

## **UUA Investment Committee – Minutes**

24 Farnsworth Street, Room 315

Boston, MA 02210

March 8, 2016

Members present: Lucia Santini, Chair, Time Brennan, Rob Friedman, John LaPann, and David Stewart

Members absent: Kathleen Gaffney, Larry Ladd

Staff: Susan Helbert

NECP: Scott Perry, Asher Watson

Select Equity Group: Jon Allen (phone), Andy Salem

Artisan Partners: Sean Howley (phone)

Wellington: Gardiner Holland, Meghan Kaizerman

Diamond Hill: Faith Stevenson, Christopher Welch (phone)

### **1. Minutes from November 18<sup>th</sup> meeting – Brennan, Santini**

**Motion 1:** To adopt minutes from the November 18<sup>th</sup> meeting. Moved Santini, seconded Brennan, approved without amendment.

### **2. UUCEF, LLC Update – Brennan**

- Carbon Foot Printing
  - Several firms now have techniques to carbon footprint a portfolio and compare it to a benchmark. Would be good to have our portfolio foot printed to more accurately reflect the impact on climate change instead of simply looking at the CT200 companies.
  - Cost is \$5,000 for baseline and an additional \$2,500 for an analysis of each manager, which would cover roughly 60% of the portfolio.
  - Would be a great report to have for General Assembly to enhance the reporting on the Fossil Fuel Business Resolution and how we are looking at the bigger picture.

- Conversion to UUCEF, LLC
  - Conversion is now complete; we were unable to reach four congregations; closed their accounts and issued checks.
  - Thirteen accounts elected to close instead of converting.
- Investor Summit on Climate Risk
  - Represented the UUA at the UN Investor Summit.
  - Event has grown significantly year over year but the Paris talks really created huge momentum. Would like to see committee talk more about impact investing at a future meeting.

*Action item 1: Brennan to circulate the Walden paper on carbon foot printing.*

*Action item 2: NEPC to contact MSCI for their report costs.*

### **3. Select Equity Group Manager Presentation – Allen, Salem**

- Firm started in 1990 and is an employee-owned registered investment advisor.
- Fiercely independent; doesn't share ideas or methods with other firms and makes very little use of Wall Street research. Results in portfolios with unusually low overlap to those of other managers.
- Manage 15 billion is AUM across long-only and long/short equity strategies.
- Looking for best business and best business models that the public markets have to offer.
- On average hold companies over 4 years; the strategy is managed to accept significant amount of capacity and have not had to think about closing the fund.

### **4. Artisan Partners Manager Presentation – Howley**

- Firm started in 1994 and is solely focused on providing high value-added investment strategies to sophisticated investors. 99.8 billion AUM.
- Independent investment teams that oversee a range of investment strategies across multiple asset classes.
- Has outperformed its benchmark in the 3, 5 and 10-year periods. Outperformance is a result of stock selection.

### **5. Discussion of International Equity Managers – NEPC, Committee**

- Get more diversification from Select, less overlap with current managers.
- Cap size for Select will be about 2/3's small to mid-cap stocks while Artisan's will be mid to large cap.
- Geographically would get a bit more diversification from Artisan as they invest more in emerging markets but the Fund already has sufficient exposure there.

**Motion 2:** To hire Select Equity as an International Equity Manager and invest 5%. Moved, Friedman seconded, LaPann. All approved.

VOTED: That the Unitarian Universalist Association, on behalf and for the benefit of the Unitarian Universalist Common Endowment Fund, LLC, invest 5%, in two transactions six months apart, of the assets of the UUCEF, LLC into the Select Equity Baxter Street Fund (the “Investment Fund”) on the terms set forth in the subscription agreement and offering documentation therefore submitted by the Investment Fund to Timothy Brennan, Treasurer of the Unitarian Universalist Association, subject to such changes and amendments therein as he may determine to be appropriate; and

VOTED: To authorize the Treasurer, Timothy Brennan, and the Chief Operating Officer, Harlan Limpert, each individually, acting singly or together, to execute and deliver documents to effect the foregoing, all with such terms and conditions as are approved by the signatory, with such officer’s signature being conclusive evidence of approval; and

VOTED: To ratify and approve all that the Treasurer, Timothy Brennan, has done or may do in connection with said investment.

