

UUA Investment Committee – Minutes

Eliot & Pickett House
Rice Room
6 Mt. Vernon Place
Boston, MA 02108
February 19, 2013

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

Member absent: Dan Brody

Guests: Kimberly Gladman (CSRI)

Staff: Susan Helbert

NEPC: Scott Driscoll, Scott Perry

GMO: Pete Chiappinelli, Peter Nolan

1. Minutes from meeting on November 15, 2012 - McMullen

Motion 1: To adopt minutes from last meeting without amendment. Moved McMullen, seconded Friedman, approved.

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

1. 4th Quarter 2012:

- o NEPC client conference will be held May 14th and 15th. Perry will be leading a responsible investing discussion and would appreciate UUA input on how to shape.
- o Equity markets performed very well in 2012, outperforming NEPC assumptions.
- o Endowment did well in 2012, with a composite return of 14.1%
- o Brennan notes that the allocation and policy indices are below peer averages and asked what about our allocation mix differs from our peers that push us below the median?
Perry stated two factors 1) UUA has a lower allocation to fixed income and 2) a higher allocation to international markets than peers - domestic has outperformed over the last 5 years.

3. Asset allocation – Perry

- o Themes this year are consistent with last year and will most likely be same for the next few years. NEPC recommends emerging markets, flexible mandates and illiquid assets.

Motion 2: To approve asset allocation targets allocation as listed below. Moved Skye, seconded Brennan, approved. Abstained: Bradburd.

US large cap equities	16%	
US mid/small cap equities		3%
International equities	13%	
Emerging market equities		7%
US core fixed income	7%	
US high yield bonds		5%
Global bonds		3%
Corporate credit		5%
EMD local currency		5%
Hedge fund of funds		5%
GMO global asset allocation	10%	
Wellington global asset allocation		10%
Bridgewater All Weather Fund		10%
Community investments		1%

4. Consideration of illiquid investments: Perry

- o The Entrust fund of hedge funds is an effective diversification tool for the UUCEF. It provides hedge fund exposure across a wide range of strategies, but it is producing subdued returns in part because of an extra layer of fees. It is limited in terms of customization but offers ease of implementation.
- o Direct Hedge Funds provide an opportunity to pick and choose among different strategies but we would need to allocate to two or three managers. The tradeoff is that we get rid of the extra layer of fees but it would require more time from the committee and staff to understand what the managers are doing.

2. Presentation from GMO – Pete Chiappinelli, Peter Nolan

• Nolan-

- o Provided an update on GMO. Assets about the same at 130 billion
- o Sam Wilderman has moved to the asset allocation side.
- o 14 billion in Global Asset Allocation Fund, 7 billion in Benchmark-Free Allocation Fund.

• **Chiappinelli –**

- o Reviewed the benchmark-free asset allocation fund. Philosophical orientation is radically different.
- o The portfolio managers are free to buy what they believe will make money while not being tied to a benchmark.
- o Focus is buying cheap assets at a price believed to deliver positive returns.
- o Performance has been excellent since inception, providing a compounded return of almost 11% a year.
- o Most proud of the fact their clients were back to making money only nine months after the 2008 crash yet other indices are still underwater four years later.

Action item: Committee to read all materials provided by GMO and vote to include or exclude Benchmark-Free Allocation Fund in the UUCEF. Vote will be by phone or email within the next two weeks.

3. Policy for replacing managers – Skye

- o Committee discussed NEPC handout regarding hiring and terminating investment managers.
- o Suggested that criteria for hiring should also be the same for terminating.
- o Also suggested sustainability/SRI should be among the criteria.

Action item: Committee to review and forward individual suggestions/comments to Gladman. Gladman will then compile and send to NEPC for re-write. NEPC will rewrite criteria and have available for vote at next meeting.

4. Investment Guidelines – Brennan

- o Committee discussed questions arising from second rewrite of UUCEF Investment Guidelines;
- o Additional changes were suggested and Guidelines will be rewritten and circulated again.

Action item: NEPC will revise UUCEF Investment Guidelines to incorporate suggestions and circulate again.

5. Fossil fuel divestment campaign – Brennan

- o Call of divestment of fossil fuel companies from Bill McKibben and his 350.org advocacy group is gaining traction among UUA congregations.

- o We are reviewing our screening criteria as it pertains to the oil and gas sector. Some changes in methodology will probably result in several carbon intensive companies being screened out of UUCEF.
- o An action of immediate witness or a responsive resolution is likely to be presented at GA.
- o Grubbs suggests we have a responsive resolution prepared to go on the floor.
- o Brennan is trying to get a workshop addressing this topic on the schedule, has tentative approval.

Action item: NEPC to prepare a list of solution oriented suggestions for discussion at next meeting.

6. Legal review issues – Brennan

- o Circulated a memorandum from McDermott, Will & Emery pertaining to issues that arise in their review of subscription agreements. Brennan states that it would be helpful for the committee to have a position on these questions in advance of hiring new managers. For discussion at a future meeting.