



NEPC, LLC

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## Unitarian Universalist Association of Congregations

### Second Quarter Meeting Materials

August 10, 2016

Scott Perry, CAIA, Partner  
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# Administrative





**Unitarian Universalist Association  
Investment Committee Meeting Agenda**

August 10, 2016  
24 Farnsworth Street, Boston, MA 02210-1409

8:30 am	Introduction -Approval of Recent Meeting Minutes -Overview of Agenda	Kathleen Gaffney
8:45 am	Market Outlook and Investment Performance Review	NEPC
9:30 am	Hedge Fund Review – Role of Hedge Funds in the UUA Portfolio & Potential Approaches	NEPC
10:30 am	Fixed Income Review – Focus on Fixed Income Structure	NEPC
11:15 am	Break	All
11:30 am	Private Equity Review – Ideas for UUA	NEPC
12:00 pm	Working Lunch -Highlights from GA -Investment Policy Statement Review	Tim Brennan/NEPC
12:45 pm	ESG Integration and UUA Committee Structure	NEPC/Investment Committee
1:15 pm	Executive Session	Investment Committee
2:00 pm	Adjournment	All

## **UUA Investment Committee – Minutes**

24 Farnsworth Street, Room 210

Boston, MA 02210

May 11, 2016

Members present: Lucia Santini, Chair, Rob Friedman, Kathleen Gaffney, Larry Ladd, John LaPann, and David Stewart

Members absent: Tim Brennan

Staff: Susan Helbert, Harlan Limpert

NEPC: Scott Perry, Asher Watson

RBC: Zeena Dahdaleh (phone), Phillippe Langham (phone), Christopher Powers

### **1. Minutes from March 8, 2016 meeting –Santini**

**Motion 1:** To approve the minutes from the March 8, 2016 meeting. Moved LaPann, seconded Gaffney, approved without amendment.

### **2. RBC Emerging Market Equity Presentation – Langham, Powers**

- Fund opened in 2009; its goal is to return 3% above the MSCI Emerging Markets Net Index benchmark. Capacity is capped at 10 billion.
- Philosophy is that companies with sustainably high cash flow return on investment produce superior returns.
- Identify companies with strong management teams, industry dominance, strong balance sheets, high free cash flow generation, high profitability, and ESG considerations.
- They generate their ideas through propriety research and quantitative screening.
- Score weighting per investment is 40% strength and sustainability of the franchise, 30% management quality, and 30% Corporate Governance.
- Combined operating and management fees are 70 basis points.

### **3. Discussion RBC Presentation – NEPC, Committee**

- Based on their style will outperform in down markets and under perform in up markets. High quality strategy.
- Fees are very competitive.
- Committee would like to get information on the track record of Phillippe Langham during his time with Societe Generale Asset Management.

**Motion 2:** Replace DFA with RBC Emerging Markets Equity Fund – Moved Friedman, seconded Gaffney, all in favor.

VOTED: That the Unitarian Universalist Association, on behalf and for the benefit of the Unitarian Universalist Common Endowment Fund, replace the current investment in DFA with the RBC Emerging Markets Equity 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.

#### **4. New member search – Santini**

- To date have not found a new member of the committee, have requested approval from the Board to defer appointment of a new member until the first quarter of fiscal year 2017 (July – September 2016).

#### **5. Market Outlook and Performance Review – NEPC**

- The endowment return was flat during the first quarter of 2016. Rhumblin, MFS, Boston Common, DFA and Cevian each outperformed their benchmarks over the quarter, Sands, Loomis and Entrust detracted the most from results.
- Over the trailing one year period, the endowment returned -4.5% (gross of fees), Over the seven-year and ten-year periods, performance ranked near the top third of the peer universe.

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

- Currently our hedge fund allocation is to Entrust and Cevian, both being event driven managers. Result is an 80% investment in event-driven strategies, which have underperformed. Need to be more diversified in strategy allocation if maintaining a hedge fund strategy.
- NEPC offered multiple options to better implement the hedge fund program.
- Discussed the ability to manage individual hedge funds versus investing in a fund of funds.

**Action item 1:** NEPC to prepare a presentation on why hedge funds should be in the portfolio and how they can add value. Provide long term track record broken up by bull and bear markets. Provide recommendations for investing in hedge funds that can add value.

**7. Investment Policy Statement Update – NEPC**

- Added language describing rebalancing process.
- Updated asset allocation targets and ranges.

**Motion 3:** To change the target allocation range for Global Asset Allocation to 0% to 15%. Moved LaPann, seconded Gaffney, all in favor.

**8. ESG Integration and UUA Committee Structure – NEPC, Committee**

- Early on it was mostly faith based organizations that were integrating ESG into their portfolios. Most had separate investment committee and socially responsible investing committees.
- Most other ESG investors aren't doing the level of advocacy or community investing that we do.
- A taskforce including the Investment Committee Chair, the Financial Advisor, Socially Responsible Investing Committee Chair, and the Treasurer. It was suggested that our attorney and a non-biased outside attorney be considered to review the group's recommendation.
- Will review current by-laws and policies and make recommendations for an integrated process for the Investment and Socially Responsible Investment Committees which would lead to more interactive work.

**Next Meeting: August 10, 2016**

**Future meeting date:**

**November 15, 2016**

## UUA Manager Summary

**Manager:** Rhumblin 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:** RBC Emerging Market Equity

**Benchmark:** MSCI Emerging Markets index

**Asset Class:** Emerging market equity

**Role in Portfolio:** Growth Assets

**Description:** RBC utilizes top down thematic thinking to influence the stock selection process into more attractive areas of the market. The strategy seeks to identify growth themes within country, industry, or region and will invest in those companies with high cash flow and industry dominance. The process of utilizes both bottom up and top down research to lead to a competitive advantage. The strategy is focused on identifying strong company managements especially those that have delivered in the past. Attractive companies are those that have strong franchises and a real sustainable competitive edge.





**Manager:** Loomis Sayles Strategic Alpha Trust

**Benchmark:** Barclays Aggregate

**Asset Class:** Unconstrained Bonds

**Role in Portfolio:** Absolute Return

**Description:** Strategic Alpha is an opportunistic global fixed income strategy with flexible guidelines that invests across multiple fixed income sectors. The strategy seeks to take advantage of short-term tactical opportunities and longer-term structural opportunities within the broad fixed income market. The Loomis Sayles Strategic Alpha Trust strategy takes on active long/short exposures to global yield curves, credit, and currencies with extensive tail-risk hedges. The strategy also has the ability to shift duration, ranging from -2 years to +5 years.

**Manager:** Breckinridge Capital Advisors Sustainable Fixed Income

**Benchmark:** Barclays Gov't/Credit Intermediate

**Asset Class:** Domestic fixed income

**Role in Portfolio:** Deflation hedging assets

**Description:** Sustainable fixed income is a high quality, intermediate term fixed income strategy that incorporates both fundamental credit analysis as well as ESG analysis into the decision making process. The strategy will invest across the corporate, taxable municipal, US gov't/agency and supranational sectors. Breckinridge will analyze ESG data in an effort to identify investments they feel are well suited to meet future obstacles. Additionally, the strategy will adhere to specific sector and security restrictions set forth by UUA in an effort to align the portfolios strategy with the mission and values of the organization.

**Manager:** IR&M SRI Core Bond

**Benchmark:** Barclays Aggregate

**Asset Class:** Domestic Fixed Income

**Role in Portfolio:** Deflation hedging assets

**Description:** IR+M exploits overlooked opportunities in small, complex and often less-liquid bond sub-sectors, and structures portfolios to benefit from an income bias and positive convexity. Their expected alpha is sourced in their understanding and ability to identify the mispricing of esoteric securities such as put bonds, pre-payable CMBS bonds, hybrid ARMS, municipals, century bonds and convertible bonds. The strategy will only invest in securities whose activities are in line with IR&M's social criteria. Social criteria includes; not investing in securities that generate more than 10% of their revenue from alcohol, tobacco, gambling, weapons and adult entertainment. Additionally, no investments will be made in securities of issues who participate in in the healthcare sector/related industries or to be engaged in certain business activities in the Republic of the Sudan, as determined by IR&M.

**Manager:** GMO Benchmark Free Allocation Fund

**Benchmark:** 65% MSCI World and 35% BC Aggregate

**Asset Class:** Global asset allocation

**Role in Portfolio:** Growth assets (with some inflation & deflation hedging assets)

**Description:** The manager has the ability to invest in both equities and fixed income, and tactically shift allocations as opportunities present themselves. The fund is managed by a team, where quantitative forecasts identify opportunities for high real returns across capital markets. Overweight's to attractive asset classes and underweights to less attractive asset classes are driven entirely by the judgment of the asset allocation team with positions generally scaled to reflect the magnitude of mispricing.



**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

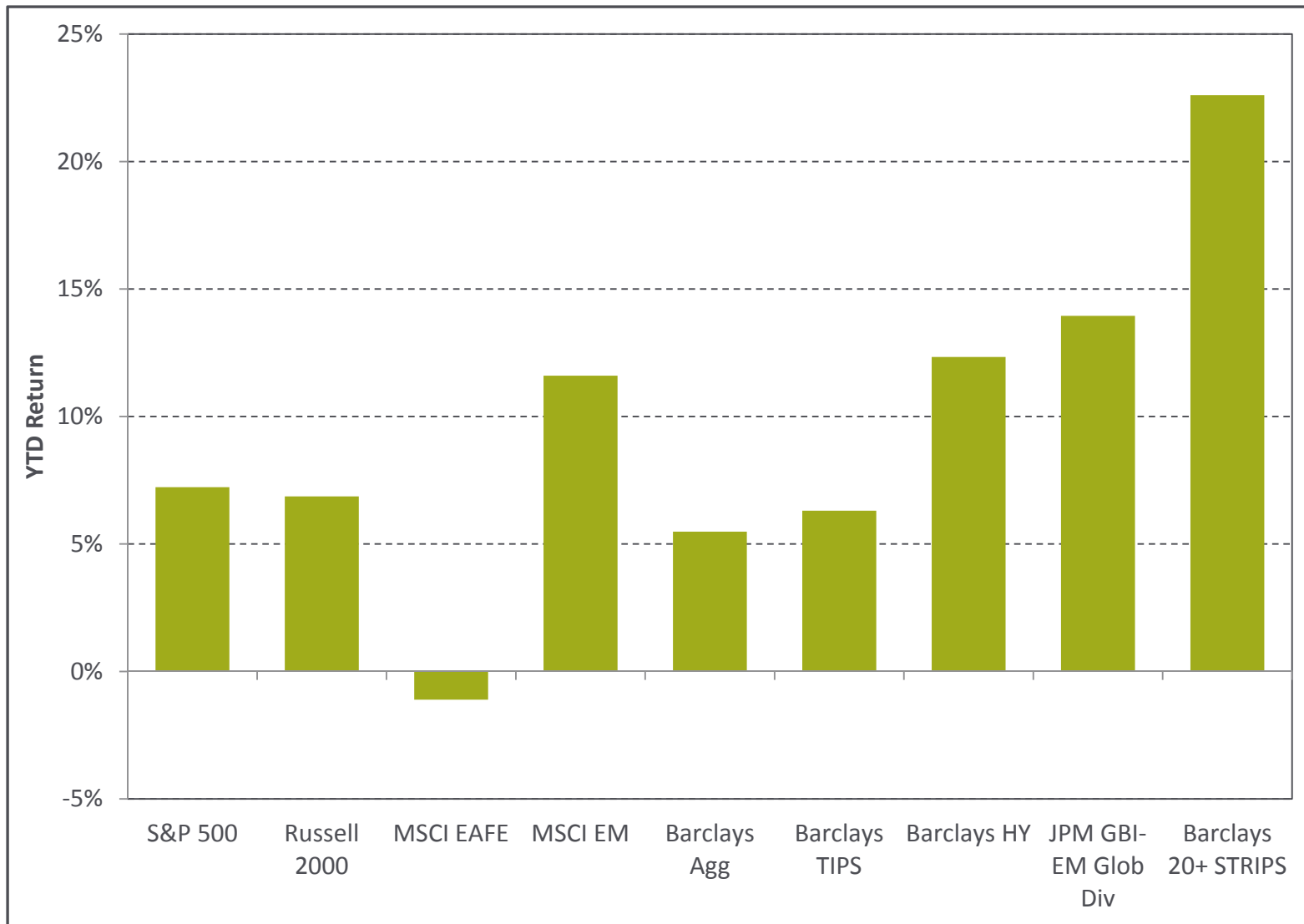
**Role in Portfolio:** Growth assets

**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

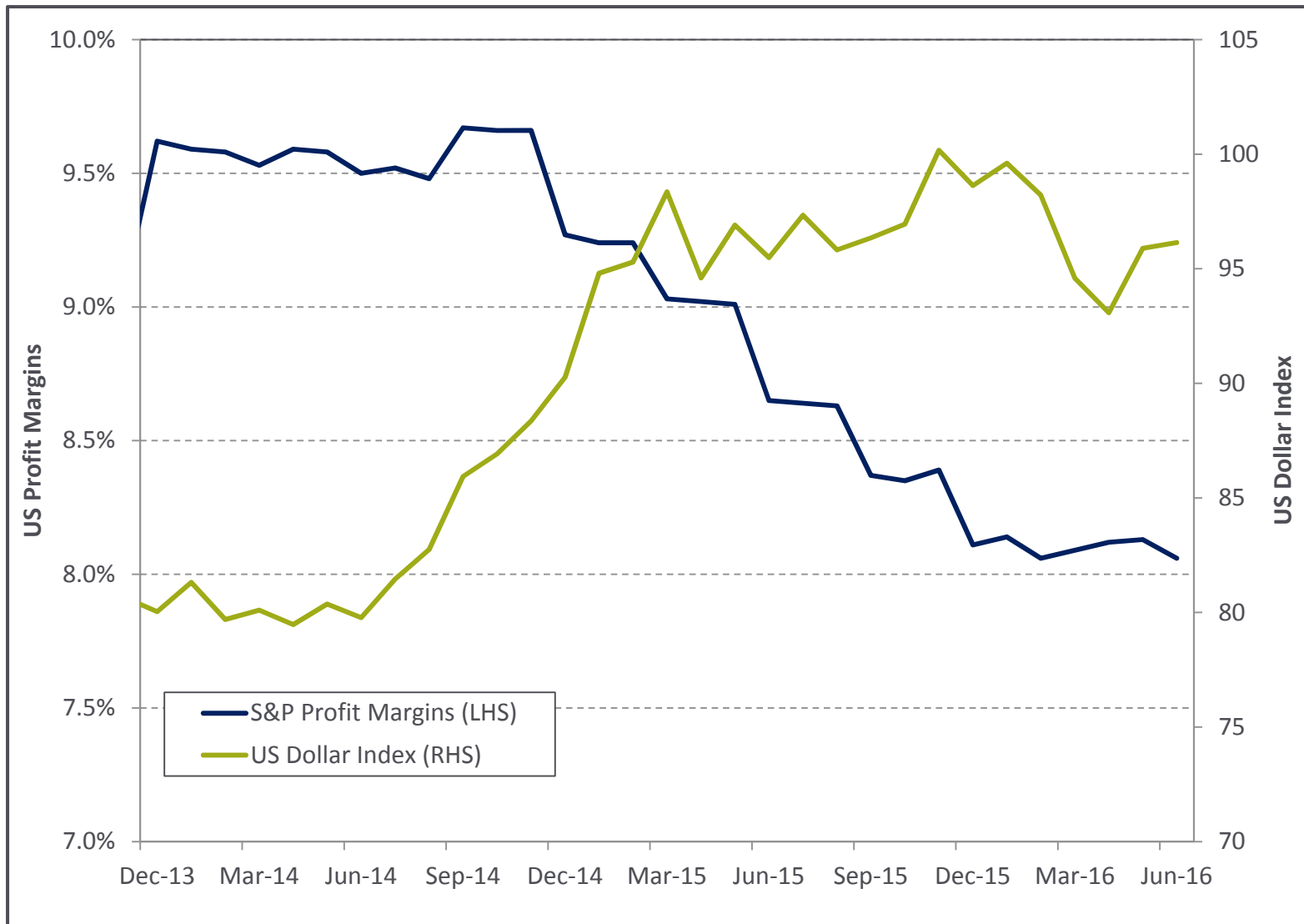
- **US economic cycle and US central bank policy are at the forefront of major cyclical and secular forces informing our Assumptions and Actions**
  - These factors interact to create a supportive environment for risk assets in the near term but ultimately push long term capital market forecasts lower relative to history
- **The US economy is nearly 7 years removed from the previous recession but the health of US consumers can extend the expansion**
  - Prolonged US economic cycle has the potential to push the US dollar higher
- **Persistent US Dollar strength tightens global monetary conditions and materially weakens the US corporate earnings profile**
  - A strong dollar strains international borrowers with dollar based debt
  - Outsized credit growth in Asia, specifically China, at risk from a stronger US dollar
- **Influence of central bank policies in the developed world remain broadly supportive for risk assets but come with long term effects**
  - US policy is slowly diverging from Europe and Japan but gradual expected pace of hikes provides a positive backdrop for US equities and credit in the near term
  - Extraordinary central bank measures from Europe and Japan continue to expand and support a strong bias to equities in these markets

