



Summary Report of the 102nd Annual Meeting

The 102nd annual corporate meeting of The Pension Boards-United Church of Christ, Inc. (Pension Boards) was held Friday, May 13, 2016, at The Interchurch Center in New York City.

The Rev. Dr. Rodney Franklin, Vice Chair of the Board of Trustees, convened the meeting at 8:30 a.m. (Eastern Time), and welcomed attendees. Dr. Franklin introduced the Rev. Krista L. Betz, Director of Ministerial Assistance, who, along with Health Plan Operations Director Frank Loiacono and Chief Information Officer Thomas Nolan, gave the invocation.

Dr. Franklin provided an overview of the agenda and called on James T. Herod, General Counsel and Corporate Secretary, to call the meeting to order.

Mr. Herod announced that a new procedure for proxy voting had been implemented in 2015. The General Counsel and Corporate Secretary now serves as members' proxy representative at the meeting. He noted that the proxy's role to follow the direction of members with respect to their proxy ballots remains unchanged. Mr. Herod then welcomed Pension Boards Trustees, Directors of the United Church Board for Ministerial Assistance (UCBMA), and staff, expressing appreciation to all. He affirmed that, in accordance with the laws of the State of New Jersey, in which the Pension Boards is incorporated, there was a quorum as represented by the proxy, and the meeting was called to order.

Mr. Herod introduced the Trustees being presented for reelection. The Rev. Dr. Geneva M. Butz, Mr. John B. Kleiman, and the Rev. Leslie Schenk, Ph.D. were presented for reelection to four-year terms, ending in 2020. The Rev. Dr. Sheldon Culver and the Rev. Dr. Barbara Kershner Daniel were presented for reelection to three-year terms, ending in 2019. Ms. Jane Tedder was presented for reelection to a one-year term ending in 2017. Mr. Herod announced that in his capacity as proxy he had executed a proxy vote document, documenting Trustee selections made on ballots properly submitted by members.

Mr. Herod then requested a motion authorizing the President and Corporate Secretary to read and approve the meeting minutes. The motion carried. Following this, he called on Brian R. Bodager to present the Report of the President and Chief Executive Officer.

Mr. Bodager welcomed attendees, thanking Trustees, Directors, and staff, with special acknowledgments to Bridget Langevine and her staff for their meeting coordination efforts, and to the Rev. Martha M. Cruz and her team for their work preparing the Annual Report.

Mr. Bodager opened his presentation citing words adapted from George Washington: "Change, when it takes root, is a plant of rapid growth." Pointing to the challenge of translating vision into action in order to start a journey of change, Mr. Bodager emphasized a distinction between change and organizational transformation; the latter, he defined as having a focus of achieving excellence. Having defined objectives for PBUCC in the strategic planning process, the next step is to determine how well performance matches up against those objectives by examining core activities and pursuing excellence on an individual, departmental, and organizational level.

In discussing the subject of transition, Mr. Bodager took the opportunity to recognize and thank Michael A. Downs for his service as CEO from 2002-2015, as well as Dan J. Carwile for his service as the ninth Chair of the Board of Trustees. He announced that Dr. Franklin would become the new Trustee Chair following the annual meeting.

Next, Mr. Bodager emphasized the significance of the Pension Boards' first new Mission Statement in 12 years. The phrase, "Operating at the intersection of faith and finance," developed by the planning

team and stakeholders, was added to the new Mission Statement to introduce a key point of differentiation between the Pension Boards and the commercial financial services marketplace.

The Pension Boards' objective is to become a recognized leader in faith and finance by applying a faith and finance filter to all investment decisions. The newly-adopted Policy Statement on Faith and Finance has been posted on the PBUCC website and is being circulated to key leaders in the Church, including the Collegium of Officers and the Council of Conference Ministers, as well as to other UCC financial ministries, and interest groups such as the UCC Palestine-Israel Network (PIN). A strategic plan for UCBMA has been prepared and submitted to its Board for approval, along with a plan for development and fundraising.

An employee engagement policy has been developed, and will be introduced to staff in late Spring 2016. A skills inventory and position requirements assessment is under way. The process of mapping workflows in every department has begun, facilitated through the development of standardized tools to capture work details.

