

UUA Investment Committee – Minutes

24 Farnsworth Street, Room 210

Boston, MA 02210

August 16, 2018

Members present: Kathleen Gaffney, Chair, Tim Brennan (by Zoom), John LaPann, Brian Lasher, Ken Redd (by phone) and Lucia Santini

Members absent: None

Staff: Susan Helbert

NEPC: Alissa Howard, Kristine Pelletier, Scott Perry, Asher Watson

SRI Committee: Vonda Brunsting, Kathy Mulvey, Julie Skye, Pat Tomaino

1. Minutes from May 22, 2018 - Gaffney

Motion 1: To approve minutes from the May 22, 2018 meeting. Moved: Gaffney, seconded: Santini, all approved. Redd abstained.

2. Updated Socially Responsible Investing Policy – Brennan, Gaffney, Mulvey

- Discuss and refine draft
 - Used 2010 policy as the starting point; hired Simon Billenness to review all GA resolutions since 2010 and to recommend how to reflect these in the policy. Incorporated recommendations from him and SRIC member, Kathy Mulvey, into draft policy.
 - Additional update will clarify that policy applies to all asset classes, not just equities.
 - All members to forward their comments to Kathy and Tim for further review and potential inclusion. Will circulate new draft to all for review.
 - Robust thematic discussion clearly identifies additional work and discussions are necessary.

Action item 1: Brunsting to distribute outside pension fund investment policy, which has an integrated investing and socially responsible investing policy, to committee for review.

Action item 2: Tomaino to craft language incorporating racial justice and dismantling white supremacy.

3. Report from subcommittee on Screening Criteria – Brennan, Gaffney, Lasher, Skye, Tomaino

- Had a call with Sustainalytics about modifying screening criteria; screening out the bottom 7.5% instead of 5%, scoring environmental, social and governance (ESG) separately and testing the outcome.
- Committee decided to leave screening criteria as is until Sustainalytics goes live with new methodology.
- Next steps (including meeting with Sustainalytics, testing permutations of criteria vs. updated investment Policy, process for annual review of criteria)
 - Expecting new screening options to come available soon.
 - Would like to hear how analysts arrive at the issues they consider material in weighing a company and how well they understand the industry a company is in.

Action item 3: Brennan to contact Sustainalytics to set up a call to discuss their new system and to provide higher-level detail on how analysts arrive at the issues they consider. Will ask for their whitepaper to be distributed to the committee.

Action item 4: Gaffney to prepare questions for higher level analyst discussion.

4. Joint IC/SRIC report to UUA Board in October – Gaffney, Mulvey

- Key points to highlight in report
 - Update on integration of committees and integrated policy perspective.
 - Presentation of investment results both quantitative and qualitative. Need to help Board understand UUCEF fees, what congregations are getting for what they're paying.
 - What committee(s) looks at and for on a quarterly basis; concerns/worries.
 - Quality of committee members.
 - Scope of what both committees do; balancing risk, return and values.
 - What socially responsible investing encompasses; security screening, company engagement, and community investing.

5. Performance review - NEPC, Joint Committees

- The Endowment returned +1.1% (gross of fees) during Q2 of 2018, ranking 32nd in the universe, outperforming the allocation index and the policy index
- Over the trailing one-year period, the Endowment returned 9.9% (gross of fees), ranking 5th in the universe and outperforming both the allocation and policy indices.
- Over the trailing ten-year period, performance ranked in the second quartile of the peer universe.

6. Prep for anti-racism training in November – Brennan, Santini

- Will plan training for joint committees and NEPC.

- Need to do advanced work to come up with questions/objectives on how it intersects with work of the committee.

Action item 5: Pelletier to provide additional consultant to discuss training with.

Action item 6: Brennan to contact Parisa Parsa to schedule training for February 21st.

Action item 7: Brennan, Santini, Tomaino and Skye to have a call with Parisa Parsa to discuss scope of training.

7. Other agenda items for November 20th joint meeting

- Additional discussion on potential GA19 resolutions, workshops, and expressway representation.
- Discuss possible tools for workshop promotion.
- Human Rights discussion on how we can fit in with the work of Investor Alliance for Human Rights and private prison work.
- Discuss investment policy language and how SRI may contribute to it.

8. Review ESG scorecards for UUCEF fixed income investments

- Deferred to November meeting.

9. Investment policy statement – Gaffney

- Opportunistic investment language
 - NEPC recommends that new language should be added to the Investment Committee Guidelines that define opportunistic investments and that “Opportunistic” should be removed from “Private Markets/Opportunistic” asset class.
 - Opportunistic Investment allocation should be viewed as an asset class that will provide the portfolio with exposures which are positioned to perform in the current market environment.

10. Opportunistic investing – NEPC, Committee

- Discuss potential diversifying investment options as part of the Opportunistic Investment allocation
 - Focus on opportunities that may provide low correlations to other assets, downside protection and crisis alpha. Based on this, NEPC recommends Global Macro and Long Volatility strategies.
 - Represents a tactical allocation that is positioned to perform in the current market environment.
 - Global Macro is more benchmark agnostic; will go where the opportunities are and has no bias toward any market or view.

- Long Volatility exposure positively benefits from rising asset class volatility and could provide a significant return should volatility normalize across global markets. However, a multi-year time horizon would be required is volatility levels move slowly back to normal.
- Both investment options carry increased fees.

Action item 8: NEPC to provide investment scenarios and commentary/opinion on strategies presented and send those along with full memos to the committee.

11. Private markets opportunities with a focus on impact-oriented investments

- **VWH Fund I**

- Reached out to VWH but didn't receive a response from them; fund closes at the end of the month.

- **HCAP Partners IV**

- Mezzanine manager focused on the lower end of the market, looking at smaller size companies in terms of revenue. Industry focus is on healthcare, software, services and manufacturing.
- Based in California and invests mainly in companies in California and the western United States.
- Not focused on number of jobs created but the quality of jobs created; ask the questions: do they go to communities where income is needed, are the salaries and benefits in line or better?
- When looking at a company, work with company leaders by detailing where they think they are and provide a 5-year plan on how they can improve to create a better environment for their employees.
- Employer must sign-off on plan before they will invest, and HCAP will help provide resources to help enact the plan. They have dedicated impact associates who will help with some of the HR functions if necessary, will also look at non-profit resources in the area that could be beneficial in enacting the plan.
- Fee is 2% on committed capital plus leverage but will go down to 1.7% if an aggregate of NEPC clients invest \$20 million and down to 1.65% if aggregate reaches \$30 million.
- Expected fund closure is 4th quarter 2018.

Action item 9: NEPC to follow-up again on fees, find out who is on the advisory board and what their mandate and charter is, and number of return commitments.

- **Reinventure Capital Fund I**

- First time fund by Edward Duggar and Julianne Zimmerman.

- Boston-based venture capital fund targeting scalable companies led by founders of color and women. Looking to construct a diversified portfolio of 10 to 15 investments. Fund target size is \$50 million.
- Expects to provide portfolio companies with both debt and equity financing with the split anticipated to be 35% equity and 65% debt.
- Fee is 2.5% on committed capital.
- Fund will target companies across multiple sectors including communications, technology and, real estate.

Action item 10: NEPC to set up an in-person meeting between the committee and Reinventure to gain additional information and comfort with potential investment.

Next Meeting Date
November 20, 2018