

# ELCA ENDOWMENT FUND POOLED TRUST – FUND A

FOURTH QUARTER 2018 REPORT



**ELCA Foundation**  
Evangelical Lutheran Church in America

## FUND A – FOURTH QUARTER 2018 SUMMARY

During the fourth quarter, Fund A generated a return of -9.12% net. The static 65% equity / 35% fixed income benchmark returned -7.82%. For the calendar year-to-date, the Fund returned -7.83% versus the static 65% equity / 35% fixed benchmark return of -6.00%.

For the quarter, Fund A's allocation to global equities caused a drag on returns owing to the market correction. Underlying manager selection effect resulted in a further deduction from returns. Allocations to private infrastructure which were not subject to public equity market fluctuations added to returns.

2018 was an unusual year in which no asset class outperformed inflation. Even the bond market, as measured by the Bloomberg Barclays U.S. Aggregate Bond index, barely managed to generate a positive return of 0.01%. For the year, the Fund's global equity allocation detracted as equities corrected in Q4.

## MARKET SNAPSHOT

To close out 2018, the S&P 500 recorded its worst quarter since 2011, and in December, its worst month since February 2009. From its peak close of 2,930 on September 20, the index fell as much as 19.78%, coming ever close ending the historic bull market that began in 2009. International markets fared slightly better than the U.S., but overall it was a dismal quarter for markets.

U.S. equities fell significantly in the fourth quarter, as the S&P 500 dropped 13.52% and all but one of the 11 sectors finished in the red. Utilities were the exception, gaining 1.36% as defensive leadership prevailed in difficult market conditions. Other outperformers included Real Estate and Consumer Staples, which fell 3.84% and 5.22%, respectively. Energy was hit the hardest, falling 23.78%. Tech, Industrials, and Consumer Discretionary all underperformed significantly as well, falling 17.34%, 17.32%, and 16.42%, respectively.

International outperformed slightly in the fourth quarter, as divergences in U.S. and world faded in the face of U.S. poor performance. However, international markets remain under pressure as investors weigh weakening economic data in China, Europe, and Japan. The MSCI EAFE Index (a benchmark for international developed markets) fell 12.50% for U.S.-currency investors.

The bond market posted mild gains in the fourth quarter during the equity market rout. The Bloomberg Barclays U.S. Aggregate Bond Index, a general measure of the bond market, rose 1.64%. Interest rates fell during the fourth quarter, as the yield on the 10-year U.S. Treasury

note dropped to a quarter-end 2.68% from 3.06% at the end of September. This sharp move downward in yields followed brief cycle peaks in October and November, during which the yield touched 3.23%, the highest levels seen since 2011. Riskier parts of the bond market such as U.S. high yield debt were harder hit in the fourth quarter.

## EQUITY

### U.S.

Certain strategies did well relative to their benchmark. The funds low volatility manager who employs a strategy designed to protect in down markets, met expectations by beating their benchmark by over 4%. The large cap growth component, benefitted from not holding Amazon and Apple, which both came back to earth after performing so strongly in the first nine months of the year. However, all of this was offset by a single manager, who trailed its benchmark significantly due to challenges in stock selection within the Energy and Financial sectors. Within the energy allocation companies such as Marathon Oil, Hess and Apache were the notable challenges. These companies operate energy exploration and production which faced systemic supply chain challenges and were impacted by the reduction in oil price.

### Non-U.S.

The international component of Fund A trailed the benchmark by 0.4% for the quarter. In a dynamic similar to the U.S. program the defensive manager, met expectations by outperforming the benchmark in a down market. However, this was offset by underperformance within each of the other manager components.



## FIXED-INCOME

### Investment Grade

In the fourth quarter of 2018, Fund A's fixed income portfolio returned 1.42%, slightly underperforming the custom FTSE bond benchmark return of 1.48%. As of 12/31/18, the portfolio's option adjusted duration was 5.6 years compared to 5.6 years for the benchmark, and the portfolio's credit quality was Aa2/AA- compared to Aa1/AA- for the benchmark.

