

# ELCA ENDOWMENT FUND POOLED TRUST – FUND A

THIRD QUARTER 2019 REPORT



**ELCA Foundation**  
Evangelical Lutheran Church in America

## FUND A – THIRD QUARTER 2019 SUMMARY

During the third quarter, Fund A generated a positive return of 0.39% net. The static 65% equity / 35% fixed income benchmark returned 0.78%.

Fund A remained similarly aligned to the performance and risk weighting of the static benchmark and delivered positive absolute performance despite a quarter marked with volatility. From an allocation viewpoint, positive performance was delivered in U.S. equities, core bonds, global real estate securities, and private infrastructure. Global real estate securities in particular performed positively during the quarter, returning 5.87%, and ahead of the real estate benchmarks. The bond market rally continued since the Fed altered course causing the Bloomberg Barclays U.S. Aggregate Bond Index to return 2.27% during the quarter as interest rates declined.

During the month of September, Fund A modified its strategic asset allocation to reduce traditional equities and fixed income and target further allocations to infrastructure and hedged strategies. The Social Purpose U.S. equity pool was also migrated to a passive investment strategy.

## MARKET SNAPSHOT

The S&P 500 was generally flat in the third quarter, though its early year performance was enough to book the strongest first three quarters since 1997. Despite weak performance in August, which saw the index drop as much as 6.1%, equities were up 1.7% on the quarter and are now up 20.6% YTD. The investing environment remains challenging as a number of crosscurrents present conflicting signals regarding the direction of markets and the economy. The chief areas of investor focus for the quarter remained Federal Reserve policy and the ongoing trade dispute between the U.S. and China. The Fed lowered interest rates for the first time since 2009, reducing its target by 25 bps in both July and September. While Fed Chair Powell has characterized these moves as a mid-cycle adjustment rather than the beginning of a prolonged cutting cycle, futures markets are pricing in more than two additional cuts over the next 12 months.

International markets underperformed the U.S. slightly, as concerns over a deceleration in global economic growth drove investors to the highest-quality markets. In the third quarter, the MSCI Emerging Markets Index fell 4.11% for U.S.-currency investors as a strengthening U.S. dollar added to concerns over potential impacts of a global slowdown in growth. The MSCI Europe Index fell 1.75% for U.S.-currency investors, while the MSCI Japan gained 3.21%.

Earnings expectations for the back half of the year may be too optimistic. Despite a slow start to 2019 earnings, consensus is still predicting a second-half pickup, with 4Q earnings growth for the S&P 500 estimated to be 2.6%. S&P 500 revenues grew by 4.0% in 2Q 2019, but earnings rose only 0.7%, suggesting firms are having trouble controlling costs.

The bond market posted gains in the third quarter as the Fed rate cuts and concerns surrounding global growth sent bond yields lower across the curve. The Bloomberg Barclays U.S. Aggregate Bond Index, a general measure of the bond market, rose 2.27%.

Interest rates fell during the third quarter, as the yield on the 10-year U.S. Treasury note dropped to a quarter-end 1.66% from 2.00% at the end of June. The shortest end of the curve fell as well as the Fed cut their Fed funds target rate, with the yield on 3-month Treasury bills falling to 1.81% from 2.09%, leaving the curve inverted as measured by the 10-year and the 3-month tenors. Riskier parts of the bond market such as U.S. high yield debt rose in the third quarter, though gained less than the safer government securities. The Bloomberg Barclays Capital High Yield Index, a measure of lower-rated corporate bonds, gained 1.33%.



## EQUITY

### U.S.

The equity component of Fund A modestly outperformed during the quarter, beating the benchmark by 0.15%, returning 1.31% vs 1.16% for the benchmark. As a socially screened index portfolio, this component generally tracks the benchmark closely, but will occasionally deviate as companies and industries excluded from the portfolio deviate from the overall market. However, there were no significant deviations during the third quarter.

### Non-U.S.

The non-U.S. component of Fund A returned -1.98% during the quarter, lagging the benchmark return of -1.72%. The small-cap components were the primary drivers of underperformance, collectively underperforming by over 2%. However, the year-to-date performance of the non-U.S. component remains quite strong, over 1% ahead of the benchmark return of 11.38%.

## FIXED-INCOME

### Investment Grade

In the third quarter of 2019, Fund A's fixed income portfolio returned 2.26%, in line with the custom FTSE bond benchmark return of 2.29%. As of 09/30/19, the portfolio's option adjusted duration was 5.33 years, about the same level as the benchmark. The portfolio's credit quality was Aa2/AA-, compared to Aa1/AA- for the benchmark. Credit exposure and selection were the main drivers of performance.

