

UUA Investment Committee – Minutes

Greeley Library
25 Beacon Street
Boston, MA 02108
November 15, 2012

Members present: Carol McMullen *Chair*, Arnold Bradburd, Tim Brennan, Dan Brody, Rob Friedman, Clyde Grubbs, Julie Skye

Member absent: None

Guests: Glenn Farley (CSRI), Kimberly Gladman (CSRI)

Staff: Susan Helbert

NEPC: Scott Driscoll, Scott Perry

MFS Investment Management: Brett Fleishman, Sean Kenney

Schroders Investment Management: Adam Farstrup, Biff Miller

1. Minutes from conference call of November 9, 2012 - McMullen

Motion 1: To adopt minutes from last meeting and call without amendment.
Moved Bradburd, seconded Brody, approved.

2. UUCEF Performance Review and Outlook– Perry, Driscoll, NEPC

- **2nd Quarter 2012:**

- NEPC recently released a paper entitled “Responsible Investing: Looking Back and Opportunities Ahead” paper authored by Scott Perry.

- http://www.nepc.com/writable/research_articles/file/2012_09_nepc_responsible_investing_looking_back_and_opportunities_ahead.pdf

- CIO Erik Knutzen and Partner Allan Martin recognized by aiCIO Magazine as being among the world’s top 25 most influential investment consultants.

- The firm received the Investor Excellence award from InvestHedge in the Consultant category.

- **Market Outlook:**

- Strong performance across capital markets in 2012 with further support for upside with recent stimulation from Fed.

- There are still major risks that will affect markets in the near-term: European debt, US fiscal cliff, China slowdown, long-term inflation pressures.

- It remains most appropriate to maintain balance of risk exposures. There are still opportunities in certain parts of capital markets: Less liquid distressed assets and structured credit, non-US equities (but with downside risks).

- **Performance summary**

- The composite returned 5.3% during the quarter, beating both the allocation index and policy index by 60 basis points and 40 basis points, respectively, and ranking in the 30th percentile against Endowments and Foundations between \$50mm-\$250mm.
- Year-to-date performance has been strong returning 11.5% ranking in the 21st percentile.
- Longer term performance remains strong with the three year return ranking in the 20th percentile and the five year return ranking in the 12th percentile.

- **Comments:**

- Perry -UUCEF is very well balanced. Our manager decisions over the past 5yrs have paid off.
- In previous quarter, terminated Artio, funded Standish.

3. **Presentation from MFS Investment Management** – Brett Fleishman, Sean Kenney

- This is a high conviction portfolio (25 to 30 names) that looks for companies with sustainable earnings. Firm has a multi-year investment horizon.
- Key MFS strengths are their integrated global research center and an experienced team in diverse markets.
- In 2010 signed the UN Principles for Responsible Investment to demonstrate their commitment to a responsible investment policy. Also formed an SRI committee, created an SRI policy, and hired MSCI, an independent third party data provider which provides ESG ratings for all companies.
- Strategy focuses on high quality businesses, and growth at a reasonable price.
- Portfolio manager Marcus Smith has seen a lot of poor market conditions but does not get rattled by short-term events.
- The investment vehicle is pooled/co-mingled fund that would not be able to screen out particular companies.

4. **Presentation from Schrodgers Investment Management** – Adam Farstrup, Biff Miller

- Asset management is their sole business.
- Management team has combined 200 years' experience in investment business.

- Ownership – Owned by Schroders family; 90% of the company is publicly traded. This keeps their focus on the long-term.
- Headquartered in London but have over 370 portfolio managers and analysts worldwide. Strong financial structure with no debt on the books.
- 17 billion in assets in international equity.
- Investment teams are paid on performance, not AUM.
- As a bottom-up stock picker they are looking for four things in a stock: 1) unrecognized future earnings growth, 2) quality – both financial and management, 3) sustainable competitive advantage, and 4) an attractive valuation. Results in 40 to 60 names in portfolio.
- Emerging market exposure can be up to 20%.
- ESG factors are applied to all analysis. They are a PRI signatory. Have a separate ESG team.
- Annual turnover is 80% to 100%.

5. Discussion of International Equity Managers - McMullen

- Committee discussed the strengths and weaknesses of each company.

Motion 2: Moved by Skye, seconded by Friedman, approved.

VOTED: That the Unitarian Universalist Association, on behalf and for the benefit of the Unitarian Universalist Common Endowment Fund, invest approximately five percent (5.0%) of the assets of the UUCEF in the MFS International Concentrated Equity fund and approximately five percent (5.0%) of the assets of the UUCEF in the Schroder International Equity Alpha fund (the "Investment Funds") on the terms set forth in the subscription and offering documentation therefore submitted by the Investment Funds 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 Executive Vice President, Kathleen Montgomery, 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. Process and criteria for replacing managers – McMullen, NEPC

- NEPC presented recommendations for an Investment Manager Review Process.
- McMullen felt it was a good start but it needs further work. Wants to see the positive criteria for selecting a manager in addition to the negative criteria for dismissing a manager.

Action Item: Skye will be the liaison between IC and NEPC for rewrite of the policy.

7. CFO report – Brennan

- UUCEF LLC
 - LLC now formed in Commonwealth of Massachusetts. Application has been submitted to IRS for a designation as a 501(c)3 Supporting Organization. We are now in a holding pattern as this designation could take six to nine months.
 - Brody stated that the Board has approved the bylaws of the new LLC; no further action by the board is required.
 - Our attorneys believe it would be wise to request exemption from regulation by the CFTC. We are automatically exempt from SEC regulation, but that does not apply to commodities. Our legal counsel has prepared a request and has had an initial conversation with a CFTC official.

- Fossil Fuel divestment movement –
 - Brennan reported on a new campaign for divestment from fossil fuel companies. He has discussed with other SRI investment groups who generally believe it is best to hold stock and retain a seat at the table.
 - Further discussion is needed, especially if this comes up as a resolution at General Assembly.

- ESG webinar – CSRI needs to be involved.

Action Item: Gladman will make a proposal on possible content and structure and circulate for reactions.

8. Investment guidelines review – Friedman

Led discussion regarding the current Investment Guidelines noting:

- Part 1 A1 – mentions reviewing asset allocation every quarter. Since we are long-term investors we do not want to make adjustments too frequently as this could be self-defeating.
- Part 2 B 1 – Statement that fund “Shall normally be fully invested” could preclude us from being opportunistic in making swifter moves in the market.
- Parts 4 A 2, 3 &4 – mentions the fund can use derivatives but does not specify the extent or what rules there are for the managers in using them. A 3, the limitations on credit quality may exclude the

fund from distressed debt investments. A 4 – limitation to durations under 7 years may be too restrictive.

- The Guidelines should be flexible enough to allow for action at certain extreme moments of market stress.

Action Item: Friedman - Make suggested changes to the document and circulate for review and further comments.