

# UUA Investment Committee – Minutes

President's Council Room

24 Farnsworth Street

Boston, MA 02210

August 18, 2014

Members present: Carol McMullen *Chair*, Tim Brennan, Rob Friedman, Kimberly Gladman, Larry Ladd, John LaPann, Lucia Santini

Member absent: None

Guests: David Stewart

Staff: Susan Helbert

NEPC: Scott Perry

Principal Real Estate Investors: Vance Voss

Breckinridge Capital Advisors: Peter Coffin, Nick Elfner, Abi Ingalls

## 1. Minutes from meeting on May 15, 2014 - McMullen

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

## 2. Update from General Assembly - Brennan

- Divestment resolution went through general session without changes.
- Resolution passed overwhelmingly.
- The discussions, panels and, booth were very educational in helping congregations understand what the UUA is doing with regard to advocacy and divestment.

## 3. Quarterly Investment Review – Perry

- NEPC update
  - NEPC published white paper on endowment models highlighting that small endowments really need to pick their spots. Will be adding the paper to the next meeting agenda for full discussion.
  - Fund raising environment has gotten very competitive in the private equity market.
  - NEPC selected MSCI's BarraOne and HedgePlatform for risk management providing them with leading risk tools for both total plan risk and hedge fund risk.

- NEPC has become a signatory on PRI (Principles for Responsible Investment).
- Market update:
  - Volatility for most all asset classes are near 2007 lows.
  - Credit markets continue to be well suppressed.
  - Emerging market assets are continuing to recover on both equity and debt side.
- Performance Review:
  - For the quarter the endowment returned 3.4% gross of fees. This underperformed the allocation index by 10 basis points and the policy index by 20 basis points. Manager performance in the Domestic and International Equities drove the underperformance.
  - Over the one year period, the endowment returned 15.9% gross of fees.
  - Over the five, seven, and ten year periods, the endowment performance ranked in the top half of the peer universe.
- Investment Manager Fee Analysis:
  - Reviewed all UUA investment managers with two goals in mind:
    - 1) to compare each to their peers in the same asset class and
    - 2) to see if there were any similar investments offered by the existing manager to see if better options exist.
  - Results showed that nearly 70% of the UUA manager fees are lower than the median manager fee in their respective asset class and, in some cases; the UUA has secured lower fees versus what's available today.
  - The managers with higher than median fees are the high conviction ideas and generally have produced strong long term results.
  - Pier Capital presents an opportunity to lower fees by moving into their commingled fund but we would give up our ability to customize the portfolio.
  - Wellington presents the other opportunity to lower fees by going from a flat fee to a variable fee. The give up here is that the better they perform the higher the fees go.
  - NEPC recommendation is to stay as is as neither change provides a worthwhile tradeoff.
- ESG Reporting:
  - NEPC has spent a lot of time over the last few years analyzing vendors for the best ESG reporting and have decided to partner with MSCI.

- Right now they can use the system at the manager level and the portfolio level. It does have some limitations in that it misses out on GA and hedge fund managers since we don't have a look through on the individual securities in those funds.

**Motion 2:** To establish a policy range of 0% to 10% for private markets and other illiquid investments. Moved McMullen, seconded Gladman, all approved.

**Motion 3:** To have NEPC run an ESG rankings report on the endowment once per year or when a potential new manager is being heavily considered. Moved McMullen, seconded Brennan, all approved.

**Action item 1:** Perry to distribute the white paper for discussion at the next meeting.

**Action item 2:** Perry to distribute information on Double Bottom Line.

**Action item 3:** Perry to prepare a correlation matrix for the investment program for the 2015 asset allocation review.

**Action item 4:** Brennan to request Rhumbline to run various models on a fund that is fossil fuel free.

**Action item 5:** Gladman and Stewart to prepare a list of questions to consider asking ESG providers so a comparison can be done on the results provided.

**Action item 6:** Perry to circulate the Investment Criteria Scorecard created by Skye on research due diligence of new managers.

