

MENNONITE EDUCATION AGENCY INVESTMENT COMMITTEE SEPTEMBER 30, 2016 QUARTERLY REPORT

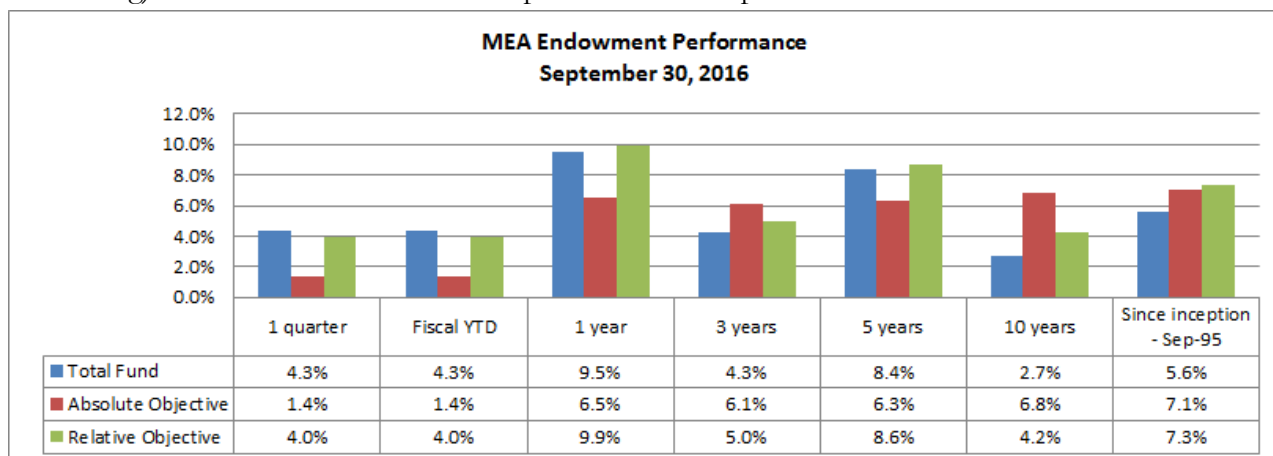
CAPITAL MARKETS

Global equity markets inched higher in September, providing a quiet end to the third quarter. The lack of decisiveness from central banks and mixed economic data provided no clear catalyst to markets. After a shaky first half of the month, equities recovered, partly because of the Bank of Japan's announcement to modify its quantitative and qualitative easing program (QQE). As expected, the European Central Bank and the Fed did not take any new action and kept rates unchanged. While central banks are still driving markets, analysts are increasingly questioning the limits of monetary policy to spur growth. (Source: Mercer Market Summary – September 2016)



PERFORMANCE

Fund performance relative to the absolute and relative objectives is illustrated on the graph below. One point of reference is that the committee changed investment consultants (to Mercer Investment Consulting) in the fall of 2009. Note that performance is reported net of fees.



¹ The Absolute Objective consists of an 8% annual return through 6/30/2000, CPI + 3.5% from 7/1/2000 through 12/31/2004 and CPI + 5% from 1/1/2005 through current

²The Relative Objective consists of 25% S&P 500, 20% Russell Mid Cap, 20% Russell 2000, 20% MSCI EAFE, 10% NCREIF, 5% BC Aggregate prior to July 1, 2010; then 22% S&P 500, 8% Russell Mid Cap, 6% Russell 2000, 22% MSCI EAFE, 7% MSCI EM Gross, 5% BoA HY, 6% NCREIF ODCE, 5% Mennonite PE Actual and 19% BC Aggregate between July 1, 2010 and November 1, 2010; then 16.5% S&P 500, 7.5% Russell Mid Cap, 6% Russell 2000, 20% MSCI EAFE, 10% MSCI EM Gross, 5% BoA HY BB-B Constrained, 6% NCREIF ODCE, 16.5% BC Aggregate, 5% Mennonite PE Actual and 7.5% DJ USB Commodities Index between December 1, 2010 and June 2012; then 16.5% S&P 500, 7.5% Russell Mid Cap, 6% Russell 2000, 20% MSCI EAFE, 10% MSCI EM Gross, 5% BOA ML HY BB-B Constrained, 6% NCREIF ODCE, 16.5% BC Aggregate, 5% Mennonite PE Actual, 5% DJ UBS Commodities Index and 2.5% 3 Month-Bill between July 1, 2012 and March 31, 2013; then 16.5% S&P 500, 7.5 Russell Mid Cap, 6% Russell 2000, 20% MSCI EAFE, 10% MSCI EM Gross, 5% BoA ML HY BB-B Constrained, 6% NCREIF ODCE, 11.5% BC Aggregate, 5% Ashmore EM Custom, 5% Mennonite PE Actual, 5% DJ UBS Commodities Index and 2.5% 3 Month T-Bill between April 1, 2013 and June 30, 2013. Effective July 1, 2013 the Relative Objective consists of 15.5% S&P 500, 6.5% Russell Mid Cap, 5% Russell 2000, 17% MSCI EAFE, 10% MSCI EM Gross, 5% BoA ML HY BB-B Constrained, 3% NCREIF ODCE, 7.5% BC Aggregate, 5% Ashmore EM Custom, 10% Mennonite PE Actual, 3% DJ UBS Commodities Index, 10% CPI + 6.5% and 2.5% 3 Month T-Bill.

INVESTMENT COMMITTEE UPDATES

- Meeting: The MEA Investment Committee met September 19, 2016 in Saint Louis in conjunction with the Mercer Client Conference. The business officers from the colleges/universities/seminaries were invited to this annual meeting.
- Investment Review: Mercer reported that the markets adjusted well to Brexit. Markets have come back and the endowment fund had a fairly good quarter. Low interest rates and elevated equity valuations suggest a modest return outlook. At the end of June, the fund was worth \$136.8 million.
- Pax World High Yield Bond presentation: Pax World focuses on sustainable investing with ten different products and strategies. It has \$4 billion in assets. Peter Schwab, portfolio manager, said that performance has stabilized.
- Mercer strategic research: Anthony Brown, director of strategic research at Mercer, reported that it is a difficult environment for investors partly due to a low interest rate environment. If this interest rate cycle ends, bonds may not be such a good diversifier. In the next few years, equities should return to low single digit returns, but at five to seven percent looking at a ten-year horizon. There will be higher upside opportunities for international equities which carry higher risk. Brexit has caused long-term concern about the Eurozone.
- SJF Ventures IV: The committee made a commitment to invest in SJF Ventures IV. SJF is an equity firm that incorporates mission impact in investment strategy. Its industry focus is asset recovery and reuse (e.g. recycling computers). SJF has Mercer's highest ESG rating of one. SJF Ventures IV provides a nice diversifier with the committee's other private equity holdings.
- Climate change: MEA, along with Everence and Goshen College, co-sponsored Mark Campanale to speak in various settings at Goshen College (October, 2016) about climate change, including a public lecture entitled "Climate at the Crossroads: The Investor Role in Achieving a Low-Carbon Future."

MEA also helped support a literature review written by two students from Goshen College entitled "Socially Responsible Investing within the Mennonite Education Agency".

- Future meetings of the MEA Investment Committee:
 - February 24-25, 2017: Tampa, Florida
 - May 12, 2017: Denver, Colorado
 - September 29, 2017 (with Business Officers): Chicago, Illinois