

UUA Investment Committee – Minutes

177 Milk Street, Boston, MA 02109

August 7, 2013

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

Guests: Kimberly Gladman, Simon Billenness, David Stewart (CSRI)

Staff: None

NEPC: Eric Knutzen, Scott Driscoll, Scott Perry

1. NEPC Capital Markets Overview– Knutzen, NEPC

- Eric Knutzen, chief investment officer of NEPC, reviewed the firm's views of global capital markets and long-term investment outlook.
- He discussed the disruption in the markets caused by the Fed's announcement of tapering in June. Caused an historic divergence between emerging markets and US equities. They believe that emerging markets should normalize, so sticking with asset allocation targets should be a good strategy.
- Real rates have been negative for a long time. Currently there is a positive real rate of .5% compared to 1-2% historically. Could normalize another 1% suddenly or gradually over time.
- Biggest concern is a bursting of credit bubble in China. In the past China has been able to grow out of this even at 6%. Recommendation is to keep rebalancing to targets. Allocate from US to EM.

2. Global markets overview – Wellington

Scott Brinkman, client representative

Nannette Abuhoff Jacobson, asset allocation strategist

Drew Snow, head of asset allocation product

- Many changes in the markets are unsettling
- Volatility in May and June is a taste of what the future holds. Volatility holds opportunities for investors.
- Strong US dollar makes EM vulnerable. Have seen EM capital outflows. EM more vulnerable to capital outflows.
- Rate rises will be limited. Thinks rates will stay low, like in the 50s.
- Still uncertainty around tapering. Think about shorter durations and opportunistic allocations.

- Portfolio allocation: would put most risk in Equities, but would have allocations to other assets. Good time to add some inflation protection. Recommend 10 to 20% of absolute return.

3. Performance review and strategic asset allocation – Perry, Driscoll, NEPC

- Scott Perry and Scott Driscoll reviewed the performance of the UUCEF through the second quarter of 2013 as described in the performance report distributed in advance to the committee members.
- Bottom quarter performance in quarter driven by overweight to fixed income and international and the portfolio's underweight to US. Longer term we are outperforming peers: 10-year return is top quarter. Allocations to EM equity and debt are the reason for lag.
- Bridgewater was positioned for inflation and caught off guard by the Fed's "tapering." Committee would like to meet with Bridgewater at the next meeting. Some expressed unease with the firm's difficult to understand strategy.

4. Review of environmental solutions investments search book: Perry

- Perry reviewed the NEPC search book which provided background on three managers in the environmental solutions space: Impax, Generation, and Trillium
- Options are limited in public equity and debt space. Most have low assets and high fees, but this is changing.
- NEPC is researching three interesting ideas: Impax, Generation, and Trillium Sustainable Opportunities Strategy.

Motion: to bring in all three managers to next meeting for interviews and consideration. Moved Brad, seconded Julie. Passed.

3. Fossil fuel divestment position statement and FAQ - Skye

- Committee is concerned about fiduciary duty. Discussed legal opinion on fiduciary duty and fossil fuel divestment from Interfaith Center on Corporate Responsibility

Action item: invite UUA general counsel to next meeting to discuss fiduciary duty.

5. Investment policy statement – Brennan

Action item: Brennan will circulate the final draft of the investment policy statement to the committee. The committee will vote by email.

6. Private equity

Guests: Mike Burns, Partner, Mayer Hoffman McCann; Ted Laurensen, Partner, McDermott, Will & Emery

- Burns and Laurensen provided perspectives on incorporating private equity into the Common Endowment structure. Both noted difficulties of valuation, liquidity and transparency.
- Driscoll said there are good opportunities in secondary private equity, direct lending, and fund of funds.