



**The Protestant Episcopal Church of the Diocese of Delaware
Master Fund A
Portfolio Review**

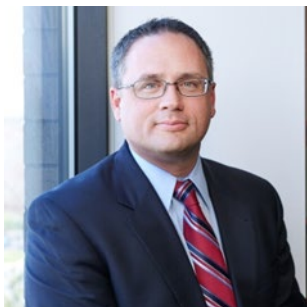
240th Annual Convention - November 22, 2024

600 College Road East
Princeton, NJ 08540
(609) 452-0300
www.jrhamilton.com

Master Fund A – Who is Hamilton & Company?

- ❖ Established at Wertheim & Co., at the dawn of the age of the institutional investment business, Hamilton & Company became completely independent in 1977, with full continuity of its management and operations. **We have been in the institutional investment consulting business for 54 years, which makes us perhaps the most experienced firm of our kind.**
- ❖ Our staff of nine, based in Princeton, N.J., provides independent, objective, and conflict-free investment consulting services to **a select group of clients comprising endowments and foundations, retirement plans, and wealthy families, totaling more than \$4.0 billion in client assets.**
- ❖ We receive no compensation, fee or other benefit for suggesting any investment manager or other service provider, nor do we have any proprietary or affiliated investment products to sell or defend. Our services are strictly non-discretionary and 100% of our revenues are derived from providing investment consulting services to our clients. **Therefore, our firm's sole aim is to help our clients achieve the investment objectives they set for their investment portfolios.**
- ❖ Hamilton & Company provides the following services continuously on **a non-discretionary basis** to The Protestant Episcopal Church of Diocese of Delaware and Master Fund A (hereafter "MFA"); its Investment Committee ("IC"), and Staff:
 - ❖ Guidance in conceptualizing and determining MFA's investment objectives and goals, and then assistance with drafting written policies, guidelines and review procedures for IC approval governing MFA's investment strategy;
 - ❖ Developing long-term asset allocation targets and strategies to achieve MFA's stated investment objectives;
 - ❖ Performing investment fund/manager research and presenting the IC with investment fund/manager selection suggestions for their review, approval and use in the management of MFA;
 - ❖ Monitoring of MFA and MFA's investment funds/managers for attainment of investment goals and objectives, and suggesting changes to strategy or replacement funds/managers when adjustments are required;
 - ❖ Compiling, computing and preparing periodic investment performance reports on MFA and its managers/funds;
 - ❖ Administering quarterly IC meetings where MFA investment performance is reviewed and MFA investment/fund managers present their results;
 - ❖ Supervising MFA's custodian and assisting in the search and selection of a replacement when requested;
 - ❖ Assisting Staff in the implementation of IC approved investment decisions and transactions;
 - ❖ Assisting Staff in the determination of the annual MFA disbursement rate, and
 - ❖ Providing topical investment information and research (private equity; digital assets, etc.) as requested.

Master Fund A – Who is Hamilton & Company (cont.)?



ROBERT MISNER, CFA – Senior Consultant

Mr. Misner joined Hamilton & Company 18 years ago and possesses 32 years of investment experience. At Hamilton, Mr. Misner advises clients on matters relating to investment policy design, capital deployment, investment manager selection and due diligence, risk evaluation and custody search and selection. He serves clients of all types, with a particular emphasis on endowments, foundations and retirement plans. Mr. Misner has extensive experience in crafting investment structures that optimally balance ongoing cash flow requirements with achieving targeted rates of return while maintaining portfolio exposures within clients' stipulated risk parameters.

Mr. Misner joined the firm from BNY Mellon, where for five years he was a Vice President in the Investment Consulting Services Department serving Fortune 500 corporate; multi-billion dollar endowment and foundation, and large public fund clients. At BNY Mellon, Mr. Misner performed manager searches for equity, fixed income and limited partnership managers; capital deployment and investment composition optimization studies, and presented detailed annual investment performance reviews to investment committees. Prior to joining BNY Mellon, Mr. Misner for four years was a Vice President in the Global Risk and Analytics Department at Deutsche Bank, delivering customized investment risk and analytics reports to Fortune 500 corporate; multi-billion dollar endowment and foundation, and large public fund clients.

Before joining Deutsche Bank, Mr. Misner obtained additional performance, risk reporting and investment manager due diligence experience over five years while working at Merrill Lynch and Bessemer Trust Company, N.A.

Mr. Misner is a CFA Charterholder, a member of the CFA Institute and The New York Society of Security Analysts.

He earned a Bachelor of Science degree in Finance from Rutgers University.

