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Unitarian Universalist Association of Congregations

First Quarter Meeting Materials

May 11, 2016

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Administrative



Unitarian Universalist Association Investment Committee Meeting Agenda

May 11, 2016

24 Farnsworth Street, Boston, MA 02210-1409

8:30 am	Introduction -Approval of Recent Meeting Minutes -Overview of Agenda	Lucia Santini
8:45 am	RBC (Emerging Market Equity) – Manager Presentation	Christopher Powers and Phillippe Langham
9:30 am	Discussion – RBC Emerging Market Equity	NEPC/Investment Committee
9:45 am	Market Outlook and Investment Program Performance Review	NEPC
10:15 am	Hedge Fund Discussion	NEPC
11:15 am	Investment Policy Statement Update	NEPC
11:30 am	ESG Integration and UUA Committee Structure	NEPC/Investment Committee

UUA Investment Committee – Minutes DRAFT

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 18th meeting – Brennan, Santini

Motion 1: To adopt minutes from the November 18th 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 in 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 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



NEPC, LLC

UUA Manager Summary

Manager: Rhumbline Custom Screened Russell 1000 Value

Benchmark: Russell 1000 Value

Asset Class: Large cap domestic equity - value

Role in Portfolio: Growth Assets

Description: The manager optimizes a portfolio of large cap value equities based on their Environmental, Social and Governance ("ESG") ratings. The fund should have relatively low tracking error or variance from the benchmark as it is a largely passive investment.

Manager: Sands Select Growth Equity

Benchmark: Russell 1000 Growth

Asset Class: Large cap domestic equity - growth

Role in Portfolio: Growth Assets

Description: The manager uses a fundamental, bottom up research approach to stock investing. Their investment process produces a concentrated portfolio, aggressively seeking equities with high growth opportunities. The manager is currently restricted from investing in certain sectors and industries, including defense, fire arms, tobacco, and nuclear weapons. Also the manager cannot invest in companies that engage in predatory lending practices, have poor environmental practices, and companies that have questionable employment practices and possible human rights offenses.

Manager: Pier Small Cap Equity Growth

Benchmark: Russell 2000 Growth

Asset Class: Small cap domestic equity - growth

Role in Portfolio: Growth Assets

Description: The strategy uses a bottom-up research process, which incorporates two quantitative screens, followed by fundamental analysis. The manager also screens out all securities that are restricted per UUA's direction. Pier looks to find companies with great products or services and identify them by the strength of their value proposition.

Manager: Wellington SMID Cap Value

Benchmark: Russell 2500 Value

Asset Class: SMID cap domestic equity - value

Role in Portfolio: Growth Assets

Description: Wellington has a bottom-up investment philosophy, believing that individual stock selection is the most predictable way to generate strong returns. The team has a contrarian value investment philosophy, seeking to buy high-quality companies at a discount. The portfolio holds 60-90 names and positions, which typically are initiated at 80 bps and range from 50 bps to 3.5%, depending on the team's conviction.



Manager: MFS International Concentrated Equity

Benchmark: MSCI EAFE

Asset Class: Developed international equity - core

Role in Portfolio: Growth Assets

Description: The manager focuses on identifying companies with sustainable above-average growth and purchasing those companies at attractive valuations. The manager is a United Nations Principles for Responsible Investment (UNPRI) signatory and integrates their evaluation of a company's key ESG risks and opportunities into their overall security analysis to the extent they believe that such factors are material to and have an economic impact on shareholder value. The manager will invest between 5-10% in emerging markets.

Manager: Boston Common International Equity

Benchmark: MSCI EAFE

Asset Class: Developed international equity - core

Role in Portfolio: Growth Assets

Description: The fund seeks to outperform broad international equity markets while employing ESG screens. The fund employs positive ESG screens rather than negative screens and looks to identify progressive companies rather than defensive companies.

