CAPITAL MARKETS

Global equities traded modestly higher in September, closing out a strong but turbulent third quarter. Gains were driven by US stocks with the S&P 500 touching fresh highs. Developed markets outside the US rebounded, led by the UK, Italy and Japan while performance in emerging markets was mixed. Trade tensions continued to weigh on market sentiment. The US reached trade agreements with Canada, Mexico, South Korea and Japan. However, the focus remains on the US relationship with China. (Source: Mercer Market Summary – September 2018)

PERFORMANCE

Fund performance relative to the absolute, actual 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.
2 The Actual Benchmark measures the Total Fund’s return had it been passively invested in the underlying managers’ benchmarks at the prior month end weight.
3 The Relative Objective consists of 25% S&P 500, 20% Russell Mid Cap, 20% Russell 2000, 20% MSCI EAFE, 10% NCREIF, 5% BBgBarc 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 ODCDE, 5% Mennonite PE Actual and 19% BBgBarc Aggregate between July 1, 2010 and November 30, 2010; 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 ODCDE, 16.5% BBgBarc Aggregate, 5% Mennonite PE Actual and 7.5% Bloomberg Commodities Index between December 1, 2010 and June 30 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 ODCDE, 16.5% BBgBarc Aggregate, 5% Mennonite PE Actual, 5% Bloomberg Commodities Index and 2.5% 3 Month T-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 ODCDE, 11.5% BBgBarc Aggregate, 5% Ashmore EM Custom, 5% Mennonite PE Actual, 5% Bloomberg 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 ODCDE, 7.5% BBgBarc Aggregate, 5% Ashmore EM Custom, 10% Mennonite PE Actual, 3% Bloomberg Commodities Index, 10% HFRI Fund of Fund Composite Index and 2.5% 3 Month T-Bill.
INVESTMENT COMMITTEE UPDATES

- The Mennonite Education Agency (MEA) Investment Committee (Committee) met October 1, 2018 in Chicago, Illinois.

- The Committee participated in a new continuing education session that will be included in meeting agendas this year. This first session focused on private investments, using the book *Pioneering Portfolio Management* by David Swensen. Two articles outlining the case for expected lower returns on most major asset classes over the next decade were also reviewed.

- The MEA Investment Fund’s (the Fund) commitment model calls for $6.2 million to be invested in private investments over the 2018 and 2019 fiscal years to achieve the 10% policy target while maintaining vintage year diversification. The committee hired three private investment firms to accomplish this: Paine Schwartz Partners (private equity), Audax Direct Lending Solutions and TCW Direct Lending (both, private debt firms).

- Two of the current investment managers gave presentations and had discussions with the Committee. Dimensional Fund Advisors manages emerging markets social core equities. They have been applying social screens for over 30 years. Annualized returns for three years have been 12.07%.

- Wellington Management also gave a presentation on their commodities portfolio. Commodities are considered a diversifier and a hedge against unanticipated rising inflation for the Fund.

- The Business Officers from Hesston College, Eastern Mennonite University, Goshen College, Bluffton University and Anabaptist Mennonite Biblical Seminary attended the Committee meeting to bring updates from their institutions and offer suggestions/concerns to the Committee.

- The Business Officers also provided input on ways to enhance communication from the Investment Committee to the pool participants. This quarterly report will continue to be given to investors. Committee representatives are also available to meet with pool participants at least every other year, either via video conference, telephone or in-person meetings. Please feel free to contact Lisa Heinz (information below) to set up a time.

- After a thorough review of the pros and cons of using the Parametric overlay program, the Committee decided to discontinue the relationship. The program was added in 2006 to equitize cash, rebalance the portfolio, and manage transitions. The Committee felt that the work is not needed any more and not worth the annual minimum fee.

- Chad Horning was appointed to serve on the Investment Committee. Chad brings extensive investment expertise. As Chief Investment Officer at Everence (2008-present), he leads the investment team that manages corporate assets, client portfolios, and Praxis Mutual Funds, for which he serves as president (2014-present).

Future meetings of the MEA Investment Committee

- January 25, 2019 Chicago, Illinois
- June 3, 2019 Location to be determined

For additional information please contact: Lisa Heinz, Mennonite Education Agency
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