Master Fund A – MFA Investment Goals and Objectives

❖ Master Fund A – Stated Investment Objective ¹

❖ *“The objective of the Investment Committee is to balance the need to preserve Master Fund A’s capital in real terms with the desire to maximize total return in support of the ministries. The investment objective of the portfolio is to earn an average annual return of CPI plus 4% through a combination of income and capital appreciation.”*

❖ Master Fund A – Stated Risk Tolerance ¹

❖ *“As investment fiduciaries, the Investment Committee takes a multifaceted view of total portfolio risk. Key risks to be monitored and mitigated include the total portfolio falling short of a target return over a full market cycle; excessive fund total variability relative to the total portfolio’s relative benchmark over a full market cycle; and the probability of permanent impairment of capital. Risks are evaluated continuously.”*

❖ Master Fund A – Investment Philosophy and Strategy

❖ **MFA is a functional element of overall Diocesan financial operations and does not exist in a “vacuum.”**

❖ **MFA pursues a “goal-oriented” investment strategy to relatively generate consistent investment earnings/returns that give the Trustees confidence that they can set a future unitized distribution rate not less than the prior years’ rates.**

❖ **Thus, MFA must:**

- ❖ **Generate recurring income cash flow to meet disbursements for operations, regular parish withdrawal requests and the annual disbursement (the official Trustee-set unitized distribution).**
- ❖ **Generate capital gains to grow MFA principal in real terms to preserve spending power.**
- ❖ **Remain highly liquid to be in position to fulfill any parish withdrawal request regardless of size.**
- ❖ **Accomplish these goals throughout “any” financial market environment:**
 - ❖ **For example, during 2020 COVID pandemic MFA maintained the unitized distribution rate despite a period of historic geopolitical distress and unprecedented market volatility.**
- ❖ **Be diversified globally to benefit from a wide range of investment opportunities – both seen and unforeseen.**

❖ **Therefore, MFA is not a “fund of funds” nor a “hedge fund” that solely seeks to “beat the market” as its primary objective. Such a portfolio composition would involve imprudent return and market value volatility levels and would drastically complicate MFA’s ability to maintain a steady unitized distribution rate.**

¹ <https://delaware.church/financial-reports-resources/>

Master Fund A – MFA Investment Managers/Funds

❖ Equity Managers

- ❖ PRIMECAP Odyssey Growth Fund – a diversified portfolio of medium and large capitalization U.S. stocks with growing earnings that are temporarily undervalued relative to peers. Can hold up to 20% ADRs.
- ❖ Edgewood Growth Fund – a concentrated portfolio of stocks of rapidly growing (earnings growth rates of 15% to 30%) companies. 22 stocks are held, and a stock must be sold for a new stock to enter portfolio.
- ❖ Fidelity S&P 500 Index Fund – a low-fee, unmanaged fund whose stock holdings are meant to replicate the investment performance of the S&P 500 index.
- ❖ Artisan International Value Fund – diversified portfolio of medium and large capitalization non-U.S. stocks with growing earnings that are trading at a 15% - 25% discount to management's estimate of intrinsic value. Can hold up to 15% cash as conditions warrant.
- ❖ SEG Partners Offshore L.P. – A long/short stock hedge fund. Long positions are in small and medium capitalization stocks of companies that demonstrate consistent earnings growth and are trading below management's estimate of intrinsic value. Short positions are in stocks that are expected to be "losers" in the sectors and industries that they hold long positions. The combination produces "equity-like" returns (10% - 12% per annum) with half the return volatility of the overall market.
- ❖ Neuberger Berman – The Capital Group – a diversified portfolio of securities (stocks, REITs and preferreds) that produce a regular income stream while also generating steady capital gains. Targets an overall portfolio yield of twice that of the market yield.

❖ Fixed Income Manager

- ❖ Payden & Rygel – a diversified portfolio of liquid, intermediate-duration, investment grade bonds with the ability to allocate up to 15% to below-investment grade securities when conditions warrant (e.g. wide corporate spreads.)

❖ MFA's investment managers/funds were selected on the basis of:

- ❖ Unique, differentiated investment philosophy and approach;
- ❖ Experienced, dedicated, responsible investment professionals;
- ❖ Consistent, repeatable results with a preference for strong down-equity market results;
- ❖ Demonstrated investment success over rolling three-year periods;
- ❖ Complementary characteristics to existing managers/funds (avoiding *deworsification*);
- ❖ Institutional client bases;
- ❖ Willingness to treat MFA as an important client (e.g. present annually to IC), and
- ❖ Reasonable investment fees.