- **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 weakened under pressure from profit margin declines
- **Central Banks continue to dictate the global investment outlook**
  - Subdued market expectation of Fed action over next 36 months; a surprise Fed rate increase poses risk to both US equities and interest rates
  - 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
- **Rise of political populism fuels equity and currency market uncertainty**
  - Populist movements are destabilizing for the established political and economic order posing a risk for the cohesion of the European Union and global trade relationships
  - However, elevated risk offers an opportunity should market sentiment be overly pessimistic
- **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 an over-hanging 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



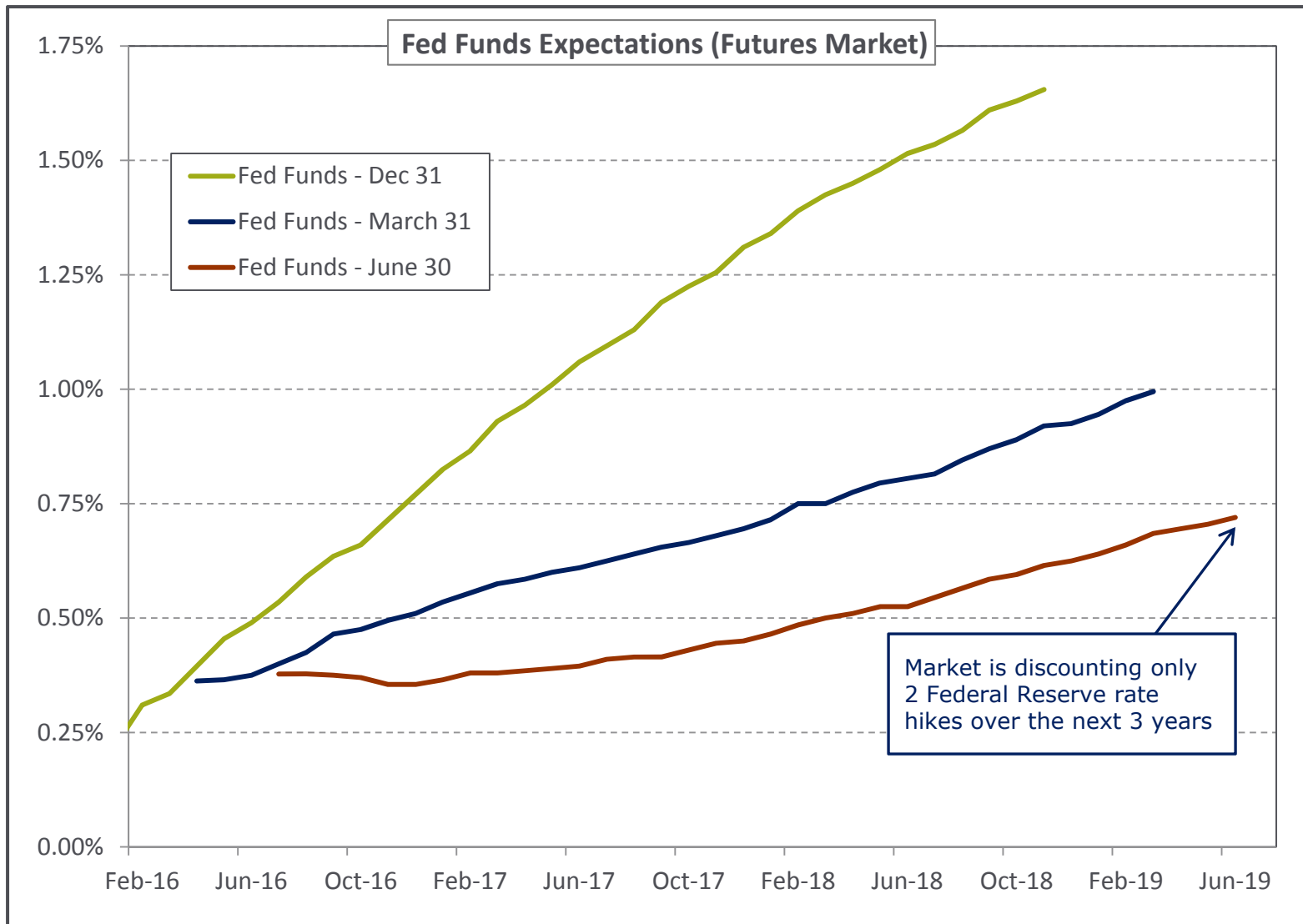
Source: Bloomberg

## Further Dollar Strength Likely to Negatively Impact Corporate Profits



Source: Bloomberg

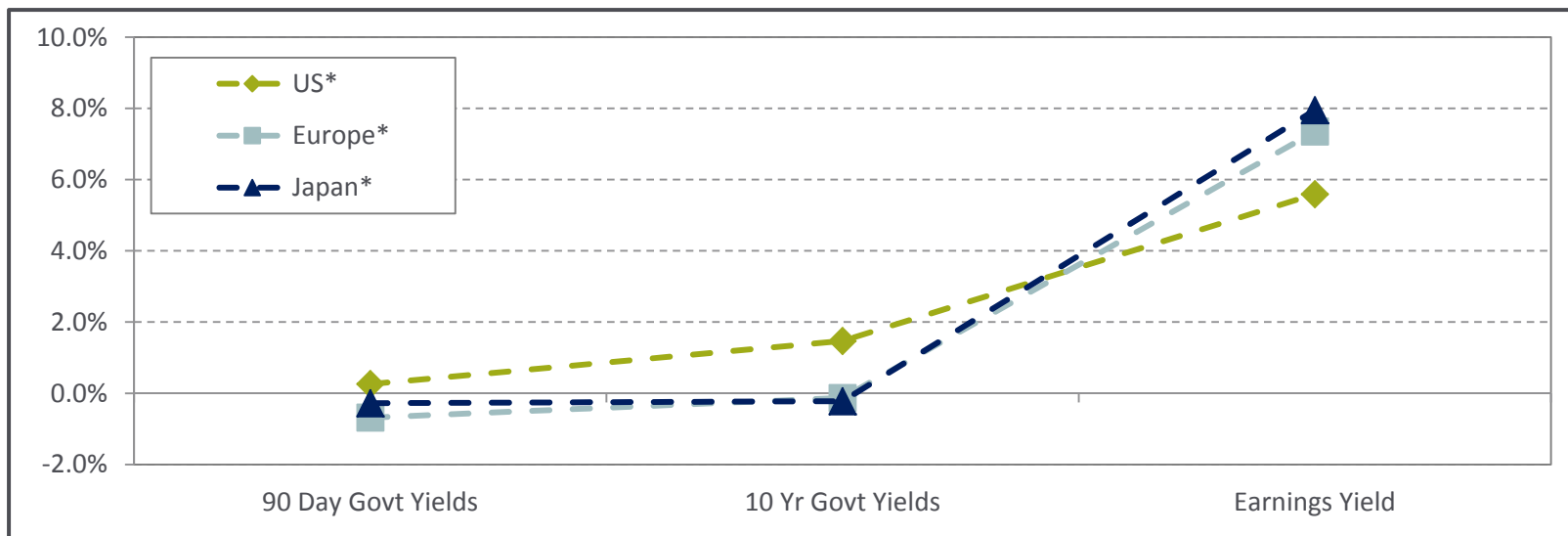
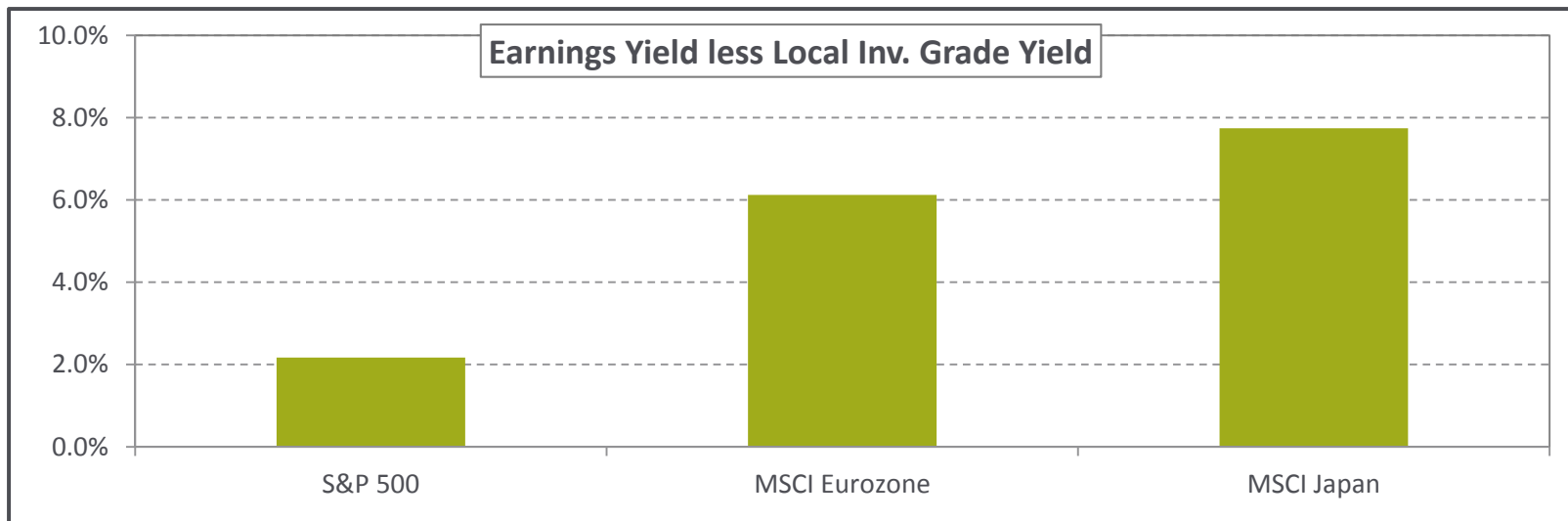
## An Uptick in Fed Funds Expectations of Current Lows is Likely to Fuel Dollar Strength



Source: Bloomberg

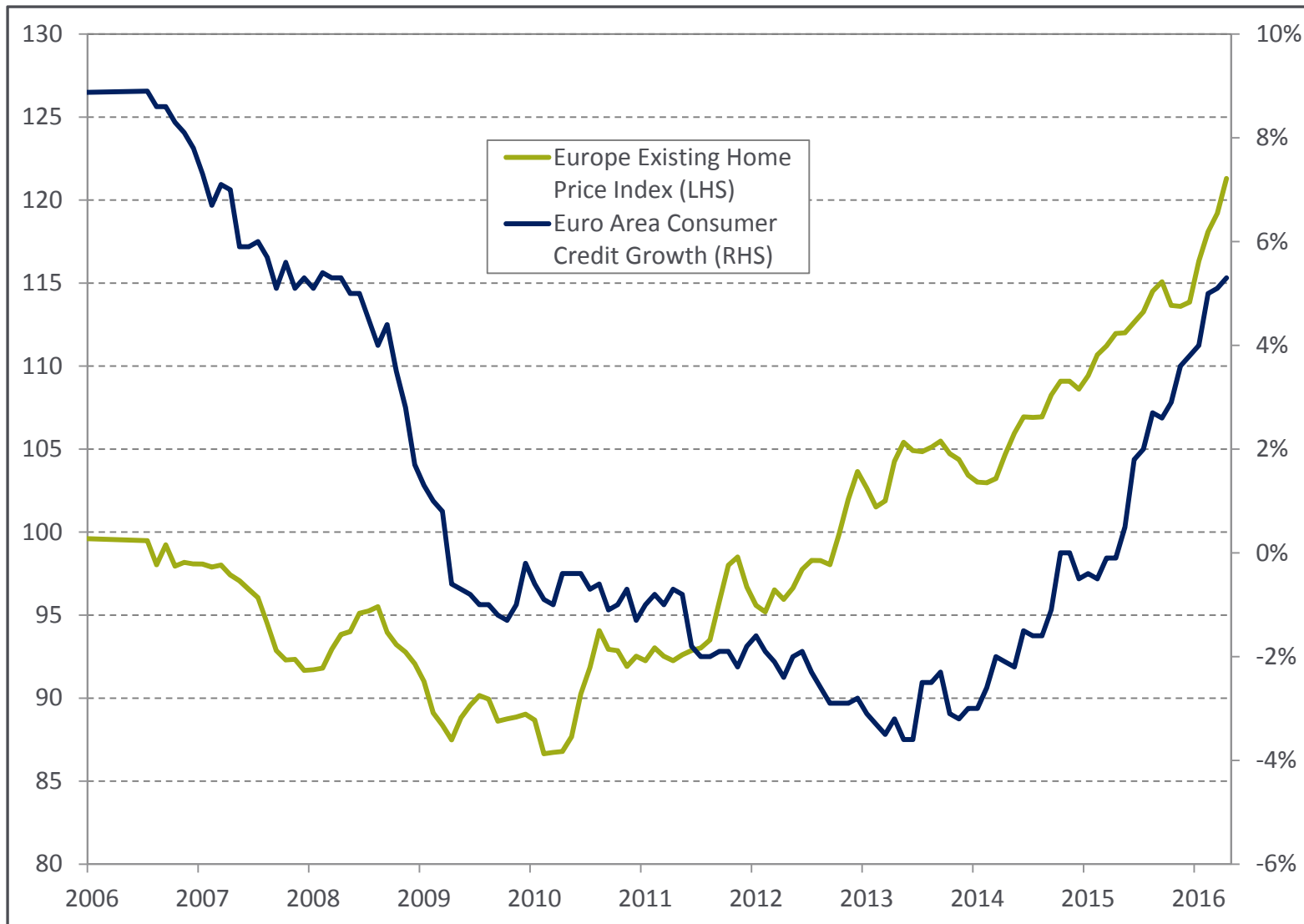


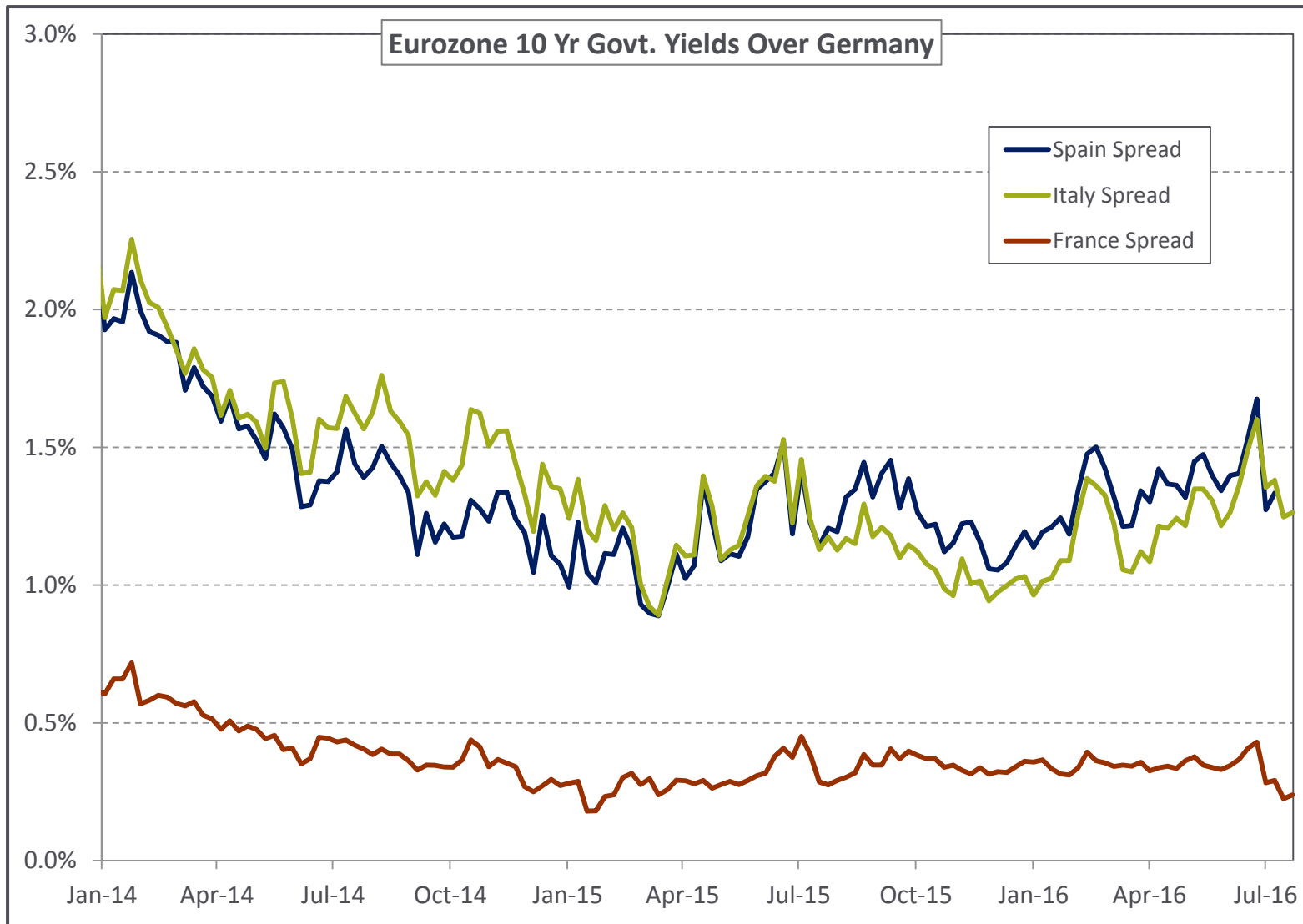
# Overweight Non-US Equity – Elevated Equity Risk Premium Relative to the US



