



January 23, 2020

Dear Partners in Ministry,

Enclosed is the 2019 annual statement for your account(s) at the United Methodist Foundation (statements from 7/1/17 are accessible online). Net of fees, the returns of the fund models are:

	4 th Qtr 2019	Year to Date	Last 1 Year [†]	Last 3 Years [†]	Last 5 Years [†]	Last 10 Years [†]
Aggressive Fund	7.62%	25.28%	25.28%	11.84%	8.09%	7.81%
benchmark*	7.91%	25.18%	25.18%	12.20%	8.21%	8.41%
Moderate Fund	5.26%	19.12%	19.12%	9.22%	6.14%	6.39%
Mod. Ex-Carbon	4.61%	17.22%	17.22%	n/a	n/a	n/a
benchmark*	5.54%	19.56%	19.56%	9.79%	6.71%	7.15%
Conservative Fund	2.89%	12.40%	12.40%	6.39%	4.15%	5.33%
benchmark*	3.06%	13.64%	13.64%	7.21%	5.09%	5.76%

*"Benchmark" is a blend of benchmarks for the fund's underlying portfolios of stocks and fixed income, relative to the portfolio allocations within the fund's model. †Rates of return (1+ years) are annualized.

Market Commentary from Investnet | PMC

Brandon Thomas, Chief Investment Officer of Investnet | PMC, concluded their "Economic and Market Overview: Fourth Quarter 2019" report with the following observations and commentary:

"The US economy is in the midst of the longest expansion on record at 126 months, and at this point in the cycle the slowing growth that has been experienced should be expected. But the economy is nothing if not resilient, continuing to deliver gains in the face of the continuing trade war with China and other significant trading partners, geopolitical tensions, and deep political fissures that have resulted in the impeachment of President Trump. By most accounts the FOMC has seemed to have reversed the damage done by its decision in 2018 to raise interest rates too much and too quickly. The committee's three rate reductions in 2019 seem to have been enough for the economy to remain on track for continued modest growth. Expectations among economists are that President Trump and China's President Xi Jinping will continue to de-escalate the trade war, both because of the damage it has already inflicted on the Chinese economy and the fact that 2020 is a Presidential election year in the US. The consumer has been the linchpin of growth not only in the US but across world economies. Many analysts believe the outlook for consumers remains bright as a result of the combination of household deleveraging that has occurred over the past decade and growth in personal income. Economists warn that one risk to the US economy in 2020 may be that because there are stark differences in the economic policies of President Trump and his Democratic rivals, uncertainty about the election's outcome may alter consumer behavior such that it adversely impacts the economy. Elections have historically had little impact on the economy, but some economists believe that with the prevailing deep political divide 2020 may be an exception."



“... the outlook for consumers remains bright ...”

Stock prices climbed much higher in 2019 from the plunge in Q4 of 2018, ending 2019 especially strong. In Q4 alone, the large cap portfolio returned 9%, both the small cap and international developed portfolios returned 8%, and the international emerging markets portfolio, an asset class which has lagged in recent years, surged 14% in Q4.

During the summer of 2019, as I commented in my Q3 letter, heightened uncertainty regarding the next recession was the main subject of the talking heads in the wake of the inverted yield curve. That seems like a distant memory now as stocks continue to climb higher. As Mr. Thomas mentioned in his commentary above, “the outlook for consumers remains bright.” Consumer spending drives 70% of the U.S. economy. In China, the world’s second largest economy and largest country by population, an estimated 60% of GDP growth in China is powered by growth in consumer spending. “And across the globe, Chinese consumer spending represented 31 percent of household consumption growth from 2010 to 2017.”¹

No one knows what the market will do in the short-term, but what is virtually certain is that, globally, many millions of people will move into the consumer class and grow the economic pie. Growth in consumer spending will increasingly take place outside of the United States. Sixty years ago the U.S. was 6.15% of the world’s population. Today that estimate is 4.25%. In 1960 in the U.S. the median age of the population was 29.7. Today the median age is 38.3. In 1960 the year-over-year population growth was 1.69%. Today that growth rate is 0.59%.³

U.S.-based companies will grow, of course, as the global economic pie grows. About ⅔ of Apple’s revenues come from outside the U.S., and that percentage is growing. It is increasingly important to remain diversified by investing internationally. About 25% of the investments in the Conservative and Moderate models offered by the Foundation are based internationally. The Aggressive model holds about 30% of its investments internationally.