Manager: SEG Baxter Street Fund

Benchmark: MSCI ACWI ex USA

Asset Class: Developed international equity (mid/small cap focus)

Role in Portfolio: Growth Assets

Description: The Baxter Street Strategy is an international long only strategy that invests in companies across the market cap spectrum. The portfolio is benchmark agnostic and highly concentrated, with roughly 45 names in the portfolio, 15 of which will comprise almost 50% of the portfolio. SEG seeks to identify businesses with steady predictable growth, high returns on capital and well established barriers to competition. SEG does have the ability to opportunistically hedge currency exposure.

Manager: DFA Emerging Market Social Core

Benchmark: MSCI Emerging Markets index

Asset Class: Emerging market equity - value

Role in Portfolio: Growth Assets

Description: The portfolio is broadly diversified, using a quantitative, rules-based process, in order to select their holdings. Dimensional employs an independent social screen vendor to identify stocks for exclusion based on social issues. The social screen research examines the business activities of companies across several areas and excludes those that engage in unsuitable activities.



Manager: Entrust Capital Diversified Fund

Benchmark: HFRI Fund of Funds Composite index

Asset Class: Hedge funds

Role in Portfolio: Growth assets

Description: The manager invests primarily in event-driven, directional-credit, activist, and equity long/short strategies in blue chip, brand name hedge managers while providing investors with a high amount of transparency into the underlying investments.

Manager: Cevian Capital II

Benchmark: HFRX Event Driven Index

Asset Class: Hedge funds

Role in Portfolio: Growth assets

Description: Cevian Capital II is a concentrated activist hedge fund that hedges currency exposure and will invests in mid to large cap companies listed in the Nordic region [Sweden, Finland, Denmark, and Norway], UK, and other western parts of Europe. Their strategy is to target undervalued companies, where the perceived undervaluation stems from mis-managed operations, inefficient capital structure, and/or poor corporate governance structure. Cevian quantifies 'value' in terms of the company's enterprise value, operating margins, corporate governance, or equity value. The fund tries to improve this value by targeting those specific areas of weaknesses.