\*Earnings Yield is inverse of Forward P/E for S&P 500, MSCI Eurozone, MSCI Japan  
Source: Bloomberg

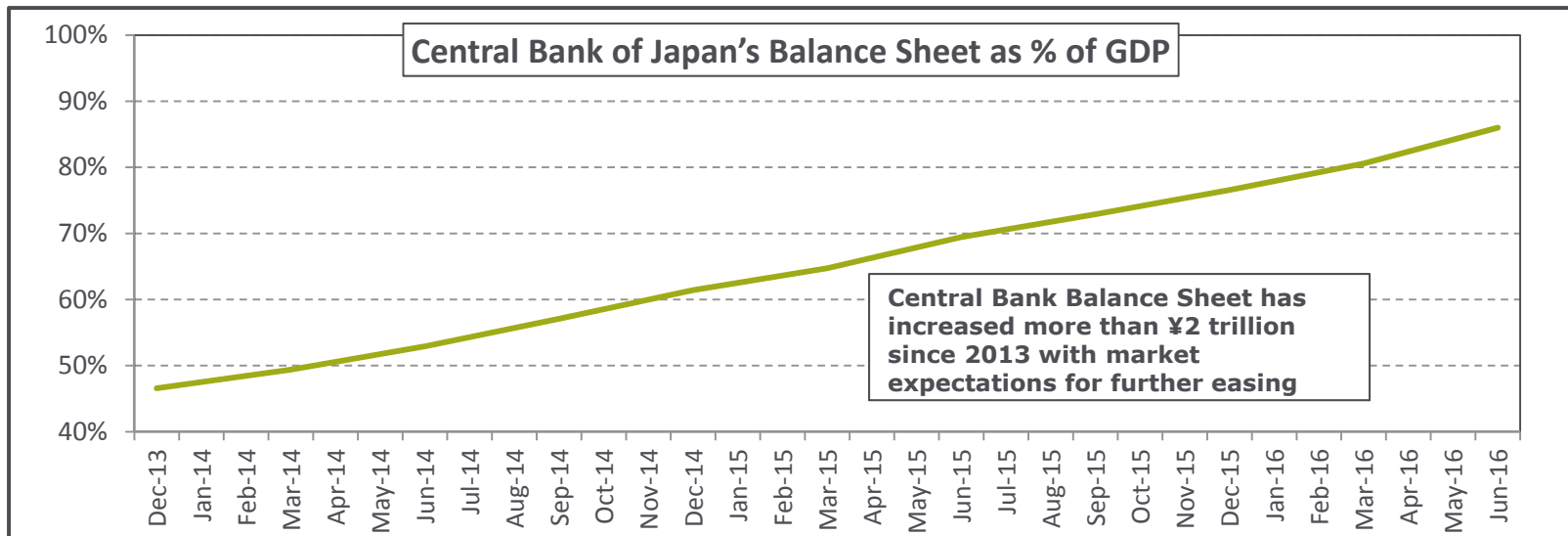
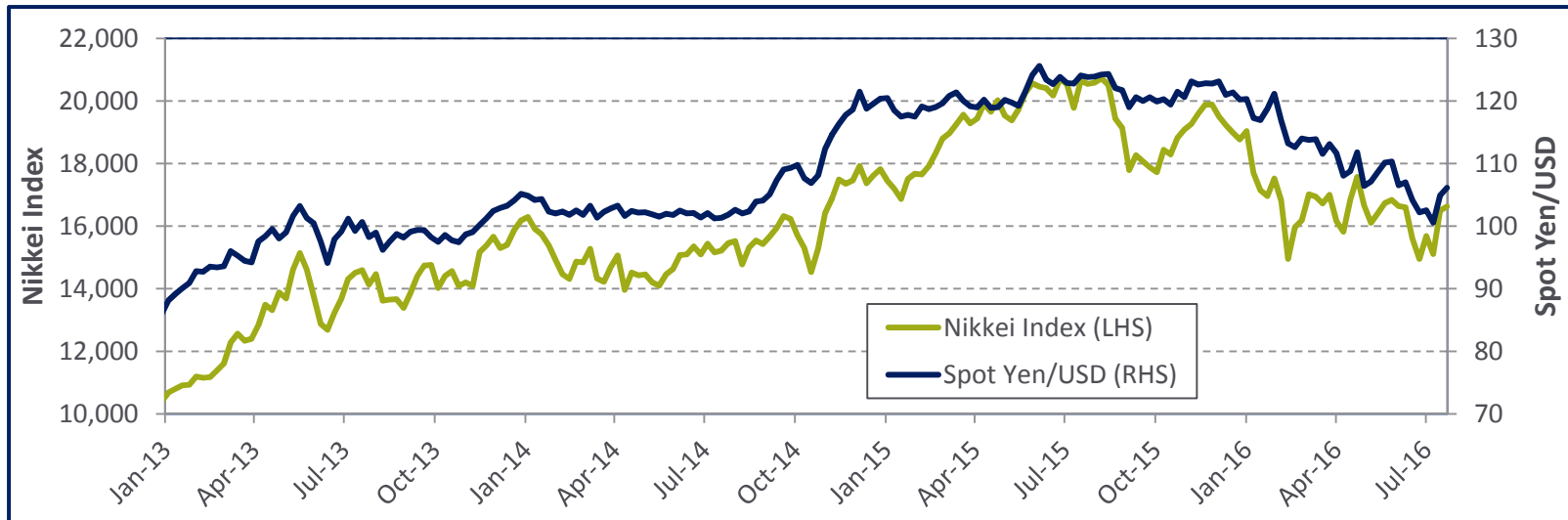
## Broad Economic Profile in Europe Continues to Improve





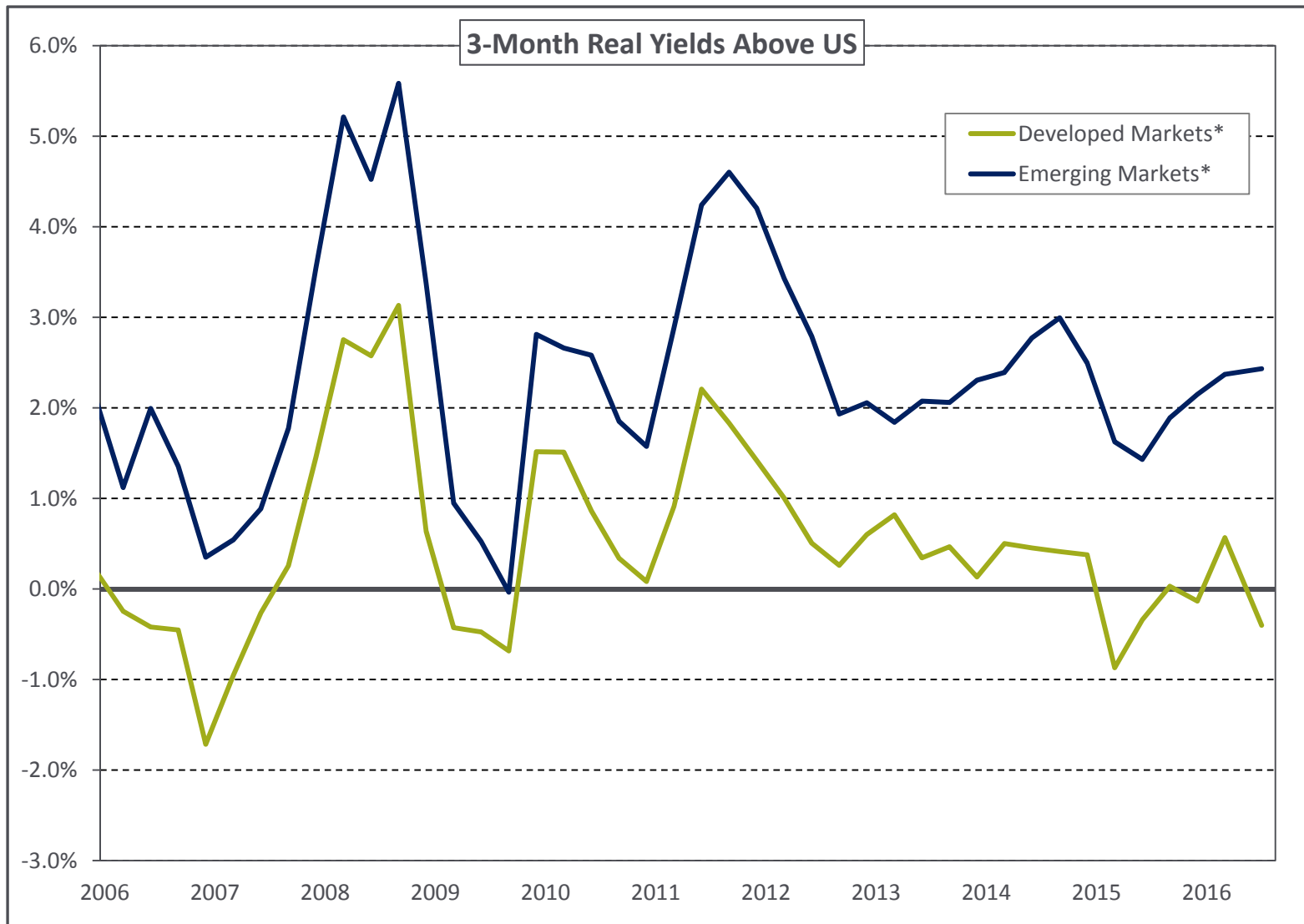
Source: Bloomberg

## Central Bank of Japan's Ability to Weaken the Yen Heavily Influences Equity Prices

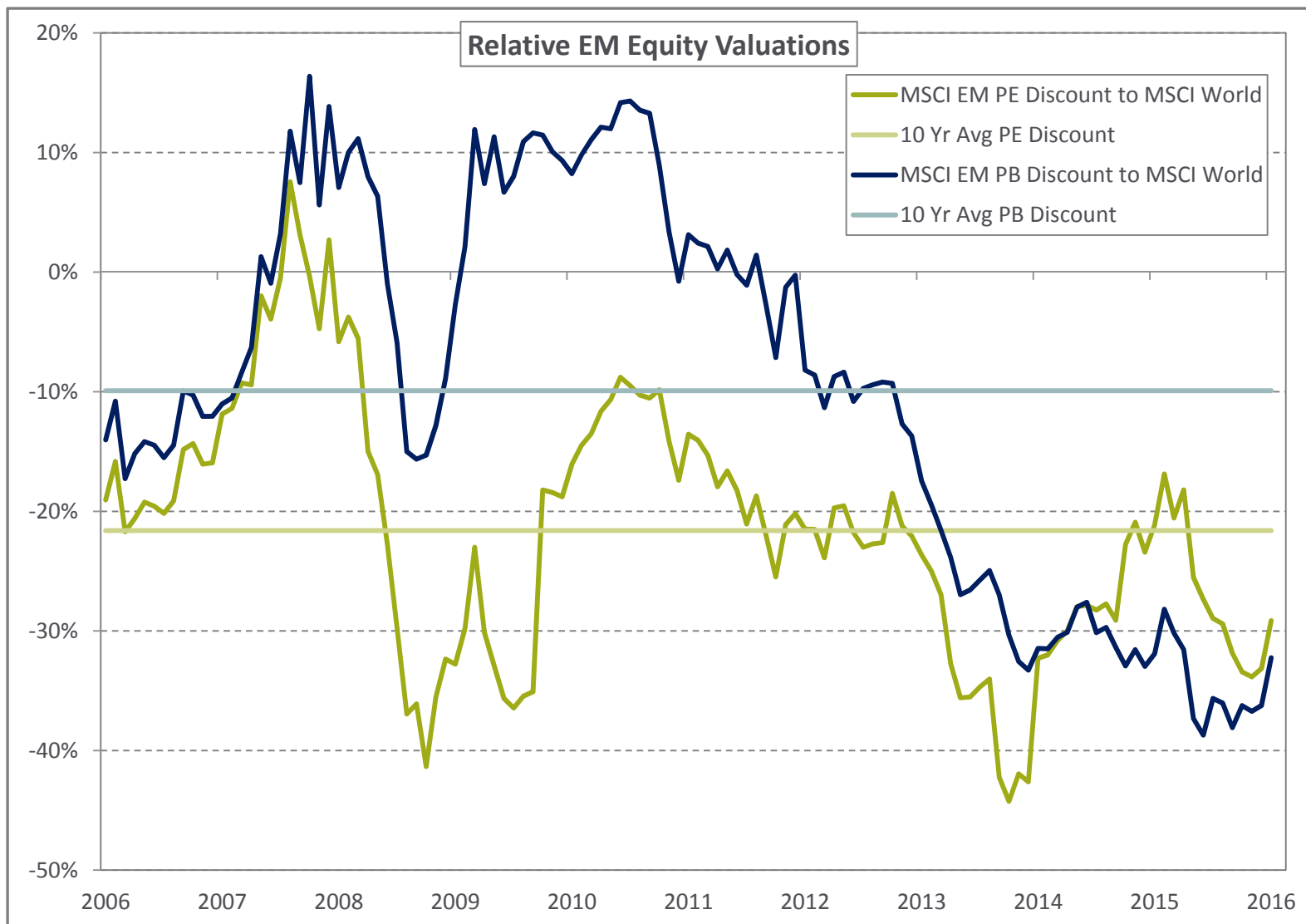


Source: Bloomberg

## Attractiveness of Emerging Currencies Supported by High Real Yields



Source: NEPC, Bloomberg  
\*WGBI and JPM GBI-DM Index country allocations



# Investment Program Review

# NEPC Updates

June 30, 2016

## Highlights of Second Quarter Happenings at NEPC

### NEPC Research

#### Recent White Papers

- "Thinking Ahead to Stay Ahead: Strategic Private Equity Investing in Healthcare" (April 2016)
- Market Chatter: "Implications of Brexit" (June 2016)
- Market Chatter: "Brexit... What Now?" (June 2016)
- "The Disease of Doubt" (July 2016)

#### Webinar

- "Brexit - A Vote for Volatility" (June 2016); Panel provides perspectives on the EU Referendum.



### NEPC's 21<sup>st</sup> Annual Investment Conference

"Excellent breadth of materials, plenty of concurrent sessions, and the speakers were vibrant and humorous!" is just one of many positive reviews from attendees. The conference attracted more than 200 people to the Hynes Convention Center in Boston on May 10-11, 2016.