Master Fund A – MFA Investment Results

❖ Master Fund A – Total Combined Fund Results

- ❖ Hamilton & Company has been the investment consultant to the Protestant Episcopal Church of the Diocese of Delaware Master Fund A since July 1995.
 - ❖ Since July 1995 through September 30, 2024 - a 29 ¼ year period - MFA has returned +7.4% per annum outperforming the Absolute Objective (CPI+4%) return of +6.5% per annum.
 - ❖ MFA has generated this strong result across a time frame encompassing historic stock market crashes (Tech Bubble, Great Financial Crisis), global wars (Afghanistan, Iraq, Ukraine/Russia), geopolitical crises (Euro Separation, COVID), and resurgent inflation (+9.1% annualized peak June 2022).
- ❖ Roughly 60% of MFA's rolling three-year returns are ahead of the Relative Objectives (a monthly-rebalanced benchmark comprising market indices weighted according to the manager allocations of MFA.)
- ❖ Almost 90% of MFA's Total Fund rolling three-year returns were positive.
 - ❖ Positive returns over the prior three-year period give the Trustees confidence that they can set a future unitized distribution rate not less than the prior years' rates.
- ❖ Year to Date through September 30, 2024 MFA returns were:

**PROTESTANT EPISCOPAL CHURCH OF THE DIOCESE OF DELAWARE
MASTER FUND A**

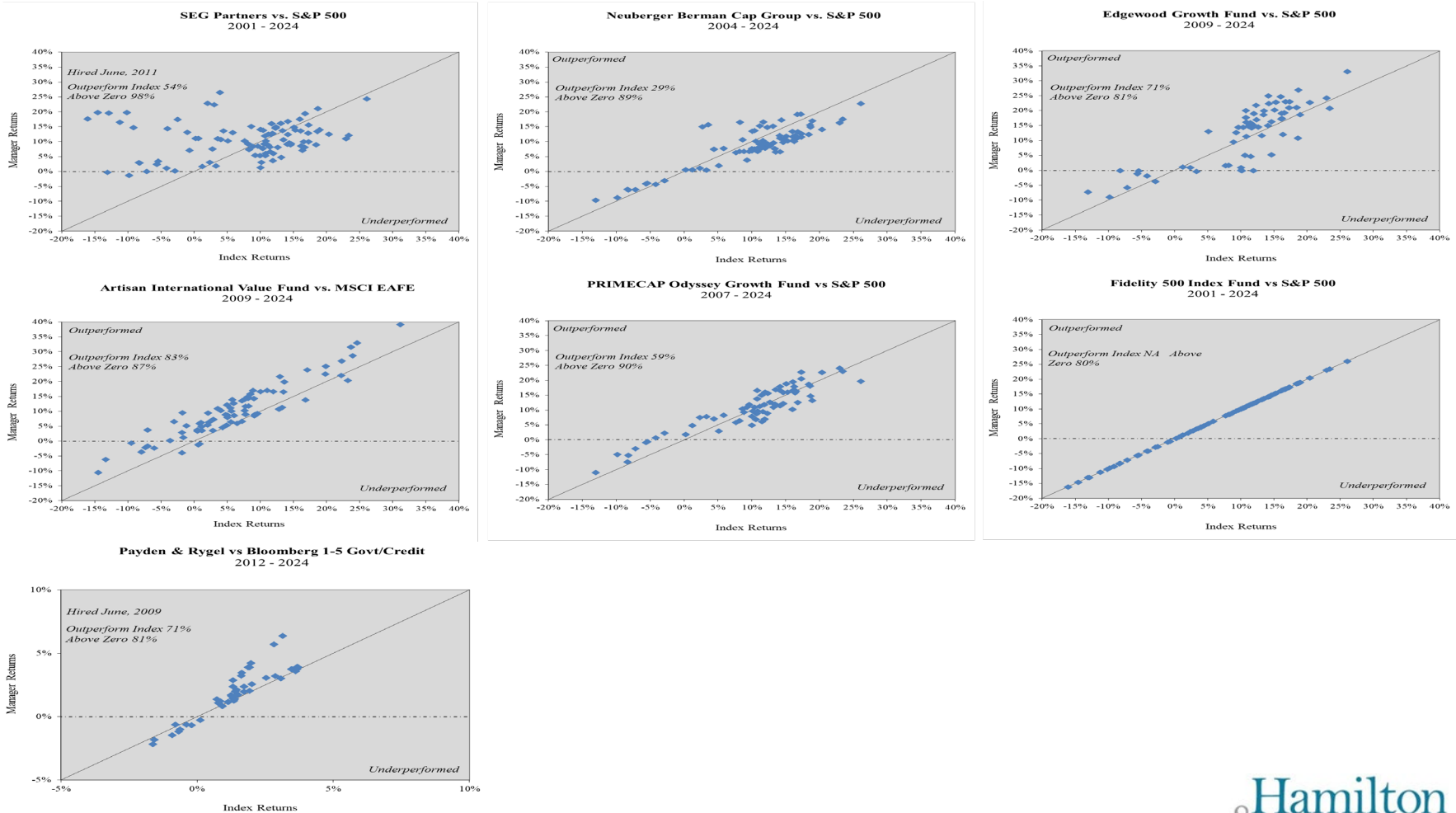
Net of Fee Performance Through Periods Ending September 30, 2024