Manager: Brockton Capital Fund III

Benchmark: NCREIF Property Index

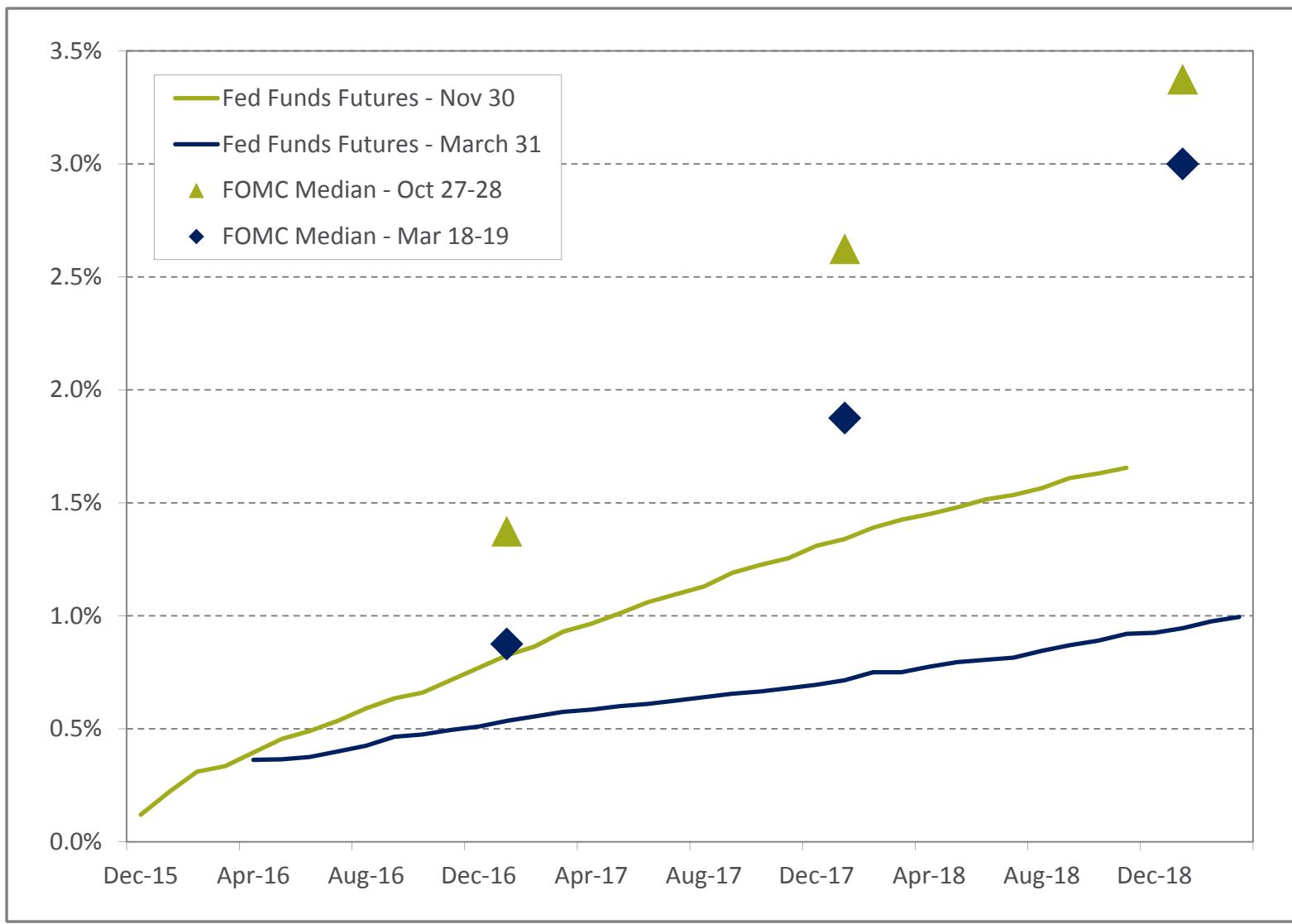
Asset Class: Private Markets/Opportunistic