### News from NEPC

We are excited to announce NEPC's active presence on five social media channels: Facebook, Google+, LinkedIn, Twitter and YouTube, and we will continue to post on the Endowments and Foundations Twitter. We will be using these online channels to share company news, information and articles throughout the industry. Those interested in keeping up with the latest news from NEPC can follow our accounts. Company news and industry insights will continue to be available on our website, which has been updated with a new optimized search feature.



### Upcoming Events

NEPC's 22<sup>nd</sup> Annual Investment Conference will be held on May 9-10, 2017 at the InterContinental Hotel in Boston, MA.

MARK YOUR CALENDAR!

### NEPC Client Recognitions

We are pleased to announce that three of NEPC's public fund clients won Institutional Investor (II) Awards.

- **Arn Andrews**, CIO of San Jose Police & Fire, won the award for Chief Investment Officer of the Year.
- **Sam Masoudi**, CIO of Wyoming Retirement System, won the award for Opportunistic Investment Strategies Award.
- **Bob Jacksha**, CIO of New Mexico Employees Retirement Board, won the award for Portfolio Construction.

We are also pleased to announce that two NEPC clients, **San Bernardino County Employees' Retirement System** and **Arizona Public Safety Personnel Retirement System**, were nominated for Institutional Investor magazine's 14th Annual Hedge Fund Industry Awards in the "Public Plan of the Year, Small" category.

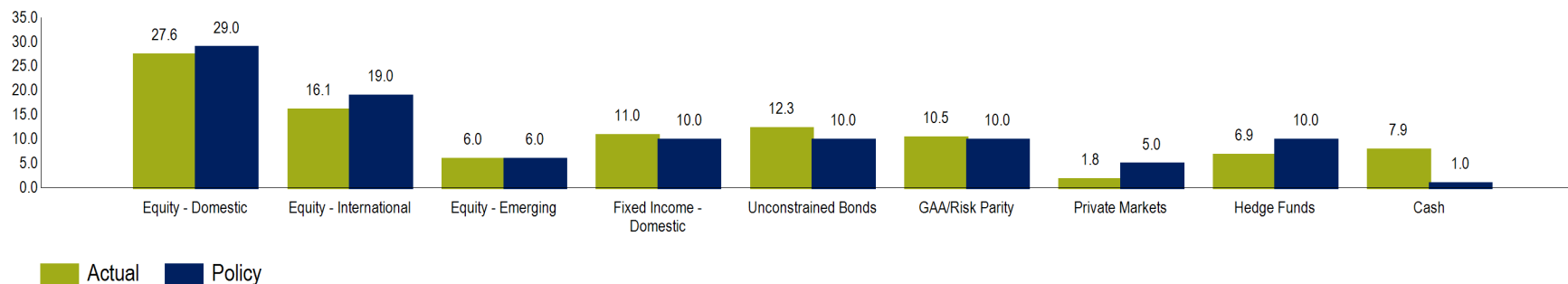


# Executive Summary

## Total Fund Performance Summary (Gross of Fees)

	Market Value	3 Mo	Rank	YTD	Rank	Fiscal YTD	Rank	3 Yrs	Rank	5 Yrs	Rank	7 Yrs	Rank	10 Yrs	Rank
<b>Composite</b>	<b>\$170,391,198</b>	<b>0.8%</b>	<b>99</b>	<b>0.8%</b>	<b>87</b>	<b>-3.6%</b>	<b>92</b>	<b>4.0%</b>	<b>79</b>	<b>4.2%</b>	<b>83</b>	<b>8.4%</b>	<b>42</b>	<b>5.4%</b>	<b>33</b>
Allocation Index		1.5%	82	2.5%	55	-0.9%	43	4.8%	53	4.3%	80	7.6%	76	5.1%	45
Policy Index		1.4%	86	2.3%	61	-0.9%	43	5.0%	49	4.6%	69	7.8%	64	4.6%	65
InvestorForce All Endowment \$50mm-\$250mm Gross Median		1.8%		2.7%		-1.1%		4.9%		5.3%		8.1%		4.9%	

Actual vs Target Allocation (%)



## Goals and Objectives

- The Endowments performance objective is to provide long-term returns that exceed inflation by 5% per annum, while maintaining moderate volatility.
- In addition, the UUA prefers to invest with managers that integrate ESG into their investment process

## Recent Decisions &amp; Action Items

- Approved RBC as a replacement for DFA as the Endowments Emerging Market Equity manager
- Consider to review the Hedge Fund allocation while considering new manager exposures
- Evaluate new Private Market opportunities
- Consider transitioning from Unconstrained Bonds to a Barbell Fixed Income approach by utilizing Global Multi-Sector Fixed Income and treasuries

Fiscal Year End: 6/30

## Total Fund Performance

- The endowment returned 0.8% (gross of fees) during Q2 of 2016, ranking 99th in the universe, underperforming the allocation index and policy index.
- Active management was the primary detractor from results with Sands, Wellington, MFS and Cevian underperforming their benchmarks over the quarter
- Over the trailing one-year period, the endowment returned -3.6% (gross of fees), ranking 92nd in the universe and underperforming both the allocation and policy index.
- Over the seven-year and ten-year time periods, performance ranked near the top third of the peer universe. Manager selection has been the primary driver of overall performance and tactical allocations have also contributed to outperformance



NEPC, LLC

June 30, 2016

## Due Diligence Monitor

The items below summarize any changes or announcements from your Plan managers/funds. A "Yes" indicates there was an announcement and a brief summary is provided separately. NEPC's Due Diligence Committee meets every two weeks to review events as they relate to investment managers and determines if any action should be taken by NEPC and/or by our clients. They rate events: No Action, Watch, Hold, Client Review or Terminate. NEPC considers ourselves to be a fiduciary, as ERISA defines the term in Section 3(21).

Investment Manager	Manager Changes/ Announcements (Recent Quarter)	NEPC Due Diligence Committee Recommendations
GMO	Yes	HOLD

**A legend key to our recommendations is provided below.**

NEPC Due Diligence Committee Recommendation Key	
<b>No Action</b>	Informational items have surfaced; no action is recommended.
<b>Watch</b>	Issues have surfaced to be concerned over; manager can participate in future searches, but current and prospective clients must be made aware of the issues.
<b>Hold</b>	Serious issues have surfaced to be concerned over; manager cannot be in future searches unless a client specifically requests, but current and prospective clients must be made aware of the issues.
<b>Client Review</b>	Very serious issues have surfaced with a manager; manager cannot be in future searches unless a client specifically requests. Current clients must be advised to review the manager.
<b>Terminate</b>	We have lost all confidence in the product; manager would not be recommended for searches and clients would be discouraged from using. The manager cannot be in future searches unless a client specifically requests. Current clients must be advised to replace the manager.

Below is a summary of manager changes, announcements and due diligence events since the issuance of our last quarterly report.

### Manager Changes/Announcements

#### GMO

NEPC has recommended a due diligence status of HOLD for GMO. GMO announced a wide range of organization changes which will have an impact on the firm and specific strategies. To be clear, we do not have concerns regarding the viability of the firm or the individuals overseeing their investment strategies but feel the breadth of change warrants a revised due diligence status.

Below are the initial details of the changes that will be occurring across GMO. For clarity, we have divided the changes into 5 categories.

**1. Firm:** GMO will be reducing approximately 10% of the firm's workforce. The majority of the individuals departing the firm are outside the investment team and the total headcount reduction will be approximately 50 individuals. This follows the April announcement that Brad Hilsabeck will be stepping down effective July 1. Peg McGetrick was named acting CEO and she is currently a member of GMO's Board of Directors.

**2. Investment Process – Global Equity:** The global equity investment strategies will discontinue their use of fundamental stock selection inputs and will be exclusively quantitatively orientated. The asset allocation team will continue to provide the top-down regional weights of the portfolio and stock implementation will be informed entirely by GMO's quantitative models. Strategies impacted include the Global All Country Equity Allocation Strategy, International All Country Equity Allocation Strategy, and other quantitative oriented equity products. Not impacted by these changes are the Emerging Market Equity strategies led by Arjun Divecha and the International Active strategies led by Drew Spangler.

**3. Investment Process – Developed Fixed Income:** The developed fixed income strategies, which have expanded and evolved over the last several years to take a more fundamental view of interest rate and currency markets will simplify their investment process. The developed fixed income strategies will return to the quantitative models previously used by the global bond team and reduce the risk taking in portfolios. Not impacted by these changes are the Emerging Market Debt strategies.

#### **4. Investment Personnel Changes:**

Global Equity – Neil Constable will assume leadership of the Global Equity team effective July 1. Neil has led GMO's quantitative research effort since 2012 and has been a member of the team since 2006. Dave Cowan, head of the Global Equity team will be leaving GMO on June 30. Members of the fundamental team that provided input into the global equity strategies will also be leaving, key members include Chris Fortson and Eric Lu.

Developed Fixed Income – Michael Emanuel, previously of Convexity, has left GMO effective May 31. Jason Hotra, longstanding member of the team, will assume portfolio management responsibilities. Ben Inker and Sam Wilderman will continue as co-heads of Fixed Income until a permanent head can be found.

Multi-Asset – Sam Wilderman, co-head of Asset Allocation, will be leaving GMO at the end of 2016. As opposed to the other personnel changes, GMO emphasized that Sam's departure is his choice. Sam will remain through the end of the year to aid in the transition. Effective Jan 1, Ben Inker will be the sole head of the asset allocation team.

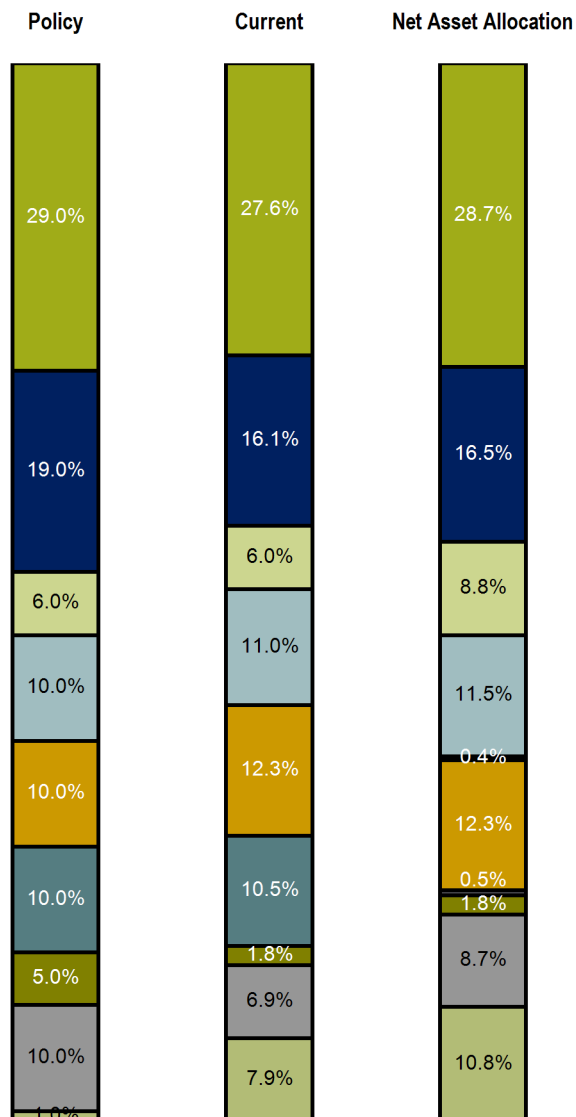
**5. Multi-Asset Portfolios:** Outside of Sam Wilderman's departure, the multi-asset investment team remains unchanged. The underlying exposure and positions of the portfolios will be impacted in two primary ways. As a result of the changes to the Global Equity team, the equity implementation for the multi-asset strategies will be entirely quantitative and will no longer include a fundamental stock selection component. Fixed income exposures, specifically the Relative Value Interest Rate and FX strategy is taking down risk as a result of the changes to the Developed Fixed Income team. What remains for the multi-asset portfolios is the discipline provided by the asset allocation team's 7 year asset class forecasts and their belief that asset classes mean revert to fair value over time. Current broad positioning remains largely unchanged as equities total approximately 40% with emerging market equities equaling 15%.

## Total Fund Summary

## Total Fund Asset Growth Summary by Manager

	Beginning Market Value	Withdrawals	Quarter Ending June 30, 2016			Ending Market Value
			Contributions	Net Cash Flow	Net Investment Change	
Baxter Street	\$4,000,000	\$0	\$0	\$0	-\$40,119	\$3,959,881
Boston Common	\$11,942,463	-\$19,611	\$0	-\$19,611	-\$121,417	\$11,801,435
Breckinridge	\$8,682,036	-\$1,131	\$0	-\$1,131	\$116,661	\$8,797,566
Brockton Capital Fund III	\$1,607,740	-\$26,877	\$0	-\$26,877	-\$14,078	\$1,566,784
Cash Account	\$3,435,356	-\$4,283,312	\$12,696,755	\$8,413,443	\$988	\$11,849,787
Cevian Capital II	\$4,648,105	\$0	\$0	\$0	-\$123,750	\$4,524,355
Community Development	\$1,584,205	-\$7,146	\$37,916	\$30,770	\$1,713	\$1,616,689
Entrust Capital Diversified Fund	\$7,159,570	\$0	\$0	\$0	\$18,094	\$7,177,664
FEG Private Opportunities Fund	\$1,533,534	-\$12,750	\$0	-\$12,750	\$11,335	\$1,532,119
GMO Benchmark Free Allocation Fund	\$17,654,537	\$0	\$0	\$0	\$151,572	\$17,806,109
IR&M SRI Core Bond Fund	\$9,638,025	\$0	\$0	\$0	\$243,937	\$9,881,963
Loomis Sayles Strategic Alpha	\$20,558,198	-\$30,235	\$0	-\$30,235	\$463,252	\$20,991,215
MFS International Concentrated	\$12,050,660	\$0	\$0	\$0	-\$350,458	\$11,700,202
Pier Capital	\$6,615,863	-\$3,638	\$0	-\$3,638	\$239,247	\$6,851,472
RBC Global Emerging Equity	--	\$0	\$10,100,000	\$10,100,000	\$141,699	\$10,241,699
Rhumblin	\$18,700,886	-\$11,532	\$0	-\$11,532	\$811,333	\$19,500,687
Sands	\$13,907,113	-\$1,582	\$3,600,000	\$3,598,418	-\$190,213	\$17,315,317
Wellington SMID	\$0	\$0	\$3,200,000	\$3,200,000	\$76,255	\$3,276,255
Z Terminate-Bridgewater	\$17,043,926	-\$17,043,926	\$0	-\$17,043,926	\$0	--
Z Terminated-DFA	\$11,151,630	-\$10,757,065	\$0	-\$10,757,065	-\$394,564	--
<b>Total</b>	<b>\$171,913,846</b>	<b>-\$32,198,806</b>	<b>\$29,634,671</b>	<b>-\$2,564,135</b>	<b>\$1,041,487</b>	<b>\$170,391,198</b>

