CAPITAL MARKETS

Risk assets continued to recover but at a slower and more volatile pace than in May. Encouraging signs of gradual reopenings across the developed world and a commensurate rebound in economic activity indicators such as payrolls and purchasing manager indices were tempered by evidence of the pandemic gaining pace in a number of US states and its continuing spread in large emerging market countries such as India and Brazil. Regional flare-ups in other countries where the virus seemed to be under control such as China, UK, Germany and South Korea added to the concerns. (Source: Mercer Monthly Capital Market Monitor)

PERFORMANCE

Fund performance relative to the absolute, actual and relative objectives is illustrated on the graph below. 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% 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 primary agenda item at the May 7, 2020 meeting was the MEA Investment Fund’s (the Fund) domestic equity manager transition. Chicago Equity Partners (CEP) had managed the domestic equity portion of the Fund, which was almost 30% ($38.8 million) of the Fund for over a decade. After extensive work by a Domestic Equities search committee, two finalists were chosen to make presentations to the entire Investment Committee (IC). The IC chose Aperio Group which has 20 years of experience managing custom equity portfolios using optimized indexing strategies, often while incorporating SRI/ESG factors on behalf of their clients. The firm’s objective is to deliver investment returns that target public benchmark performance while reflecting the values of their clients as expressed by exclusions. In non-financial terms, we expect the performance of this strategy to be similar to, but not exactly match, the performance of the public benchmark we chose, all while expressing our views about a range of topics including SRI/ESG issues as well as a greater focus on climate change.

- The IC also met on May 18, 2020 and approved a one-page summary titled *Investment Fund Climate Change Position Statement*. Notice of the statement was then published in *The Mennonite* and *Mennonite World Review*, and was also picked up by *Nonprofit News*.

- Other agenda items in the May 18 IC meeting included:
  - Investment Review: The first quarter experienced an unprecedented combination of negative factors including COVID-19 becoming a global pandemic, a dramatic slowdown in economic activity, and a steep decline in the price of oil, etc., resulting in widespread unemployment and a sharp decline in the markets. The MEA Total Fund assets as of March 31, 2020 were $141.8 million compared to approximately $171 million on December 31, 2019; however, by the end of June, assets totaled approximately $159 million.
  - Fossil Fuel Free/Carbon Intensity Exposure level for portfolio: This discussion focused on how the domestic equity portfolio should be invested as it transitions from CEP to Aperio (referenced in the first paragraph, above); the IC’s ESG (Environmental, Social and Governance) subcommittee recommended that the portfolio should be fossil fuel free. Aperio staff presented a chart detailing six possible levels of exclusion for the portfolio. After extensive discussion the IC chose the most complete exclusion option, starting with the Everence exclusion list that covers a range of topics in addition to climate change, further augmented by exclusions that eliminate companies on the basis of carbon reserves and inclusion in the Energy sector.
  - Private equity review: According to its strategy, the IC commits to investing $6 million of new capital to private investments every two years to maintain the targeted allocation. In April, the IC committed $2.5 million to DBL Partners IV. The firm established Fund IV to source venture capital investments in early stage companies in the areas of impact and sustainability. The strategy features a combination of DBL Partners’ foundational belief that financial performance and positive social impact are correlated, and that each factor enhances the other to support a company’s growth and success.

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