Role in Portfolio: Growth assets

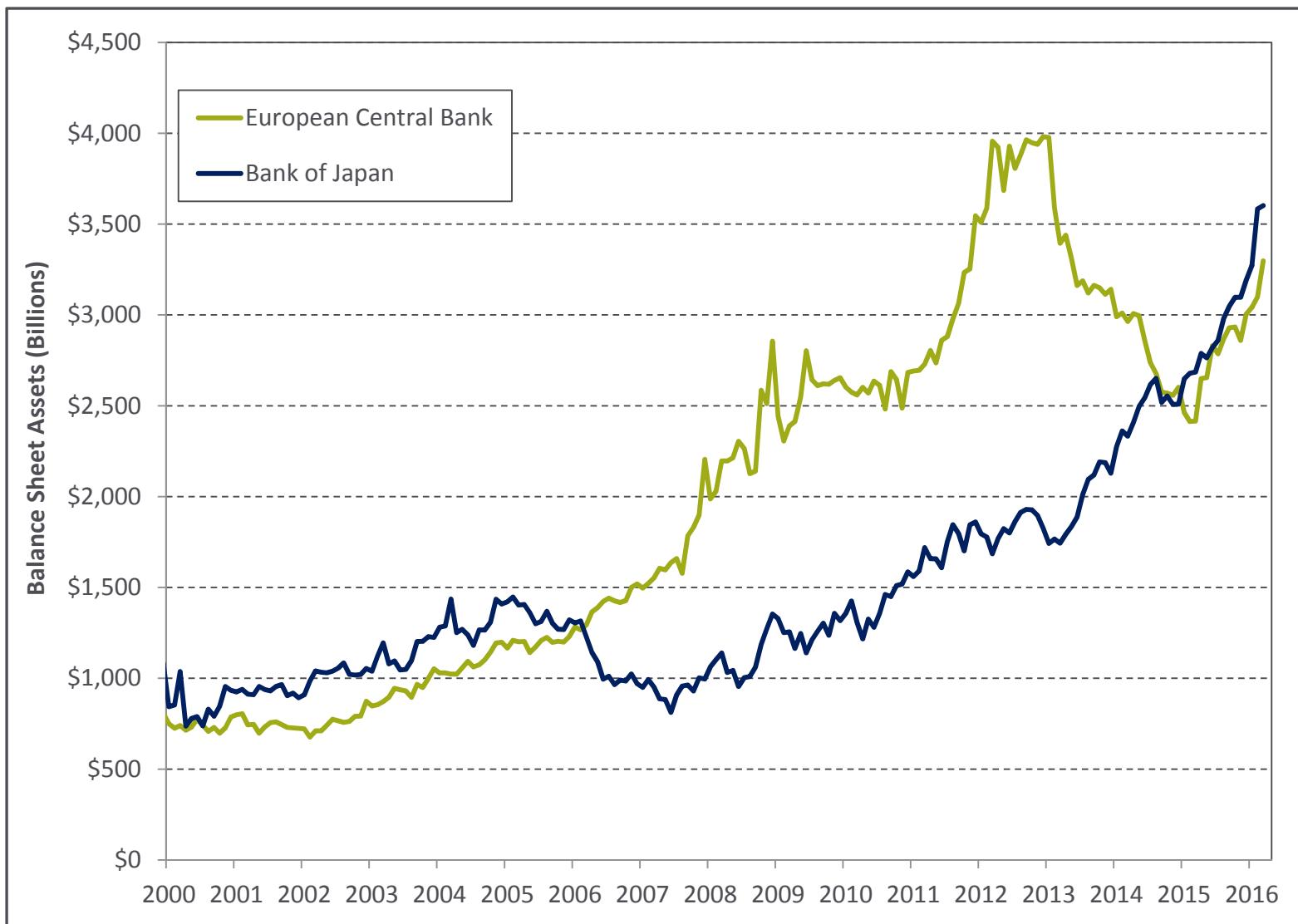
Description: Brockton Capital Fund III will follow a value-add/opportunistic strategy of buying distressed or neglected assets, repositioning them and, once stabilized, selling them in the institutional market. They will invest across various asset types, including office, residential, industrial, retail, mixed use, and other specialty real estate (for example, senior housing). Brockton invests across the United Kingdom although, due to the dominant market size of the South East, has a focus on Greater London and the surrounding areas.