The Treasury curve flattened again with the one month T-bill yield rising by 0.31% and the 30-year bond down 0.19%. The curve even inverted between the 1-year and 5-year, with the former finishing the quarter yielding 2.6% and the latter at 2.5%. Credit markets followed equity prices and returned just 0.06% for the quarter. With rates mostly lower, Governments were the best performing sector with a nearly 2.5% return; the Collateralized sector followed with a respectable 2.08% return.

The Federal Reserve Open Market Committee raised the target range for the federal funds rate to 2.25-to-2.5% at its December 19th meeting; sustained expansion of economic activity, continued strength in the labor markets, and inflation remaining near the 2.0% committee objective were reasons for the rate increase.

### High-Yield

High-yield bonds turned negative as with equities in the fourth quarter, returning -4.05% as measured by the FTSE High Yield BB/B index. Portico's high-yield portfolio underperformed the benchmark, returning -4.29% for the quarter. As of 12/31/18, the portfolio's credit quality was B1/B+ compared to B1/BB- for the benchmark. Underperformance during the quarter was due to negative security selection, including a payday lender which defaulted in December. As to be expected, a risk-off market favored the highest quality credits and punished the worst; BB-rated bonds were down just 3%, helped in part by lower Treasury yields; B-rated bonds were down 5.3%, and the CCC-rated segment lost 10.23% for the quarter.

### Inflation-Indexed

Inflation-indexed bonds underperformed nominal Treasuries in the fourth quarter due to a reversal in inflation expectation, moving from anticipating inflation exceeding 2% to lower expectations during the 4th quarter. The portfolio return was about the same as the benchmark at -0.05%; the portfolio is managed using a full-replication passive approach.

## GLOBAL REAL ESTATE SECURITIES

Fund A's global real estate securities component returned -6.51% for Q4 and -6.32% in 2018, compared to the custom benchmark return of -5.91% on the quarter and -5.58% on the year respectively. U.S. REITs returned

-4.22% for the year and -6.61% for the quarter, while Global Ex U.S. REITs returned -8.14% for the year and -5.04% for the quarter.

The U.S. REIT portfolio is actively managed by a single investment manager, whose portfolio returned -5.23% on the year, underperforming the benchmark (-1.01%) on a relative basis in 2018. and underperformed by -0.84% for the quarter. The largest positive contributors to relative performance were security selection within the Data Center and Regional Mall sectors. Underweight allocations to Health Care REITs and Freestanding Retail were the largest detractors to performance. The Global ex-U.S. REIT portfolio is passively managed by a single manager, whose portfolio showed slightly positive relative returns (0.21%) for the year, and slightly negative relative returns (-0.16%) for the quarter.

## ALTERNATIVE INVESTMENTS

### Absolute Return

Fund A's absolute return strategies declined -4.44% on the quarter, bringing the year to date return to -1.57%. Both fixed income and equity markets generally struggled on the quarter. Equity oriented trading strategies were down -2.15% on the quarter, generally outperforming equity indices but still negative. Technology based equity investments detracted from returns. This impacted the year-to-date performance and pulled the overall allocation slightly negative. Volatility hedging strategies performed very well on the quarter, gaining 7.18% and further limiting the impact of the challenged markets for the quarter.