## Total Fund Asset Allocation vs. Policy Targets



## Asset Allocation vs. Target

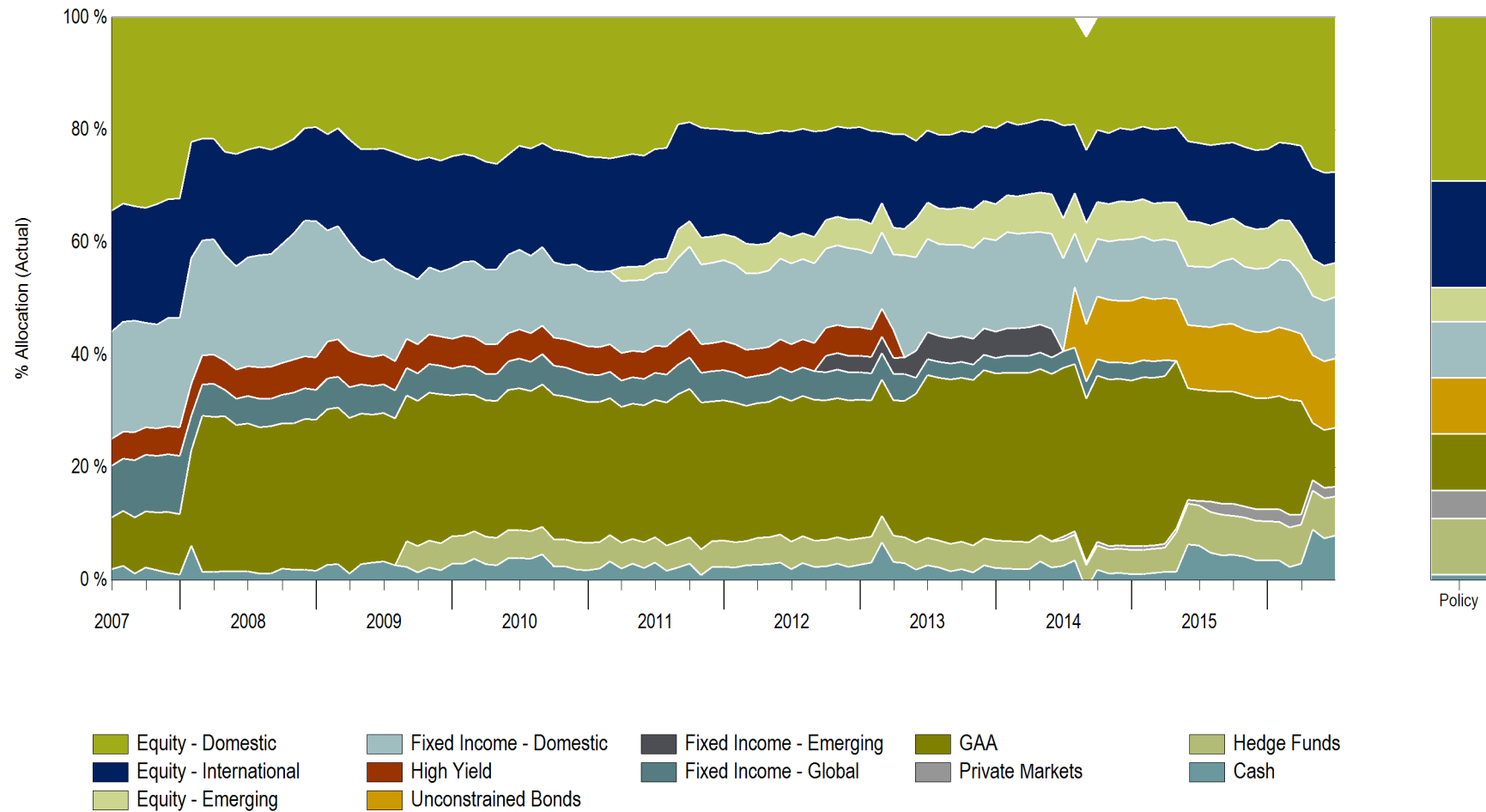
	Current	Policy	Current	Policy Range	Within Range	Net Asset Allocation
Equity - Domestic	\$46,943,731	29.0%	27.6%	22.0% - 36.0%	Yes	28.7%
Equity - International	\$27,461,518	19.0%	16.1%	14.0% - 24.0%	Yes	16.5%
Equity - Emerging	\$10,241,699	6.0%	6.0%	3.0% - 9.0%	Yes	8.8%
Fixed Income - Domestic	\$18,679,529	10.0%	11.0%	5.0% - 15.0%	Yes	11.5%
High Yield						0.4%
Unconstrained Bonds	\$20,991,215	10.0%	12.3%	5.0% - 15.0%	Yes	12.3%
Fixed Income - Emerging						0.5%
GAA	\$17,806,109	10.0%	10.5%	0.0% - 15.0%	Yes	--
Private Markets	\$3,098,903	5.0%	1.8%	0.0% - 10.0%	Yes	1.8%
Hedge Funds	\$11,702,019	10.0%	6.9%	0.0% - 15.0%	Yes	8.7%
Cash	\$13,466,476	1.0%	7.9%	0.0% - 10.0%	Yes	10.8%
<b>Total</b>	<b>\$170,391,198</b>	<b>100.0%</b>	<b>100.0%</b>			<b>100.0%</b>

- On a look through basis, Domestic Equity is 28.7% of the fund, International Equity is 16.5% of the fund, and Emerging Market Equity is 8.8% of the fund.

- Dedicated hedge fund exposure is 6.9%, GMO has an Absolute Return allocation in their fund, increasing hedge fund exposure to 8.7%.

- Overall Fixed Income exposure is 24.7%, including GAA exposure. Dedicated Fixed income allocation has an intermediate duration.

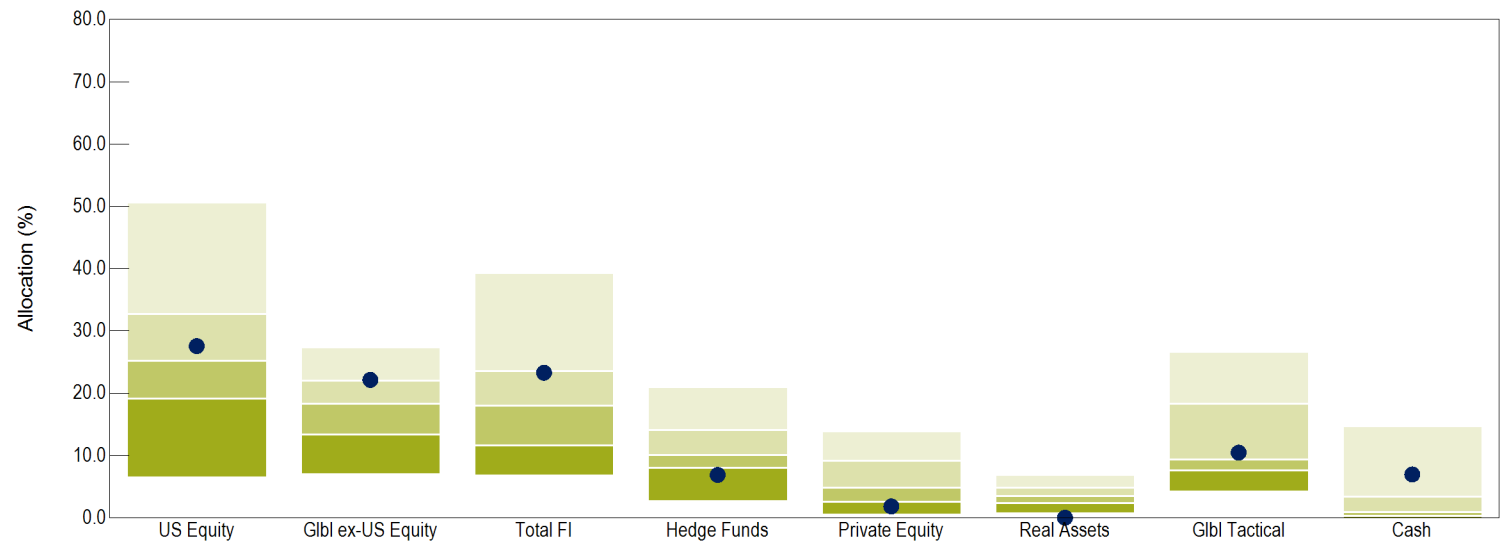
Asset Allocation History





## Total Fund Allocations vs. Peer Universe

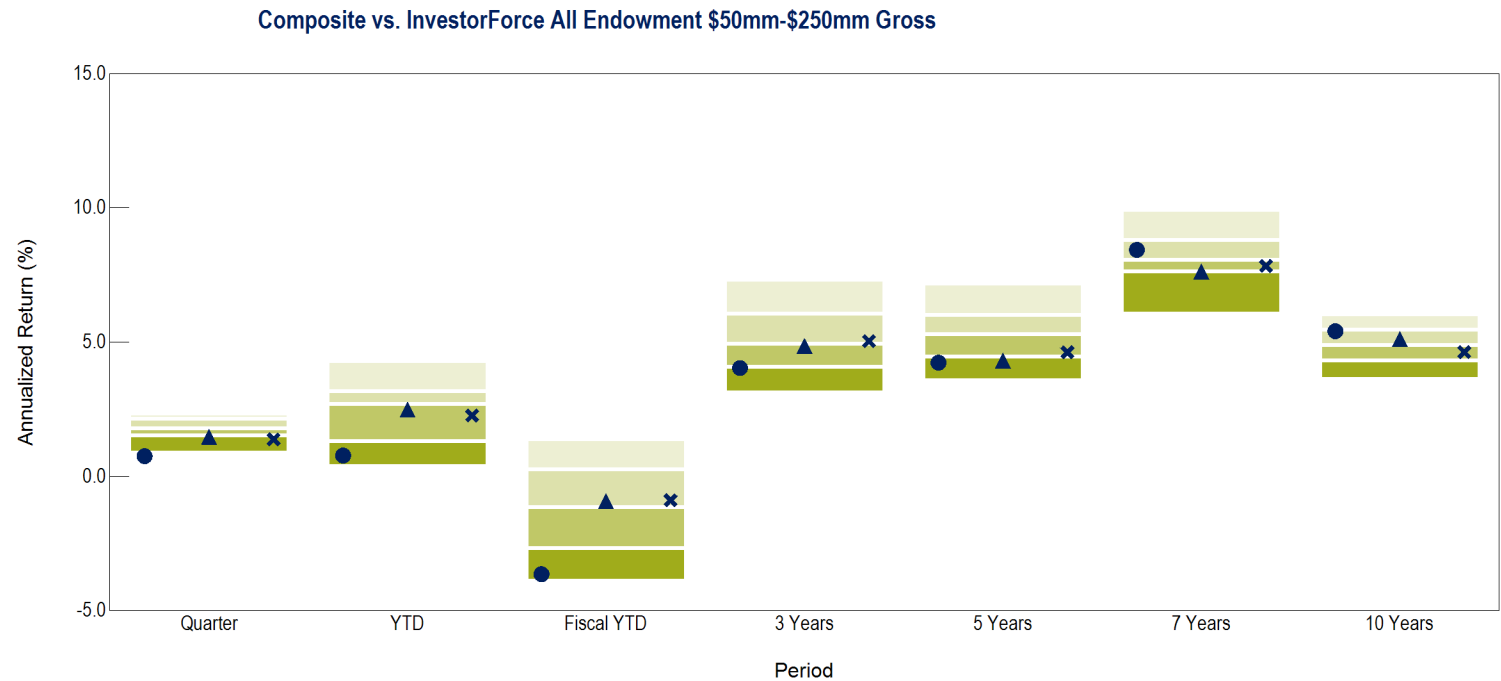
Total Plan Allocation vs. InvestorForce All Endowment \$50mm-\$250mm Gross



	Allocation (Rank)													
5th Percentile	50.6		27.4		39.3		21.0		13.9		6.8		26.6	
25th Percentile	32.8		22.2		23.7		14.2		9.3		5.0		18.4	
Median	25.3		18.4		18.2		10.1		4.9		3.6		9.4	
75th Percentile	19.2		13.4		11.7		8.1		2.7		2.5		7.7	
95th Percentile	6.6		7.1		6.8		2.8		0.6		0.9		4.3	
# of Portfolios	63		65		66		45		42		30		19	
• Composite	27.6	(41)	22.1	(27)	23.3	(28)	6.9	(81)	1.8	(89)	0.0	(99)	10.5	(39)

<b>UUA Net Asset Allocation</b>	28.7	25.3	24.7	8.7	1.8	0.0	-	10.8
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## Total Fund Return Summary vs. Peer Universe (Gross of Fees)



	Return (Rank)													
5th Percentile	2.3	4.3	1.4	7.3	7.2	9.9	6.0							
25th Percentile	2.2	3.2	0.3	6.1	6.0	8.8	5.5							
Median	1.8	2.7	-1.1	4.9	5.3	8.1	4.9							
75th Percentile	1.5	1.3	-2.7	4.1	4.5	7.7	4.3							
95th Percentile	0.9	0.4	-3.9	3.1	3.6	6.1	3.6							
# of Portfolios	70	70	70	65	58	57	47							
● Composite	0.8	(99)	0.8	(87)	-3.6	(92)	4.0	(79)	4.2	(83)	8.4	(42)	5.4	(33)
▲ Allocation Index	1.5	(82)	2.5	(55)	-0.9	(43)	4.8	(53)	4.3	(80)	7.6	(76)	5.1	(45)
× Policy Index	1.4	(86)	2.3	(61)	-0.9	(43)	5.0	(49)	4.6	(69)	7.8	(64)	4.6	(65)

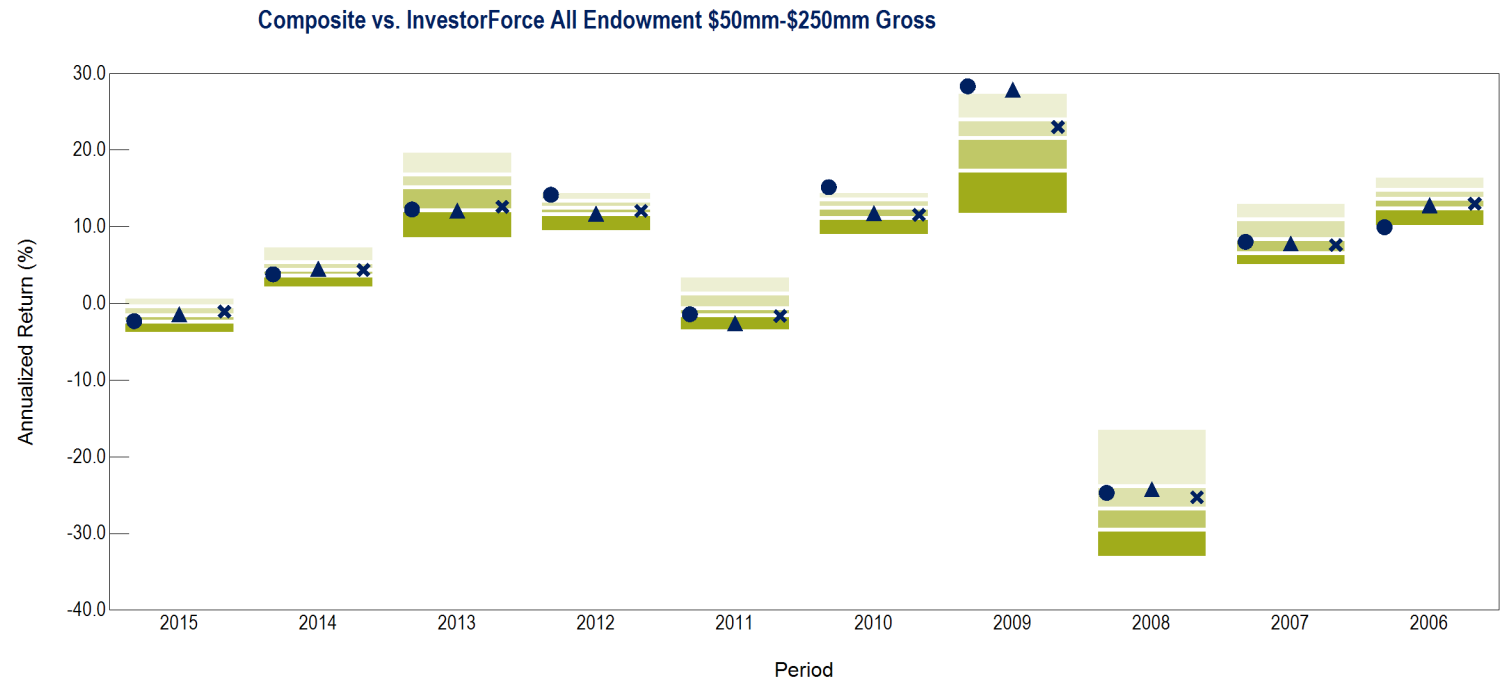
Fiscal Year End: 6/30



NEPC, LLC

June 30, 2016

## Total Fund Return Summary vs. Peer Universe (Gross of Fees)



	Return (Rank)									
5th Percentile	0.9	7.5	19.9	14.6	3.6	14.6	27.6	-16.3	13.2	16.7
25th Percentile	-0.3	5.5	16.9	13.4	1.3	13.7	24.1	-23.8	11.0	14.9
Median	-1.5	4.4	15.2	12.5	-0.6	12.5	21.6	-26.7	8.4	13.7
75th Percentile	-2.3	3.6	12.2	11.7	-1.5	11.2	17.3	-29.4	6.6	12.5
95th Percentile	-3.9	2.0	8.4	9.4	-3.6	8.8	11.6	-33.1	4.9	10.0
# of Portfolios	80	90	81	83	82	77	75	71	68	64
● Composite	-2.3 (76)	3.8 (74)	12.3 (74)	14.2 (11)	-1.4 (73)	15.2 (3)	28.3 (5)	-24.7 (31)	8.0 (56)	9.9 (97)
▲ Allocation Index	-1.4 (49)	4.5 (46)	12.1 (76)	11.7 (74)	-2.6 (88)	11.8 (65)	27.9 (5)	-24.2 (27)	7.8 (59)	12.8 (72)
× Policy Index	-1.1 (41)	4.4 (52)	12.6 (70)	12.1 (66)	-1.6 (79)	11.6 (67)	23.0 (36)	-25.3 (37)	7.6 (60)	13.0 (70)

