UUA Investment Committee – Minutes

24 Farnsworth Street, Room 315
Boston, MA 02210
February 6, 2015

Members present: Carol McMullen *Chair*, Tim Brennan, Rob Friedman, Kimberly Gladman, John LaPann, Lucia Santini Field

Member absent: Larry Ladd

Guests: David Stewart

Staff: Susan Helbert

NEPC: Eric Harnish, Tim McCusker, Scott Perry

1. Minutes from meeting on November 6th – McMullen

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

2. Executive session – McMullen

3. Business Update- Brennan

- Update on Business Resolution:
  - David Stewart, co-chair on the SRI Committee is organizing a workshop for GA15.
  - There will be a brief summary on our progress regarding the business resolution most likely in the President's report as he and Treasurer are required to report each year on progress.
  - Will also be holding a workshop to provide more detail on the progress and to address questions.

4. Investment Program Review – Perry

- **Performance:**
  - Market where best performing assets are US denominated assets, large cap US equities returned 13.7% for 2014 where anything outside the US lagged.
  - Top performing bond markets across the world is still in US. Despite the concerns about rates going up it actually went the other way and dropped about 100 basis points on the 10 year.
  - Diversifying assets such as high yield, global bonds, international equity, emerging equity and emerging market debt returns were either sideways or negative for 2014. These assets were not helpful to the return of the portfolio during the past year.

- For the quarter the endowment is up 40 basis points, for the year up 3.8%.
- 70 basis points lost from active management however 2014 was a more challenging environment for managers.
- Allocation Index vs. Policy Index allocations are in line with where we want to be.
- Longer term results versus peers have been fairly strong when you look past the last 5 year Bull Run and involve the full market cycle.
- Performance over the 7 year and 10 year time periods puts the endowment in the top third of the peer universe. Peer universe is made up of other endowments and foundations between 50m and 250m in size.

- **Manager Updates:**
  - Pier Capital announced several near term changes to the organization. On December 31st, Alex Yakirevich was promoted to CIO giving him equal decision making power as the existing CIO, Jan Parsons. On June 30, 2015, Mr. Yakirevich will take over sole responsibility for the portfolio.
  - They expect 70 to 80 million will leave in the next 3 to 6 months taking them down to approximately 600 million.
  - NEPC believes the changes are generally positive and reflect a transition that has been underway for a number of years. They do not believe it represents a significant change to the team's investment process or the implementation of strategy.
  - Wellington has proposed a voluntary change in fee structure for the Opportunistic Investment strategy.
  - Fee reduction was driven by two factors; 1) NEPC's view that their fee had become an outlier versus peers in the GAA and 2) and acknowledgement by them that performance relative to their benchmark has been weak over the intermediate term.
  - New proposed fee structure will 65 basis point management fee and a 15% performance fee on net returns above the 65% MSCI ACWI benchmark and 35% BC Aggregate benchmark. Total fee will be capped at our existing asset fee.
  - New fee structure will be accepted.

5. **Review of Manager Classifications - Perry**
   - Loomis Sayles Strategic Alpha:
     - Strategy is classified as fixed income, but the strategy has absolute return/ hedge fund characteristics as well.
     - Manger can go long and short on securities, invest outside of fixed income and their stated goal is to generate absolute return.
     - Loomis was chosen, in part, to reduce duration risk. In doing so, we've taken on other risks. By classifying it as fixed income we may not be conscious of what the other risks are. Need to be certain we classify

each manager as closely as possible to ensure we understand all possible risk/reward potential.

  - o Consideration is that Loomis may better fit in a Hedge Fund category.

- Bridgewater All Weather:
  - o Strategy provides passive, balanced risk exposure to high/low growth environments and high/low inflation environments.
  - o Strategy diversifies globally to minimize the impact of idiosyncratic shocks that may occur within any one national economy and also hedges non-US Dollar exposures back to USD to minimize volatility.
  - o They use leverage and derivatives but do not short.
  - o Functionally they are more absolute return but structurally they're more of a hedge fund.
  - o Consideration is that Bridgewater may better fit in a Hedge Fund category.

Action item 1: *NEPC to provide report that characterizes the role each manager plays in the portfolio and come up with a classification scheme for us to use.*

6. GAA Performance Update & Discussion –Perry

- Committee interviewed GMO and Wellington in December amid performance concerns.
- Performance has been challenging for both over the last five years; Wellington more so around their exposures.
- GAA role is largely a portfolio that is expected to do better in a more challenged market.

Motion 2: To terminate Wellington. Moved, LaPann, seconded Friedman, all approved.

7. Asset Allocation Review – McCusker, Perry

- **Market Outlook:**
  - o Over the last 6 years the portfolio has returned 11.7% which surpassed its projected return of 9.1%
  - o The portfolio is well diversified and highly liquid with an exposure of 48% public equity, 35% fixed income and 17% alternatives.
  - o Recommendations are to reduce Global Asset Allocation and Fixed Income while increasing Alternatives such as private markets and hedge funds.
  - o Also recommend increasing public equities in a diversified manner.
  - o Recommendations will enhance the portfolio but add complexity and volatility.
  - o Since the global financial crisis; returns have been exceptional however find it unlikely the results of the previous 3 years will continue for the next 5 to 7 years.
  - o Over the next 5 to 7 years, fundamental building blocks for each asset class lead to a fairly muted return outlook across most markets.

○ Looking at the next 1 to 2 years could continue to see positive momentum. Expect a stronger near term but a weaker long term.

 Asset Allocation Considerations - Perry

○ The portfolio is well constructed however, with expected returns decreasing, taking on a bit more volatility in exchange for more return is recommended.

○ Reviewed several allocation adjustments with discussions on potential results.

Motion 3: To move to a modified version of allocation presented as Mix D by eliminating Wellington with proceeds being approximately divide into cash and an allocation recommended by NEPC to reflect the objectives to be achieved over time through deployment into Hedge and Private Equity. Moved Santini, seconded Friedman, all approved.

8. Private Markets Review – Harnish, Perry

 Manager review

○ NEPC developed a list of preferred managers based on taking into consideration the desired return and risk profile and those that align with the UUA's mission.

○ Attractive areas of private markets are Asia and European markets, Distressed, Direct Lending, Opportunistic Credit and Opportunistic Real Estate which would be the most attractive and meets multiple criteria.

○ Strategy provides for capital to get to work faster than a traditional private equity fund.

○ Expect to see it begin to generate income earlier.

○ Recommendation is to interview Brocton (Capital Fund III) and Angelo Gordon (Europe Realty Fund).

9. Executive Session - McMullen

Interview with Angelo Gordon & Co. February 25th 8:00am
Interview with Brockton Capital February 25th 8:45am

Next meeting: June 10, 2015