

## UUA Investment Committee – Minutes

Schulz Room  
41 Mt. Vernon Place  
May 14, 2012

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

Member absent: none

CSRI: Simon Billenness, Glenn Farley, Kimberly Gladman, David Stewart

Staff: Rachel Daugherty

NEPC: Scott Driscoll, Doug Moseley

### 1. Minutes from meeting of February, 2012

**Motion 1:** To adopt minutes as submitted. Moved Bradburd, seconded Friedman, approved.

### 2. UUCEF Performance Review 1<sup>st</sup> Quarter 2012 – Scott Driscoll, NEPC

- Market Environment
  - Global stock, credit, and commodity markets have started 2012 with a robust (and gratifying) rally.
  - In early 2012 NEPC recommended increasing allocations to risky asset categories.
  - Have re-evaluated the fundamental building blocks of their valuation models and are comfortable that their 2012 recommendations remain sound.
- 1<sup>st</sup> Quarter Performance Review
  - The assets totaled \$143.3 million as of 3/31/12.
  - The Endowment’s first quarter return (+8.8%) ranked in the 20<sup>th</sup> percentile of the custom endowment universe.
  - For the trailing 12 month period the endowment returned +3.4%.
  - The trailing three-, five-, and seven-year returns, +18.5% (13<sup>th</sup>), +4.8% (11<sup>th</sup>), and +6.4% (16<sup>th</sup>) ranked in the top third of their peer group.
- Discussion
  - Bradburd requests a report showing amounts withdrawn and contributed to the UUCEF (from congregations) for the period.

**Action Item 1:** Brennan will start distributing a report to the committee that will detail contributions and withdrawals to and from the UUCEF made by congregations.

- McMullen suggests an analysis of congregations’ satisfaction with the Fund. Brennan and his team will develop an online survey of investing congregations for Fall 2012.
- Committee discussed portfolio diversification and the number of managers with one member believing that we have too many managers.
- Farley says he would like to see the percentage of the fund subject to social screening increase. Suggests using Rhumblin to create a custom international index fund.

### 3. Emerging Market Local Currency Fixed Income Manager Interviews:

- **Stone Harbor** – Christopher Mitrovich, Client Relationship Manager
  - Firm is 100% employee owned, and the original team has been together for over 20 years
  - The portfolio is entirely sovereigns weighted towards those with improving fundamentals. Look for political stability.
  - EMLC benchmark started in mid-2006, but team has been investing in EMD going back to 1990.
  - They pay close attention to credit fundamentals. Tend to underperform when correlations go to one or in a “risk on” environments.
  - Skye: do they consider the “misery index” of their investments? (i.e. do they consider the social impact of their investments, both positive and negative?)
    - Assessing political stability in countries is a crucial part of their process. Human rights analysis is not explicitly factored into their process.
- **Standish** – Javier Murcio, Portfolio Manager, Chris Austin, Consultant Relations
  - Portfolio does not include derivatives. This strategy started in 2006 when the benchmark was established. Also have a USD denominated debt product with a longer history.
  - They take a fundamental approach. Two-thirds of return is from currency trading.
  - They use models for comparability of data, but are not primarily quantitative. This is a very pure product in that there are no USD denominated bonds.
  - A larger fund could not be as nimble as they are; in times of market stress they are still able to react quickly.
  - They are not hugging the index. More recently they have been close to benchmark because they do not want to take excessive risk in these volatile market conditions. Their underperformance in the past 5 years was due to hedging some of their positions, which worked against them.

- Productivity improvement in these countries has made high inflation unlikely.
- Skye: How important is social justice/human rights in their process?
  - The countries in this portfolio are the ones with the better governance – all countries are democracies. In general these countries have had tremendous growth in the middle class.
- **Pictet** – Eugene Choi - Client Portfolio Manager EMD Team, Douglas Balleine - VP Business Development
  - Team is in London and Singapore; office in Montreal. Partners are all family members or close relations. This leads to a long-term approach to investing.
  - The firm trades both local currency debt and USD denominated debt. Countries in the latter group tend to be poorer and have worse governance. The product they are presenting is the local currency debt strategy.
  - They are an active benchmark manager. They do not vary far from the benchmark but expect to outperform in a down market – an “all weather” approach. They have outperformed in 4 of the last 6 years. In 2008 they were down only 5%.
  - Skye: do they consider the “misery index” of their investments?
    - They look for democratic institutions and avoid social and internal unrest.
  - Brennan: Have they signed the PRI (UN Principles for Responsible Investment)?
    - They are unsure, but will get back to Brennan
- **PIMCO** – Robert Morena, Executive Vice President, Head of PIMCO Institutional Business Development
  - PIMCO takes a macro approach, focusing on countries with improving fundamentals.
  - Their underlying thesis is that the world has entered a “new normal” in which developed economies will be challenged to grow while emerging market economies will grow and are more credit-worthy.
  - They are predominantly invested in sovereigns, but have some exposure to high quality corporate bonds.
  - They were hurt in 2008 by being very defensive and avoiding Thailand which performed very well.
  - Strengths: a disciplined and consistent process with 45 dedicated analysts.
  - They are a UN PRI signatory. Brennan: how does that influence how portfolio is managed?

