

UUA Investment Committee – Minutes

NEPC
255 State Street
Boston, MA
May 15, 2014

Members present: Carol McMullen *Chair*, Arnold Bradburd, Tim Brennan, Rob Friedman, Kimberly Gladman, Larry Ladd, Julie Skye

Member absent: None

Guests: Simon Billenness, Vonda Brunsting, David Stewart

Staff: Susan Helbert

NEPC: John Hogan, Scott Perry

Heitman: Chuck Fiedler, Blaise Keane

ASB: Larry Braithwaite, Mandi Wedin

1. Minutes from meeting on February 20, 2014 and March 28, 2014- McMullen

Motion 1: To adopt minutes from last meeting without amendment. Moved Bradburd, seconded Friedman, approved.

2. Asset Allocation and Manager Implementation Review - Perry

- Perry recommends streamlining the investment program while retaining the same asset allocation, return expectations, volatility expectations and Sharpe ratio.
- Core and satellite managers approach was offered as one way to trim the number of managers while improving the program. Core refers to a traditional allocation to public equities and fixed income. Satellite is a flexible mandate and currently consists of hedge funds, global asset allocation and, real estate, when instituted, and can change from time to time.
- Perry recommends terminating Schroders due recent turnover at portfolio manager level, Standish due to mixed performance and outlook and GMO global bond fund due to subdued outlook for this asset class.
- By implementing recommendations, portfolio still maintains a very similar asset mix, however the expected risk goes down.

Motion 2: To accept the recommendations of NEPC for terminating Schrodgers International Alpha, Standish Emerging Market Debt and GMO Global Bonds managers and reallocate portfolio. Moved, McMullen seconded, Friedman, approved.

Action item 1: NEPC to provide an interim allocation recommendation for the 5% intended for real estate.

Action item 2: NEPC to prepare a slide explaining GAA fund.

3. Heitman Presentation – Fiedler, Keane

- 50 years of experience, three integrated business units; private equity, public securities and debt. Firm is employee owned.
- Currently 17.4% of their properties are LEED certified and that number will increase to 21.7% when they achieve certification on their most recently acquired office building. Have an acquisition pending that is LEED certified which would bring their total to 25.3%.
- All of their office buildings are LEED certified. Certification is less common in warehouse and industrial area so they use green products such as solar panels when possible. Certification also less common in retail space but expects that trend to grow.
- Looking to achieve GRESB (Global Real Estate Sustainability Benchmark) certification for portfolio.
- Entrance queue is about 3 to 4 quarters. Additional investment opportunity goes back to beginning of the queue.
- No responsible contractor policy.

4. ASB Allegiance Real Estate Fund Presentation – Braithwaite, Wedin

- Has a responsible contractor policy.
- Consider Core to be high tenant demand and improved leasing.
- Focus on creative office space in target markets, retail in iconic retail corridors, high-quality multifamily residential locations, and individual assets with competitive advantages.
- 70% of office space is LEED certified, overall 50% of investments on an NAV basis are LEED certified
- Every asset, every quarter receives an independent opinion of value. 25% of portfolio is appraised externally on an annual basis.
- Entrance queue is roughly 3 to 4 quarters.

5. Real Estate Debrief – All

- General discussion of both presentations resulted in a leaning toward Heitman by a small margin. Will research both firms further with potential vote to come at next meeting.

Action item 3: NEPC to provide information on potential global real estate managers.

6. Performance Update – Perry

- Markets have performed in major reversal of previous year.
- Equities still up but not like last year.
- Long duration bonds are performing well compared to 2013.
- Parts of the LRCS assets are new incorporated into the portfolio and reflected in current numbers with additional assets being reflected in June numbers.

Action item 5: McMullen will prepare an article for UU World about the UUCEF and its performance, associated risks for congregations managing their own endowments, and reporting that congregations now have a larger investment in the CEF than does the UUA.

7. ESG Reporting- Perry

- In the past year, have been talking with the leaders in the ESG reporting space and have selected MSCI. NEPC selected MSCI as ESG analyst due to their great capabilities. Further they own Investor Force, which the platform they use to create our quarterly reports.
- In near term they can get quarterly reporting from MSCI for a risk platform around ESG for each manager and to roll that up to the portfolio level.
- Will be doing a test run on current holdings and expect to deliver that at the next meeting for a discussion on usefulness, how frequently we want them to produce it, and how to manage the added cost.

8. Fossil Fuel exposure report – Hogan/Perry

- Overall exposure to the Carbon Tracker 200 is 2.9% as of February 2014.
- Each manager in portfolio was presented with two questions regarding fossil fuel holdings:
 - How do you assess long-term carbon asset risk in valuations for oil, gas and coal? The general consensus was that they provided a political and regulatory risk in the long term. The managers generally believe that fossil fuel assets are at risk of being stranded due to declining long-term demand.
 - What is the assessment of the risks to those companies in the UUA portfolio? Currently the holdings are being used mostly for diversification but overall are looking to de-invest because of regulatory risk.

9. Work plan – Perry

- Distributed proposed work plan for committee that lays out the roadmap for the next year.

10. UUA Updates – Brennan

- UUCEF LLC has received its 501(c)(3) designation from the IRS.

- LLC works as a firewall between the UUA and congregational assets in the event of litigation.
- Business resolution on fossil fuel divestment, as negotiated by the SRI Committee and the proponents, has been endorsed by the Board.
- Socially Responsibility Investment Committee has voted unanimously to support the resolution as written.

11. Executive Session - McMullen

Next meeting: August 7, 2014