# ELCA ENDOWMENT FUND POOLED TRUST – FUND A

FIRST QUARTER 2019 REPORT

ELCA Foundation
Evangelical Lutheran Church in America

## FUND A – FIRST QUARTER 2019 SUMMARY

During the first quarter, Fund A generated a strong return of 9.27% net. This outperformed the static 65% equity / 35% fixed income benchmark which returned 8.92%.

From an allocation standpoint, the portfolio's overweight to equities due to the rallying global equity markets was the most additive to the portfolio boosting the Fund A return by 0.72%. From a manager selection viewpoint, Fund A's equities fared better than benchmark and resulted in a boost of 0.14% to the overall portfolio compared to the static benchmark. Additionally, the managers within the recovering global real estate sector added value providing 0.11% to the overall Fund A portfolio. Private markets and infrastructure detracted this quarter from overall returns as compared to a 65% equity / 35% fixed allocation in the face of rapidly rising public equity markets where the private investments have not updated valuations.

## MARKET SNAPSHOT

The S&P 500 began 2019 with its best quarter since 2009 and best start to a year since 1998. This followed its worst quarter since 2011, and in December, its worst month since February 2009. From its trough close of 2,351 on December 24, 2018, the index rallied more than 20% as of the March 29, 2019 close and sits just 3.4% below its all-time high. International markets underperformed the U.S. slightly, but overall showed a similar rebound.

U.S. equities rose in the first quarter, as the S&P 500 gained 13.65% and all the 11 sectors finished in the black. Tech led, gaining 19.86%. Other outperformers included Real Estate and Industrials, which were up 17.55% and 17.20%, respectively. Health Care was the biggest laggard, gaining only 6.60%, joined by Financials, which added only 8.56%. Other major U.S. indices were positive on the quarter; the Dow Jones added 11.81% and the NASDAQ gained 16.8%.

International underperformed the U.S. markets slightly in the first quarter, as the U.S. resumed its leadership following a difficult end to 2018. International markets gained, though remain under pressure as investors weigh weakening economic data in Europe. The MSCI EAFE Index (a benchmark for international developed markets) added 10.13% for U.S.-currency investors. The MSCI Europe Index gained 11.00% for U.S.-currency investors, while the MSCI Japan rose 7.28%.

The bond market posted gains in the first quarter as the Fed's dovish pivot sent bond yields lower across the curve. The Bloomberg Barclays U.S. Aggregate Bond Index, a general measure of the bond market, rose 2.94%. Interest rates fell during the first quarter, as the yield on the 10-year U.S. Treasury note dropped to a quarter-end 2.41% from 2.68% at the end of December. However the shortest end of the curve was anchored, with the yield on 3-month Treasury bills actually rising to 2.38% from 2.35%, causing a brief inversion as measured by the 10-year and the 3-month tenors. Riskier parts of the bond market such as U.S. high yield debt performed well in the first quarter. The Bloomberg Barclays Capital High Yield Index, a measure of lower-rated corporate bonds, gained 7.26%.

## EQUITY

**U.S.**

Fund A's U.S. equity component lagged slightly for the quarter, returning 13.73% and trailing the benchmark by 0.31%. The large-cap growth manager continued to struggle to keep pace in a strong market, as was the case throughout 2017 and most of 2018. Particularly impactful for this manager was Biogen, which announced the discontinuation of a previously promising Alzheimer's drug trial. The low-volatility manager also struggled due to their defensive positioning. The large-cap value manager offset most of this negative impact with strong performance in energy and financial stocks.

**Non-U.S.**

The international equity component returned 11.18%, outpacing the benchmark return by 0.88%. Positive relative performance was driven by the growth managers. The large/mid cap growth manager and the small cap growth manager posted strong quarterly numbers driven largely by positive selection in consumer stocks.

## FIXED-INCOME

**Investment Grade**

In the first quarter of 2019, Fund A's fixed income portfolio returned 3.13%, outperforming the custom FTSE bond benchmark return of 3.10%. As of 03/31/19, the portfolio's option adjusted duration was 5.48 years, compared to 5.50 years for the benchmark, and the portfolio's credit quality was Aa2/AA-, compared to Aa1/AA- for the benchmark. There were no notable or significant performance drivers for the quarter.

During the quarter, the Treasury curve flattened again with the one-month T-bill yield declining by 0.01% and the 30-year yield declining 0.20%. The curve is still inverted slightly at specific points on the front end. Credit markets rebounded with equities, returning 4.91% for the quarter. Though rates fell during the quarter, risky segments beat Governments; the Collateralized segment at 2.16% significantly lagged Corporates, but beat Governments which returned only 2.09%.