The migration of the finance system to the cloud, along with significant work related to enhancing and improving finance system capabilities, has occurred. This sets the stage for managing system upgrades and the introduction of daily valuation, possibly by late 2017.

Contingency plans are under way to assure that PBUCC is addressing all forms of risk. These include the implementation of a record retention policy, and the formulation of plans for future alternative scenarios, should future regulation, legislation, or litigation influence business procedures. External data mining is under way through a new working relationship with the UCC's Center for Analytics, Research and Data (CARD), which will enable PBUCC to gain insight into potential and existing members and their needs and thus strengthen products and services.

A new internal Product Development Committee charter has been written, and a process for introducing and conducting due diligence on new and revised products and services is being reviewed by staff.

Having shared these examples of activities related to the Strategic Plan, Mr. Bodager went on to highlight new initiatives in other areas.

The Pension Boards is examining the possibility of engaging a new investment consultant, and has also launched new funds, including the Northern Trust Global Sustainability Index Fund (GSIF) in November 2015, and two new Target Annuity Date (TAD) Funds – TAD 2035 and TAD 2040 – in May 2016.

In Member Services and Member Education, PBUCC has launched financial planning services through Ernst & Young, is providing seminars for early- and mid-career members, and offers regional retirement seminars and webinars on an ongoing basis.

In the area of Corporate Social Responsibility, a Resolution on Socially Responsible Investing Practices, authored and sponsored jointly by the Pension Boards and United Church Funds, was adopted by General Synod 30. The Investment Committee of the Board of Trustees has voted to eliminate separately-managed (non-commingled) investments in oil sands and thermal coal. Additionally, Mr. Bodager and the Rev. Richard E. Walters, Director of Corporate Social Responsibility, participated in the Atlanta Summit of Churches in the USA and the Holy Land, held at the Carter Center. PBUCC was instrumental in developing the language of the final statement produced by the Atlanta Summit.

In Ministerial Assistance, the CREDO pilot phase has launched, with continued positive feedback from participants.

In Church Relations, outreach efforts to Conferences and the national setting of the Church have expanded, toward seeking opportunities for greater collaboration. A Speakers Bureau (http://bit.ly/PB_Speakers) has been established to provide content at Conference and other Church-related events.

Mr. Bodager then reflected on the activities from the nearly one year since he began in his current role, noting the outstanding efforts of staff and colleagues in building relationships churchwide. He closed with an adaptation from the words of George Washington: "Collaboration is a plant of slow growth, and must undergo and withstand the shocks of adversity before it is entitled to the appellation," and expressed confidence that the current efforts will take root. At the conclusion of his report, Mr. Bodager called upon Maxine Seifert to deliver the Report of the Treasurer and Chief Financial Officer.

Ms. Seifert began her report with a short discussion about the ways in which the Pension Boards applies good governance practices in support of financial stewardship. She emphasized that each Trustee is independent of management and complies with a strict conflict of interest policy. The Pension Boards has adopted the same standards used by audit committees of public companies, including designating an Audit Committee Chair who is a financial expert as defined by the U.S. Securities and Exchange Commission. The Enterprise Risk Management Committee ensures appropriate oversight of enterprise-wide risk, which is more important than ever given the volume and complexity of the risks that exist.

The Pension Boards engages professional firms in support of financial stewardship. All investments are held in custody by The Northern Trust Company. The Audit Committee has engaged RSM US LLP as independent external auditors. In addition to in-house actuaries, PBUCC retains the Hay Group to ensure that Annuity Plan assets are sufficient to satisfy benefit commitments. The Buck Consulting Group provides specialized expertise to help with prudent management of PBUCC's health services operations. Ultimately, however, all financial information presented in year-end communications is the responsibility of PBUCC management.

Ms. Seifert explained that she and Mr. Bodager certify that the information contained in the Report of Management included in the 2015 Audited Financial Statements has integrity, and is objective. This means that U.S. Generally Accepted Accounting Principles are applied correctly and consistently, that the Pension Boards has an effective internal control system, and importantly, that PBUCC sets the ethical tone by maintaining and enforcing the highest standards of conduct. RSM US LLP performed their work according to generally accepted accounting standards, issuing an unmodified audit opinion, or a "clean" opinion, on the 2015 financial statements, and reporting that no material weaknesses in internal controls were found during their audit.

