

## UUA Investment Committee – Minutes

24 Farnsworth Street, Room 210

Boston, MA 02210

February 8, 2018

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

Members absent: None

Staff: Susan Helbert

NEPC: Krissy Pelletier, Scott Perry, Asher Watson

GMO: Jayna Cooney, Catherine LeGraw

Rhumblin: Denise D'Entremont, Alex Ryer

Sustainalytics: Matthew Raimondi

SRI Committee: Vonda Brunsting, Kristin Faust (by phone), Kathy Mulvey, Julie Skye, David Stewart

### 1. Minutes from November 9, 2017 - Gaffney

**Motion 1:** To approve minutes from the November 9, 2017 meeting. Moved: Santini, seconded: Stewart, LaPann abstained. Motion passed.

### 2. Performance Review: NEPC

- The Endowment returned 3.4% (gross of fees) during the 4<sup>th</sup> quarter of 2017, ranking 53<sup>rd</sup> in the peer universe, underperforming the allocation and policy indices.
- Over the trailing one-year period, the Endowment returned 18.6% (gross of fees), ranking 2<sup>nd</sup> in the peer universe, outperforming the allocation and policy indices.
- Over the ten-year period, performance ranked in the 2<sup>nd</sup> quartile of the peer universe.

### 3. Sustainalytics Presentation – Raimondi

- Largest independent provider of ESG research with close to 400 on staff about half of whom are focused purely on research. Global organization with 14 offices around the world.
- Work with asset owners as well asset managers. Provide research on over 7,000 companies across all major stock indices.

- Flagship product is Company ESG Research, look at 60 to 80 indicators selected based on material factors for each specific industry.
- Coming out with a carbon risk monitor which provides a more comprehensive look at climate risk exposure including GHG emissions.
- For the UUA, provide two-fold service: (1) identify eligible companies in the Russell 1000 using screens based on the UUA's Socially Responsible Investing Guidelines, and (2) assess companies based on their exposure to stranded assets risk, their management of such risk, and provide an overall combined assessment.
- Main screen focus is on ESG performance, controversies, and business activities.
- The UUA sets a variety screening levels such as not investing in the bottom 5% by score within each industry sector, screening out companies with high controversy scores, which results in screening out 20% or less of the index by market cap. These criteria sets can be adjusted.
- In determining what is material for each industry, they use several sources such as SASB, GRI and guidance from organizations like Ceres.
- They provide UUCEF a report twice per year and we can request up to 20 company reports per year. Always ready to discuss their ratings and any company research.

#### **4. Rhumblin Presentation – D'Entremont, Ryer**

- Strategy has outperformed the index since inception.
- Start with semi-annual Sustainability Total ESG scores, normalize those scores, and omit the restricted companies based on the UUA policy.
- Target a 1% tracking error to the Russell 1000 Value. Minimize turnover through use of a transaction cost model.

#### **5. Legal opinion re: Investment Committee authority – Joint committees**

- According to UUA legal counsel, the investment Committee has the authority to delegate the community investment decisions to the Socially Responsible Investment Committee.
- Socially Responsible Investment Committee will obtain approval from the Investment Committee for investments of \$50,000 or more.

#### **6. Metro Industrial Area Foundation (IAF) Community Restoration – Joint committees**

- Metro IAF provides capital for real estate housing projects that improve the lives of low income people and people living in distressed neighborhoods. While outside the scope of our typical community investments, it does align with our socially responsible investing goals.
- Investment would be for 10 years with an additional term of 5 years, at the fund's discretion, at an interest rate of 2%.

- This is a startup real estate fund and UUCEF would be the initial Class A investor at \$50,000.
- Metro IAF has already made two loans from the assets currently raised and are working on a third.
- Hired The Reinvestment Fund (TRF), a CDFI, as the underwriter for the term of the fund.
- The Metro IAF Board does hold final approval for all investments regardless of TRF recommendation.

**Motion 2:** Subject to the satisfactory review of IAF audited financial records, approve \$50,000 investment with the condition our shares cannot be subordinated. Moved, Santini, seconded, Stewart. All approved.

**Action item 1:** Faust to contact Trimble requesting last 3 years of financials.

#### **7. Principles for Responsible Investment – Joint Committees**

- Discussed whether the UUCEF should become a signatory to the UN Principles for Responsible Investment (PRI).
  - Fee to join is less than \$1,000.00, with no fee for first year.
  - NECP is willing to help us with the required annual assessment report.
  - We ask all new investment managers if they are members of PRI.

**Motion item 3:** To make an application to the PRI on behalf of the UUCEF. Moved Gaffney, seconded LaPann, all approved.

#### **8. Agenda items for May 22 meeting – Joint committees**

- Integration of the work of the two committees
- Anti-racism training
- Discuss Sustainalytics report settings and how we use the tool.
- A potential new Investment Committee member has been recruited and the Appointments Committee is considering his application at this time. If he is approved, he will be joining us for the May meeting.

**Action item 2:** Brennan to contact Parisa Parsa to discuss racism training for the committees.

**Action item 3:** Brennan to circulate article on controversy settings.

**Action item 4:** Sub-committee, Tim Brennan, Kathleen Gaffney, Brian Lasher, Julie Skye and, NEPC, will review Sustainalytics tools and have a report for the joint committees in May.

#### **9. GMO Presentation –**

- At the end of 2017 the Bench-mark Free Fund was at \$22.9 billion and continues to be their flagship asset allocation product. Saw \$600 million in inflows this year and \$2 billion in outflows last year.
- Since inception the fund has returned 3.15% or 1.7% above inflation. Seek to return 5% over inflation over a full market cycle. They've fallen well short of the goal since inception.
- Reasonable to compare them to a 60/40 allocation being passive over the long-term but believe over the long haul they can outperform a 60/40 stock/bond portfolio.
- Product developed as a core component or as a total portfolio solution. Look to keep volatility between 5% and 10% over a complete market cycle.
- They have underperformed the broader benchmarks over the last few years.
- Use liquid alternatives as a way to take risk with less duration.
- Short term treasuries are used as cash equivalent.
- Full discussion by committee after presentation and will be reevaluating them again after a full market cycle.

**Action item 5:** GMO to provide attribution analysis since inception to the committee.

**10. Opportunistic Allocation – Perry, Watson**

- Deferred to May meeting.

**11. Capital Markets Outlook – Perry, Watson**

- Deferred to may meeting.

**12. Private Equity pipeline and Canvas Distressed Fund introduction – NEPC**

- Deferred to a conference call.

**Action item 6:** NEPC to distribute materials for the Canvas Distressed Fund to the committee.

**Next Meeting Date  
May 22, 2018**