



Community of Christ

CHRIST'S MISSION, OUR MISSION

27 February 2020

TO: Affiliate Investment Pool Participants

INVESTMENT RETURN INFORMATION

Community of Christ transitioned to a calendar-year-based fiscal year starting with 2020. To facilitate this transition, we had a six-month fiscal year from 1 July 2019 – 31 December 2019. Your Affiliate Investment Pool (AIP) earnings statement for this period is now available online to access, download, and print.

The six-month return for the Pool A Balanced Pool was +5.29% compared to a one-year return of +3.96% at 30 June 2019. The six-month return for the Pool B Cash Pool was +1.25% compared to a one-year return of +2.63% at 30 June 2019. Both amounts are net of fees.

The Presiding Bishopric and Fiscal Services often are asked to relate broader USA stock and fixed income market returns to those returns of Pool A, invested equally between equity (stock) and fixed income (bond) instruments. This is both an appropriate, yet complex, question to answer. To do so, we've added additional information to this letter to inform and remind account stewards of the church's approach to responsibly manage AIP assets, which includes capturing growth in strong markets while preserving assets during market downturns.

CALENDAR YEAR 2019 RETURN INFORMATION

An important factor associated with rate of return is the period to which the return applies. One benefit of the church's shift to a calendar year-based fiscal year end is the ability for account stewards to more clearly evaluate investment returns vs. widely calculated annual market averages. Using calendar year 2019 as the evaluation period, the Pool A Balanced Pool returned 16.13% and the Pool B Cash Pool returned 3.09% - both amounts net of fees. The portfolio returns were in line with a portfolio-weighted comparison to various domestic and international stock, fixed income, real estate, and commodities indices.

In the case of the reported AIP returns, the effect of strong 2019 performance was blunted by reporting in two periods. Account stewards may recall that 4Q 2018 (part of Fiscal Year 2019) and 3Q 2019 (part of Fiscal Year 2019b) both experienced stock market declines that offset some of the large 2019 gains made and attributed to each fiscal year.

INVESTMENT POLICIES AND STRATEGIES

The Church measures and monitors AIP portfolio performance each quarter according to the portfolio's investment policy, found on the church's website at <https://www.cofchrist.org/common/cms/resources/Documents/Statement-of-Investment-Objectives-Policies-Guidelines-082017.pdf>. The Presiding Bishopric developed and adopted the investment policy with input and support of an Investment Committee of church member advisers. Both the Presiding Bishopric and Investment Committee were assisted by our investment consultants in developing the policy.

Using the investment policy's approved goals and objectives for risk and return, assets are invested using the policy's asset allocation. The asset managers and products selected typically attempt to minimize volatility by (1) providing competitive performance during up markets, while (2) reducing losses during down markets. For this reason, the church's portfolio typically experiences fewer losses than market average in a down market, thereby preserving capital (as in 2018). As a trade-off, the portfolio typically does not experience the full growth of up markets (as in 2019).

CAPITAL PRESERVATION IS A PRIORITY

Because the Presiding Bishopric is not fully aware of all uses of AIP funds but is aware that many are using AIP funds to support ongoing operations, we prioritize portfolio management to minimize losses or to preserve capital. A simple illustration will underscore the importance of capital preservation.

A \$100 investment that loses 25% of its value in one year would be worth \$75. To return to \$100 at the end of the next year, the investment needs to experience an almost impossible-to-achieve 33% gain in value. Conversely, a portfolio that limits that same loss to 10% (\$90) in the first year would only require a more reasonable 11% gain in value to return to \$100 at the end of the next year.

ONGOING MANAGEMENT AND MONITORING OF THE AIP

Each quarter, the investment committee reviews AIP portfolio performance against broad market indices and targeted expected returns based on the policy. As a result, the investment manager and/or investment committee may recommend adjustments to investment products or asset allocations. Our investment manager will rebalance the portfolio, as needed, to stay within policy.

The Investment Committee has nearly completed its every-three-year review of the AIP's asset allocation. This is a systematic process rooted in understanding risk tolerances, balancing capital protection and appreciation needs, and ensuring a well-diversified portfolio. The portfolio must consider the church's Enduring Principles and World Conference resolutions that inform investment decisions regarding the categories that are in scope for the church to invest.

ACCOUNT STEWARD USE OF AIP ACCOUNTS

The Presiding Bishopric reminds account stewards that a suggested use for Pool A (Balanced) is to hold longer-term investments, where the need for funds is 3 or more years in the future. A suggested use of Pool B (Cash) is to hold funds that are anticipated to be needed in 3 years or less. Fiscal Services can assist you with AIP transfers, as you deem necessary.

STATEMENT ACCESS

AIP statements as of 31 December 2019 may be accessed for download or printing at any time via your online account. Please note that statement details for 2020 are not available at this time, as Fiscal Services is upgrading the system you will use to access your online account. We will send instructions on how to access the new system and future statements by 3 April 2020.

The Affiliate Investment Pool is provided by the Presiding Bishopric to manage the investments of the church in support of mission. If you need assistance, please contact us at FiscalServices@CofChrist.org or 1-816-833-1000, ext.1391. Thank you for all you do in support of Christ's mission.

Sincerely,



Kraig Johnson CPA
Director of Finance

cc: World Church Leadership Council, World Church Investment Committee, Order of Bishops, Field Support Ministers, Mission Center Officers