**High-Yield**

High-yield bonds reversed their negative slide in the first quarter of 2019, returning 7.29% as measured by the FTSE High Yield BB/B Index. Portico's high-yield portfolio slightly underperformed the benchmark, returning 7.17% for the quarter. As of 03/31/19, 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. One of the three high yield bond managers outperformed during the quarter, while the two other managers underperformed. The amount of over/under performance by each manager was roughly similar.

High-yield investors had an increased appetite for risk during the quarter; the BB rated segment returned 7.18%, but the lowest rated CCC segment came in at 7.90%. The B rated segment fell in between, posting a 7.43% return.

**Inflation-Indexed**

Inflation-indexed bonds outperformed nominal Treasuries in the first quarter, reversing 4th quarter results. The portfolio and benchmark returned 2.65% and 2.61% respectively, compared to nominal Treasuries that returned just 2.09%. The portfolio is managed using a full-replication passive approach.

## GLOBAL REAL ESTATE SECURITIES

Fund A's global real estate securities component returned 14.25% in Q1 2019, compared to the custom benchmark return of 13.94%. U.S. REITs returned 15.72%, while Global Ex U.S. REITs returned 11.31% for the year (benchmark returns).

The U.S. REIT portfolio is actively managed by a single investment manager, whose portfolio outperformed the benchmark (.40%) on a relative basis in Q1 2019. For the quarter, the largest positive contributors to relative performance were security selection within the self-storage and office sectors. Security selection within data centers and single-family homes were the largest detractors to performance. Overall, allocation effects and security selection were both positive contributors, although allocation effect had a larger impact.

The Global ex-U.S. REIT portfolio is passively managed by a single manager, whose portfolio showed positive relative returns (0.31%) for the quarter.

## ALTERNATIVE INVESTMENTS

**Absolute Return**

Fund A's absolute return strategies gained 2.32% during Q1.

Most underlying strategies were positive on the quarter due to a recovery in both equities and fixed income. The largest drivers of return were generally corporate credit and credit long / short focused managers. The portfolio does include equity exposure and did indeed benefit from the recovery in Q1, but was generally well hedged, keeping a lower "beta" or sensitivity to the equity markets.

Gains were led by a healthcare specialist equity allocation which benefited from both positive idiosyncratic corporate outcomes among its core holdings as well as the broader beta rally in healthcare during the quarter. The absolute return fund returned 24.1% and contributed 87bps.

**Global Private Infrastructure**

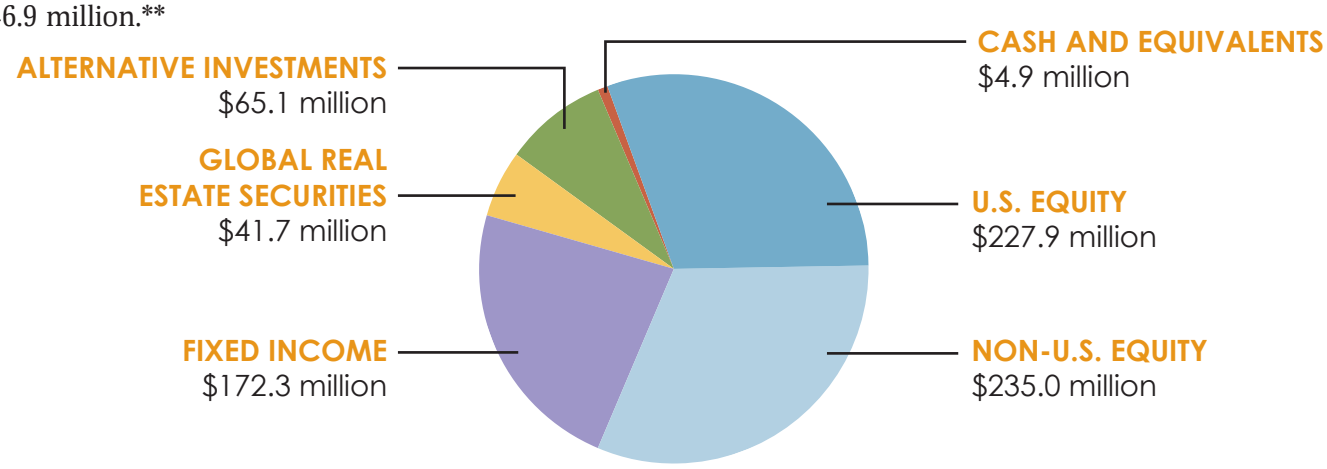
Infrastructure assets generated positive cash flow during the Q1. The infrastructure fund continues to seek to diversify the portfolio across sectors and geographies through both fund-level and platform investments. Noteworthy recent transactions include:

- North Sea Midstream Partners ("NSMP"). In December, the infrastructure fund reached an agreement with Wren House Infrastructure to acquire a 43.1% interest in NSMP, including governance rights generally on parity with Wren House. NSMP is a leading independent North Sea midstream infrastructure business. The acquisition is subject to customary closing conditions and closed in Q1 2019.
- Vision. In December, the infrastructure fund, through the Vision vehicle, a partnership with Vestas Wind Systems, closed on the acquisition of Pauvres, a 16.5 MW onshore wind farm located in the French Ardennes region.

