Objectives

Financial Objectives:  
• Support a stream of regular distributions in support of annual budgetary needs; and
• Preserve the real (inflation-adjusted) purchasing power of the Endowment Fund net of regular distributions

Investment Objectives:  
• Target a real annualized total return, net of investment expenses, over a five-to-seven-year horizon, that aligns with financial objectives;  
• Outperform the Endowment Fund’s benchmark consistent with volatility targets; and  
• Adhere to the Social Witness Principles of the General Assembly of the PC(USA)

Commentary

Current Quarter

• For the quarter, the program declined -3.1%, lagging the PCF Total Benchmark. Public market performance of -4.07% also lagged its benchmark driven by a meaningful decline in the required clean energy allocation, challenging returns within sustainable strategies in emerging and real assets, and private equity marks that did not keep pace with its benchmark. Fixed income in the quarter slightly outperformed its benchmark, but also declined as most public market assets classes fell broadly. Concerns over higher interest rates and continuing economic strength weighed heavily on fixed income markets, with equity investors also questioning forward looking revenue and earnings growth expectations. Prospects for further fed hikes is now being pushed out as the market is supporting higher rates without the need for fed action.  

• Relative to benchmarks, public and private market assets were challenged as economic and geopolitical events increased market volatility and supported more traditional sectors (fossil fuels) at the expense of sustainable strategies. Clean energy (-20.5%), sustainable infrastructure (-11.3%), and emerging markets (-5.4%) were three allocations that materially hurt relative performance. Though bonds held their own, private equity marks while positive were subdued with the timing of private equity valuation adjustments relative to benchmarks remaining inconsistent.  

• Fixed Income returns were not immune to the declines (-3.1%) but did manage to outperform. The portfolio’s small overweight to cash (3.7% vs. 3%) also supported the program as higher cash rates provided positive returns.

Forward Looking Considerations

• Private equity overweight continues to be at or slightly ahead of benchmark as we have seen capital flow into the asset class while public market trail off. We expect marks to now be somewhat flat going forward with cash flows (calls and distributions) to continue to be lite.  

• Current positioning will continue to focus on supporting target allocations with greater attention towards cash positions as rates rise and the program’s global exposure amidst these heightened geopolitical times.  

• Core fixed income should remain near or below targets as cash returns remain meaningful. Public equities remain a source of cash as we work diligently in balancing our risk budget between public and private markets.  

• Future private equity commitments will be carefully considered as the year moves ahead given the program’s current allocation. A careful review of the pipeline of managers coming to market is continuously being assessed.

All returns are net of fees - Past performance is no guarantee of future investment results.
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