### Global Private Infrastructure

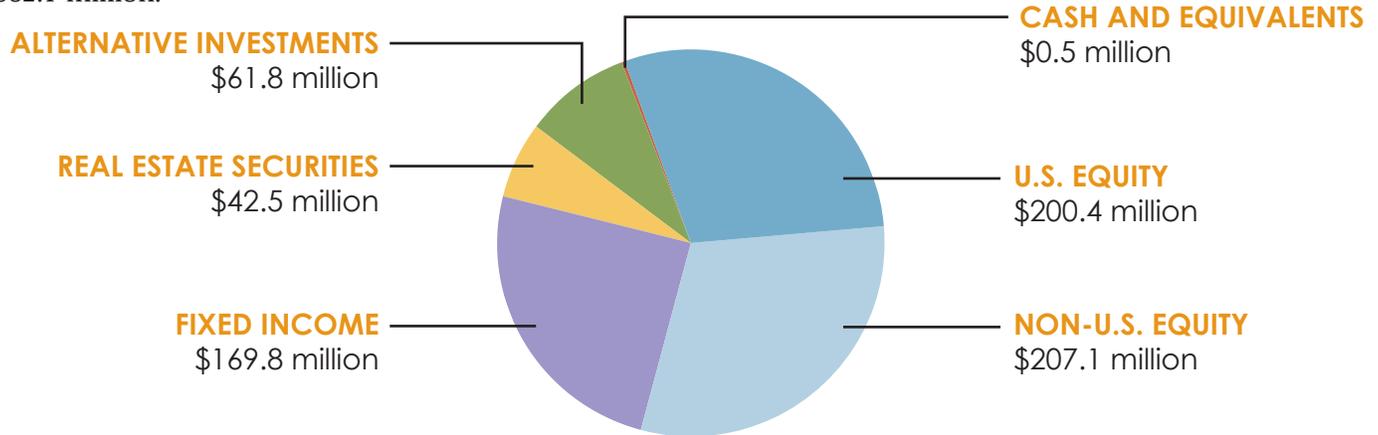
Infrastructure assets generated positive cash flow during the fourth quarter. The infrastructure fund displayed a total return of 2.03% above the benchmark return of -5.12%. The full year return was 6.17%. The current pool of assets generates a cash yield of circa 7.5%. During the end of the fourth quarter, the U.S. Dollar declined against other currencies which presented a positive backdrop for global infrastructure assets.

### Private Markets

Fund A's private market allocation returned 2.21% for the Q4 time period and 16.90% against the backdrop of a challenging year. Existing investments saw prior period revaluations in overseas assets purchased on the secondary markets. Fund A's private markets allocation continues to build and deploy capital. New commitments were made to a strategy that is expected to maintain a focus on downside protection. The fund committed to a Special Situations allocation at the end of Q3, designed to capitalize on late stage economic cycle disruptions.



As of December 31, 2018, Fund A Net Assets totalled \$681.3 million\* and Fund A Investments totalled \$682.1 million.\*\*



\* Net Assets includes investments, deposits between monthly valuation dates, operating cash and liabilities.  
 \*\* Pie Chart is representative of Fund A Investment Assets only.

