



October 12, 2017

Dear Partners in Ministry,

Enclosed is the 2017 3<sup>rd</sup> quarter statement for your account(s) at the United Methodist Foundation of Northern Illinois. Net of all fees, the returns of the three fund models are:

|                   | 3 <sup>rd</sup> Qtr<br>2017 | Year to<br>Date | Last 1<br>Year <sup>†</sup> | Last 3<br>Years <sup>†</sup> | Last 5<br>Years <sup>†</sup> | Inception<br>to Date <sup>†</sup> |
|-------------------|-----------------------------|-----------------|-----------------------------|------------------------------|------------------------------|-----------------------------------|
| Aggressive Fund   | 4.65%                       | 12.81%          | 16.17%                      | 5.69%                        | 7.70%                        | 4.84%                             |
| benchmark*        | 4.53%                       | 15.14%          | 15.86%                      | 6.76%                        | 9.13%                        | 5.75%                             |
| Moderate Fund     | 3.43%                       | 9.36%           | 11.26%                      | 4.13%                        | 5.81%                        | 4.87%                             |
| benchmark*        | 3.45%                       | 11.61%          | 11.22%                      | 5.60%                        | 7.24%                        | 5.13%                             |
| Conservative Fund | 2.34%                       | 6.46%           | 6.61%                       | 2.89%                        | 3.83%                        | 4.97%                             |
| benchmark*        | 2.37%                       | 8.08%           | 6.57%                       | 4.42%                        | 5.21%                        | 4.77%                             |

\*"Benchmark" is a blend of benchmarks per each portfolio component. †Rates of return (1+ years) are annualized. Inception dates are: Aggressive Fund: 7/30/08; Moderate Fund: 6/29/08; Conservative Fund: 7/1/08

**Market Commentary from Investnet | PMC**

Writing for September's "The Investnet Edge," Zachary Karabell, Head of Global Strategies, Investnet, Inc., pondered the current environment of money flowing to "lower risk," yet equity prices remain at all-time highs. The question we should be asking ourselves, however, is: Are *valuations* too high? "Value" should not be confused with "price."

"None of this is to say that there isn't risk, especially unknown risk, in the financial system. But on most measures, one just cannot equate today with the late 1990s or the mid-2000s. In fact, one cannot equate today with 2009-2012, when the potential unravelling of the European Union was putting extreme strain on global financial systems, and the massive liquidity being injected by central banks was potentially bolstering asset prices. Now, with modestly rising rates in the United States, along with an unwinding of that liquidity, today looks even more stable than just a handful of years ago."<sup>1</sup>

Making investment allocation decisions for churches is and should be quite different from making such decisions with personal finances. Each individual person and each church has its own context of goals, objectives, timeframes, and risk tolerances within which to discern financial decisions. Karabell offers us some general encouragement to consider: "In short, with volatility extremely low and markets stable even in the face of global uncertainty, now is the time to assess whether and how much risk to take on. Doing so can be, well, risky, but not doing so could be riskier if long-term returns fail to keep pace."<sup>2</sup>



### Update of Portfolio Benchmarks

At the most recent Foundation Board meeting early in September, the Investment Committee met with Envestnet, as they do at least once a quarter. One topic of discussion was how the benchmarks at the portfolio level are a mismatch for the asset allocation of the portfolios. The two benchmarks that make up a blended benchmark on the portfolio level are the MSCI All Country World Index World(USD)(TRN) (aka MSCI ACWI) and the Bloomberg Barclays Capital U.S. Aggregate Bond TR. The mismatch is primarily with the MSCI ACWI, which “captures all sources of equity returns in 23 developed and 24 emerging markets.”<sup>3</sup> While the Foundation’s portfolios do invest in equities of other developed nations and emerging markets, the investment methodology driving the Foundation’s portfolios leans more prudently to large cap stocks and developed countries than what is represented by the MSCI ACWI.

The benchmarks on page 1 of this letter still reflect the blend of these two benchmarks, but come next quarter the benchmarks will be different and will more accurately represent the investment methodology of the Foundation’s portfolios. In 2016 all three portfolios beat the blended benchmark. This year emerging markets have done extremely well (the MSCI Emerging Market Index is up more than 23% this year!), and thus the portfolios are slightly lagging the blended benchmark.

A benchmark more representative (than the MSCI ACWI) of the stocks in the portfolios would be, as one possible example, the S&P 500 (“includes 500 leading companies and captures approximately 80% coverage of available market capitalization”)<sup>4</sup>, which returned 12.5% in price appreciation from the start of 2017 to the end of September. The Aggressive Fund (85% stocks, 15% bonds) grew 12.81% year-to-date to the end of September. While it appears the portfolios are lagging their benchmarks based on the YTD numbers on page 1, the reality is the portfolios are quite nicely doing what they are constructed to do, based on prudent diversification and optimized allocation across the major asset classes.

This change in benchmarks does not change anything with actual asset allocation in the portfolios. This portion of the letter is simply to explain a change in the investment performance reporting to come. If you have any questions, please call me.

Respectfully,



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1 <http://www.investpmc.com/insights/commentaries/envestnet-edge-september-2017>

2 Ibid.

3 <https://www.msci.com/acwi>

4 <http://us.spindices.com/indices/equity/sp-500>

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