

The Management of Investments for the Pooled Endowment Fund of the Episcopal Diocese of Hawai'i

The Pooled Endowment Fund of the Episcopal Diocese of Hawai'i had a value of approximately \$37.9 million as of June 30, 2017. Of that total, approximately 17.4 million belongs to the diocese; the balance is owned by other churches and organizations in the Diocese.

This fund functions like a mutual fund: all participants own shares in all of the holdings. Currently the fund is divided among 6 managers, each with a different "style":

Atalanta Sosnoff Capital Corporation – a Domestic Balanced Manager
Miller Howard Investments – a Domestic Equity Manager and a strategy focusing on Master Limited Partnerships
Cambiar Investors – an International Equity Manager
Stonebridge Advisors – a Domestic Preferred Securities Manager
SSI Investment, Inc. (formerly Froley Revy Investment Management) – a Domestic Convertible Bond Manager
Boyd Watterson – a Domestic Fixed Income Manager

The diocese has a contract with Morgan Stanley to serve as the independent investment monitor and advisor. Morgan Stanley does not manage any money; instead, it monitors the performance of each manager against the diocesan investment policy and the agreed-upon performance benchmarks. The monitor arranges for the Commission of Finance & Administration (F & A) of the Diocesan Council to meet annually with each manager. The monitor also advises the Council (through F & A) on the selection and replacement of managers, asset allocation and provides quarterly reports on the performance of all the managers. The custodian of the funds is Bank of Hawaii and First Hawaiian Bank

The Diocesan Council has adopted an investment policy that is binding upon each of the managers. The Morgan Stanley monitor, checks for compliance with this policy. In addition, the monitor provides F & A with a list of each manager's holdings so that the Department can also review them.

The policy includes a section on social investment screens, as follows:

As a responsible member of society, The Diocese Pooled Endowment Fund wishes to avoid investments in enterprises whose purposes, products or philosophies are deemed destructive to a harmonious and equitable society. Therefore, the investment manager(s) should only purchase investments in companies that do not derive the majority of their revenues from the production, sale or distribution of liquor, or from the ownership or operation of gambling establishments. In addition, the Client has subscribed to the principles and guidelines of The Corporate Social Responsibility Committee, a subcommittee of The Episcopal Church Executive Council that establishes the directives for socially responsible investments. These directives are largely guided by recommendations from the ICCR (Interfaith Center on Corporate Responsibility) with respect to shareholder activism and other socially responsible investment issues.

There are three portfolio restrictions in place based on policies adopted by the Executive Council. They are:

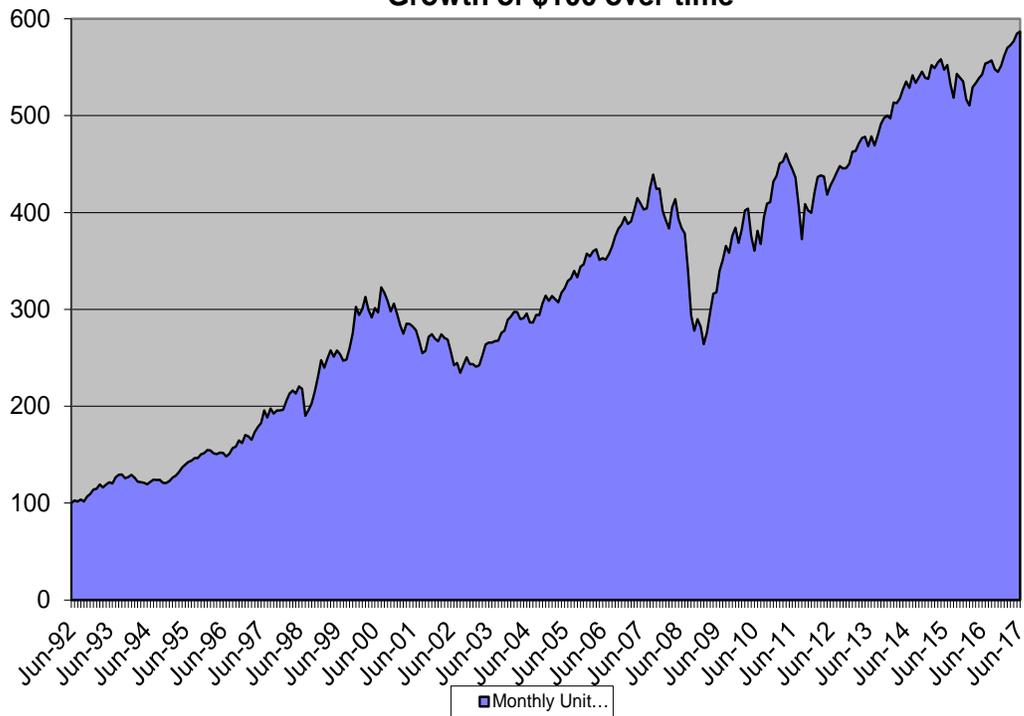
- Militarism: Shares of any company (a) among the top five U.S. defense contractors, measured in dollar volume of sales and (b) any company among the top 50 defense contractors that receives more than fifty percent of its revenues from military contractors.
- Sudan: Companies whose activities make continued human rights violations possible by providing revenues to the Sudanese government.
- Tobacco products: Shares of companies that manufacture or sell tobacco products.

