

**MENNONITE EDUCATION AGENCY  
INVESTMENT COMMITTEE  
MARCH 31, 2019 QUARTERLY REPORT**

**CAPITAL MARKETS**

**S&P 500 April 1, 2018 – March 31, 2019**

Global markets continued to advance in March, closing out their best quarter since Q3 of 2010. Perceived progress on trade negotiations and a surprisingly dovish Fed announcement overcame deepening growth concerns. Slowing global growth, a weaker corporate earnings

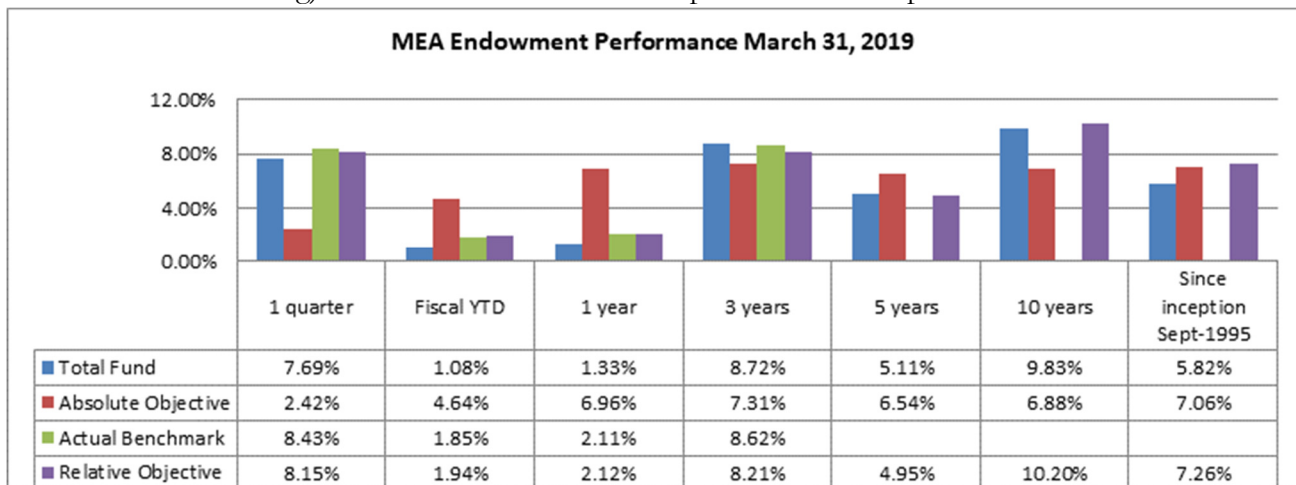


growth outlook as well as increasing financial vulnerability in the corporate sector remain risks for markets. Moreover, uncertainty surrounding Brexit and upcoming elections in Turkey, Spain, Germany and India fueled tensions. The unfolding situation in Venezuela, along with the re-emerging India-Pakistan conflict showed that geopolitical risks remain elevated.

(Source: Mercer Market Summary – March 2019)

**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.



<sup>1</sup> 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

<sup>2</sup> 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.

<sup>3</sup> The 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% 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 ODCE, 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 ODCE, 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 ODCE, 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 ODCE, 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 January 25-26, 2019 in Chicago, Illinois.
- Continuing Education: The committee discussed two articles: *New Research on Performance Chasing* by Larry Swedroe, and *Investment Committees – How to build a Team to Make Good Decisions* by Michael Mauboussin. Topics discussed included the use of watch lists, time frames for determining manager performance, the importance of cognitive diversity on the committee, decision making processes, optimum committee size, and post-decision audits.
- Commodities: The committee decided to terminate the fund's position in commodities managed by Wellington Commodities. The rationale for holding commodities was to help offset unexpected inflation, but that hasn't been a factor, nor is it expected to be in the near-term. The PIMCO (global asset allocation) holding can offset potential inflation, and is currently outperforming Wellington.
- Fund reallocation: The funds that had been invested in commodities will be reallocated as follows: 1/3 to large cap domestic equities, 1/3 to international developed equities (divided equally between the two managers) and 1/3 to core fixed income.
- Watch list actions: 1. Boston Common (international developed equities) has been removed from the watch list since they are now outperforming/tracking both benchmark and universe comparisons. 2. Pax High Yield Bonds were added to the watch list due to underperformance relative to its peer group and benchmark. 3. Stewart Investors (emerging markets equities) were added to the watch list based on organizational issues.
- Investment Policy Statement: The IPS was updated to add asset allocation ranges for private equity and real estate, conform stewardship investing language to the current language used by Everence, and to revise the conflict of interest policy to clarify the recusal process for investment committee members.
- Stewardship Investment Services: Mark Regier (Everence) reviewed portfolio screening, shareholder advocacy and proxy voting services provided by Everence. Advocacy highlights included progress related to climate change and human rights. Proxy voting included actions on 4,719 proposals. The committee is going to pursue quantifying and reducing climate change risk to the portfolio.
- Update on private investments: Reid Smith (Mercer consulting) reviewed the performance of each of the ten funds we have in Private Investments. The overall IRR for all funds from inception is 9% compared to the MSCI ACWI of 7.92%.
- Manager presentations: Commonfund venture capital and Prologis real estate gave presentations to the Committee. The MEA fund participates in two Commonfund Venture Capital funds and has \$5 million invested with Prologis in a private real estate partnership. This alternative asset is non-correlated with stocks and less volatile than a REIT portfolio.

### Future meetings of the MEA Investment Committee

- June 3, 2019 Chicago, Illinois
- September 15-16, 2019 St Louis, Missouri (in conjunction with the Mercer client conference)
- January 24-25, 2020 Sarasota, Florida