	One <u>month</u>	One <u>quarter</u>	Year <u>to date</u>	Annualized Rates of Return				Equity/ <u>Fixed</u>	Assets <u>(000's)</u>
				Twelve <u>months</u>	Three <u>years</u>	Five <u>years</u>	Ten <u>years</u>		
Combined Fund	1.3 %	4.8 %	10.8 %	22.0 %	2.8 %	7.7 %	7.2 %	68%/32%	\$ 96,681
Extended Index	1.5	4.9	13.4	22.6	5.8	8.8	7.4		
60% S&P 500 / 40% Bloomberg Aggregate	1.8	5.6	14.8	26.0	6.6	9.8	8.9		
Absolute ROR (CPI + 4%)	0.5	1.4	5.7	6.4	8.7	7.9	6.7		

Master Fund A – MFA Investment Results (Cont.)

❖ Master Fund A – Investment Fund/Manager Results

❖ Shown below are the rolling three-year returns for the investment funds/managers employed in the management of MFA investments. Each plot represents the fund's/manager's three-year return relative to the stated benchmark's. A plot above the diagonal line represents outperformance by the fund/manager. A plot above the horizontal line is a positive three-year return. **The key observation is that MFA's funds/managers outperform the vast majority of the time.**



Master Fund A – Market Commentary

- ❖ Below are comments and viewpoints of the investment funds/managers that are actively selecting the securities that comprise MFA's portfolio:
 - ❖ Artisan International Value Fund: “As usual, we can only guess why the stock market increased. We think it was mainly driven by expectations that the US Federal Reserve will continue to lower interest rates. As borrowing costs decline, the value of future profits increases. Those expectations are supported by lower inflation data, although inflation is stubbornly running above the Fed's 2% target in the US. Another contributing factor is the labor market, which is strong but not too strong. Overall, the US economy remains healthy, which should help corporate profits grow in the aggregate.”
 - ❖ Edgewood Growth Fund: “Looking ahead to 2025, we remain optimistic based on resilient economic growth and interesting market opportunities. Since the end of the 2022 market sell-off, Edgewood's performance has been driven by the portfolio's earnings growth. Historically the start of a Fed rate cutting cycle has been good for growth stocks and we like our portfolio positioning.”
 - ❖ Neuberger Berman – The Capital Group: “The continued growth in corporate revenues and earnings provide strong support to equity valuations. We believe the trend toward lower interest rates and steady economic growth could support higher valuation multiples for the market, and that the market has the potential to reach the 5,800 level by year-end, and 6,300 in 2025 based on its expected 13.5% EPS growth year-over-year.”
 - ❖ Payden & Rygel: “All-in yields for investment grade corporate bonds are near 4.7% and continue to offer investors compelling risk-adjusted valuations. Recently, greater dispersion across winners and losers in credit performance has appeared. We are most constructive on technology, consumer non-cyclicals, and communications. Attractive income and incremental price appreciation from further rate cuts portend solid return potential for investment grade corporates in the medium term.”
 - ❖ PRIMECAP Odyssey Stock Fund: “The market remains sanguine, perhaps understandably so. The Fed, its reputation repaired, is now cutting rates while the economy chugs along – a “soft landing” success. And this latest bull market, at times the exclusive domain of AI-fueled Big Tech, is increasingly egalitarian. The S&P 500 Index's 21x forward P/E valuation is undeniably rich, but a declining 10-year Treasury yield (below 4 percent at period-end, down from 5 percent late last year) provides incremental support. Each leg higher for equities reinforces our view that the stock market has become complacent. Relative to the S&P 500 Index, we prefer our unconventional collection of stocks, a portfolio that hardly resembles the Index.”
 - ❖ Select Equity Group Offshore L.P.: SEG observes the U.S. economy to be “...stable, growing and remarkably resilient.” They acknowledge that there is still macroeconomic “noise” that needs clarification, notably: the path of U.S. interest rates; the outcome of the U.S. election, and a “messy” Q3 2024 earnings period. But overall SEG does not expect a recession or a decline in economic activity absent some unforeseen negative geopolitical development.

Hamilton & Company

Independent Investment Consulting

for Foundations, Families,

Endowments and Retirement Plans

600 College Road East
Princeton, NJ 08540

609-452-0300

www.jrhamilton.com