

UUA Investment Committee – Minutes

24 Farnsworth Street, Room 210

Boston, MA 02210

August 31, 2017

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

Members absent: None

Staff: Susan Helbert

NEPC: Asher Watson, Kristine Pelitier

SRI Committee: Vonda Brunsting, Kathy Mulvey, Julie Skye

Kennedy Capital Management: Scott Kearney, John Rackers

Elk Creek Partners: Chris Henkel, Cam Philpott (phone)

1. Minutes from May 17, 2017 - Gaffney

Motion 1: To approve minutes from the May 17, 2017 meeting. Moved: Gaffney, seconded: Lasher. Approved without amendment.

2. Intersection of Fiduciary Duty and Socially Responsible Investing – Joint Committees

- Previously raised concerns over fiduciary duty and socially responsible investing led us to obtain an opinion from our legal counsel. Opinion letter didn't raise any concerns over investment strategy.
- Need to become consistent with language defining Unitarian Universalist values across all documents. Foundation positive and negative screening guidelines, bylaws and resolution passed by the General Assembly or votes of the Board of Trustees.
- Will be reviewing the guidelines of both committees to clarify processes and responsibilities of each.
- SRIC will review any new resolutions passed at General Assembly and votes of the Board of Trustees, if any, at an annual meeting, provide updated Socially

Responsible Investing Guidelines to the overall committee for review and discussion/implementation.

- Proxy voting is an important element of exercising fiduciary duty and should be reviewed by integrated committee.
- Faust, of the SRIC, has been working on revising the Community Investment Guidelines. Will bring them to the full committee for review when completed.
- A review of the policies and guidelines of the both the Investment Committee (IC) and Socially Responsible Investing Committee (SRIC) define the responsibilities of these committees as:
 - i. Investment Committee
 1. Manage the endowment funds subject to control by the Board of Trustees.
 2. Adopt all policies necessary for the operations of the UUCEF.
 3. Review and approve the Investment Information Memorandum.
 4. Having the authority over investment decisions.
 5. At least once every two years, the IC and SRIC shall jointly report to the BOT and the UUCEF investors. Report will discuss performance of the fund, including its success in meeting its return, risk and SRI objectives
 - ii. Socially Responsible Investing Committee
 1. To advise the UU Common Endowment Fund (UUCEF) Investment Committee on investment policy issues, with particular regard to stock screening and manager selection.
 2. To assist the UUA staff with community investment, shareholder advocacy, and educating UU congregations on socially responsible investment.
 3. To advise the UUA Board on needed changes in the UUCEF's governing documents, and to report to the UUA Board on the UUCEF's success in meeting its socially responsible investment objectives.
 4. To carry out any other responsibilities stated in the UUCEF bylaws.

Action item 1: Brennan to ask legal counsel to provide an opinion on who has the final authority should a conflicting decision between General Assembly and the Investment Committee, as fiduciary body, occur.

Action item 2: Brennan to ask legal counsel to determine if the Investment Committee can delegate the CDFI investment decisions to the SRIC within established guidelines.

Action item 3: SRIC to prepare revised Socially Responsible Investing Guidelines to be reviewed and discussed by all at a future meeting.

Action item 4: Lasher and Mulvey to work on creating consistent language defining UU values to be used across all documents.

Action item 5: Lasher and Stewart to continue review and work on procedures for both committees.

3. Fulfilling the 2014 Business Resolution on Fossil Fuel Company Divestment – Joint Committees

- Per the business resolution, we are able to maintain our position in fossil fuel companies with which we are engaged on the issue of climate change.
- Stocks, where engagement or dialogue is underway or planned for in future years, will continue to be held.
- Will reformat the holdings report to separate and clearly identify the fossil fuel companies that remain for engagement and dialogue.
- Discussed ways to more broadly communicate actions.

Motion 2: To sell the holding in Consol Energy Inc., Chesapeake Energy Corp., Denbury Resources In., Range Resources Corp., and WPX Energy Inc. Moved: LaPann, seconded: Santini. All approved.

Action item 6: Mulvey to provide an update to UU Divest.

4. Market Update and Performance Review: NEPC

- Asset classes driving our absolute performance and peer relative rankings are emerging market equity, international developed equity, global equity and emerging market debt.
- The endowment returned 4.3% (gross of fees) during the 2nd quarter of 2017, ranking 2nd in the peer universe, outperforming both the allocation and policy indexes.
- Over the trailing one-year period, the endowment returned 14.9% (gross of fees), ranking 13th in the peer universe and outperforming both the allocation and policy indexes.
- Over the ten-year time period, performance ranked in the second quartile of the peer universe with manager selection and tactical allocation being the primary drivers of overall performance.
- Investment earnings of 7.5 million offset the outflows of 4.4 million for the quarter.
- Over the 3 year period, underperformance is due to active management. This has reversed over the last 6 to 9 months with active management driving outperformance.

5. Kennedy Capital Management Interview – Kearney, Rackers

- Independent, employee owned; provides stability and continuity.
- Experienced Small Cap specialists with 37 years of experience.
- Compensation is tied to performance.
- Has 15 member team; very little diversity, with expertise across 7 sectors.
- Invest across a growth life cycle; hold 50 to 55 stocks in the portfolio. Largely an equal weighted fund; begin to trim holdings back at 3.0% so no one holding drives fund performance.
- Looking for corporate performance, systematic effect, sustainability and intrinsic value.
- Turnover has been 100% in the last year; expect it to drop back to 70% to 80% average.

6. Elk Creek Partners Interview –

- Independent, employee owned, boutique firm established in 2011.
- Experienced; long successful history of working as a team. Has a 5 member team of generalists; no diversity.
- Significant relative outperformance since launch.
- Uses a bottom-up approach with a five stage buy.
- Seek companies that can sustain revenue and earnings growth for multiple years. Like to buy early before growth is broadly recognized by the market. Evaluate stock prices over a 12-month horizon and use a valuation overlay on entry, exit and to manage position size.
- Typically hold 80 to 100 stocks; top 30 to 35 comprise 50% of portfolio.

7. Small Cap Growth Manager Discussion – NEPC, Committee

- Elements of materials made their process clear but verbal presentation of such was lacking for both.
- More resources behind the Kennedy fund.
- Kennedy had better answer and rationale on closing the strategy.
- Because Kennedy investment would be a separate account, we could provide UUCEF's ESG guidelines to avoid investing in undesirable stocks.
- Kennedy's lack of diversity was better addressed than Elk Creek's.
- In down markets they were fairly equal, in the up market Kennedy outperformed.

Action item 7: NEPC to contact Kennedy in an attempt to get lower fee.

Motion 2: Provided nothing prohibitive surfaces; hire Kennedy Capital Management as a new small cap growth manager. Moved: Santini, seconded, Gaffney, all approved.

VOTED: That the Unitarian Universalist Common Endowment Fund, LLC, transfer the current holdings in Pier Capital Management to Kennedy Capital Management on the terms set forth in the subscription agreement 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 Chief Operating Officer, Carey McDonald, 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 investments.

8. OCP Asia Discussion – NEPC, Committee

- OCP will be closing at the end of September.
- NEPC has done 2 years of full due diligence including two visits.
- NEPC recommended investing 1.5 to 2 million.
- This is a lending strategy, fund is a 3 year rolling lock portfolio.

Action item 8: Helbert to schedule a call for the committee and NEPC to discuss potential OCP investment.

**Next Meeting:
November 9, 2017**