## Unitarian Universalist Association

## Total Fund Performance Detail (Net of Fees)

	Market Value (\$)	% of Portfolio	Policy %	3 Mo (%)	YTD (%)	Fiscal YTD (%)	3 Yrs (%)	5 Yrs (%)	7 Yrs (%)	10 Yrs (%)	Return (%)	Since
<b>Composite</b>	<b>170,391,198</b>	<b>100.0</b>	<b>100.0</b>	<b>0.5</b>	<b>0.3</b>	<b>-4.6</b>	<b>3.0</b>	<b>3.2</b>	<b>7.4</b>	<b>4.3</b>	<b>5.5</b>	<b>Jul-02</b>
Allocation Index				1.5	2.5	-0.9	4.8	4.3	7.6	5.1	6.3	Jul-02
Policy Index				1.4	2.3	-0.9	5.0	4.6	7.8	4.6	--	Jul-02
<b>Domestic Equity Composite</b>	<b>46,943,731</b>	<b>27.6</b>	<b>29.0</b>	<b>2.0</b>	<b>-1.5</b>	<b>-3.7</b>	<b>9.5</b>	<b>10.7</b>	<b>16.8</b>	<b>8.1</b>	<b>9.3</b>	<b>Jul-02</b>
Russell 3000				2.6	3.6	2.1	11.1	11.6	14.9	7.4	8.0	Jul-02
Rhumblin	19,500,687	11.4	10.5	4.3	7.1	4.8	10.0	10.9	14.7	6.4	6.3	Aug-05
Russell 1000 Value				4.6	6.3	2.9	9.9	11.4	14.5	6.1	6.4	Aug-05
Sands	17,315,317	10.2	10.5	-1.1	-10.9	-8.0	9.8	11.6	18.2	10.1	10.0	Dec-03
Russell 1000 Growth				0.6	1.4	3.0	13.1	12.3	15.5	8.8	8.1	Dec-03
Pier Capital	6,851,472	4.0	4.0	3.4	-2.2	-14.6	7.1	6.7	14.2	--	8.2	Apr-07
Russell 2000 Growth				3.2	-1.6	-10.8	7.7	8.5	14.3	7.1	6.7	Apr-07
Wellington SMID	3,276,255	1.9	4.0	2.2	--	--	--	--	--	--	2.2	Apr-16
Russell 2500 Value				4.4	7.8	0.2	8.1	9.6	15.2	6.5	4.4	Apr-16
<b>International Equity Composite</b>	<b>37,703,217</b>	<b>22.1</b>	<b>25.0</b>	<b>-1.6</b>	<b>-0.5</b>	<b>-10.2</b>	<b>0.7</b>	<b>-0.8</b>	<b>3.9</b>	<b>1.1</b>	<b>5.0</b>	<b>Jul-02</b>
MSCI ACWI ex USA				-0.6	-1.0	-10.2	1.2	0.1	5.3	1.9	6.0	Jul-02
MFS International Concentrated	11,700,202	6.9	7.0	-2.9	-4.8	-9.7	1.3	--	--	--	0.9	Apr-13
MSCI EAFE				-1.5	-4.4	-10.2	2.1	1.7	6.0	1.6	1.6	Apr-13
Boston Common	11,801,435	6.9	7.0	-1.0	-2.6	-9.0	1.9	2.1	--	--	3.6	May-10
MSCI EAFE				-1.5	-4.4	-10.2	2.1	1.7	6.0	1.6	3.6	May-10
Baxter Street	3,959,881	2.3	5.0	-1.0	--	--	--	--	--	--	-1.0	Apr-16
MSCI ACWI ex USA				-0.6	-1.0	-10.2	1.2	0.1	5.3	1.9	-0.6	Apr-16
RBC Global Emerging Equity	10,241,699	6.0	6.0	--	--	--	--	--	--	--	--	Jul-16
MSCI Emerging Markets				0.7	6.4	-12.1	-1.6	-3.8	3.8	3.5	--	Jul-16
<b>Fixed Income Composite</b>	<b>39,670,744</b>	<b>23.3</b>	<b>20.0</b>	<b>2.0</b>	<b>3.5</b>	<b>2.6</b>	<b>3.2</b>	<b>3.7</b>	<b>6.3</b>	<b>5.6</b>	<b>4.7</b>	<b>Jul-02</b>
Barclays Aggregate				2.2	5.3	6.0	4.1	3.8	4.6	5.1	4.8	Jul-02
Loomis Sayles Strategic Alpha	20,991,215	12.3	10.0	2.1	2.4	-0.1	--	--	--	--	0.7	Aug-14
Barclays Aggregate				2.2	5.3	6.0	4.1	3.8	4.6	5.1	4.2	Aug-14
3-Month LIBOR + 3%				0.9	1.8	3.5	3.3	3.4	3.4	4.5	3.4	Aug-14
Breckinridge	8,797,566	5.2	5.0	1.3	3.8	4.9	--	--	--	--	3.7	Nov-14
Barclays Int Govt/Credit				1.6	4.1	4.3	3.0	2.9	3.8	4.5	3.2	Nov-14
IR&M SRI Core Bond Fund	9,881,963	5.8	5.0	2.5	5.6	5.8	--	--	--	--	3.4	Apr-15
Barclays Aggregate				2.2	5.3	6.0	4.1	3.8	4.6	5.1	3.4	Apr-15

## Unitarian Universalist Association

## Total Fund Performance Detail (Net of Fees)

	Market Value (\$)	% of Portfolio	Policy %	3 Mo (%)	YTD (%)	Fiscal YTD (%)	3 Yrs (%)	5 Yrs (%)	7 Yrs (%)	10 Yrs (%)	Return (%)	Since
<b>GTAA Composite</b>	<b>17,806,109</b>	<b>10.5</b>	<b>10.0</b>	<b>0.9</b>	<b>2.1</b>	<b>-4.3</b>	<b>2.5</b>	<b>3.4</b>	<b>6.6</b>	<b>--</b>	<b>4.0</b>	<b>Jan-08</b>
65% MSCI ACWI (Net) / 35% BC Agg				1.4	2.8	-0.2	5.5	5.0	8.0	4.9	3.4	Jan-08
GMO Benchmark Free Allocation Fund	17,806,109	10.5	10.0	0.9	1.0	-4.3	1.3	2.8	5.8	--	3.5	Jan-08
65% MSCI World (Net) /35% BC Agg				1.4	2.4	0.5	6.1	5.8	8.5	5.0	3.7	Jan-08
CPI + 5% (Unadjusted)				2.5	4.4	6.1	6.1	6.4	6.7	6.8	6.7	Jan-08
<b>Hedge Fund Composite</b>	<b>11,702,019</b>	<b>6.9</b>	<b>10.0</b>	<b>-0.9</b>	<b>-2.7</b>	<b>-11.9</b>	<b>-1.8</b>	<b>-0.1</b>	<b>--</b>	<b>--</b>	<b>3.3</b>	<b>Aug-09</b>
HFRI Fund of Funds Composite Index				0.5	-2.6	-5.4	1.9	1.6	2.8	1.6	2.6	Aug-09
Entrust Capital Diversified Fund	7,177,664	4.2	5.0	0.3	-3.4	-11.0	-0.9	0.4	--	--	3.7	Aug-09
HFRI Fund of Funds Composite Index				0.5	-2.6	-5.4	1.9	1.6	2.8	1.6	2.6	Aug-09
Cevian Capital II	4,524,355	2.7	3.0	-2.7	-1.5	-13.3	--	--	--	--	-14.5	Apr-15
HFRX Event Driven Index				4.5	3.3	-5.3	-0.8	0.8	2.1	0.8	-4.2	Apr-15
MSCI EAFE				-1.5	-4.4	-10.2	2.1	1.7	6.0	1.6	-7.8	Apr-15
<b>Private Markets/Opportunistic</b>	<b>3,098,903</b>	<b>1.8</b>	<b>5.0</b>	<b>-0.1</b>	<b>-1.8</b>	<b>3.5</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>6.0</b>	<b>May-14</b>
Private Markets Custom Benchmark				1.4	2.9	7.4	--	--	--	--	9.3	May-14
FEG Private Opportunities Fund	1,532,119	0.9		0.7	0.7	5.6	--	--	--	--	7.0	Jun-14
Private Equity Benchmark				0.0	0.3	-0.6	9.6	9.9	12.8	9.5	6.5	Jun-14
Brockton Capital Fund III	1,566,784	0.9		-0.9	-3.7	--	--	--	--	--	2.1	Aug-15
NCREIF Property Index				2.0	4.3	10.6	11.6	11.5	10.3	7.4	10.6	Aug-15
<b>Cash</b>	<b>11,849,787</b>	<b>7.0</b>	<b>0.0</b>	<b>0.0</b>	<b>-0.4</b>	<b>-0.6</b>	<b>0.2</b>	<b>0.2</b>	<b>--</b>	<b>--</b>	<b>1.0</b>	<b>Dec-10</b>
91 Day T-Bills				0.1	0.1	0.2	0.1	0.1	0.1	0.9	0.1	Dec-10
<b>Community Development</b>	<b>1,616,689</b>	<b>0.9</b>	<b>1.0</b>	<b>0.1</b>	<b>0.5</b>	<b>1.0</b>	<b>1.0</b>	<b>1.3</b>	<b>1.5</b>	<b>--</b>	<b>1.8</b>	<b>Jul-07</b>
91 Day T-Bills				0.1	0.1	0.2	0.1	0.1	0.1	0.9	0.4	Jul-07

Fiscal Year End: 6/30

GMO Benchmark Free Allocation Fund from May 2013 onwards; prior to May 2013, returns are for the GMO Global Balanced Fund.

Private Markets Custom Benchmark consists of Cambridge Associates US Private Equity Index prior to 4/1/2015 and Cambridge Associates Global All Private Equity Vintage Year 2013+ 1 Qtr Lag benchmark post 4/1/2015.

Cash Market Value includes \$480,559 adjustment for pending capital additions into the UUA Endowment Fund.

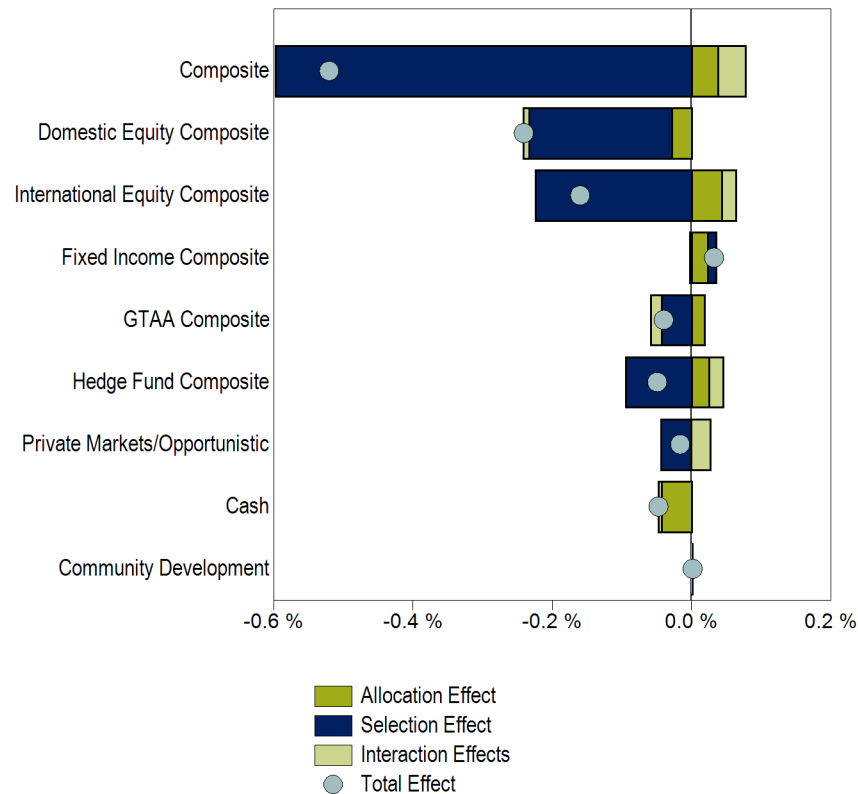


NEPC, LLC

June 30, 2016

## Total Fund Attribution Analysis (Gross of Fees)

Attribution Effects Relative to Policy Index  
3 Months Ending Jun 30, 2016

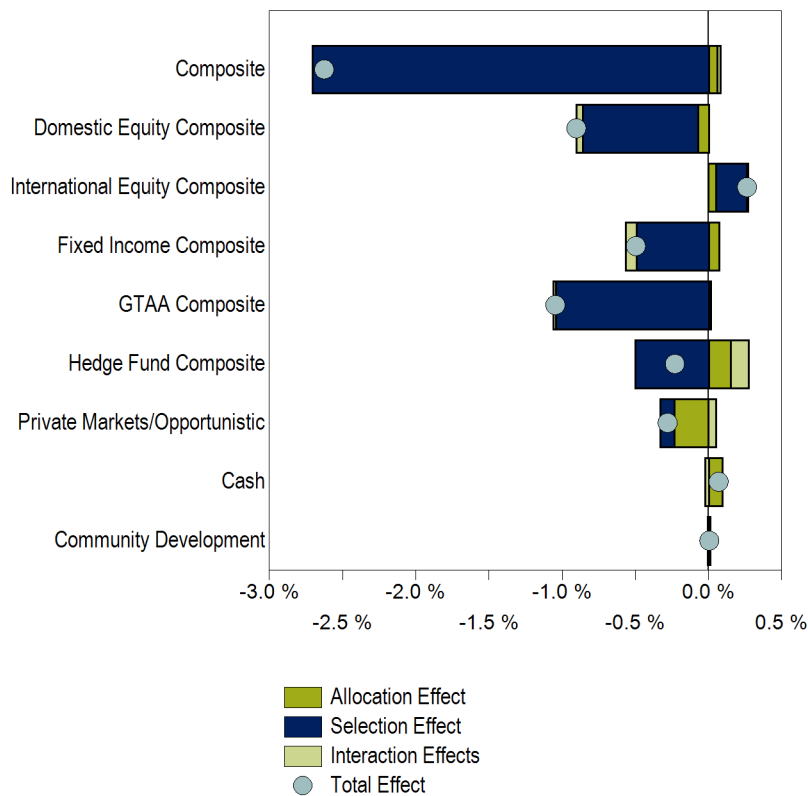


Attribution Summary  
3 Months Ending June 30, 2016

	Wtd. Actual Return	Wtd. Index Return	Excess Return	Selection Effect	Allocation Effect	Interaction Effects	Total Effects
Domestic Equity Composite	2.2%	2.9%	-0.7%	-0.2%	0.0%	0.0%	-0.2%
International Equity Composite	-1.5%	-0.6%	-0.9%	-0.2%	0.0%	0.0%	-0.2%
Fixed Income Composite	2.1%	2.1%	0.1%	0.0%	0.0%	0.0%	0.0%
GTAA Composite	1.0%	1.4%	-0.4%	0.0%	0.0%	0.0%	0.0%
Hedge Fund Composite	-0.5%	0.5%	-1.0%	-0.1%	0.0%	0.0%	0.0%
Private Markets/Opportunistic	0.6%	1.4%	-0.8%	0.0%	0.0%	0.0%	0.0%
Cash	0.0%	0.1%	-0.1%	0.0%	0.0%	0.0%	0.0%
Community Development	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Total</b>	<b>0.8%</b>	<b>1.4%</b>	<b>-0.5%</b>	<b>-0.6%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>-0.5%</b>

