

Investment Committee Minutes

February 28, 2007 Meeting

Greeley Library

Boston, Massachusetts

Members Present: Scholl (Chair), Ballester, Brennan, Corkran, Sherblom,

Also Present: Konicki (NEPC), Kondry (NEPC), Driscoll (NEPC), Gladyszak-Underhill (UUA), Morris (UUA CSRI), Cudhea (UUA CSRI), Lowe (UUA CSRI), Bennett (UUA CSRI), Saunders (UUA CSRI), Farley (UUA CSRI)

1. Minutes

The minutes of the November 9, 2006 meeting were reviewed and approved by the Committee.

Motion 1: Sherblom moved to approve the minutes. Corkran seconded. Motion passed.

2. Performance

NEPC reviewed the performance for the December 2006 quarter and reported a strong quarter where all major stock markets recorded gains. The S&P 500 was up (+6.7). Small Cap Core (+8.9) outperformed Large Cap Core (+7.0%) markets. Small Cap Growth (+8.8) outperformed Large Cap Growth (+5.9) strategies. Small Cap Value (+9.0) outperformed Large Cap Value (+8.0). International Equity Markets were positive (+9.6) and but were outperformed Emerging Markets (+19.7) for the quarter.

The Lehman Aggregate Index was up (+1.2) this quarter. Short term interest rates remained unchanged. Core Bonds were outpaced by Global Bonds which were up (+1.8) for the quarter.

The Endowment Assets totaled \$132 million as of December 31, 2006. NEPC has created a custom universe of endowments and foundations between \$50 and \$150 million in assets. NEPC reported that the UUA Endowment allocation to equities was 51.2% which was below the custom endowment universe equity weighting of 63.1% and remained slightly higher than the revised 50% equity target.

The UUA Endowment posted a 5.4% gain for the fourth quarter which ranked in the third quartile of the custom endowment universe. Deviations from policy added 20 basis points for the quarter. Active management added 10 basis points during the quarter.

As of the year ended December 31, 2006, the UUA Endowment Fund's return was 10.0% which ranked in the 4th quartile of endowments that are between \$50 and \$150 million in assets. Deviations from policy detracted 20 basis points and active management detracted 280 basis points.

The annualized three year return of 9.3% ranked slightly below the median endowment fund and was achieved at a lower level of risk than the custom median endowment fund.

3. Asset Allocation Update

At the request of the Committee, NEPC conducted a Small Cap Growth Manager Search for a manager that would complement the current Small Cap Value Manager's style.

The two search finalists, one a pure growth manager and the other a core growth manager, presented to the Committee. Each manager answered numerous questions from the Committee members. In-depth discussions followed the presentations and upon conclusion of the discussions the following decision was made:

Motion 2: Corkran moved that the Committee choose the Small Cap Pure Growth Manager as the finalist. Sherblom seconded. Motion passed.

4. SRI and Community Investments

Brennan presented the Committee with a proposal to transfer the UUA's Community Investments to the GIF. (The Guidelines and Policy can be found at the end of these minutes.) The Committee reviewed the guidelines, policy and proposal. The UUA would guarantee the principal and interest payments of these assets through their respective maturity dates. At that time, the Committee may elect to roll over or redeem the notes at its discretion, but the UUA guarantee will no longer be in effect. After considerable discussion, the following motion was made:

Motion 3: Sherblom moved that the Committee accept the policy and that the UUA Treasurer obtain a reasonable basis for the transfer. Scholl seconded. Motion passed.

5. NEPC Alternative Assets Strategy Report and Discussion

At the request of the Committee, NEPC gave an in-depth presentation on alternative assets and a proposed implementation strategy. The presentation covered Real Return Assets, Private Equity and Hedge Funds. NEPC and the Committee acknowledged the difficulty in achieving full diversification across the Alternative Asset spectrum given the low level of possible allocation to these asset classes. A discussion on the possibilities of deploying funds to this asset class yielded the following concerns:

- too small an allocation to make it worthwhile;
- transparency is an issue as well as increased resources required in communicating the information to the Board, fund participants and the auditors;
- increased fees;

-adherence to published policy.

NEPC noted that valuing investments 'at cost' has been acceptable to auditors in the past, and that there are some hedge funds that are registered with the SEC.

NEPC suggested two routes: Portable Alpha strategies that are less like a hedge fund and Beta strategies with differing return patterns. After further discussion that committee considered tabling this topic for a year while trying to find a way to better leverage the largest asset classes to improve the overall fund. NEPC was asked to come back to the Committee with a side-by-side comparison of the current structure and all of the other possible scenarios.

The Committee plans to go through this topic of discussion more thoroughly at the next meeting and then ask NEPC to come back with 4 or 5 recommendations.

6. GIF Marketing Plan Update

Brennan reported that he, Scholl and Cudhea (CSRI) had held the first Quarterly GIF Conference Call for GIF Investors on February 28, 2007. This was held in response to the request for communication resources that go beyond the marketing plan. The plan is to hold such a call each quarter going forward. Announcements will be mailed with the GIF quarterly statements. The call lasted about an hour and was well received.

