lending to small businesses – sort of bypassing the banking system)
- Banks are holding significant amounts of cash reflecting their uncertainty about direction of the economy

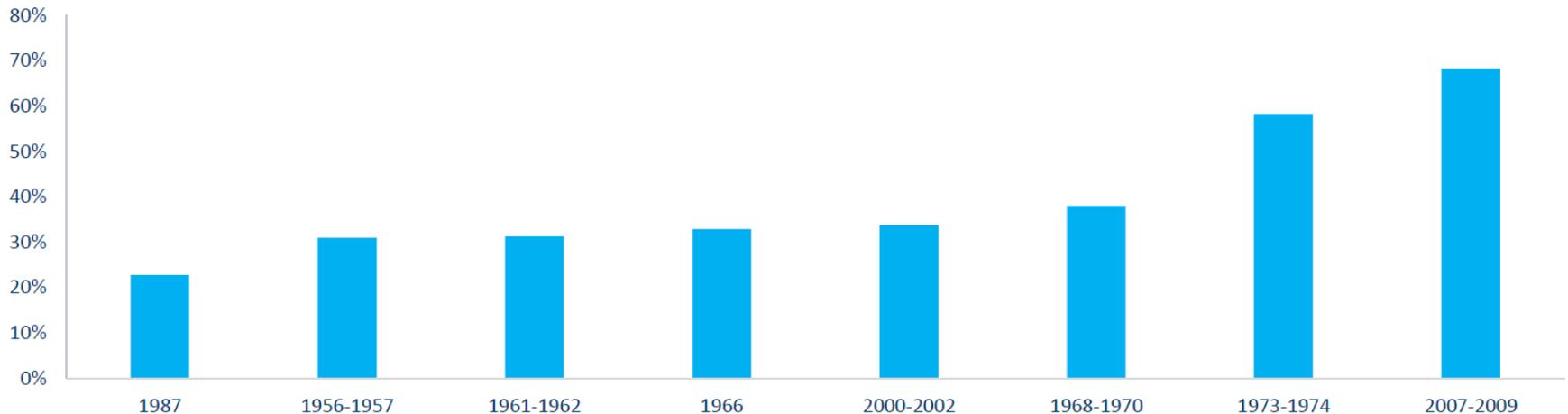
# After a Bear Market

**Subsequent returns after the bottom of a bear market have been very strong**

**We cannot forecast the bottom – we are not market timers – but can highlight the importance of sticking to a long-term strategy that works**

## S&P Drawdowns

**Subsequent 12-Month Returns Post-WII Bear Markets**  
As of March 16, 2020



# After a Bear Market

**The DFMS Investment Policy Statement provides asset allocation ranges to ensure against significant drifts from long-term strategy**

**The equity allocation at June 30th was approximately 65%**

- **Recovering from 58% at 3/30/2020**
- **Within the range of 40% to 75%**

**Because market liquidity tightened during 1Q2020**

- **Full rebalancing can be more costly than usual, so**
- **We rebalanced half-way to the target allocation, and**
- **Ensured that we have adequate cash for 3 to 6 months of dividend distributions**
- **Portfolio outperformance kicked in the rest**

# Where to Now?

**The Episcopal Church has made socially responsible investments at least since the 1960s – and we continue, following a trinity of avoidance, affirmative action, and advocacy.**

**Avoidance: Not investing in companies whose activities are contrary to our social and moral values. A no-buy list includes tobacco; militarism; for-profit prisons; human rights.** No-buy list at

[https://episcopalchurch.org/files/no\\_buy\\_list\\_feb\\_2020\\_final.pdf](https://episcopalchurch.org/files/no_buy_list_feb_2020_final.pdf)

**Affirmative Investing: Investing in institutions that can provide financial resources to underserved communities. Currently \$6.4 million of loans to community development organizations.** See

[https://episcopalchurch.org/files/ejl\\_loan\\_repot\\_-\\_1q2020.pdf](https://episcopalchurch.org/files/ejl_loan_repot_-_1q2020.pdf)

**Advocacy: Voting proxies and activism that focus on constructively influencing corporate behavior. Signed onto 15 letters in last 12 months encouraging companies to improve their operating and human rights policies.** Proxy policies at

[https://episcopalchurch.org/files/ec\\_proxy\\_voting\\_spreadsheet\\_2020.pdf](https://episcopalchurch.org/files/ec_proxy_voting_spreadsheet_2020.pdf)

# Why Invest with the DFMS

- **Consistent performance that has ranked in the top 20% of all large endowment funds**
- **Average returns to investors after all fees and expenses of approximately 8% since 1992**
- **A broadly diversified portfolio of actively-managed assets even for the smallest investor**
- **Ability to add to or remove assets at any time without charge plus either reinvestment or quarterly dividend payouts**
- **Oversight by nine Episcopalians with extensive backgrounds in investments**
- **Participation in a fund that seeks to make a difference by investing in socially responsible ways adopted by the Church**
- **No added fees (unlike virtually all other managers). You receive the full return that the DFMS receives**
- **Our sole purpose is to further the mission of The Episcopal Church by maximizing funds available for ministry. Your mission is our mission.**

# Learn More About Investing with the DFMS

- We welcome any Episcopal entity, regardless of size
- We currently administer over 1,200 individual trusts
- See our investment pages at  
<https://www.episcopalchurch.org/page/investment-portfolio>
- Contact us at  
[margarethcdeb@dfms.org](mailto:margarethcdeb@dfms.org) 212-922-5293  
[kbarnes@episcopalchurch.org](mailto:kbarnes@episcopalchurch.org) 212-922-5292

# Investing with Us: DFMS Trust Fund Management

August 2020