## Total Fund Attribution Analysis (Gross of Fees)

Attribution Effects Relative to Policy Index  
1 Year Ending Jun 30, 2016

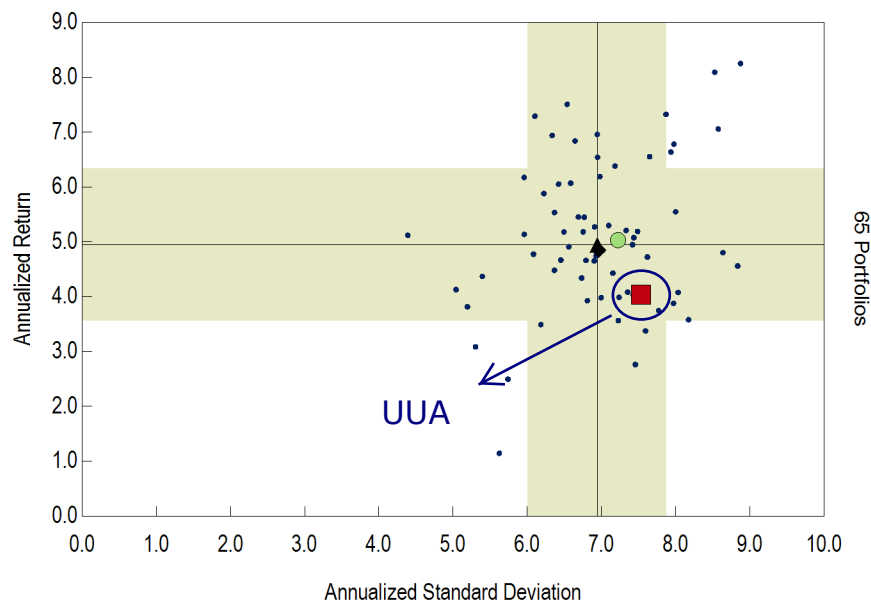


Attribution Summary  
1 Year Ending June 30, 2016

	Wtd. Actual Return	Wtd. Index Return	Excess Return	Selection Effect	Allocation Effect	Interaction Effects	Total Effects
Domestic Equity Composite	-3.2%	0.4%	-3.6%	-0.8%	-0.1%	0.0%	-0.9%
International Equity Composite	-9.5%	-10.6%	1.1%	0.2%	0.0%	0.0%	0.2%
Fixed Income Composite	3.0%	5.6%	-2.6%	-0.5%	0.1%	-0.1%	-0.5%
GTAA Composite	-3.8%	1.6%	-5.4%	-1.0%	0.0%	0.0%	-1.0%
Hedge Fund Composite	-10.6%	-5.4%	-5.2%	-0.5%	0.2%	0.1%	-0.2%
Private Markets/Opportunistic	5.4%	7.4%	-2.0%	-0.1%	-0.2%	0.1%	-0.3%
Cash	-0.6%	0.2%	-0.8%	0.0%	0.0%	0.0%	0.0%
Community Development	1.0%	0.2%	0.9%	0.0%	0.0%	0.0%	0.0%
<b>Total</b>	<b>-3.6%</b>	<b>-0.9%</b>	<b>-2.7%</b>	<b>-2.7%</b>	<b>-0.1%</b>	<b>0.0%</b>	<b>-2.7%</b>

## Total Fund Risk/Return (Gross of Fees)

3 Years Ending June 30, 2016

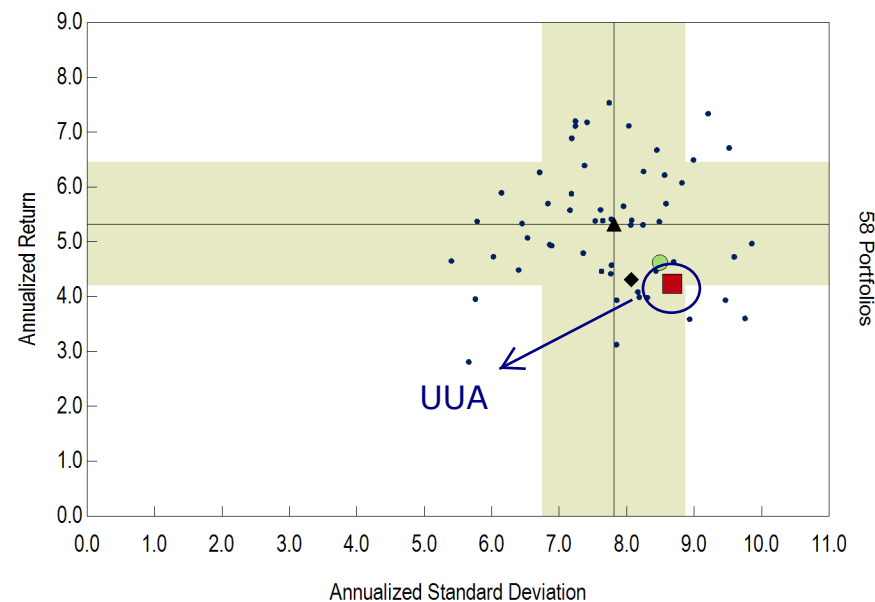


- Composite
- ◆ Allocation Index
- Policy Index
- ▲ Universe Median
- 68% Confidence Interval
- InvestorForce All Endowment \$50mm-\$250mm Gross

3 Years Ending June 30, 2016

	Anlzd Ret	Rank	Anlzd Std Dev	Rank	Sharpe Ratio	Rank	Info Ratio	Rank
Composite	4.03%	79	7.53%	75	0.53	85	-0.70	82
Allocation Index	4.85%	53	6.96%	53	0.69	56	--	--
Policy Index	5.03%	49	7.22%	61	0.69	56	0.41	16

5 Years Ending June 30, 2016



- Composite
- ◆ Allocation Index
- Policy Index
- ▲ Universe Median
- 68% Confidence Interval
- InvestorForce All Endowment \$50mm-\$250mm Gross

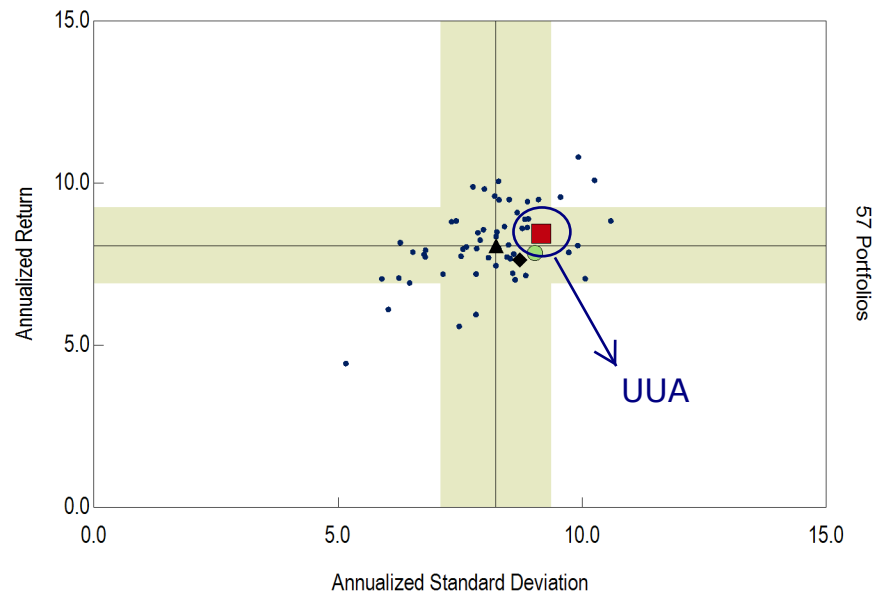
5 Years Ending June 30, 2016

	Anlzd Ret	Rank	Anlzd Std Dev	Rank	Sharpe Ratio	Rank	Info Ratio	Rank
Composite	4.23%	83	8.68%	84	0.48	91	-0.06	59
Allocation Index	4.31%	80	8.07%	62	0.53	76	--	--
Policy Index	4.62%	69	8.49%	78	0.54	74	0.48	21



## Total Fund Risk/Return (Gross of Fees)

7 Years Ending June 30, 2016

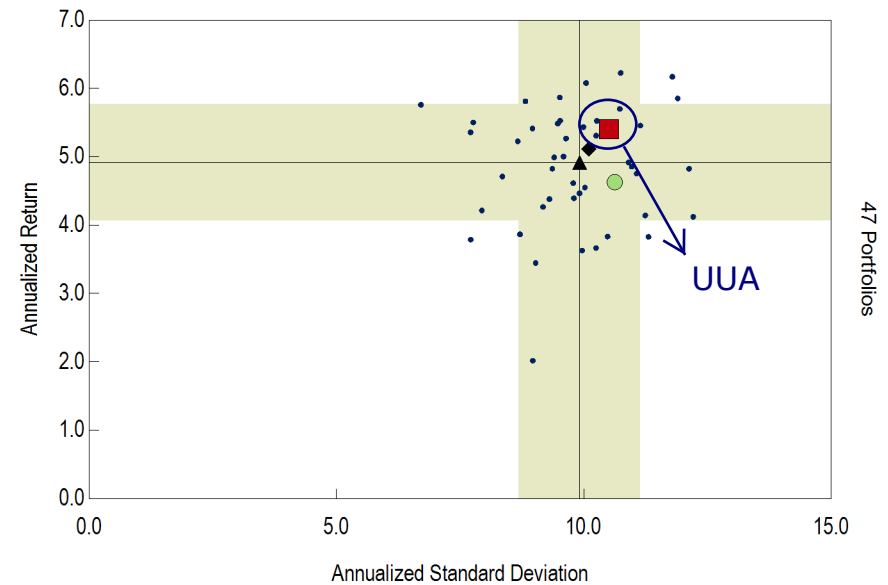


- Composite
- ◆ Allocation Index
- Policy Index
- ▲ Universe Median
- 68% Confidence Interval
- InvestorForce All Endowment \$50mm-\$250mm Gross

7 Years Ending June 30, 2016

	Anlzd Ret	Rank	Anlzd Std Dev	Rank	Sharpe Ratio	Rank	Info Ratio	Rank
Composite	8.43%	42	9.16%	88	0.91	75	0.61	24
Allocation Index	7.62%	76	8.72%	75	0.87	84	--	--
Policy Index	7.84%	64	9.03%	86	0.86	84	0.33	39

10 Years Ending June 30, 2016



- Composite
- ◆ Allocation Index
- Policy Index
- ▲ Universe Median
- 68% Confidence Interval
- InvestorForce All Endowment \$50mm-\$250mm Gross

10 Years Ending June 30, 2016

	Anlzd Ret	Rank	Anlzd Std Dev	Rank	Sharpe Ratio	Rank	Info Ratio	Rank
Composite	5.41%	33	10.51%	73	0.43	43	0.20	41
Allocation Index	5.12%	45	10.11%	61	0.42	51	--	--
Policy Index	4.63%	65	10.63%	75	0.35	78	-0.35	87

## Total Fund Risk Statistics

## 3 Years Ending June 30, 2016

	% of Tot	Anlzd Ret	Rank	Anlzd Std Dev	Rank	Sharpe Ratio	Rank	Info Ratio	Rank
Composite	100.00%	4.03%	79	7.53%	75	0.53	85	-0.70	82
Allocation Index	--	4.85%	53	6.96%	53	0.69	56	--	--
Domestic Equity Composite	27.55%	10.04%	50	13.17%	61	0.76	56	-0.27	54
Russell 3000	--	11.13%	35	11.47%	25	0.96	28	--	--
International Equity Composite	22.13%	1.33%	87	13.02%	61	0.10	86	0.08	85
MSCI ACWI ex USA	--	1.16%	89	13.25%	67	0.08	89	--	--
Fixed Income Composite	23.28%	3.66%	42	2.62%	14	1.37	22	-0.19	48
Barclays Aggregate	--	4.06%	36	2.66%	15	1.50	18	--	--
GTAA Composite	10.45%	3.11%	96	6.74%	22	0.45	93	-0.98	99
65% MSCI ACWI (Net) / 35% BC Agg	--	5.51%	79	7.72%	49	0.70	76	--	--
Hedge Fund Composite	6.87%	-0.36%	88	8.28%	92	-0.05	85	-0.39	71
HFRI Fund of Funds Composite Index	--	1.90%	44	3.67%	29	0.50	38	--	--

## 5 Years Ending June 30, 2016

	% of Tot	Anlzd Ret	Rank	Anlzd Std Dev	Rank	Sharpe Ratio	Rank	Info Ratio	Rank
Composite	100.00%	4.23%	83	8.68%	84	0.48	91	-0.06	59
Allocation Index	--	4.31%	80	8.07%	62	0.53	76	--	--
Domestic Equity Composite	27.55%	11.16%	41	14.07%	50	0.79	44	-0.12	44
Russell 3000	--	11.60%	33	12.56%	24	0.92	25	--	--
International Equity Composite	22.13%	-0.10%	95	15.73%	68	-0.01	95	-0.08	95
MSCI ACWI ex USA	--	0.10%	95	15.54%	56	0.00	95	--	--
Fixed Income Composite	23.28%	4.16%	37	3.73%	21	1.10	26	0.12	34
Barclays Aggregate	--	3.76%	41	2.77%	10	1.34	18	--	--
GTAA Composite	10.45%	3.94%	94	7.34%	22	0.53	90	-0.33	97
65% MSCI ACWI (Net) / 35% BC Agg	--	5.05%	90	8.75%	67	0.57	88	--	--

## Highlights from GA



# ADDRESSING CLIMATE CHANGE THROUGH UUA INVESTMENTS

Reporter: Tim Brennan, Treasurer

Respondents:

Lucia Santini Field, Chair, Investment  
Committee

David Stewart, Chair, SRI Committee



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## Second report to the GA on the 2014 Business Resolution

*“The President and the Treasurer of the UUA shall report to each General Assembly from 2015 through 2019 on our Association’s progress on the above resolutions”*





# Agenda

1. Framing and context
2. Big picture: progress addressing climate change
3. Portfolio analysis
4. Shareholder advocacy
5. Climate solutions investments
6. Carbon footprint analysis
7. Your questions





# The UUA and Socially Responsible Investing (SRI)

- UUA's long-standing commitment to SRI
- History – Eastman Kodak, GA resolutions, formation of SRI Committee
- Three strategies:
  1. Advocacy – using the rights of ownership to influence companies
  2. Security selection – negative screening, positive selection, manager selection
  3. Impact – community investments, micro finance, market rate impact investments
- Amplified by your support of APF



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“The UUA is farther along in integrating socially responsible investing into their investment program than nearly all of the other major religious institutions.”

*Matt Patsky, President  
Trillium Asset Management*



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# The Paris Agreements: Christiana Figueres



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## Christiana Figueres

Awarded the Joan Bavaria Award for Building Sustainability into the Capital Markets – awarded by Ceres and Trillium Asset Management

*“I could not have done this work without the support of organizations, like Ceres, that played a major role in mobilizing businesses, investors and civil society at large to support the Paris Agreement. It was truly a global effort.” – Christiana Figueres*



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## Investor Summit on Climate Risk

Ban Ki Moon speaking with Michael Bloomberg looking on



March 15, 2016 10:17 pm

## Climate battle bears early fruit as global energy emissions stall

Pilita Clark, Environment Correspondent

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Renewable sources, like wind, are backed by governments

Carbon pollution levels stayed flat for the second year in a row last year new data show, even though the global economy kept growing, in a sign that efforts to tackle climate change may be bearing fruit faster than thought.

March 15, 2016

## Climate battle bears early fruit as global energy emissions stall

Carbon pollution levels stayed flat for the second year in a row last year new data show, even though the global economy kept growing, in a sign that efforts to tackle climate change may be bearing fruit faster than thought.

**A surge in renewable power around the world was the main reason energy-related emissions stalled, the International Energy Agency has found**, reflecting rising levels of clean power investment that last year reached a record \$328.9bn globally.

Over 90 per cent of new electricity generated last year came from renewable sources, the highest level seen since 1974, with half the growth coming from wind farms alone, according to the Paris-based monitoring organisation.

“This is unprecedented. This is huge,” Fatih Birol, IEA executive director, told the Financial Times. “This affects not only climate change but also fuel mix expectations globally.”