Market Environment & Outlook

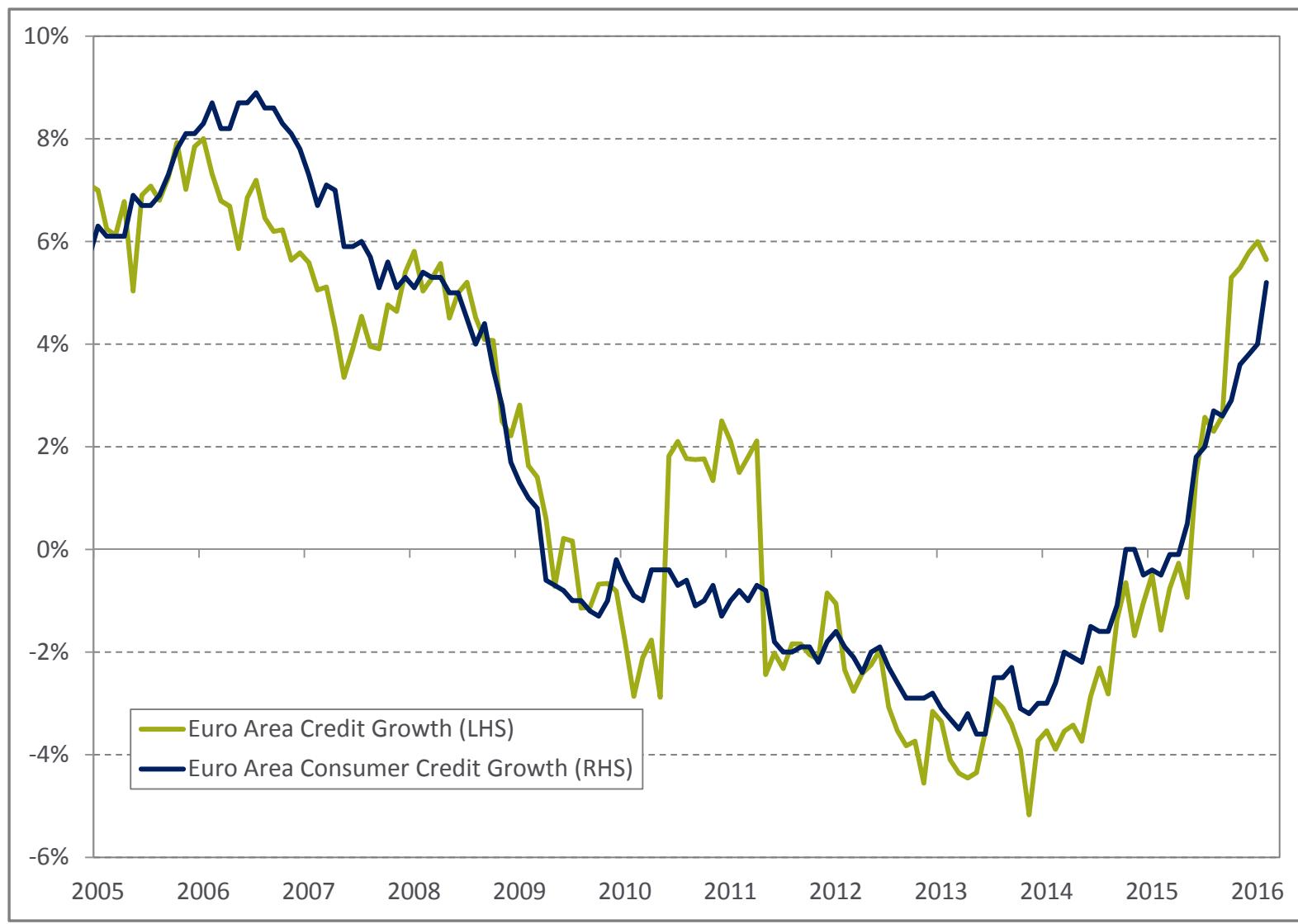
- **US economic expansion continues as Federal Reserve begins policy shift**
 - Economic conditions and health of US consumers remain supportive for growth
 - US Corporate earnings quality has deteriorated under pressure from profit margin weakness and a relatively strong dollar
- **Central Banks continue to dictate the global investment outlook**
 - Market expectations of Fed action extremely muted over next 36 months; a surprise Fed rate increase poses risk to both US equities and fixed income
 - ECB and BoJ likely to maintain and expand accommodative monetary policies
 - Easing in China is broadly stimulative in the near term but currency policy is unpredictable
- **Large currency adjustments across most emerging countries have provided a foundation to support improved capital market returns**
 - Continued political and economic reform is needed across EM to stimulate economic growth
 - Chinese Yuan (RMB) depreciation has been incremental relative to other EM FX adjustments and fears of further adjustment remain a near-term concern
- **Embrace illiquidity in opportunistic credit and private credit strategies**
 - Stressed credit liquidity magnifies the scale of price movements in traditional credit assets
 - Credit markets ability to absorb an exodus from crowded positions is challenged



