

## **UUA Investment Committee – Minutes**

24 Farnsworth Street, Room 210

Boston, MA 02210

November 18, 2016

Members present: Kathleen Gaffney, Chair, Tim Brennan, Rob Friedman, John LaPann, Brian Lasher, Lucia Santini and David Stewart

Members absent: None

Staff: Susan Helbert

NEPC: Scott Perry, Asher Watson

Brandywine: Richard Lawrence, Craig Scott

Franklin Templeton: Jason LaRocco, Beth Murphy

### **1. Minutes from August 10, 2016 meeting – Gaffney**

**Motion 1:** To approve the minutes from the August 10, 2016 meeting. Moved Friedman, seconded Stewart; approved without amendment.

### **2. Global Multi-Sector Fixed Income Manager Analysis – Watson**

- Goal is to hire two managers that complement each other.
- Reviewed the correlation analysis on the four managers selected to interview.

### **3. Multi-Sector Fixed Income Manager Review: Franklin Templeton – LaRocco, Murphy**

- Seeks to maximize total return from combination of income and gains from duration strategies, currency positions, and credit exposures.
- Take advantage of an unconstrained worldview independent from Barclay's Multiverse Index which is a blend of global aggregate and global high yield indices. Doesn't look like the index but uses it for performance comparisons.
- Look to exploit imbalances in the market where it has deviated from the fundamentals in the short-term.
- Strive to keep a volatility profile in a range of 8% to 10%.
- Limit below investment grade country exposure typically to no more than 50% of the total assets of the portfolio.

- Patient longer term investors, not a lot of short-term trading; but can move quickly.
- Doesn't restrict based on country classification, doesn't consider emerging markets as a distinct class.
- Three sources of alpha are yield curve (duration strategies), currencies (long and short exposures) and credit (sovereign credit or corporate credit).

#### **4. Multi-Sector Manager Review: Brandywine – Lawrence, Scott**

- Global Opportunistic Fixed Income is their flagship product.
- Fund started in 1992 and has always been a global product.
- Top down, macro driven, and value oriented in approach.
- Fund invests in global treasury debt, investment grade credit, mortgages, emerging market debt and high yield credit.
- Invest for the long-term, actively manage currency exposure to protect principal and enhance returns.
- Portfolio decisions are driven by value opportunities, not benchmark composition.
- ESG factors are included in their country and currency decisions and they will be UNPRI signatories within the next 90 days.
- Benchmarked to the Citigroup World Government Bond Index.

#### **5. Market Outlook & Performance Update – NEPC**

- Continued growth supports positive returns in a low expected return environment.
- Populism and political movements are posing risk for global trade relations and impacting economic uncertainty. Volatility is likely to be higher as these risks haven't been seen in a long time.
- Emerging markets offer the most attractive total return opportunity.
- Likely interest rates will move higher gradually.
- Endowment returned 4.9% gross during the third quarter, ranking in the 3<sup>rd</sup> percentile in the universe and outperforming both the allocation and policy index.
- Active management was the primary driver of the outperformance.
- Over the trailing one-year period, the endowment returned 8.2% gross, ranking in the 59<sup>th</sup> percentile in the universe and underperforming both the allocation and policy index.
- Over the ten-year period, performances ranked near the top third of the peer universe.

#### **6. Blank Slate Asset Allocation & Manager Review – NEPC**

- Committee asked NEPC to provide their best thinking, if given a blank slate, for the UUCEF in terms of asset allocation and investment managers.

- NEPC wouldn't recommend dramatic changes to the core components of the portfolio.
- Could potentially upgrade the portfolio should access become available to certain managers. Limited opportunities exist to upgrade the manager roster today, but Investment Committee relationships and waitlists should be pursued.
- Recommendations were based on relaxed constraints (liquidity, governance/administration, and ESG) that currently dampen the UUA's ability to execute on certain investment ideas, and regardless of current manager availability.
- NEPC recommended utilizing Global Equity managers in lieu of dedicated US equity and International Developed Equity managers.
- Reduce fixed income to 14%.
- Still believes that global asset allocation plays an important part in the portfolio.
- Would recommend higher allocation to alternatives and a different mix of assets versus the UUA policy.

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

- Tabled for a future meeting.

**8. Actis Private Equity: Renewables Fund – NEPC**

- Tabled until NEPC has an opportunity to address multiple committee questions.

**9. Executive Session – Committee**

**Next Meeting: March 8, 2017**