### High-Yield

High-yield bonds had a positive return for the third quarter, but it was mostly income with little capital appreciation. The high-yield portfolio underperformed the benchmark, returning 1.15% for the quarter vs. 1.29% for the benchmark. As of 09/30/19, 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.

High-yield investors had a decreased appetite for risk during the quarter, with higher quality issues performing the best. The BB rated segment returned 1.57%, but the lowest rated CCC's returned a -2.3%. The B rated segment fell in between, posting a 0.98% return.

### Inflation-Indexed

Inflation-indexed bonds underperformed nominal Treasuries in the third quarter. The portfolio and benchmark returned 0.61% and 0.62% respectively, compared to nominal Treasuries that returned 2.34%. The portfolio is managed using a full-replication passive approach.

## GLOBAL REAL ESTATE SECURITIES

Fund A's global real estate securities component returned 5.87% in Q3 2019, compared to the custom benchmark return of 5.14%. U.S. REITs returned 6.83%, while Global Ex U.S. REITs returned 2.63% for the quarter (benchmark returns).

The U.S. REIT portfolio is actively managed by a single investment manager, whose portfolio outperformed the benchmark (1.23%) on a relative basis in Q3 2019. For the quarter, the largest positive contributors to relative performance were security selection within Industrial and Data Centers. Security selection within Single Family Homes and the allocation to Shopping Centers were the largest detractors to performance. Overall, allocation effects and security selection were both positive contributors.

The Global ex-U.S. REIT portfolio is passively managed by a single manager, whose portfolio showed negative relative returns (-0.08%) for the quarter.

## ALTERNATIVE INVESTMENTS

### Hedge Funds

The absolute return allocation returned 0.06% for Q3 protecting capital during the challenged months of July and August.

Credit strategies were the among the strongest performing areas on the quarter adding 0.29% to total performance. Equities detracted on the quarter as September saw a reversal of many growth-oriented holdings in favor of value-oriented equities. Quantitative hedging strategies also performed well during the quarter adding 0.37%. The bulk of this was derived from non-market directional strategies.

### Global Private Infrastructure

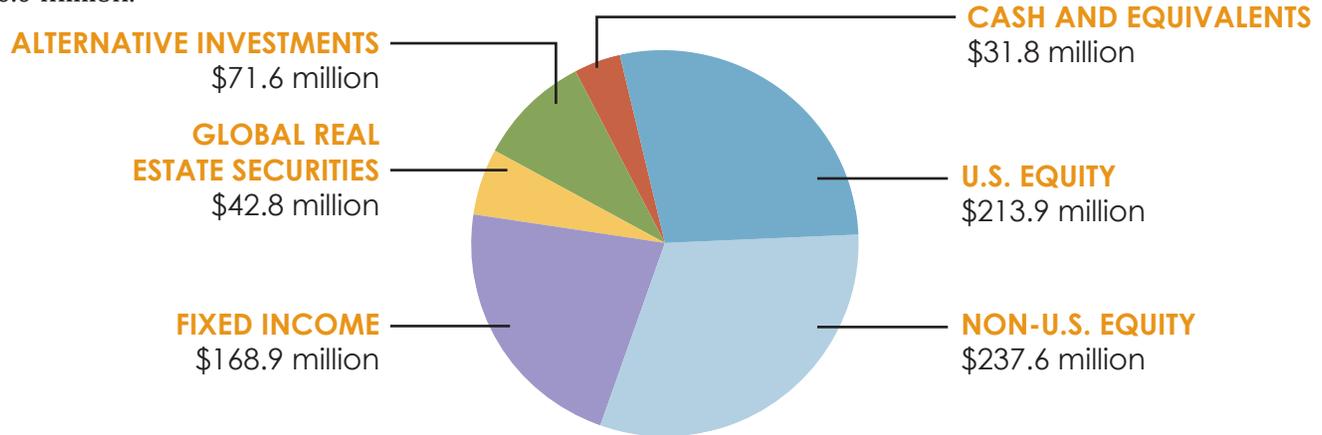
Infrastructure assets generated positive cash flow for Q3 and returned 2.17%. The infrastructure fund continues to diversify the portfolio across sectors and geographies through both fund-level and platform investments. The current portfolio consists of 19 portfolio companies, representing 439 assets in 25 countries and 12 subsectors. The portfolio has generated a 9.0% cash yield over the trailing 12 months.