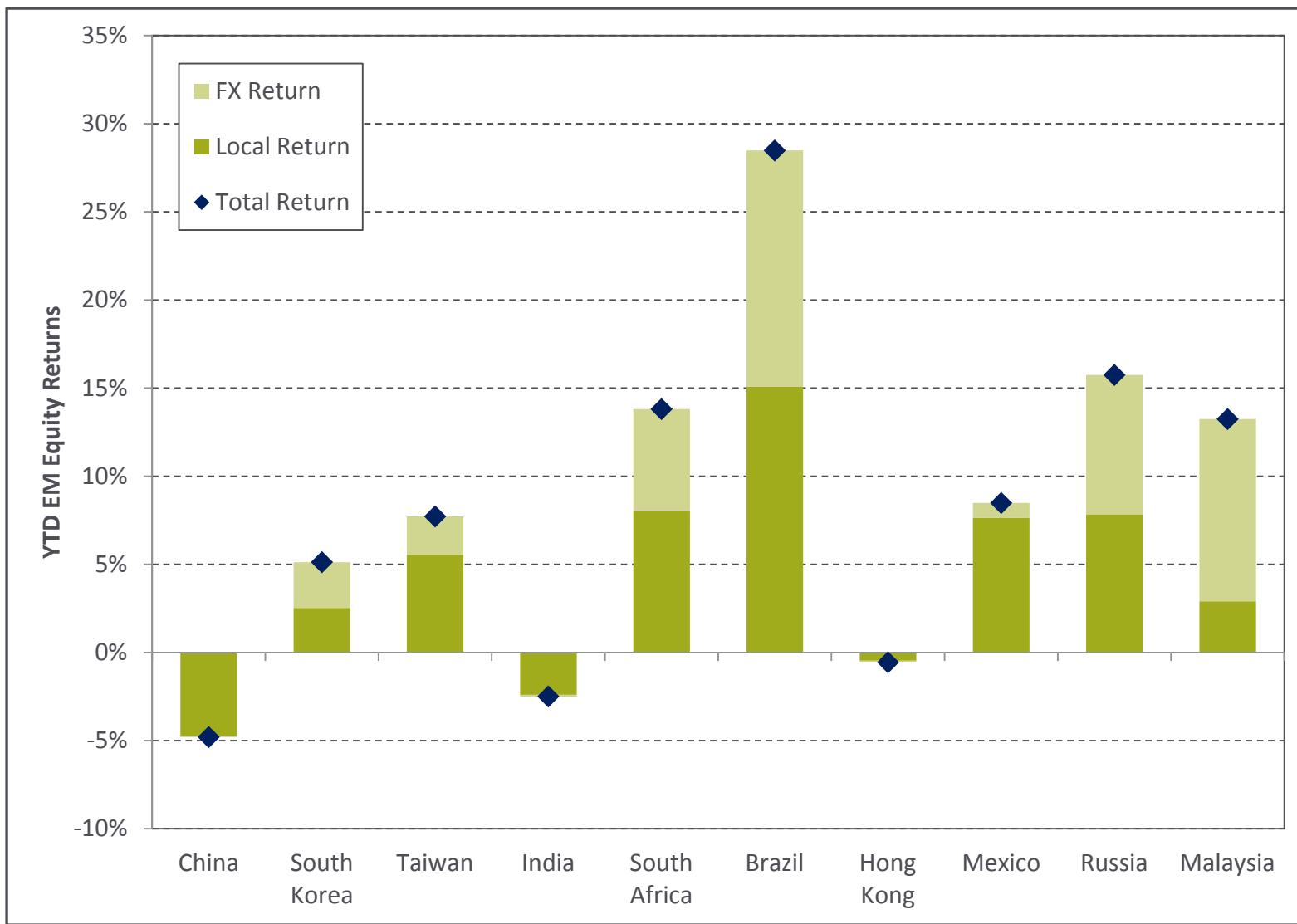
Source: Federal Reserve, Bloomberg



Source: Bank of Japan, ECB, Bloomberg



Source: ECB, Bloomberg



Source: MSCI, Bloomberg

- **Prospects of low US core bond returns warrant a more positive tilt to US equity, especially following sell-offs**
 - Macro policy remains supportive but corporate earnings quality is deteriorating
 - Lower returns expected but pockets of opportunity can be found in US equity and credit
- **Overweight non-US developed market equities**
 - Central bank support and dollar strength provide a positive economic backdrop
 - Small-cap equities offer purest opportunity to benefit from local earnings recovery
 - EAFE equity markets offer the potential for strong returns relative to US equities
- **Overweight emerging market small-cap and consumer focused strategies relative to broad equity mandates**
 - Valuations and long-term fundamentals suggest a strategic overweight
 - China uncertainty, dollar pressure and idiosyncratic country risks temper excitement
- **Seek tactical fixed income strategies but preserve duration exposure**
 - US duration continues to have a role in a diversified and risk-aware portfolio
 - TIPS offer an attractive duration profile with inflation expectations at secular lows
 - Credit selection is critical as credit cycle matures and spreads contract in recent rally
- **Private market opportunities are the preferred access point as energy market distress continues to evolve**
 - Return opportunities of private strategies are compelling but suggest patience