The Committee plans to provide the first "Quarterly Commentary Letter" during the Summer of 2007.

7. Future Meeting Dates

The Meeting dates proposed for the rest of 2007 and 2008 are:

- Thursday May 17, 2007
- Thursday September 13, 2007 (Joint meeting with CSRI)
- Thursday November 15, 2007
- Wednesday February 13, 2008
- Thursday May 15, 2008
- Thursday September 11, 2008
- Thursday November 13, 2008

Scholl moved that the meeting be adjourned.

Sherblom seconded. Meeting adjourned.

Guidelines and Policy on GIF Community Investing

Background: At the June 2006 meeting the UUA Board voted that 1% of the General Investment Fund would be used for community investments. This document was

prepared to clarify which Community Investments qualify for inclusion in the GIF portfolio. The following key definitions have been developed by the UUA Committee on Socially Responsible Investing and guide the CSRI in its implementation of the UUA's Community Investing Matching Program (see <http://www.uua.org/finance/sri/community/matching.html> for more information on that program):

Community Investing (CI) is financing that creates resources and opportunities for economically disadvantaged people and communities. CI supports development initiatives in low-income communities both in the United States and in developing countries. CI financing creates access to affordable financial services and financial education, loans for first-time homebuyers and affordable housing development, micro and small business development, community services, and venture capital financing.

Community Investments are offered by community investing institutions and include checking accounts, savings accounts, certificates of deposit, loan notes, equity investments in community development, and money-market funds.

Community Investing Institutions include community development banks, credit unions, loan funds (including microenterprise lenders), venture capital funds, and other institutions which offer investment products that support community development, e.g., [Calvert Foundation Notes](#). See section below for Community Investing database requirement.

GIF Community Investment Policies

1. **Target Allocation.** The target allocation for Community Investments will be 1% of the total value of the GIF. Such allocation shall be counted within the fixed income asset class of the GIF. The Community Investing assets may yield a below market return compared to other assets in that class.
2. **Characteristics of Community Investments eligible for investment by the GIF.**
 - 2.1. **Previously established UUA Community Investments.**
 - 2.1.1. Community Investments made under the terms of the UUA's Matching Program as such terms may be revised from time to time. At the time of the adoption of this policy, if a UUA Congregation or District invests a minimum of \$2000 in any institution listed on the Community Investing Database (see www.communityinvest.org), the UUA will match that investment up to a maximum of \$10,000. Other terms and conditions apply as described on the UUA website.

2.1.2. Any other Community Investments held by the UUA as of February 28, 2007 are eligible for inclusion in the GIF but may not be renewed or “rolled over” unless they meet the terms for New Community Investments in section 2.3 below. Such investments include those made under the “President’s Initiative” and investments in minority bank institution investments (certificates of deposit) resulting from the October 1970 board resolution to fund minority banks.

2.2. **New Community Investments** will have the following characteristics:

2.2.1. Recognizing the greater demand for capital experienced by Community Investment Institutions operating outside of the federally regulated financial system (i.e., loan funds vs. banks and credit unions), the GIF will favor investments in uninsured institutions over investments in regulated banks and credit unions.

2.2.2. The GIF will favor investments in Community Investing Institutions that support improvements in basic living standards such as access to jobs, micro-enterprises, affordable housing, and affordable financial services.

2.2.3. Maximum investment amount for any one CI will be no greater than 5% of the total amount of the GIF allocated to Community Investments.

2.2.4. Each CI will have a maximum term of 5 years

2.2.5. Each CI will have minimum rate of return of 1%

2.2.6. Each CI will be listed on the Community Investing Database (www.communityinvest.org)

2.2.7. Any other Community Investment, regardless of whether it meets the terms in 2.2.1 to 2.2.6 above, if approved by a majority of the Investment Committee as advised by the Committee on Socially Responsible Investing.

3. **Investment process.** The Treasurer shall invest GIF funds in Community Investments meeting the criteria in Section 2 above and as recommended by the Committee on Socially Responsible Investing. GIF Community Investments may be: Recommended through a member of the Investment Committee, CSRI or UUA Treasurer and the recommendation must be in writing and include organization profile, proposed amount, terms, and a financial and social impact profile (samples available from CI database and from trade association websites).

4. Reporting

4.1. Annual Due Diligence

The UUA will annually commission a consultant to perform an evaluation of the GIF's CI investment portfolio and produce a report by September 30 at a cost not exceed 1% of the total dollar value of the GIF's Community Investments.

4.2. Quarterly Reporting to Investment Committee and CSRI

At least quarterly the UUA staff will provide a report of the UUA's Community Investments including the GIF, operating fund, and any other funds used for Community Investments. The report will include, at a minimum, the following information for each investment:

Organization Name, investment type (CD, loan, etc.), term, maturity date, interest rate, payment terms (i.e., quarterly interest payments), Investment Amount, Date of investment, source (Match/Presidential/Minority/Other), and Match source, if applicable (congregation/district name and state).

