

**THE CATHOLIC FOUNDATION
ARCHDIOCESE OF SANTA FE**

**Investment Committee Meeting
August 20, 2019**

Minutes

- Members Present:** Gifford Davis, Gregory Edwards and Jim Higdon
- Members Absent:** Peter Beaudette, Sheila Brown (on sabbatical), Fr. Domme, Annette Hayden, Don Rigali, Stan Sluder and Tony Strati
- Guests:** Annette Bidart - AndCo Consulting
- Staff Present:** Dorothy Sheehi

I. Opening Prayer

The August 20, 2019 Investment Committee (Committee) meeting was called to order at 1:02 p.m. and opened with a prayer by Jim Higdon.

II. Approval of May 14, 2019 Minutes

The May 14th meeting minutes were approved as presented.

III. AndCo – July 31, 2019 Performance and June 30, 2019 Flash Reports

i) Market Insights

Annette reviewed the portfolio returns and fund performance for the quarter ending June 30, 2019 and the Flash Reports for July 31, 2019. She discussed the economic highlights for the quarter and pointed out that broad asset class returns were positive during the second quarter of 2019 with both equity and fixed income indices extending their year-to-date gains. Barclays Corporate IG Index returned 4.5% for the period due to greater interest rate sensitivity, higher yields and tightening credit spreads. She referred to a graph showing the US Treasury yield curve at the end of each of the last four quarters where the downward shift in interest rates as well as a general steepening of the yield curve is clearly visible over the last quarter. The yield curve continues to invert as yields on shorter-term maturities fell less than interest rates in the middle- to long-end of the curve.

ii) Watch list – Vanguard

Annette noted that Vanguard is still on the watchlist, but she does not recommend making any changes at this time.

iii) Fund replacement – Principal High Yield Fund

Annette reviewed the High Yield Fixed Income Manager Analysis report which compared four investment options to replace the Principal High Yield fund. Given the low expense ratio and higher yield, Annette recommended the PGIM (Prudential Global Investment Management) High Yield Z Fund. Annette said the \$5M investment minimum would be waived because of AndCo's relationship with PGIM. After discussion, the following motion was made:

Motion: Jim Higdon made a motion to liquidate the Principal High Yield fund and use \$200k of the proceeds for the 2019 distributions and then re-invest the remaining balance in the PGIM High Yield Z fund. Greg seconded and Gif approved the motion. Dorothy will obtain votes from absentee members via email.

iv) Rebalance endowment fund

Annette will make recommendations for rebalancing the endowment fund portfolio as part of Investment Policy Statements revisions discussed below. The immediate need for funds to make the 2019 distributions will be accomplished through the high yield replacement fund liquidation discussed above.

v) Update benchmarks

Annette will make recommendations for updating benchmarks as part of the Investment Policy Statements revisions discussed in the next section.

vi) Investment Policy Statement (IPS) updates

For both the Endowment and CRT/GA portfolios, Annette reviewed the Asset Allocation Analyses and highlighted the key steps in conducting an effective study. These are to identify and define the objectives, assess risk tolerance, determine appropriate asset classes, model investment portfolio alternatives and select an appropriate target asset allocation.

- i. Endowment – the conclusions reached for this portfolio were first, over the expected mid-term economic environment it will be difficult to achieve a 7% rate of return without increasing risk in the current portfolio to an unacceptable level. Second, capital market assumptions for the next 10-15

years favor emerging markets, real estate, developed international over domestic large cap equity, small cap equity, illiquid investments in private equity, direction lending and infrastructure. Annette's recommendation is to increase policy allowed equity exposure to 70%, increase policy limits on less liquid investments to add infrastructure and target a 6%+ return.

- ii. CRT/GA – In addition to implementing the Endowment recommendations, Annette recommended lowering cash position and increasing allocation to higher expected return asset class. Capital market assumptions suggest increasing positions to emerging markets and small cap equities. UBTI requirements may limit hedge funds and infrastructure in the CRT/GA portfolio.

Annette will revise the IPS for both portfolios and these will be distributed to the full Committee via email for comments.

IV. Cash requirements for 2019 grants / distributions

Dorothy told the Committee that \$1.274M will be needed for the 2019 grants and distributions. Available cash and money market funds are \$200k less than this so Annette made the recommendation discussed in III.(iii) above to provide the additional funds needed.

V. CRT/Gift Annuity Fund

Dorothy reviewed the July 2019 CRT/GA funding schedule, noting that the excess of marketable securities over the current liability was approximately \$715k. Annette raised a question about the interest payout rate for the most recent gift annuity. Dorothy explained it is determined using a software package called Crescendo that considers the age and expected mortality of the annuitant. The rates are computed to produce an average 50% gift to the Foundation at the death of the annuitant. The Committee decided to discuss this further at the next Committee meeting in November.

VI. Other Business

The next meeting date for the Committee was confirmed for Wednesday, November 20, 2019. The meeting adjourned at 3:32 p.m.