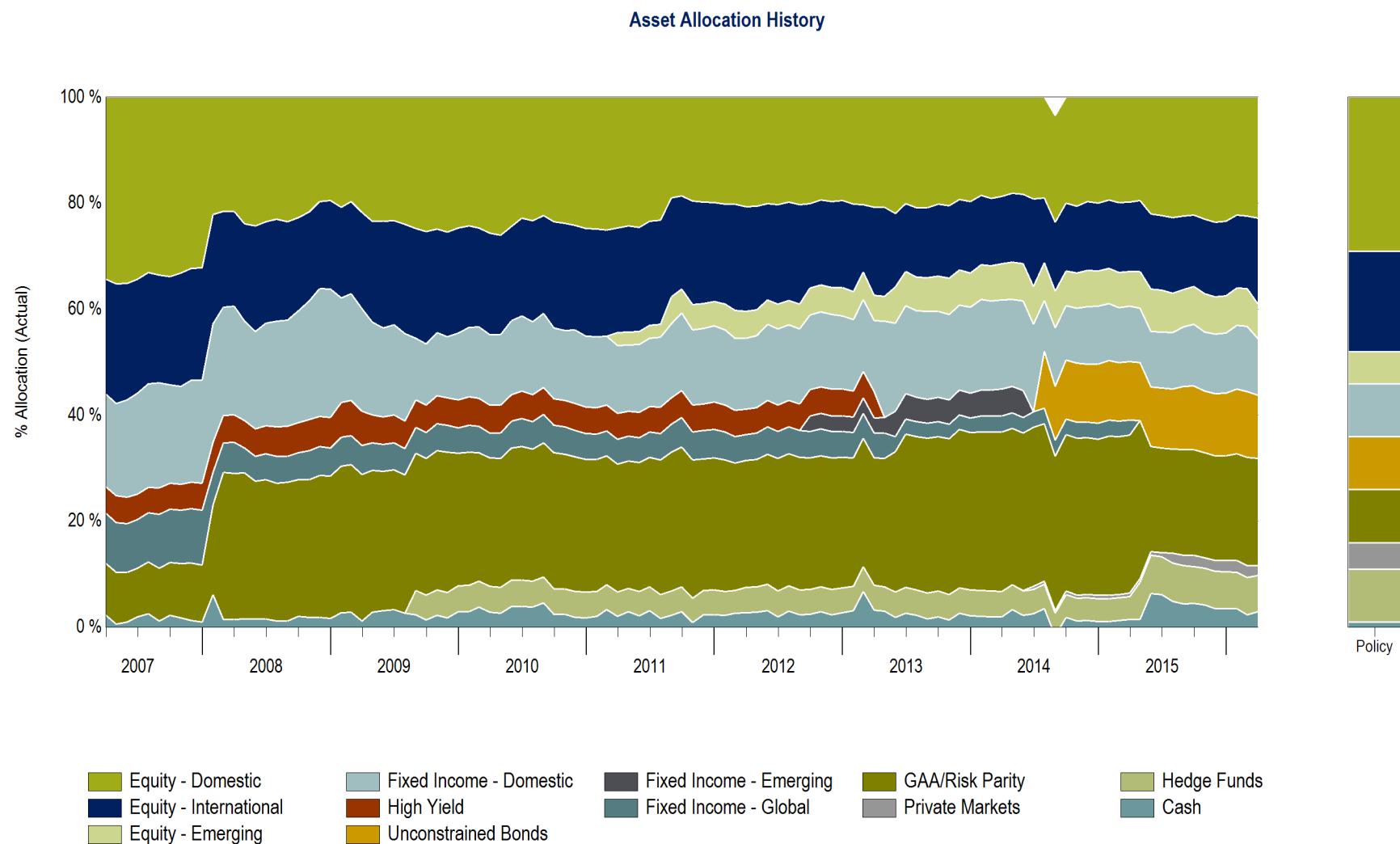
Investment Program Review

Total Fund Summary



NEPC, LLC

Unitarian Universalist Association
Total Fund Asset Allocation History



Appendix

The calculation methodology for each measure of performance is outlined below.

Measurement	Description	Equation
Policy Target	Measures policy allocation decisions.	= TARGET ASSET WEIGHTS X INDEX RETURNS
Allocation Index	Measures actual allocation decisions. Deviations from the policy target can be derived. (Allocation Index – Policy Index)	= ACTUAL ASSET WEIGHTS X INDEX RETURNS
Composite (Total Return)	Measures actual performance and can derive active management decisions. (Composite – Allocation Index)	= ACTUAL ASSET WEIGHTS X ACTUAL RETURNS

The calculation methodology for each measure of attribution is outlined below.

Measurement	Description	Equation
Allocation Effect	Measure the effects of overweighting or underweighting managers and asset classes.	= (ACTUAL MANAGER WEIGHT – POLICY TARGET WEIGHT) X POLICY INDEX RETURN
Selection Effect	Measures the managers' ability to add excess return relative to the policy index.	= (ACTUAL MANAGER RETURN – INDEX RETURN) X POLICY TARGET WEIGHT
Interaction Effect	Measures the cross correlation of both selection and allocation affects and is often referred to as an "error term".	= (ACTUAL MANAGER RETURN X (ACTUAL MANAGER WEIGHT – POLICY TARGET WEIGHT)) – ((MANAGER WEIGHT – POLICY TARGET WEIGHT) X INDEX RETURN)

- **Past performance is no guarantee of future results.**
- **The opinions presented herein represent the good faith views of NEPC as of the date of this report and are subject to change at any time.**
- **Data used to prepare this report was obtained directly from the investment manager(s). While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within.**
- **This report may contain confidential or proprietary information and is intended only for the designated recipient(s). If you are not a designated recipient, you may not copy or distribute this document.**

It is important that investors understand the following characteristics of non-traditional investment strategies including hedge funds and private equity:

- 1. Performance can be volatile and investors could lose all or a substantial portion of their investment**
- 2. Leverage and other speculative practices may increase the risk of loss**
- 3. Past performance may be revised due to the revaluation of investments**
- 4. These investments can be illiquid, and investors may be subject to lock-ups or lengthy redemption terms**
- 5. A secondary market may not be available for all funds, and any sales that occur may take place at a discount to value**
- 6. These funds are not subject to the same regulatory requirements as registered investment vehicles**
- 7. Managers may not be required to provide periodic pricing or valuation information to investors**
- 8. These funds may have complex tax structures and delays in distributing important tax information**
- 9. These funds often charge high fees**
- 10. Investment agreements often give the manager authority to trade in securities, markets or currencies that are not within the manager's realm of expertise or contemplated investment strategy**