

UUA Investment Committee – Minutes

24 Farnsworth Street, Room 315

Boston, MA 02210

August 10, 2016

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

Members absent: None

Staff: Susan Helbert, Harlan Limpert

NEPC: Dulari Pancholi, Scott Perry, Asher Watson

1. Minutes from May 11, 2016 meeting – Gaffney

Motion 1: To approve the minutes from the May 11, 2016 meeting. Moved LaPann, seconded Santini, Brennan abstained since he was not present. Approved without amendment.

2. Market Outlook and Performance Review – NEPC

- The endowment returned 0.8% gross during the second quarter of 2016. Primary factors for the underperformance were active management, which detracted 70 basis points, with Sands, Wellington, MFS and Cevian underperforming their benchmarks over the quarter.
- Heightened concerns surrounding the election in the US and other elections in Europe have led to uncertainty; leads to heightened level of volatility in equity markets and likely in other markets as well.
- Emerging markets have begun to turn around both on equity and debt side.
- Risk asset return year-to-date is good with the exception of MSCI EAFE which was weighed down by the UK vote to leave the European Union.

3. Hedge Fund Review – NEPC

- Reasons to hold hedge funds: diversification, risk-adjusted returns and access to non-traditional strategies.
 - Pros:
 - Historically, incorporating hedge funds into a portfolio has aided in reducing volatility while preserving and/or improving returns.

- Downside protection, 90% of the time will outperform equities in a down market.
 - Over the last 25 years have outperformed other traditional asset classes.
 - Cons:
 - Finding Hedge Funds that incorporate ESG is very challenging.
 - Liquidity constraints.
 - Fees are higher than traditional investments.
 - Have changed dramatically over the years with more and more funds in the market.
 - Building a full hedge fund program would require the likely addition of two to three new managers.
- Will further discuss eliminating hedge fund allocation altogether, moving Cevian Capital to the International Equity allocation, Entrust Capital to the Fixed Income allocation and establish a new Opportunistic allocation. Target allocations will need to be revised and voted on.

Action item 1: Brennan to provide notice to Entrust Capital of intent to liquidate at the next opportunity.

Action item 2: NEPC to provide revised target allocations.

Action item 3: NEPC to research individual hedge fund managers that can add value through their process and provide a high enough return to justify the fees.

4. Fixed Income Review – NEPC

- Currently hold 20% of the portfolio in Fixed Income, 10% in core bonds and 10% in Unconstrained Bonds.
- Looking to reduce or move away from Absolute Return approach and add high quality duration exposure.
- Discussed the three different forms of the “barbell” approach, each of which can be customized:
 - 1) Risk: invests in higher yielding credit instruments, which are riskier, paired with dedicated Treasuries.
 - 2) Duration: short duration strategies paired with long duration.
 - 3) Liquidity: longer lockup and capital call vehicles paired with dedicated Treasuries and some higher quality corporates.
- A barbell with exposure to higher yielding credits, emerging market debt and some currency paired with longer duration bonds to act as a safe haven could be appropriate for the portfolio but does increase risk exposure.

- Has the potential to reduce fees.

Action item 4: Based on today's discussion, NEPC will prepare a new Fixed Income portfolio presentation which the committee will discuss on a call on August 24.

5. Private Equity Review – NEPC

- Currently have a target allocation of 5% with current allocation at about 2%.
- Investment funding plan calls for 2-3 million commitments on an annual basis.
- Private Market allocation was born out of a desire for impact-oriented strategies that align with the UUA's values and the ability to pursue opportunistic ideas.
- Discussed four different managers which could align with the portfolio:
 - 1) SJF Ventures IV
 - 2) Actis
 - 3) Aisling Capital Fund IV
 - 4) HighBar Partners Fund III.

6. Updates from GA – Brennan

- President and Treasurer, per the Business Resolution from GA14, reported to the General Assembly on UUA's progress in complying with the resolution.
- One result from the discussions at the SRIC workshop was that we need to do better communications/public relations regarding our advocacy work.
- Israel/Palestine divestment resolution garnered 55% of the vote which fell short of the two-thirds required to pass.
- The five companies the resolution addressed had already been sold from the portfolio based on the human rights screen.

7. Investment Policy Statement Review – NEPC

- The policy has been updated to reflect the new target commitment for equities to 54% with a range of 48% to 60% and 25% to alternatives with a range of 0% to 35%. Global Asset Allocation and Hedge Fund ranges updated to 0% - 15%. In addition, the language surrounding portfolio rebalancing was also updated.
- Discussed the option of restructuring the target allocation to simplify it and remove the need for a motion to update the investment policy each time a change is made.

Motion 2: To accept the revised policy as presented. Moved Santini, seconded LaPann, all approved.

8. ESG Integration and UUA Committee Structure – NEPC, Committee

- Few peers are as far along the SRI spectrum in terms of advocacy and ESG integration as the UUA.
- Consider revising the investment policy statement to better incorporate SRI considerations.
- Have clear short and long-term goals and objectives for each committee on what they're looking to accomplish.
- The working group will come up with alternatives which will be discussed with both committees to determine the impact and get feedback.

9. Executive Session – Committee

Next Meeting: November 18, 2016