#### **6. Wellington Manager Presentation – Holland, Kaizerman**

- Firm started in 1979 and is a private partnership model.
- Independent; no public shareholders, no outside capital. Wellington is a PRI signatory.
- No chief investment officer for the firm; independent investment teams empowered to make their own decisions.
- Philosophy is that higher quality companies trading at a discount have the potential to generate above-average returns with below-average risk over a long-term investment horizon.
- Objective is to seek long-term total returns in excess of the Russell 2500 Value Index. They accomplish this by investing in conservatively-valued securities of high-quality small and mid-cap companies.

#### **7. Diamond Hill Manger Presentation – Stevenson, Welch**

- Publicly traded investment manager; however, 28% of company is owned by employees. The firm has 16 billion AUM across twelve strategies.
- Investment team compensation is based on long-term results. When clients do well, the investment team does well.
- Apply intrinsic value methodology and will sell when price and their estimate of intrinsic value converge.
- Within constraints, not afraid to take outsized positions in their best ideas.

- Use a bottom-up approach using five-year forecasts.

#### **8. Discussion of SMID Cap Value Managers – NEPC, Committee**

- Wellington has integrated ESG into their process while Diamond Hill has not.
- Wellington is more diversified with small positions in a lot of companies while Diamond Hill is more concentrated.
- Wellington’s up capture is over 100% which is exceptional.

**Motion 3:** To hire Wellington as a SMID Cap Value manager and invest 4%. Moved, LaPann seconded, Brennan. Friedman abstained, all others approved.

VOTED: That the Unitarian Universalist Association, on behalf and for the benefit of the Unitarian Universalist Common Endowment Fund, LLC, invest 4%, in two transactions six months apart, of the assets of the UUCEF, LLC into the Wellington SMID Cap Value Fund (the “Investment Fund”) on the terms set forth in the subscription agreement and offering documentation therefore submitted by the Investment Fund to Timothy Brennan, Treasurer of the Unitarian Universalist Association, subject to such changes and amendments therein as he may determine to be appropriate; and

VOTED: To authorize the Treasurer, Timothy Brennan, and the Chief Operating Officer, Harlan Limpert, each individually, acting singly or together, to execute and deliver documents to effect the foregoing, all with such terms and conditions as are approved by the signatory, with such officer’s signature being conclusive evidence of approval; and

VOTED: To ratify and approve all that the Treasurer, Timothy Brennan, has done or may do in connection with said investment.

#### **9. Rebalancing Methodologies and Performance Update – NEPC**

- Brennan reported that the staff reviews asset allocation in relation to targets monthly to determine if we are within specified ranges. Quarterly the staff rebalances back to targets allowing for the constraints of our less liquid investments.
- Discussed the four types of rebalancing approaches, frequency, threshold, frequency and threshold, and opportunistic.
- Elected to remain with the existing approach of frequency and threshold.

*Action item 3: NEPC to update language in Investment Policy on rebalancing. Method to be voted on at a future meeting.*

## **10. Asset Allocation Discussion – NEPC**

- Recommend increasing target allocation to International Equity by 5%, increasing US Large Cap Equities by 3%, increasing Small/Mid Cap Value by 4%, decreasing Risk Parity by 10%, and decreasing Emerging Market Equities by 2%.
- Seeking more manager options that consider ESG as bigger part of their process.

*Action item 4: NEPC to prepare an Emerging Market manager search book.*

*Action item 5: Helbert to schedule a call for the committee to discuss search book in order to select managers to interview at next meeting.*

**Motion 4:** To liquidate Bridgewater at the next opportunity, reinvest 5% in international equity and 4% in SMID Value in two equal installments with the first installment to be immediate and the second to occur in six months. Remaining 1% of Bridgewater proceeds will be invested in cash. Moved, Santini seconded, Friedman. All approved.

**Motion 5:** To accept the NEPC recommended changes to the target allocation. Moved Friedman, seconded Brennan. All approved.

## **11. Hedge Fund Discussion – NEPC**

- Currently has a 7% allocation between Entrust and Cevian.
- Potential paths are to maintain current managers and strategy, reduce Entrust allocation and add a multi-strategy manager, or terminate Entrust and allocate to new managers.
- Goal is to create more balanced strategy and to create a hedge fund portfolio that will generate returns in line with or better than equity markets (over a full market cycle) with a lower volatility profile.
- Tabled further discussion until all committee members are present to participate.

**Next Meeting: May 11, 2016**

**Future meeting dates:**

**August 10, 2016**

**November 15, 2016**