Appendix #1

Scope of Work for Annual Due Diligence Report

Prepare minimum 1-page Summary for each investments – sample outline below:

- Management: Regulatory status, legal status and any major changes in management, including CEO or Executive Director, Chief Lending Officer, or Board Chair.
- Organization Status: Summary of any structural changes to the organization including whether the organization experience or is it exploring a merger or acquisition; details of any new affiliates or subsidiaries and their purpose.
- Financing Performance: Summary of major product offerings plus total loans/investments closed this year and cumulative since start of financing by product.
- Financial Health Summary: Review the most recently completed financial and annual reports plus other available information (e.g., Guidestar's 990 tax returns) to summarize the financial health of the organization.
- Other Info: Any other information that may be helpful in demonstrating organization's community development impact, financial growth, or other development that may not be addressed in factors above.

Appendix #2

CDFI Industry Due Diligence Resources Compiled and summarized by V. Lowe 2/07

The resources below are compiled and summarized as a first step in helping the Investment Committee to understand the industry and thereby help to develop a policy for including community investments in the UUA's General Investment Fund. These resources will also be helpful for the annual CI Portfolio Review. The prime data source used by the CSRI is the Community Investment Database. It serves as the gateway or required source for the UUA's community investing matching program. That database includes financing institutions which have undergone a minimum level of screening and financial due diligence as described below.

Community Investing Database~ 450 Institutions

<http://www.communityinvestingcenterdb.org/>

Requirements for inclusion: Members of the Social Investment Forum, and/or affiliated with Calvert Foundation, and/or affiliated with one of the CDFI Data Project partners.

2. Meet key standards related to performance determined by the Social Investment Forum, Calvert Foundation, and the CDFI Data Project partners.
 - Community Development Banks – Must not be facing regulatory action from the Federal Depository Insurance Corporation (www.fdic.gov)
 - Community Development Credit Unions – Must not be facing regulatory action from the National Credit Union Association (www.ncua.gov)
 - Community Development Loan Funds – Must not have 3 of the following characteristics:
 - Operating Deficit (Decline in unrestricted net assets)
 - Delinquency Rate > 10% (Defined as 90+ day delinquency rate)
 - Net Charge-off Ratio > 8% (Defined as Net Charge-off [write-off] during latest fiscal year / Total Loans Outstanding)
 - (Net Assets+EQ2) / Total Assets >10%
 - Community Development Venture Capital Funds, Housing Developers, and Microfinance Institutions – Determined on a case-by-case basis
3. They take investor capital.
 - Another resource within this site is the Social Impact Calculator.

Requirements for Federally Certified CDFIs: 748

<http://www.cdfifund.gov/docs/certification/cdfi/CDFI-state.pdf> Has a **Primary**

Mission of promoting community development.

Is a **Financing Entity**.

Serves principally an eligible **Target Market**.

Provides **Development Services** in conjunction with its financing activities.

Maintains **Accountability** to its defined Target Market.

Is a **Non-Governmental Entity**, and is not controlled by one or more governmental entities.

CDFI Trade Associations & Other Resources		
Organization Name	Specialty/Membership Base	Due Diligence Tools
Opportunity Finance Network (formerly National Community Capital Association) www.opportunityfinance.net	All CDFI types, most of their ~160 or so members are nonprofit loan funds.	Includes member profile includes, mission, products & services and financial and social impact. Publishes Side by Side – annual report of peer data on the industry. Developed CARS – CDFI Assessment Rating System.
Community Development Venture Capital Alliance www.cdvca.org	Venture Capital Funds (52 as of 1/07)	Online fund profiles include list of shareholders, social mission, and investment info.
National Federation of Community Development Federal Credit Unions http://www.natfed.org	Credit Unions, most those with Low-Income designation status from Nat'l CU Administration (NCUA) (~220 members as of 1/07)	Find public financial reports (5300s) on NCUA.Gov site.
Association for Enterprise Opportunity & MicroTest www.microenterpriseworks.org & http://www.fieldus.org/li/microtest.html	Microenterprise Development Organizations	Developed Microenterprise Standards and Accreditation Project (MSAP), which led to Microenterprise Standards and Guide publication.

<p>The CDFI Fund www.cdfifund.gov</p>	<p>Federal bureau within US Treasury that certifies and invests in all types of CDFIs. 771 certified and ~ 330 awardees as of 1/07.</p>	<p>Online searchable awards database. Awardees (vs. simply certified) have undergone a financial safety and soundness check.</p>
<p>The Community Development Banking Listserv: http://www.lightlink.com/cdb-l/ Helpful source for researching/posing industry questions. Complete set of archives is online. Members are industry staff, advocates and researchers.</p>		