

August 2024

Investment Report

The years between the 2020 Convention and the 2024 Convention held many unforeseen challenges for Catholic Order of Foresters (COF) and other financial institutions to meet and overcome. The longest economic expansion in U.S. history had ended abruptly in 2020 due to the COVID pandemic and resulting government shutdown of the economy. The drastic and rapid response taken by Trump White House, the Treasury Department, and the Federal Reserve kept markets and the economy from a bottomless freefall. Those actions, though necessary at that moment, triggered subsequent undesirable results that included spiraling and deeply imbedded inflation. Once the Fed finally recognized that inflation was more than just fleeting and was out of control, the next steps taken were woefully inadequate to address the issue and led to a prolonged restrictive monetary policy.

You may ask, what does all this have to do with portfolio investing? When the Fed dropped rates to zero, it created an environment where any corporation, municipality, or other entity carrying debt could refinance at a much lower rate. This returned substantial amounts of cash to any party invested in debt structures, including COF, at a time when banks paid no interest and cash balances, and markets were offering new issues at 0.5% to 3.00% depending on the stated maturity date of an issue. Insurers were forced to remain invested in these low yielding markets or hold significant amounts of cash earning no return. The problem was compounded by the Fed reacting to the growing threat of inflation and rapidly raising rates to the elevated levels still in place today. While higher rates are welcome for investing and reinvesting in the current market environment, the higher rates significantly devalue assets purchased in the zero rate era. Additionally, firms that held a significant annuity book have witnessed a flight of money out the door due to higher rates being offered elsewhere. Fortunately, COF maintained a shorter bias during that time, spreading investments over the short term rather than investing in long dated bonds to pick up a few additional basis points.

Many insurers are still battling out of this predicament, but COF feels well-positioned to cautiously move forward with investing in higher yields while still being mindful of managing cash demands from annuity transfers and surrenders. The portfolio had taken on a conservative approach in the years prior to the pandemic, investing in high quality investments and limiting its exposure to risk assets. COF instituted a Liquidity Plan several years ago, and meeting the requirements of that plan means COF avoids being in the position of liquidating devalued securities to meet its liabilities and obligations.

The performance of the investment portfolio has remained strong for many years and remains supportive to the financial strength of Catholic Order of Foresters. Investment returns continue to place COF among the top performers in our peer group and in a position of financial strength to serve its membership well into the future. COF will navigate the uncertainty of future Fed rate decisions as well as the risk that could be presented by the 2024 Elections. As witnessed by recent events, the portfolio is positioned to perform reasonably well in a wide variety of potential economic scenarios producing ample return and liquidity to meet members' obligations and contributing to profitability and growth.

COF remains dedicated to continuing the development of its Investment Team and continuing the long-standing tradition of preserving our members' funds and providing financial growth, profitability, and financial strength. All investments are managed in a manner consistent with the teachings of the



Roman Catholic Church, and COF remains committed to its Catholic Lending program That has built goodwill and recognition throughout the nationwide Catholic Community. COF has survived world wars, a great depression, and a great recession, and a pandemic, always emerging stronger and firm in its resolve to serve its membership. The Order will persevere and emerge from these historically difficult times stronger and determined to carry on the mission of all who contributed to this great institution.

Respectfully submitted,

Michael J. Deering
Vice President – Investments
Catholic Order of Foresters