Update on Moderate Ex-Carbon Model

On October 19, 2018, the Foundation launched a Moderate model (target: 60% stocks, 40% fixed income) that divests its equity portfolio from the Carbon Underground 200™.⁴ We now have performance of more than one year to compare with the standard Moderate model. There is one major distinction between the two models. The Moderate Ex-Carbon model has a significantly smaller amount of funds with which to optimize the overall asset allocation. Therefore, the Ex-Carbon model’s equity allocation is in one global equity portfolio that mimics the allocation of the four underlying portfolios of the standard Moderate model:

- Quantitative Portfolio: Impact Large Cap Core Portfolio – ESG
- Quantitative Portfolio: Impact Small Cap Core Portfolio – ESG
- Quantitative Portfolio: Impact International ADR Portfolio – ESG
- Quantitative Portfolio: Impact Emerging Markets ADR Portfolio – ESG

The resulting portfolio in the Moderate Ex-Carbon model is called, “Quantitative Portfolio: Impact Global - ESG - ex-Carbon Underground 200.” This single portfolio mimics the allocations of the underlying benchmarks of the four portfolios mentioned above, respectively: Benchmark: 63% Russell 1000 TR, 6% Russell 2000 TR, 26% BNYM Dev Mkt Classic ADR Ind, 5% BNYM Emg Mkt Classic ADR Ind.

The Moderate Ex-Carbon model’s equity portfolio returned 28% in 2019 versus its composite

benchmark return of 28.4%. The standard Moderate model's four equity portfolios, when weighted with this composite benchmark (see bottom of page 2 above), returned 29.5% in 2019. This is only one year of performance, but the global equity portfolio in the Moderate Ex-Carbon model is performing inline with the standard Moderate model's equity portfolios. While the Moderate Ex-Carbon model's equity portfolio underperformed the standard ESG impact portfolios in 2019, we expect over the long haul that it will essentially match the performance of the standard model.

You can view the last 12 monthly performance reports at the model level on the Foundation's website: <https://umfnic.org/investment-performance-reports/>

The Foundation celebrates 70 years of ministry!

A handful of volunteer church leaders gave birth to the "Methodist Foundation of Rock River Conference" on October 14, 1949. These beginnings were humble but full of potential for the future. One of the earliest leaders of the Foundation, Rev. Milo J. Vondracek, wrote in December 1960: "It is obvious to anyone who has been with the Foundation for even a limited time that the work of the Foundation is not a product or a package. It is rather a **changed outlook, a new perspective** represented by a **fresh approach** to stewardship." Much has changed since 1949 and 1960, of course, but Christian faith expressed through generosity persists and prevails!

Nearly 200 people gathered on Sunday night, October 13, 2019, to celebrate the Foundation's 70th anniversary. During the reception everyone engaged in lively conversation and enjoyed the hip, cool tones of the Spencer Peterson Trio. During dinner three former Foundation presidents encouraged the attendees with words of wisdom from living lives of generosity. After dinner attendees witnessed the inspiring stories of seven organizations to whom the Foundation granted \$10,000 each. The evening ended with the celebration of Carolyn Cook, Executive Assistant, who serves the Foundation in her 40th year! Read more on the website: <https://umfnic.org/70th-anniversary/>

Respectfully,



Rev. Chris Walters, President

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¹ <https://www.mckinsey.com/featured-insights/china/china-consumer-report-2020-the-many-faces-of-the-chinese-consumer>

² <https://financial-dictionary.thefreedictionary.com/Consumer+Class> "The class of persons able to buy goods and services other than those that satisfy their basic needs. For example, members of the consumer class may buy cellular phones and multiple automobiles. The consumer class may broadly correspond to the middle class, but if a country is sufficiently wealthy, even its lower classes may belong to the consumer class in some way."

³ <https://www.worldometers.info/world-population/us-population/>

⁴ <http://fossilfreeindexes.com/research/the-carbon-underground/> "[T]he top global 200 publicly-owned coal, oil, and gas reserve owners ranked by the carbon emissions embedded in their reserves."

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