The diocese has also signed up for ProxyEdge, a service in which proxies of securities owned by the Pooled Endowment are voted by the Church Pension Fund. By combining the voting power of many different participating organizations, the Pension Fund is able to exert influence upon corporations whose policies do not meet the ethical standards held by the Church.

Through its investment policy, the Diocesan Council has in place sufficient means to monitor the fund both for performance and for compliance with social policies. The Council receives regular reports (through F & A) from the investment monitor and reviews the investment policy at least annually.

The Fund invests with a targeted equity exposure of 60-70% and as of June 30, 2017 has returned 8.18% for the trailing 1 year, 3.12% annualized for the trailing 3 years, and 6.54% annualized for the trailing 5 years. Since its inception date of June 30, 1992 the Fund has returned a compounded rate of 7.34% annually. All of the long-term performance numbers are net of investment fees. The chart below illustrates the return that a participant has achieved with a starting value of \$100 in June 1992 through June 2017.

Episcopal Church in Hawaii Total Fund Growth of \$100 over time



The fund offers participants the opportunity to invest in a well diversified investment fund that has the oversight of both the Commission of Finance & Administration and a third party consultant. Additionally, participants in the fund benefit from the lower expenses associated with a larger investment pool in both investment management fees as well as institutional commission rates that the fund utilizes.

Please, please remember that the Investment Portfolio is **not a slush fund**. You should not place money into it **unless it is truly long-term in nature**. Please plan your withdrawals well in advance and limit contributions and withdrawals to and from the investment portfolio to the first 15 days of January, April, July and October. Try to avoid activity at other times unless there is an emergency.

To invest in this portfolio, just send your check to the treasurer with a memo as follows:

- 1) Name of fund
- 2) Restrictions of fund
 - principal
 - income
- 3) Quarterly distributions- Reinvest or distribute
 - Reinvest or distribute
- 4) People authorized to withdraw funds

Pl attach a copy of the documentation from the donor (trust, will, memo, letter) to support the restriction; i.e. on what the fund can be used for.

The diocese has a long-term view towards our portfolio management with the understanding that the stock market will experience fluctuations from time to time. We have a total return investment policy and spending policy. Our policies are implemented to ensure that there will be a steady stream of earnings annually, while at the same time ensuring that the fund assets will be there for the future. Our spending policy is set at a payout rate of 5 percent (5%) of the average market value of the Investment Fund over twelve quarters. The spending policy (which we will continue to review), together with sound investment performance, ensures that, over time, the fund will retain its ability to produce earnings.

All Episcopal Churches and Episcopal Schools and related entities of the Diocese can participate in the Pooled Endowment Fund of the Diocese. The Fund allocations are done by an Independent CPA firm. No members of the Diocesan staff or Diocesan Council benefit from this Fund. The Diocese does not charge any fees and does this as a service for our congregations and schools. The Diocesan Council and Standing Committee and senior staff annually complete a Conflict of Interest disclosure form. There are no conflicts of interest. This fund is audited annually by another CPA firm, independent of the CPA firm that does the Pooled Endowment Fund allocations. If you need more information, please contact Peter Pereira, Diocesan Treasurer.