#### **4. Discussion on illiquid investments– Brennan**

- Had a meeting with United Jewish Philanthropies to learn what they do with private equities. They have about 10% in private equities and they take the valuations of those managers and create the unit value.

#### **5. Real Estate Investment Options – Perry**

- Green Real Estate:
  - Limited universe, only 4 real estate fund managers that NEPC is aware of and has done some due diligence on.
  - They all share a number of characteristics. Lower asset level, shorter track record, less core (well established properties and more value add development) and, more focused on office and multi-family buildings.
  - After discussion, committee agrees to continue to look for real estate investment with a focus on European market.
  - NEPC would recommend European real estate both on equity and debt side.
- Green Bonds

- The definition of “green bond” continues to evolve but securities must promote positive environmental change.
- The green bond market lacks regulation so potential exists for potential issuers to use the term as a marketing angle.
- Since 2007, projects supported by green bonds have moved beyond climate change.
- Consensus is that green bonds are fairly new and may make sense to have some in a portfolio but not a dedicated holding. Breckinridge did agree with the consensus.

## **6. Green Real Estate in Practice – Voss**

- LEED or Energy Star properties provide for the largest number/class of potential tenants and that tenants stay longer reducing vacancy and costs associated with vacancy.
- Also have lower energy and water usage which reduce occupancy costs.
- Improved working environment can increase employee productivity.
- Investing in top of the line mechanical systems helps with “future proofing”, less repair costs over a longer time period.
- Harder to implement green strategies on certain product types such as industrial and retail. LEED scorecard doesn’t apply as relevantly as it does to other product types.
- Of their real estate, 5 to 7 billion are in LEED Certified projects.
- Almost all new development deals are LEED Certified and in existing buildings they pursue LEED Certification on all projects to the extent that it’s economically viable.

## **7. Fixed income review – Perry**

- Green bonds have become more diverse since 2007.
- Historically supranational and project bonds made up the bulk of the universe.
- Other bond funds not branded “green” own about one third of the supranational bonds and actively invest in other green bond securities.
- Green government bonds have been gaining some traction.
- Corporate and asset-backed securities have been the latest green fixed income securities to come to market.
- There are only a handful of dedicated green bond funds but expect the number to grow as issuance increases.
- Limited benchmarks are out there to measure green bond performance.

## **8. Green Bonds/ESG in practice- Coffin, Elfner, Ingalls**

- Invest exclusively in high grade bonds
- Separate accounts – more reliable, flexible and, predictable.

- Subscribe to four ESG research providers, MSCI, Sustainalytics, GMI and Bloomberg. They then add another 15 indicators making it a blended research.
- Commitment to sustainability – believe that companies and municipalities who have better policies and practices regarding ESG will be safer credits.
- ESG data reflects on quality and character of management. Make sure that they are managing their risks appropriately as they can be material in risk factors.
- Find that the higher ESG companies had lower earnings volatility in recession and dislocation.
- Four key components for green bonds:
  - Use of Proceeds
  - Project Evaluation and Selection
  - Management of Proceeds
  - Reporting

**Motion 4:** To move one half the balance of PIMCO to Breckinridge.  
 Moved Santini, seconded McMullen, all approved.

VOTED: That the Unitarian Universalist Association, on behalf and for the benefit of the Unitarian Universalist Common Endowment Fund, invest approximately 50% of the existing PIMCO balance into Breckinridge Sustainable Fixed Income (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.

**Action item 7:** Perry to prepare a pace plan for move into illiquid investment arena.

**9. General Discussion – McMullen**

- Reasonable travel to and from and expenses related to attending Investment Committee meetings will be covered under the committee’s budget.  
 Reimbursement for conferences will be considered provided the conference is related to work performed by the committee and will be determined in advance of the conference. Reimbursement for conferences will only be made once a detailed report has been provided to the committee by the participant.

- SRIC will prepare a plan to be presented to the Investment Committee with regard to potential steps for divestment from fossil fuels.

*Action item 8:* Helbert to compile and circulate list of term dates for all committee members.

**10. Executive Session - McMullen**