### FUND A INVESTMENT PORTFOLIO PERFORMANCE (%) AS OF DECEMBER 31, 2018

|  |   | Q4 (%)        | YTD (%)       | 1 YR (%)      | 3 YRS (%)   | 5 YRS (%)   | 10 YRS (%)   | SINCE INCEPTION | INCEPTION DATE  |
|--|---|---------------|---------------|---------------|-------------|-------------|--------------|-----------------|-----------------|
| <b>TOTAL FUND A<sup>1</sup></b>                                  |   | <b>-9.12</b>  | <b>-7.83</b>  | <b>-7.83</b>  | <b>4.26</b> | <b>3.50</b> | <b>8.20</b>  | <b>4.02</b>     | <b>07/01/99</b> |
| 65% MSCI ACWI / 35% Bloomberg Barclays U.S. Aggregate Bond Index |   | -7.82         | -6.00         | -6.00         | 5.14        | 3.80        | 7.60         | 4.67            |                 |
| <b>EQUITIES</b>  | <b>Social Purpose US Equity Portfolio<sup>2</sup></b>             | <b>-14.27</b> | <b>-6.35</b>  | <b>-6.35</b>  | <b>7.44</b> | <b>6.98</b> | <b>12.76</b> | <b>5.19</b>     | <b>07/01/99</b> |
|  | Portico US Equity Benchmark <sup>3</sup>                          | -14.30        | -5.24         | -5.24         | 8.97        | 7.91        | 13.26        | 5.58            |                 |
|  | <b>Social Purpose Non-US Equity Portfolio</b>                     | <b>-12.27</b> | <b>-15.49</b> | <b>-15.49</b> | <b>4.49</b> | <b>1.53</b> | <b>7.31</b>  | <b>5.63</b>     | <b>04/01/04</b> |
|  | Portico Non-US Equity Benchmark <sup>9</sup>                      | -11.87        | -14.76        | -14.76        | 4.39        | 0.85        | 6.71         | 5.07            |                 |
| <b>FIXED-INCOME</b>  | <b>Social Purpose Investment Grade Bond Portfolio<sup>2</sup></b> | <b>1.42</b>   | <b>-0.14</b>  | <b>-0.14</b>  | <b>2.10</b> | <b>2.57</b> | <b>3.88</b>  | <b>4.80</b>     | <b>07/01/99</b> |
|  | Portico Fixed Income Benchmark <sup>4</sup>                       | 1.48          | -0.11         | -0.11         | 2.18        | 2.64        | 3.77         | 4.91            |                 |
|  | <b>Inflation Indexed Bond Portfolio</b>                           | <b>-0.05</b>  | <b>-0.20</b>  | <b>-0.20</b>  | <b>1.96</b> | <b>1.83</b> | <b>-</b>     | <b>1.93</b>     | <b>06/01/11</b> |
|  | Portico Inflation Index Benchmark <sup>5</sup>                    | -0.07         | -0.29         | -0.29         | 1.86        | 1.81        | -            | 1.92            |                 |
|  | <b>Social Purpose High Yield Bond Portfolio</b>                   | <b>-4.29</b>  | <b>-2.41</b>  | <b>-2.41</b>  | <b>5.76</b> | <b>3.43</b> | <b>9.11</b>  | <b>6.72</b>     | <b>07/01/03</b> |
|  | Portico High Yield Benchmark <sup>6</sup>                         | -4.05         | -2.08         | -2.08         | 6.37        | 3.47        | 10.21        | 6.79            |                 |
| <b>REAL ESTATE</b>   | <b>Global Real Estate Securities Portfolio</b>                    | <b>-6.51</b>  | <b>-6.32</b>  | <b>-6.32</b>  | <b>2.61</b> | <b>5.39</b> | <b>10.42</b> | <b>7.58</b>     | <b>03/01/04</b> |
|  | Portico Real Estate Securities Benchmark <sup>7</sup>             | -5.91         | -5.58         | -5.58         | 2.24        | 5.63        | 11.36        | 7.23            |                 |
| <b>ALTERNATIVE INVESTMENTS</b>                                   | <b>Absolute Return Fund</b>                                       | <b>-4.44</b>  | <b>-1.57</b>  | <b>-1.57</b>  | <b>-</b>    | <b>-</b>    | <b>-</b>     | <b>0.60</b>     | <b>08/01/17</b> |
|  | HFRI Fund of Funds Index  | -4.86         | -3.92         | -3.92         | 1.34        | 1.42        | 3.13         | -0.48           |                 |
|  | <b>Private Infrastructure Fund<sup>8</sup></b>                    | <b>2.03</b>   | <b>6.17</b>   | <b>6.17</b>   | <b>-</b>    | <b>-</b>    | <b>-</b>     | <b>4.91</b>     | <b>10/01/17</b> |
|  | S&P Global Infrastructure Index                                   | -5.12         | -9.50         | -9.50         | 6.92        | 4.10        | 7.58         | -6.28           |                 |
|  | <b>Private Markets Fund<sup>8</sup></b>                           | <b>2.21</b>   | <b>16.90</b>  | <b>16.90</b>  | <b>-</b>    | <b>-</b>    | <b>-</b>     | <b>12.43</b>    | <b>09/01/17</b> |
|  | Cambridge Private Equity Index                                    | 0.00          | 13.42         | 13.42         | 15.05       | 12.33       | 14.20        | 17.31           |                 |