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## More progress

- Encyclical *Laudato si'* – Pope Francis
- Bloomberg New Energy Finance study:
  - Wind and solar price competitive with FF sources in many areas NOW
  - Wind and solar become the lowest cost source of energy in the 2020s
  - By 2040 0-emission energy will be 60% of installed capacity





## Context of the resolution

- 2014 Business Resolution specifically addresses the UU Common Endowment Fund
- Focus on specific companies – Carbon Tracker 200
- Calls for ramped-up shareholder advocacy
- Moving capital to climate solutions
- Commitment to fiduciary duty





## Portfolio context

- UUCEF portfolio holds two kinds of assets:
  1. 26% Directly held securities – US equities, some international equities, some bonds
  2. 74% Co-mingled funds – mutual funds, private pooled funds
- No control over holdings in co-mingled funds







## Portfolio analysis

<b>CT200 Holdings</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
As % of total portfolio	2.00%	2.50%	2.90%





## Directly held securities

*“Cease purchasing securities of CT200 companies”*

→ Done – instructions to managers

*“Divest its UUCEF holdings of **directly-held securities** of CT200 companies”*

CT200 Holdings	2016	2015	2014
As % of direct holdings	1.91%	2.65%	2.71%





## Co-mingled (pooled) funds

*“Work with its current and prospective pooled-asset managers for the purpose of creating more fossil fuel-free investment opportunities”*

<b>CT200 Holdings</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Co-mingled funds	2.20%	2.94%	3.06%





## Shareholder advocacy

*“Retain investments in CT200 companies in which it is engaged in shareholder activism”*





## Key investor partnerships



**Walden Asset Management**  
*Advancing sustainable business practices since 1975*



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## UUA shareholder advocacy

- Active in activist investor coalitions
  - Interfaith Center on Corporate Responsibility
  - Investor Network on Climate Risk
  - Carbon Asset Risk group
  - Ceres
  - Ad hoc lobbying disclosure group including ALEC campaign
- Filing/co-filing resolutions
- High level meetings with company management
- Investor statements and letters
- Proxy voting



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## UUA advocacy efforts

- Filed 11 resolutions
- Resolutions at fossil fuel companies:
  - Public policy: Devon, Occidental
  - Carbon asset risk: Marathon, Chevron
  - Moral obligation: Exxon
  - Exec comp & climate: Conoco
- Meetings/engagements: Apache, Occidental, Exxon, Conoco
- Carbon Asset Risk disclosure campaign (Ceres): largest oil & gas companies



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## Ceres Carbon Asset Risk Initiative

The Carbon Asset Risk Initiative (CAR) aims to prevent these fossil fuel companies from wasting investor capital by demonstrating how carbon risk poses an existential threat to their business models, accrues increasing levels of stranded assets, and puts trillions of capital expenditures at risk.



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## UUA advocacy efforts

- Exxon (Dominican Sisters): moral responsibility to act 18.5%
- Chevron (Tri-Cri): 7%
- Devon (UUA): 21%
- Occidental (Needmor): carbon asset risk 27%
- Spectra (UUA): political/lobbying disclosure 30%
- Marathon Oil (UUA): carbon asset risk SETTLED
- Conoco (UUA): exec comp 6.9%



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**THE WALL STREET JOURNAL.**

**March 11, 2016**

# **Key Formula for Oil Executives' Pay: Drill Baby Drill**

Bonuses at many energy companies based on higher oil production, reserves; shareholders seek change

By **RYAN DEZEMBER**, **NICOLE FRIEDMAN** and **ERIN AILWORTH**

Markets have been waiting for U.S. energy producers to slash output during a period of depressed crude prices. But these companies have been paying their top executives to keep the oil flowing.



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## Climate solutions investments

*“Invest an appropriate share of UUCEF holdings in securities that will support a swift transition to a clean energy economy”*

- Concept of impact – leveraging capital to spur energy transition
- International energy agency - \$44T needed by 2050
- Clean Trillion campaign - \$1T/year. Currently about \$280 billion/year





# Clean Trillion: clean energy investment gap

## THE CLEAN ENERGY INVESTMENT GAP

Annual Investments in Clean Energy to Reach 2°C Goal:





## Recent Investment Committee actions

- Added Wellington SMID cap – PRI signatory, ESG manager
- Baxter Street – developed international SMID cap; PRI signatory, ESG manager
- Eliminated large allocation to Bridgewater risk parity fund
- Cevian – one year ago; activist investor pushing improved corporate governance in Europe





## Actions by UUA Investment Committee

- Allocating up to 10% to private capital
- \$5 million commitment to Brockton Capital Management – commercial real estate conversion to high energy efficiency standards
- 50% of core fixed income to Breckenridge – sustainable strategy that includes green bonds, infrastructure bonds
- Investment consultant charged with seeking out new opportunities for impact investments





## UUA's investment consultant: NEPC

- Seeking opportunities in climate solutions in public equities
- Seeking opportunities in private capital for impact investments and clean energy
- UUCEF looking for opportunities in private equity and private credit
- Seeking managers that integrate ESG into process





# Carbon footprinting

- Emerging trend among institutional investors
- Shifts focus to demand side vs. supply side
- Potential to drive capital towards a lower carbon economy





# MSCI analysis of UUCEF portfolio

## Carbon Portfolio Analytics

---

Prepared for:	Unitarian Universalist Association
Portfolio Name:	Consolidated Equity Holdings
Benchmarked Market Index:	MSCI ACWI
Benchmarked ESG Index:	MSCI ACWI Low Carbon Target
Report Date:	June 8, 2016





## Results of analysis

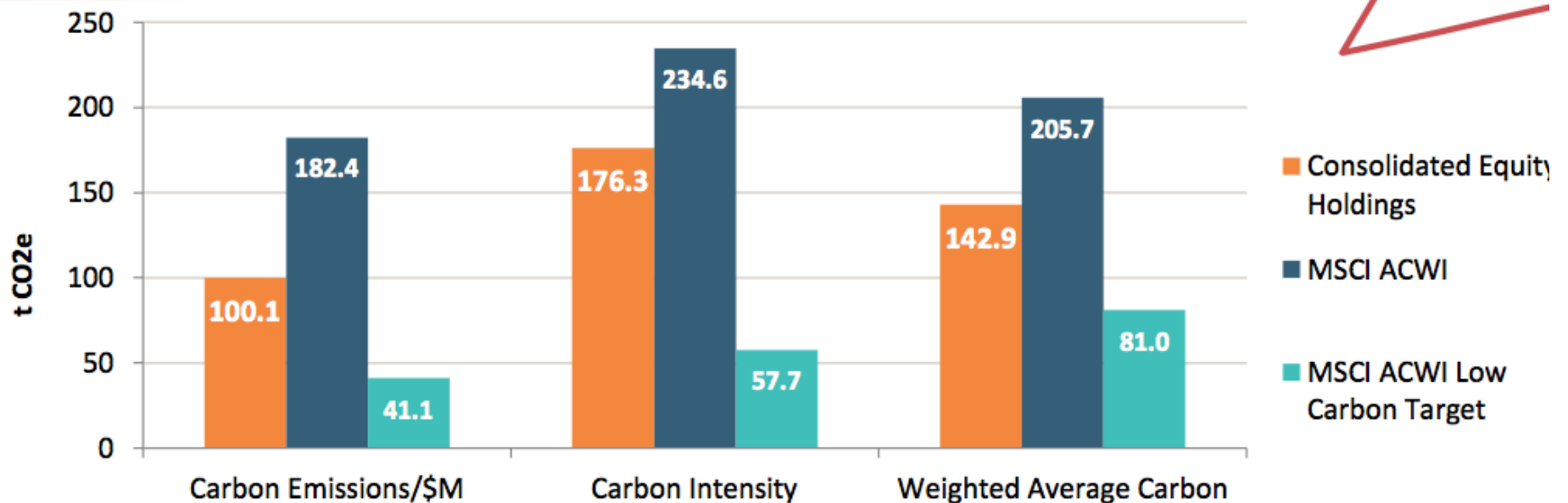
	Carbon emissions	Carbon intensity
UUA Portfolio	100.1	176.3
MSCI ACWI	182.4	234.6
MSCI Low Carbon target	41.1	57.7





Based on investment of \$1,000,000

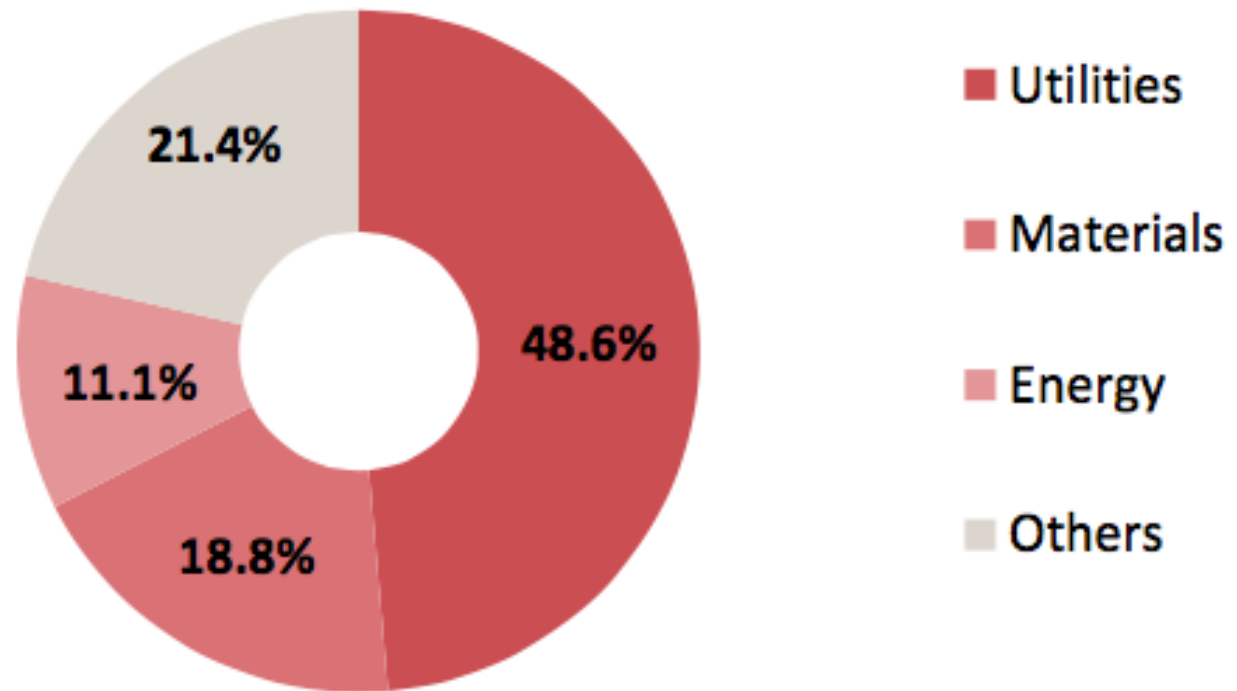
**The Consolidated Equity Holdings portfolio Carbon Emissions are 45.1% lower than the MSCI ACWI, Carbon Intensity is 24.9% lower, and Weighted Average Carbon Intensity is 30.5% lower. (Pages 3, 5 and 6)**





# Utilities half of portfolio emissions

## Contribution to Carbon Emissions



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## Uses of new footprinting tool

1. More sophisticated security screening
2. Targeting sectors and companies for engagement
3. To come: assessment of individual managers
4. Assessment of effectiveness of SRI screening
5. Guidance for portfolio construction





## Your questions

For questions that cannot be asked today, contact:  
Tim Brennan, Treasurer & CFO

[tbrennan@uua.org](mailto:tbrennan@uua.org) or

[treasurer@uua.org](mailto:treasurer@uua.org)

617-948-4305



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# Appendix

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

Measurement	Description	Equation
<b>Policy Target</b>	Measures policy allocation decisions.	= TARGET ASSET WEIGHTS X INDEX RETURNS
<b>Allocation Index</b>	Measures actual allocation decisions. Deviations from the policy target can be derived. (Allocation Index – Policy Index)	= ACTUAL ASSET WEIGHTS X INDEX RETURNS
<b>Composite (Total Return)</b>	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
<b>Allocation Effect</b>	Measure the effects of overweighting or underweighting managers and asset classes.	= (ACTUAL MANAGER WEIGHT – POLICY TARGET WEIGHT) X POLICY INDEX RETURN
<b>Selection Effect</b>	Measures the managers' ability to add excess return relative to the policy index.	= (ACTUAL MANAGER RETURN – INDEX RETURN) X POLICY TARGET WEIGHT
<b>Interaction Effect</b>	Measures the cross correlation of both selection and allocation effects 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)



## Glossary of Terms

**Alpha** - Measures the relationship between the fund performance and the performance of another fund or benchmark index and equals the excess return while the other fund or benchmark index is zero.

**Alpha Jensen** - The average return on a portfolio over and above that predicted by the capital asset pricing model (CAPM), given the portfolio's beta and the average market return. Also known as the abnormal return or the risk adjusted excess return.

**Annualized Excess Return over Benchmark** - Annualized fund return minus the annualized benchmark return for the calculated return.

**Annualized Return** - A statistical technique whereby returns covering periods greater than one year are converted to cover a 12 month time span.

**Beta** - Measures the volatility or systematic risk and is equal to the change in the fund's performance in relation to the change in the assigned index's performance.

**Information Ratio** - A measure of the risk adjusted return of a financial security, asset, or portfolio.

*Formula:*

*(Annualized Return of Portfolio - Annualized Return of Benchmark)/Annualized Standard Deviation(Period Portfolio Return - Period Benchmark Return). To annualize standard deviation, multiply the deviation by the square root of the number of periods per year where monthly returns per year equals 12 and quarterly returns is four periods per year.*

**R-Squared** - Represents the percentage of a fund's movements that can be explained by movements in an index. R-Squared values range from 0 to 100. An R-Squared of 100 denotes that all movements of a fund are completely explained by movements in the index.

**Sharpe Ratio** - A measure of the excess return or risk premium per unit of risk in an investment asset or trading strategy.

**Sortino Ratio** - A method to differentiate between good and bad volatility in the Sharpe Ratio. The differentiation of up and down volatility allows the calculation to provide a risk adjusted measure of a security or fund's performance without upward price change penalties.

*Formula:*

*Calculation Average (X-Y)/Downside Deviation (X-Y) \* 2  
Where X=Return Series X Y = Return Series Y which is the risk free return (91 day T-bills)*

**Standard Deviation** - The standard deviation is a statistical term that describes the distribution of results. It is a commonly used measure of volatility of returns of a portfolio, asset class, or security. The higher the standard deviation the more volatile the returns are.

*Formula:*

*(Annualized Return of Portfolio - Annualized Return of Risk Free) / Annualized Standard Deviation (Portfolio Returns)*

**Tracking Error** - Tracking error, also known as residual risk, is a measure of the degree to which a portfolio tracks its benchmark. It is also a measure of consistency of excess returns. Tracking error is computed as the annualized standard deviation of the difference between a portfolio's return and that of its benchmark.

*Formula:*

*Tracking Error = Standard Deviation (X-Y) \*  $\sqrt{(\# \text{ of periods per year})}$   
Where X = periods portfolio return and Y = the period's benchmark return  
For monthly returns, the periods per year = 12  
For quarterly returns, the periods per year = 4*

**Treynor Ratio** - A risk-adjusted measure of return based on systematic risk. Similar to the Sharpe ratio with the difference being the Treynor ratio uses beta as the measurement of volatility.

*Formula:*

*(Portfolio Average Return - Average Return of Risk-Free Rate)/Portfolio Beta*

**Up/Down Capture Ratio** - A measure of what percentage of a market's returns is "captured" by a portfolio. For example, if the market declines 10% over some period, and the manager declines only 9%, then his or her capture ratio is 90%. In down markets, it is advantageous for a manager to have as low a capture ratio as possible. For up markets, the higher the capture ratio the better. Looking at capture ratios can provide insight into how a manager achieves excess returns. A value manager might typically have a lower capture ratio in both up and down markets, achieving excess returns by protecting on the downside, whereas a growth manager might fall more than the overall market in down markets, but achieve above-market returns in a rising market.

*UpsideCapture = TotalReturn(FundReturns)/TotalReturns(BMReturn) when Period Benchmark Return is > = 0*

*DownsideCapture = TotalReturn(FundReturns)/TotalReturns(BMReturn) when Benchmark < 0*

Data Source: InvestorForce



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**It is important to note the following characteristics of many 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 are not 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. Limited partnership 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.