2019 USMS Convention — St. Louis, Missouri

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<th>Committee Name:</th>
<th>Investment Committee</th>
<th>Session #:</th>
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<td>Committee Chair:</td>
<td>Stan Benson</td>
<td>Vice Chair</td>
<td>Guy Davis</td>
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<td>Minutes recorded by:</td>
<td>Guy Davis</td>
<td>Date/time of meeting:</td>
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**Actions Requiring Approval by the HOD:**

None

**Motions Passed:**

1. That approximately $49k of the USMS fund's holding in emerging market equities be sold and the proceeds held in cash and available for transfer for USMS operational cash flow needs.

**Number of committee members present:** 7  
**Absent:** 1  
**Number of other delegates present:** 6

Committee members present (list all, including chair and vice chair): Stan Benson, Guy Davis, Ralph Davis (Ex-officio), Jay Definis (from 12:10pm), Phil Dodson, Susan Kuhlman (Ex-officio), Homer Lane

Not present: Bill Sherman

Guests: Jim Gregory our Northern Trust (NT) investment manager and adviser.  Delegates: Dave Kough, Randy Ness, Christopher Rieder, C.J. Rushman, Michael Heather, Elyce Dilworth

**Minutes**

The meeting was called to order at 11:32am CST.

1. Jim Gregory, the Northern Trust investment advisor called in and introduced himself and summarized his personal bio for the attending delegates. He then presented his review of the economic and market outlook and of the performance of the USMS and SSL portfolios.
   1. **Overview and Asset Allocation Recommendations** NT has recently reviewed its capital markets assumptions and revised its asset allocation recommendations. While NT's outlook remains on balance positive, it has revised downwards its expectations for equity returns on a 5 year horizon to 4-8% p.a. Its current tactical (ie shorter term) asset allocation recommendations, which are relative to the strategic (ie longer term) asset allocation recommendations, are now overweight equities (other than emerging market equities), real assets, and high yield debt, while recommending underweight in other fixed income, emerging markets equities and cash. NT expects the uncertainties about the trade dispute between the US and China to remain ongoing for some time and that any progress is unlikely to provide clear resolution. NT now believes that the Fed will make 4 more rate cuts in the current cycle. However, despite these indicators of a softer economic growth and the a poor recent US manufacturing performance and outlook, NT does not expect recession on a 1 year view based on the continuing strength of the US consumer and services sectors. In this environment NT is most constructive on the return potential for US equities as well as developed market equities, high yield, and real assets which offer attractive yields with some capital appreciation potential.
   2. **Market Environment** NT expects the equity markets to continue to experience significant daily volatility, and potentially more significant market corrections, reflecting the unpredictable political and trade negotiations, the uncertainty of the economic outlook, and Fed's policy path. Jim noted that appropriate investment diversification is a particularly important discipline in this environment and that the USMS and SSL portfolios followed prudent diversification policies.
   3. **Asset Allocation Recommendations** Given NT's negative outlook for emerging market equities, NT is recommending underweight allocations to this asset category. He suggested that the committee consider reducing the USMS portfolio's current approximately 5.6% allocation to the NT recommended allocation of 4%. This would entail the realization of approximately $49k from this holding. He suggested that we consider reinvesting this in risk-control assets such as investment grade bonds or cash.
4. **USMS portfolio performance** The USMS portfolio continues to perform well in 2019, with holdings in US equities, most significantly US large cap and mid cap equities (up 18.0% and 14.2% in the year to date to the end of August), and holdings in high yield debt (up 11.5% YTD) and real assets (up 17.4% YTD) as the principal contributors to strong performance. At the end of August 2019, **the USMS portfolio was valued at $3.405m, having increased from $3.039m at the start of 2019.** Overall appreciation of the portfolio since inception is $1.204m.

5. **SSL portfolio performance** The SSL portfolio is passively managed with continuous adjustment/rebalancing of asset allocations in line with NT model portfolio recommendations, (which are broadly similar to the USMS portfolio). This portfolio has also generated strong performance in 2019. At the end of August 2019, **the SSL portfolio was valued at $223.5k, having increased $21.3k in the year to date.** Overall appreciation of the portfolio since inception is $51.9k.

2. The committee thanked Jim Gregory for his presentation and his fine service as USMS's investment adviser and investment manager and ended the call. The committee then discussed Jim Gregory's recommendations and concurred with his advice to reduce the emerging markets equity holdings by approximately $49k, and decided to hold the proceeds in cash pending further clarity on the USMS projected cash needs. The committee discussed the expected cash needs of USMS and whether further provision should be made for these needs in the portfolio at this time. Noting that dividends and interest income would generate approximately $87k of cash per annum in the portfolio, the committee decided to defer further decisions on cash realizations from the portfolio until the January meeting, when further clarity on projected cash needs would be available, unless notified by Jim Gregory of significant changes in the investment environment and outlook.

3. Ralph proposed a motion, seconded by Guy, to realize approximately $49k from the emerging markets equity holdings, to be held in cash for possible further USMS cash needs beyond the $122k provided by the cash realized from the equity holdings as approved in the Session 1 meeting of the IC the previous day (9/11/2019). The motion was carried unanimously by members present, including Jay who had joined the meeting before the motion and vote.

4. The committee ratified the email approval of the minutes of its June meeting (excepting Homer who abstained as he did not attend that meeting.) The committee also reviewed the draft minutes of the 9/11/2019 Session 1 meeting and unanimously passed a motion, proposed by Jay and seconded by Homer, to approve those minutes.

The next meeting was set for Tuesday, January 28, 2020 at 7:00 PM EST.

The meeting was adjourned at 12:37 PM CST.