**Private 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 through creative structuring while remaining flexible across the balance sheet, focusing on generating attractive risk-adjusted returns with credit-like downside protection and upside potential through warrants and/or structured equity solutions.

As of March 31, 2019, Fund A Net Assets totalled $749.6 million* and Fund A Investments totalled $746.9 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 MARCH 31, 2019

| | | Q1 (%) | YTD (%) | 1 YR (%) | 3 YRS (%) | 5 YRS (%) | 10 YRS (%) | SINCE INCEPTION | INCEPTION DATE |
|---|---|---|---|---|---|---|---|---|---|
| TOTAL FUND A[1] | | **9.27** | **9.27** | **1.59** | **7.00** | **4.90** | **10.04** | **4.43** | **07/01/99** |
| 65% MSCI ACWI / 35% Bloomberg Barclays U.S. Aggregate Bond Index | | 8.92 | 8.92 | 3.49 | 7.70 | 5.29 | 9.29 | 5.06 | |
| EQUITIES | **Social Purpose US Equity Portfolio[2]** | **13.73** | **13.73** | **7.79** | **12.36** | **9.26** | **15.42** | **5.81** | **07/01/99** |
| | Portico US Equity Benchmark[3] | 14.04 | 14.04 | 8.77 | 13.48 | 10.35 | 16.05 | 6.21 | |
| | **Social Purpose Non-US Equity Portfolio** | **11.18** | **11.18** | **-6.08** | **8.14** | **3.46** | **9.60** | **6.28** | **04/01/04** |
| | Portico Non-US Equity Benchmark[9] | 10.30 | 10.30 | -4.96 | 7.94 | 2.66 | 8.99 | 5.67 | |
| FIXED-INCOME | **Social Purpose Investment Grade Bond Portfolio[2]** | **3.13** | **3.13** | **4.54** | **2.19** | **2.79** | **4.13** | **4.90** | **07/01/99** |
| | Portico Fixed Income Benchmark[4] | 3.10 | 3.10 | 4.58 | 2.23 | 2.87 | 4.01 | 5.01 | |
| | **Inflation Indexed Bond Portfolio** | **2.65** | **2.65** | **2.87** | **1.64** | **1.92** | **-** | **2.21** | **06/01/11** |
| | Portico Inflation Index Benchmark[5] | 2.61 | 2.61 | 2.78 | 1.54 | 1.89 | - | 2.19 | |
| | **Social Purpose High Yield Bond Portfolio** | **7.17** | **7.17** | **5.75** | **7.46** | **4.27** | **9.02** | **7.08** | **07/01/03** |
| | Portico High Yield Benchmark[6] | 7.29 | 7.29 | 6.13 | 7.87 | 4.33 | 10.38 | 7.15 | |
| REAL ESTATE | **Global Real Estate Securities Portfolio** | **14.25** | **14.25** | **11.88** | **5.29** | **6.97** | **15.66** | **8.41** | **03/01/04** |
| | Portico Real Estate Securities Benchmark[7] | 13.94 | 13.94 | 13.25 | 4.92 | 7.03 | 16.53 | 8.04 | |
| ALTERNATIVE INVESTMENTS | **Absolute Return Fund** | **2.32** | **2.32** | **-0.38** | **-** | **-** | **-** | **1.90** | **08/01/17** |
| | HFRI Fund of Funds Index | 4.64 | 4.64 | 0.27 | 3.98 | 2.23 | 3.56 | 2.34 | |
| | **Private Infrastructure Fund[8]** | **1.09** | **1.09** | **4.87** | **-** | **-** | **-** | **4.82** | **10/01/17** |
| | S&P Global Infrastructure Index | 14.06 | 14.06 | 9.24 | 8.66 | 5.44 | 10.92 | 3.41 | |
| | **Private Markets Fund[8]** | **0.00** | **0.00** | **16.90** | **-** | **-** | **-** | **13.13** | **09/01/17** |
| | Cambridge Private Equity Index | 0.00 | 0.00 | 10.16 | 14.96 | 11.63 | 14.59 | 14.39 | |

1. 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.
2. 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.
3. The U.S. equity benchmark changed from the Dow Jones Total Stock Market Index to the Russell 3000 in October 2011.
4. 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.
5. 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.
6. 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.
7. 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.
8. Returns for Private Infrastructure and Private Markets will be reported on a quarter lag.
9. 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.

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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.