

UUA Investment Committee – DRAFT Minutes

Schulz Room
41 Mt. Vernon St
Boston, MA 02108
November 9, 2011

DRAFT

Members Present: Jim Sherblom *Chair*, Arnold Bradburd, Tim Brennan, Dan Brody, Clyde Grubbs, Carol McMullen, Julie Skye

Staff: Rachel Daugherty

NEPC: Scott Driscoll, Scott Perry, Steve Charlton

1. Minutes from meeting of August 10, 2011

Motion: To adopt minutes without amendment. Moved McMullen, seconded Bradburd, approved.

2. UUCEF Performance Review 3rd Quarter 2011 – Steve Charlton, NEPC

- 3rd Quarter Market Observations and Opportunities
 - Global challenges will likely lead to continued short-term market volatility. Volatility is here to stay for a minimum of 6-12 months.
 - We must live with the uncertainty, and make sure that the portfolio can stand up well in this environment – in other words, an all-weather portfolio.
 - NEPC’s message to clients is: be ready for volatility and sideways markets, pare back on risks. Deleveraging is continuing and will take time to work its way through system. Expect volatility for next six to 12 months.
 - A 50% equity allocation represents a big bet on growth.
 - 3rd Quarter 2011 Plan Review
 - Year to date, the endowment returned -6.3%
 - The trailing three-, five-, and seven-year returns, +6.4% (8th percentile), +3.5% (20th), and +5.2% (39th) ranked in the top half of their peer group
 - Brennan and Phil Murray (UUA Staff, Senior Endowment Accountant) are actively monitoring the asset allocation in the portfolio. The current rebalancing practice is to look at the portfolio every month and rebalance at least once a quarter.
 - NEPC will run a liquidity study of the fund.
- Action Item 1:*** Review NEPC liquidity analysis in January with the 2012 long term forecast.

- 2. Equity Manager Review: Pier Capital** – Alex Yakirevich, Portfolio Manager
- Philosophy: They are business analysts first, financial analysts second. They look at qualitative aspects of company and create list of companies growing faster than market, but only buy based on timing.
 - Outlook: Value has done well over last 10 years because money was cheap. But source of funds for value companies is tightening, therefore, innovation will be the primary earnings driver going forward. This is good for a growth strategy.
 - How do they integrate ESG?
 - For most clients the idea is just to maximize returns, but if a client asks, they will avoid certain companies as they do for the UUA.
- 3. Equity Manager Review: Sands** – Samantha Toler, Director; Ashraf A Haque, Research Analyst
- Philosophy: High quality, pure growth, long-term, concentrated investment management. Has had the same process in place for nearly 20 years.
 - Identify leading growth businesses that are grounded in 6 criteria that include: sustainable above-average earnings growth, financial strength (little or no debt, transparent), value-added focus, and significant competitive advantages.
 - Focus on sustainable growth over life cycle. Portfolio has projected growth rate of 29%, twice the benchmark.
 - How do ESG factors play into their choices: Their criteria include companies that improve efficiencies in businesses and in general are positive for the world. This includes healthcare companies that are profit motivated, but solving real problems. They have avoided businesses with a lack of transparency.
 - Outlook: their view is that economic growth will not be robust, therefore they look for businesses that can grow 25-30% in this environment. Attractive companies make and sell things that people want regardless of the market backdrop.
- 4. Equity Manager Review: Rhumblin** – Norm Meltz, Director of Investments
- Philosophy: They try to be close to the benchmark (Russell 1000), but in a way that favors stocks that rank higher on the UUA social score.
 - Performance: 3rd Quarter -16.71% vs. -16.20% for the benchmark, Year to date -1.63% vs. -1.08%.
 - Internal ownership change within Rhumblin – The majority owner and founder announced his retirement. Remaining owners just completed an internal buyback of his ownership stake.
 - Discussion:
 - If we would shift to an equal weighted benchmark (vs. a market cap weighted one), we would be underweighting US large cap
- Action Item 2: NEPC will present an analysis of the effect of an equal weighted benchmark on the portfolio.*

5. Liability insurance and indemnification – Brennan

- Brennan consulted with Risk Strategies Company (RSC) regarding the insurance coverage for the UUA with particular attention to directors and officers liability insurance.
 - RSC felt that the D&O and fiduciary liability policies were deficient
 - We now have a policy through Chubb for \$5 million in coverage
- Action Item 3: Tim will circulate the policies electronically to the committee.
- Sherblom: Committee members should review and sign the UUA conflict of interest policy.

6. Committee mission statement – McMullen, Brody

- A draft mission statement was circulated for comment and review.
- Investment Policy- should be reviewed by the Committee during the next year.
 - The Board assigns the Investment Committee the authority over the investment decisions. The Investment Committee acts in a fiduciary capacity, but legally the Board is the fiduciary.

7. Qualifications for committee members – Sherblom

- Sherblom: committee should reexamine the qualifications when a new member will be selected. There are no openings at this time.

8. Other business

- Reconfirm the three US equity managers (Sands, Pier Capital, Rhumblin), with no change to the target allocations.
- Future meeting dates:
 - February 16th 9am-1:00 (subject to NEPC) [**Later changed to February 13th, 8:30 AM to 2:00 PM**]
 - May 17th 9am -1:00 or 2:00
 - August 16th 9-5 for offsite retreat with guests
 - November 15th 9am-1:00 or 2:00
- Issues to consider at future meetings:
 - Consider the 30% that is in alternatives (hedge funds and GAA). Should a higher percentage go to hedge funds?
 - NEPC will present their long-term asset class forecast and evaluate the UUA's asset allocation against those assumptions at the next meeting.
 - Look at high quality equity versus high yield bonds.
 - Presentation from the new SRI analyst firm – Sustainalytics – to better understand how the screening and ESG ranking process works.
 - Think about SP900 core versus Russell 1000.

- The committee would like to thank for Jim Sherblom for his outstanding service to the committee. Let the minutes reflect the appreciation of this Committee to Jim for his service over the last eight years. We hope to see him at the summer retreat.