

UUA Investment Committee – Minutes

Rice Room
7 Mt. Vernon Place
Boston, MA 02108
February 13, 2012

Members present: Carol McMullen *Chair*, Arnold Bradburd, Tim Brennan, Dan Brody, Rob Friedman, Julie Skye

Member absent: Clyde Grubbs

Guest: Kimberly Gladman (CSRI)

Staff: Rachel Daugherty

NEPC: Scott Driscoll, Scott Perry, Doug Moseley

1. Minutes from meeting of November, 2011

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

2. UUCEF Performance Review 4th Quarter 2011 – Scott Driscoll, NEPC

- Capital market observations
 - Low expected returns are here to stay; fundamental economic drivers remain depressed globally
 - Economic growth is expected primarily from emerging markets
 - It is likely that quality stocks will outperform
 - Discussion about private equity:
 - Concern was expressed about liquidity and valuation
 - The Investment Committee’s current guidelines do not permit private equity, but the committee could change this
 - This is an item for future discussion; NEPC will look into what other clients with unitized funds are doing
- 4th Quarter 2011 Plan Review
 - For the calendar year, the endowment returned -1.4%
 - The trailing three-, five-, and seven-year returns are +13.4% (6th percentile), +3.4% (16th), and +4.9 (26th)
 - We need to be cautious about “manager creep,” i.e. having too many managers to track

3. NEPC Asset class outlook and UUA asset allocation – Moseley, Driscoll, NEPC

- NEPC recommends that we consider an allocation to Emerging Market Debt Local Currency funded from equity. In their model, a 5% allocation would lower expected volatility without lowering expected return. NEPC will research appropriate managers.

4. International equity manager review: Templeton – Michael Lynam, Relationship Manager

- Templeton’s strategy will not usually capture the full upside in rising markets, but they position the portfolio to limit losses in down markets.
- They do fundamental analysis and take a contrarian approach for buying opportunities, investing in strong companies with strong balance sheets. When they take positions they hold them for 5-7 years.
- They do not invest in alcohol, tobacco or firearms, but do not represent themselves as an SRI fund.
- Performance: their underweight to EM hurt them as did their overweight to industrials.
- Asked if they consider ESG criteria in their investment approach, Lynam said they do not.
- Outlook: Turnover is low – 15% – so the portfolio changes slowly. They have started to build positions in financials based on attractive valuations and opportunities they are seeing in Europe.

5. International Equity Manager Review: Artio – Barney Walker, Director Institutional Investments; Andrew Barker (via conference phone), Portfolio Director

- Performance has been below the benchmark; as a fundamental manager, their approach has been hurt by the risk on, risk off market environment
- Process looks for long-term secular change in the world
- Outlook: the future looks more certain than the last few years. They do not believe deleveraging economies can grow quickly, so they are avoiding exposure to companies that derive most of their revenues from European economies. Companies with global markets can still be attractive, no matter where domiciled.
- They favor larger, more successful companies with strong market share
 - Are avoiding exposure to the euro denominated stocks
 - Underweight banks
- Emerging markets have attractive characteristics:
 - There is a growing emphasis on domestic markets.
 - They have policy latitude to provide stimulus because their balance sheets are much stronger than those of developed nations.
 - Believe that over the next few years Emerging Markets are positioned to give investors a good run.
- Firm stability: never lost a portfolio manager. Organizationally, well-funded, cash flow is high, strong stability.

Action item 1: NEPC to get attribution information from Artio

6. Discussion of international managers and allocation to international equity

- No change to international equity managers or allocations at this time.
- Committee agreed to investigate adding an allocation to Emerging Market Debt (local currency)

Action Item 2 – NEPC will prepare a manager search book. Committee will meet by phone to select managers for interviews at the next in-person meeting in May.

7. Working lunch – McMullen, Brody

- New legal structure to hold the UUCEF for UUCEF is moving forward.
 - Legal form will be a Limited Liability Company
 - UUA Board will be asked to approve operating agreement at the April meeting. Then we can apply for a nonprofit, charitable status determination from the IRS. That could take nine months.
 - The primary purpose for setting up the new structure is to protect the investing congregations from the UUA’s liabilities
 - The draft operating agreement will be distributed to the committee and comments are requested by Feb 20th
- Discussion of conflict of interest policy; other compliance matters

8. Other Business

- Next meeting: Monday, May 14, 8am to 1pm
- August meeting: Tuesday 14th 9am-5pm, full day offsite. NOTE THAT THIS IS A CHANGE FROM THE PREVIOUS SCHEDULE.