Ms. Seifert gave a brief summary of key 2015 financial information. Combined net assets by fund on December 31, 2015 were \$3.1 billion, of which \$2.9 billion was held in trust for members. Annuitants represent the largest fund, at \$1.7 billion. The cost to administer member net assets is 69 basis points, or less than 70% of a penny for each dollar of net assets.

Ms. Seifert concluded by expressing her hope that the presentation had demonstrated the rigor of stewardship of the assets entrusted to the Pension Boards. She then introduced David A. Klassen to deliver the Chief Investment Officer's Report.

Mr. Klassen began his presentation with a slide showing performance for 2015. He noted that 2015 has been called the "worst year for asset allocation." He explained that it was a relatively benign year on the surface, but deeper dynamics caused many programs, pensions, and endowments to struggle in generating returns. The overall year was not overly positive for a number of different asset classes.

The most positive were U.S. stocks, but other diversifying assets available to pensions including PBUCC struggled. The Stable Value Fund, designed to generate consistent funds over time, was in fact

the best-performing fund. The Bond Fund was hurt by diversification away from U.S. fixed income in areas such as bank loans and emerging markets debt. The Equity Fund was held back by two of the Pension Boards' equity managers – one that had been with the Pension Boards for 15 years, and another that had been with the Pension Boards since 2007. While favorable allocation decisions were made, emphasizing certain parts of the market, they could not overcome the difficulty managers have had beating benchmarks over the past couple of years. The Balanced Fund struggled versus indices recently due to the underlying interplay between the equity component and the Bond Fund. The Target Annuitization Date (TAD) Funds are structured to move members away from volatility and toward the Stable Value Fund the closer they get to retirement. Although only one month of performance is reflected for the Northern Trust Global Sustainability Index Fund (GSIF) in the 2015 Annual Report, by the time of the annual meeting, the GSIF had \$6 million in assets.

The TAD Funds customize allocation for members' particular situation and age. Mr. Klassen emphasized that these will get more prominence in the future. He noted the TAD 2015 Fund, with most of its money invested in the Stable Value Fund as appropriate for retirees coming up on their retirement date, was able to achieve a positive return. However, other TAD Funds reflected the aforementioned dynamic. The longer TAD Funds, designed for those retiring in 15 years, can withstand some volatility in the interest of higher longer-term return.

He moved on to discuss adjustments made for the annuity phase. The Participating Annuity registered an increase of 2% at the beginning of 2015. The Basic Annuity remained flat for the year. As for the true "participating annuities," the Equity Benefit and Balanced Benefit annuities, now closed to new investors, reflected the underlying trends in markets and had adjustments reflecting those.

Mr. Klassen concluded with a general summary. He noted that PBUCC is adapting to significant changes in the U.S. fixed income market. Interest rates are lower than they have been in the last 30 years, and do not offer the same protection against a downdraft in the markets. PBUCC has deliberately been diversifying away from those safe havens, with the belief that over the next three years these efforts will bear fruit.

The choice to diversify was made for a number of reasons. One is the belief that it will be effective in the long term, both to enhance returns and to lower risk. For some periods, however, it will not be effective, and 2015 was an example of that dynamic. This approach is time-tested and will work again; however, 2015 was a more difficult year than usual. Ultimately, regardless of quarter-to-quarter fluctuations, portfolios are being positioned for the longer term.

The Pension Boards is maintaining positive performance momentum, but active managers must earn their fees in order to earn a place in the portfolio. While PBUCC utilizes passive management that does not deviate from benchmarks, there is a process used to scrutinize managers hired on behalf of the Pension Boards in order that above-benchmark performance can be generated over time. Mr. Klassen then concluded his remarks.

Following the formal reports, the Rev. Dr. Franklin opened the meeting to questions. At the end of the Q&A session, he called on Mr. Herod for the Trustee election results. The six nominated candidates – the Rev. Dr. Geneva M. Butz, Mr. John B. Kleiman, the Rev. Leslie Schenk, Ph.D., the Rev. Dr. Sheldon Culver, the Rev. Dr. Barbara Kershner Daniel, and Ms. Jane Tedder – were reelected.

There being no further business, the Rev. Dr. Franklin adjourned the meeting at 9:10 a.m.

Operating at the Intersection of Faith and Finance