

**All Souls Episcopal Church  
Endowment Board  
February 10, 2019 Meeting Minutes**

**Attending:** Jim Lewis (chair), David Hollis (secretary), Jim Solomon, and Larry Sturgeon, Dale Lewis, Jadon Hartsuff, Daniel Callis, Art Warren, and Melissa Barrett

**Call to order**

Jim Lewis called the meeting to order at 12:35 p.m.

**Approval of minutes**

The board approved the minutes of the October 16, 2018 meeting as presented.

**Endowment investment report**

Jim Solomon presented a report on the performance of the endowment fund for 2018. (See fund analysis attached.)

**2018 Endowment Board Annual Report and 2019 fund distribution recommendation**

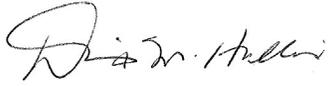
The draft annual report of the endowment fund was distributed in January. At this meeting, the board discussed the 2% fund distribution for 2019 recommended in the draft report. That percentage is outside the range contemplated by the board charter, normally in the range of 3% to 5% based on a three-year rolling average of the market value of the fund.

The board discussed a) the current unusually volatile market conditions; b) the vestry request that market conditions notwithstanding, parishioners increase their 2019 pledges in the face of a deficit operating budget; c) basing the distribution on current market conditions rather than a three-year rolling average. Ultimately, the board, giving great weight to its fiduciary responsibility to preserve the endowment principal, voted to adopt the annual report and the 2% fund distribution recommendation presented therein.

The board also discussed that given the reduced distribution amount, the vestry could consider not having a grant application process for 2019 and allocating the endowment distribution directly. Several board members stressed the importance of maintaining some level of congregational involvement in the grants process through the grant committee structure. The grant committee could use this year to assess the grant outcomes, the on-going worthiness of All Souls contributions (e.g., level of active ministry of parishioners).

The meeting adjourned at 1:20 p.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "David M. Hollis". The signature is fluid and cursive, with the first name "David" being the most prominent.

David M. Hollis  
Secretary

Attachments: Endowment fund 2018 performance summary  
Endowment Board 2018 Annual Report

Summary of Performance – Year ending 12/31/18

Observations:

Asset Allocation Review:

Fixed Investments:	28%
Equity Investments:	40%
Other:	31%*

\*Includes TR Price Capital Appreciation Fund & Sun Trust Indexed Linked CD

Although the above asset allocation reflects 28% in fixed income, the Sun Trust CD and TR Price Capital Appreciation Fund (listed under "others), have equity elements within the investment.

The Sun Trust holding matures this year on April 22, 2019.

Asset Allocation Performance by Class:

	<u>Return</u>	<u>Benchmark</u>	<u>Index</u>
Fixed Investments:	+1.68%	+0.01%	Barclays Aggregate Bond
Equity Investments:	-4.86%	-4.38%	S&P 500
Other:	+1.06%		

Notes:

The portfolio took a dramatic turn in the last quarter of 2018. A negative market performance in the fourth quarter impacted our equity returns, reversing all the gains made during the first three quarters. The Fund for the year did underperform the S&P 500 regarding our equity positions however, the fixed investments outperformed their index.

U.S. stocks did outperform the S&P 500 Index with a return of -3.53% for 2018. International equity positions suffered a major decline in 2018 with a return of -13.88%. The MSCI Emerging Markets Index return for 2018 was -14.57%.

Historically, our inception to date net time weighted return (1/21/15 to 1/25/19) has been +8.60%. As noted, this takes into account a negative return experienced during 2018.

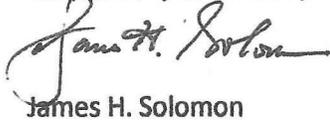
Our results over a three-year period (12/31/15 to 12/31/18) compared to their benchmark are as follows:

	<u>Return</u>	<u>Benchmark</u>	<u>Index</u>
Fixed Investments:	+2.48%	+2.05%	Barclays Aggregate Bond
Equity Investments:	+11.86%	+9.25%	S&P 500
Other:	+6.15%		

The three-year timeframe does reflect a full period for fixed income investments. However, during this time, the Fund began to more fully diversify into additional equity investments. Therefore, not all of our current equity holdings were held for the entire period.

It is expected that volatility and uncertainty will continue moving forward during 2019. As previously reported, minimal if any positive return is the consensus. As fiduciaries of the Fund, the Board feels a conservative withdrawal of 2% is appropriate, although outside of the normal withdrawal range of 3 to 5%.

Respectfully submitted,



James H. Solomon

Endowment Board Member

**All Souls Episcopal Church  
Endowment and Investment Board  
2019 Annual Report**

This annual report is presented in accordance with Article II, Distribution and Reporting Procedures, of the All Souls Episcopal Church Endowment and Investment Board Charter. The report a) summarizes the Fund performance for the three years ending September 30, 2018; b) provides the Board's Fund transfer percentage for the 2019 calendar year; c) lists management fees paid in connection with the Fund; d) expenses of the Board; e) donor restrictions, if any; and f) other matters, if any.

**A. Endowment Fund Performance**

Year ended	Balance	Average time-weighted rate of return
12/31/2016	\$2,097,571	6.70%
9/30/2017	\$2,188,054	6.74%
9/30/2018	\$2,335,134	5.32%

While the Fund reported a positive return for the 9-month period ending, 9/30/18, the last quarter of 2018 was challenging. All of our gains from the first three quarters disappeared. The Fund's return for the final quarter of 2018 was -6.41%. The last quarter performance is a helpful indicator looking ahead as to what the recommended withdrawal should be for 2019.

The S&P 500 for the year also declined -4.38% reversing all the gains made during the first nine months. The Fund return for calendar year 2018 composed of a mix of equities, cash and bonds was -1.43%. Therefore, our overall allocation and diversification among various asset classes continued to perform well in a very difficult market. We do not recommend a change in our current mix or positions. Our cash position may actually increase as individual bonds mature if interest rates continue to rise.

Next year promises to be a very volatile one for equity and bond returns. There are many factors weighing upon the equities market. Trade wars, uncertain political policies, brakes on growth and reduced corporate earnings may lead to a late year recession next year or in 2020. However, various experts differ on that forecast. Overall, the consensus is that pessimism and uncertainty will prevail in the U.S. economy.

While economic growth and earnings may slow, others maintain an optimistic 2.5% increase in gross domestic product for 2019. However, equity markets must calm down. This may take some time before we see some improvement in geopolitical and other headwinds. Longer term, equity performance should improve. Our forecast is that equity returns could be in the low single digits, flat or, even slightly negative for 2019.

The bond market faces its own unique set of issues moving forward. In an environment of rising interest rates, the market value of our bond portfolio will decline, along with an arguably over-extended credit market.

With uncertainty heading into 2019, a case can be made not to recommend a withdrawal from the Endowment Fund. However, a modest 2% recommendation would allow the church to continue its important mission of outreach, without significantly placing the Endowment Fund at undue market risk.

**A.2019 Fund Transfer Recommendation**

The three-year average for the Fund is \$2,206,913. A recommended withdrawal of 2% would equal: **\$44,139.**

**B. Management Fees**

All Souls incurred no fees for the management of the Fund in 2018.

**C. Expenses of the Board**

The Board incurred no expenses in 2018.

**D. Donor Restrictions**

None.

**E. Other Matters**

None.

On Behalf of the Endowment Board

James H. Solomon