- Total Fund A returns are net of investment manager and custodian fees and expenses including the administrative fee of 60 basis points (0.60%). Prior to July 2017, the total fee was 100 basis points (1.00%). Refer to the Disclosure Statement for total fees and expenses. Returns for the sub-asset classes are net of investment manager and custodian fees and expenses as reported by the investment managers.
- Endowment Fund A moved to the SP Investment Grade Fixed Income Pool as of November 2007 and to the SP U.S. Equity Pools as of December 2007 from separately managed accounts.
- The U.S. equity benchmark changed from the Dow Jones Total Stock Market Index to the Russell 3000 in October 2011.
- The Investment Grade Fixed Income Benchmark changed from the old Custom FTSE Index (40% Mortgage, 30% Credit, 25% Treasury/Government, 5% Asset-Backed) to the new Custom Bond Benchmark (40% Collateralized, 35% Credit, 25% Treasury/Government) in October 2011.
- In June 2011, Inflation Indexed Bonds were added as a component to Fund A's asset allocation. The Inflation Index benchmark change from the FTSE Inflation Linked Securities Index to the FTSE U.S. 1-10 Year Inflation Linked Securities Index as of 12/1/2014.
- The high yield benchmark changed from the FTSE High Yield Cash-Pay Capped Index to the FTSE BB/B Cash Pay Capped Index as of 9/1/2012.
- Late in 2008, the Real Estate Securities benchmark transitioned to 60% Wilshire U.S. Real Estate Securities Index and 40% Wilshire Ex-U.S. Real Estate Securities Index, from 100% Wilshire U.S. Real Estate Securities Index. In April 2013 the Custom Global Real Estate Securities benchmark transitioned to 60% Dow Jones U.S. Real Estate Securities Index and 40% Dow Jones Global Ex-U.S. Real Estate Securities Index with net dividends.
- Returns for Private Infrastructure and Private Markets will be reported on a quarter lag.
- The Non-US Equity pool has been benchmarked to the MSCI All-Country World xUS IMI since 7/1/2012, prior to that the benchmark was the standard MSCI All-Country World xUS Index.



## ELCA Foundation Evangelical Lutheran Church in America

8765 West Higgins Road  
Chicago, Illinois 60631-4101

### CONTACT US

For more information contact:  
**Christina Jackson-Skelton**  
President and CEO, ELCA Foundation

**Annette C. Shoemaker**  
Executive Vice President, ELCA  
Foundation

800-638-3522 • fax 773-380-2775  
elcafoundation@elca.org  
[ELCA.org/endowmentinvesting](http://ELCA.org/endowmentinvesting)

The ELCA Foundation regional gift planners are located throughout the country and are ready to assist you.



### AT A GLANCE

**ELCA Endowment Fund Pooled Trust – Fund A** was established to allow for the collective long-term investment of funds belonging to the Evangelical Lutheran Church in America (ELCA), its congregations, synods, seminaries and other eligible affiliated entities. The ELCA promotes investment in the Endowment Fund Pooled Trust through the ELCA Foundation.

Fund A is administered by the Endowment Fund of the ELCA dba ELCA Foundation.

### SOCIAL PURPOSE INVESTING

Fund A's assets are selected, where feasible, in accordance with criteria of social responsibility that are consistent with the values and programs of the ELCA. In addition, Fund A seeks positive social investments that provide a proactive way to receive a return while directing capital to underserved markets, such as community development and renewable energy.

### ABOUT FUND A

You should carefully consider the target asset allocations, investment objectives, risks, charges and expenses of any fund before investing in it. Fund A is subject to risk. Past performance cannot be used to predict future performance. Fund A investments, are not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Fund assets are invested in multiple sectors of the market. Some sectors, as well as the Fund, may perform below expectations and lose money over short or extended periods.

The investment managers and/or the investments Fund A directly invested in are not subject to registration, regulation or reporting under the Investment Company Act of 1940, the Securities Act of 1933, the Securities Exchange Act of 1934, the Investment Advisers Act of 1940 or state securities laws. Members, therefore, will not be afforded the protections of those provisions of those laws and related regulations.