### Private Markets

Through the close of 6/30 the private market allocation has committed to 11 partnerships and currently has developed a 6.6% Net IRR, with a total value multiple of 1.12x. The program currently represents approximately 2.7% of Fund A's overall allocation and is targeted to become 10% over time. Noteworthy additions to the program included allocations to secondaries and special situations funds.



As of September 30, 2019, Fund A Net Assets totaled \$770.4 million\* and Fund A Investments totaled \$766.6 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 SEPTEMBER 30, 2019

		Q2 (%)	YTD (%)	1 YR (%)	3 YRS (%)	5 YRS (%)	10 YRS (%)	SINCE INCEPTION	INCEPTION DATE
<b>TOTAL FUND A<sup>1</sup></b>		<b>0.39</b>	<b>13.09</b>	<b>2.78</b>	<b>6.36</b>	<b>5.25</b>	<b>7.33</b>	<b>4.50</b>	<b>07/01/99</b>
65% MSCI ACWI / 35% Bloomberg Barclays U.S. Aggregate Bond Index		0.78	13.51	4.50	7.47	5.64	6.87	5.37	
<b>EQUITIES</b>	<b>Social Purpose US Equity Portfolio<sup>2</sup></b>	<b>1.31</b>	<b>20.67</b>	<b>3.46</b>	<b>12.11</b>	<b>9.52</b>	<b>12.61</b>	<b>5.98</b>	<b>07/01/99</b>
	Portico US Equity Benchmark <sup>3</sup>	1.16	20.09	2.92	12.83	10.44	13.13	6.32	
	<b>Social Purpose Non-US Equity Portfolio</b>	<b>-1.98</b>	<b>12.45</b>	<b>-1.35</b>	<b>6.27</b>	<b>4.01</b>	<b>5.13</b>	<b>6.15</b>	<b>04/01/04</b>
	Portico Non-US Equity Benchmark <sup>9</sup>	-1.72	11.38	-1.84	6.10	3.05	4.58	5.55	
<b>FIXED-INCOME</b>	<b>Social Purpose Investment Grade Bond Portfolio<sup>2</sup></b>	<b>2.26</b>	<b>8.64</b>	<b>10.18</b>	<b>3.00</b>	<b>3.39</b>	<b>3.84</b>	<b>5.04</b>	<b>07/01/99</b>
	Portico Fixed Income Benchmark <sup>4</sup>	2.29	8.67	10.28	3.06	3.48	3.90	5.16	
	<b>Inflation Indexed Bond Portfolio</b>	<b>0.61</b>	<b>5.92</b>	<b>5.86</b>	<b>1.97</b>	<b>2.17</b>	<b>-</b>	<b>2.46</b>	<b>06/01/11</b>
	Portico Inflation Index Benchmark <sup>5</sup>	0.62	5.88	5.80	1.96	2.12	-	2.44	
	<b>Social Purpose High Yield Bond Portfolio</b>	<b>1.15</b>	<b>11.10</b>	<b>6.33</b>	<b>5.60</b>	<b>4.94</b>	<b>7.09</b>	<b>7.09</b>	<b>07/01/03</b>
	Portico High Yield Benchmark <sup>6</sup>	1.29	11.50	6.98	5.82	5.00	7.41	7.18	
<b>REAL ESTATE</b>	<b>Global Real Estate Securities Portfolio</b>	<b>5.87</b>	<b>22.51</b>	<b>14.53</b>	<b>6.49</b>	<b>8.08</b>	<b>10.22</b>	<b>8.61</b>	<b>03/01/04</b>
	Portico Real Estate Securities Benchmark <sup>7</sup>	5.14	20.45	13.33	5.67	7.47	10.75	8.16	
<b>ALTERNATIVE INVESTMENTS</b>	<b>Absolute Return Fund</b>	<b>0.06</b>	<b>3.58</b>	<b>-1.01</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2.03</b>	<b>08/01/17</b>
	HFRI Fund of Funds Index	1.61	5.90	0.01	1.93	0.32	1.07	0.53	
	<b>Private Infrastructure Fund<sup>8</sup></b>	<b>2.17</b>	<b>4.51</b>	<b>6.63</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5.51</b>	<b>10/01/17</b>
	S&P Global Infrastructure Index	0.55	20.81	14.62	8.01	5.76	7.83	5.52	
	<b>Private Markets Fund<sup>8</sup></b>	<b>0.31</b>	<b>2.04</b>	<b>4.30</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10.13</b>	<b>09/01/17</b>
	Cambridge Private Equity Index	0.00	7.76	5.97	14.22	11.45	14.11	13.88	

- 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. On July 1, 2019, Endowment Fund A moved the U.S. equity allocation to the SP U.S. Stock Index Pool.
- 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.



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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.