

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

Overview

The Pooled Endowment Fund of the Episcopal Diocese of Hawai'i had a value of approximately \$40.0 million as of June 30, 2019. Of that total, approximately \$19.4 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. Atalanta Sosnoff primarily invests in US Companies and overweights certain sectors (such as technology or financials, etc.) depending on their view of the economic cycle.

Miller Howard Investments – Manages two portfolios. One that focuses on US companies that have a history of rising dividends and a second strategy focusing on the transportation of natural gas.

Cambiar Investors – an International Value Oriented Equity Manager

Stonebridge Advisors – a Domestic Preferred Securities Manager

SSI Investment, Inc. – a Domestic Convertible Bond Manager. Convertibles are utilized to provide most of the upside of equities with less downside.

Boyd Watterson – a Domestic Fixed Income Manager

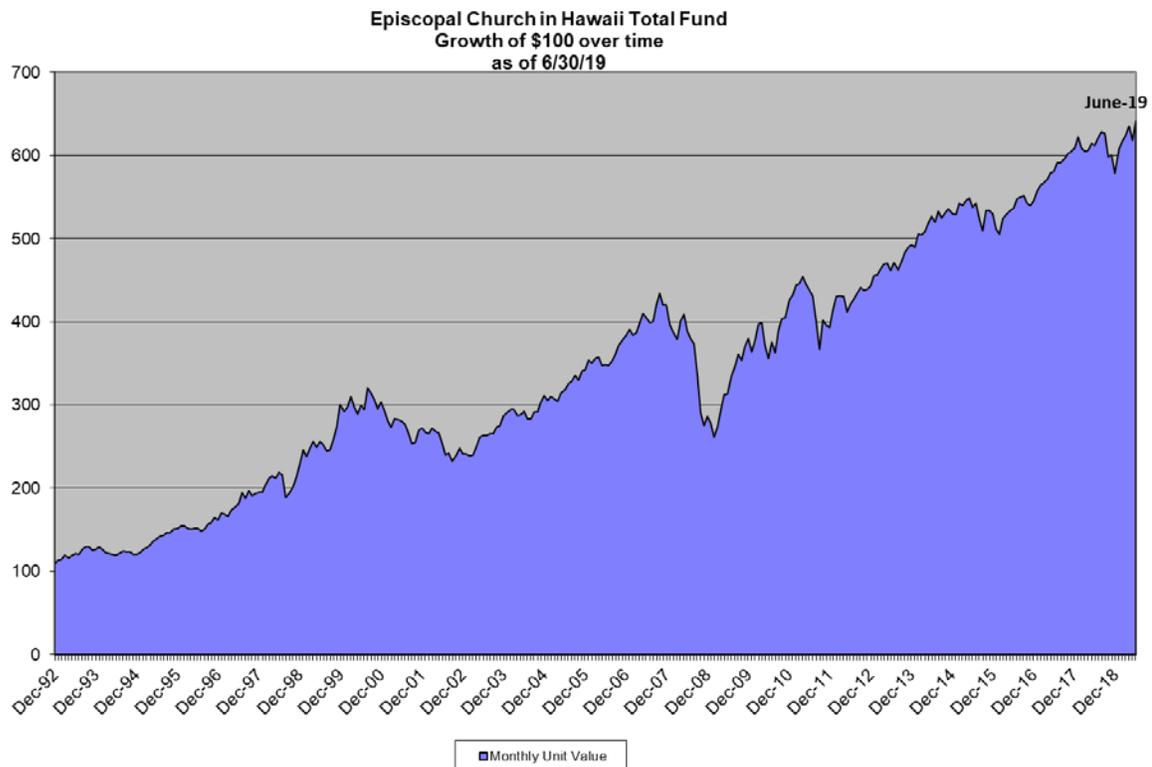
Performance

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 4 percent (4%) 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.

The Pooled Endowment Fund has a targeted allocation of 55% Equity / 45% Fixed Income and Cash. This asset allocation was selected to support the 4% spending policy with a conservative risk profile. **This was deemed appropriate given the fiduciary nature of managing these funds.**

Investment Management fees range from .21% for fixed income and equity managers' fees range from .50-.75%. Morgan Stanley's consulting fees are approximately .23%.

As of June 30, 2019 the Endowment Fund has returned 10.66% year-to-date, 4.72% for the trailing 1 year, 6.07% annualized for the trailing 3 years, and 4.03% annualized for the trailing 5 years. Since its inception date of June 30, 1992 the Fund has returned a compounded rate of 7.13% annually. All of these 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 30, 2018.



Review and Compliance

The diocese has a contract with Morgan Stanley to serve as the independent investment consultant / monitor. 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 on Investment (COI) of the Diocesan Council to meet annually with each manager. The monitor also advises the Council (through COI) 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.

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 Diocese 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 Interfaith Center on Corporate Responsibility (ICCR) with respect to shareholder activism and other socially responsible investment issues.

There are three portfolio restrictions in placed 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 that 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 and sell tobacco products.

The Episcopal Diocese of Hawai'i approved that no more than 5% to 7% of the endowment portfolio be invested in companies named in the list of restricted companies based on the fossil fuel screen applied by the Executive Council Investment Committee. Maintaining a modest exposure to fossil fuels companies will enable the church to continue its active role of corporate engagement and proxy voting along with the Executive Council Committee on Corporate Social Responsibility.

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 COI) from the investment monitor and reviews the investment policy at least annually.

Participation

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

The fund offers participants the opportunity to invest in a well diversified investment fund that has the oversight of both the Commission on Investment 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 or withdraw from this portfolio, Please use the forms on our website. The link is <https://www.episcopalhawaii.org/forms--documents.html>
Go down to investments and you will find the forms.

If you need more information, please contact Peter Pereira, Diocesan Treasurer.