

## UUA Investment Committee – Minutes

24 Farnsworth Street, Room 210

Boston, MA 02210

November 20, 2018

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

Members absent: None

Staff: Susan Helbert

NEPC: Lily Fayerweather, Kristine Pelletier, Asher Watson

HCAP Partners: Tim Bubnack, Hope Mago (via zoom), Frank Mora

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

### 1. Minutes from August 20, 2018 - Gaffney

**Motion 1:** To approve minutes from the August 20, 2018 meeting. Moved: LaPann, seconded: Lasher, all approved.

### 2. Working items – Brennan, Santini

- Planning for GA 2019: resolutions, workshops, expressway representation
  - One of the biannual meetings with the social justice organizations to be held at General Assembly. A member of the Investment Committee will be invited to attend.
  - Potential for two business resolutions to be brought forward, one regarding divestment in the Middle East and another regarding divestment from fossil fuel. Searching for alternative paths to address these items.
  - Discussed need to more broadly disperse information pertaining to the work of the committees.
- Begin preparation for Treasurer/CFO transition
  - Search will begin in early 2019.
  - Will remain on staff for a limited time to work with new Treasurer/CFO.
  - Will continue working with the UUA as a consultant for the advocacy work.

**Action item 1:** Brennan to distribute audited financial statements to the committee.

- Preparation for anti-racism training in February
  - Have a proposal from Parisa Parsa and will schedule a call to discuss expectations.

**Action item 2:** Brennan to distribute proposal to sub-committee.

**3. Joint IC/SRIC report to the UUA Board in October – Gaffney, Mulvey**

- Update on report, discussion, and Board affirmation of proposed statement of purpose.
  - Met with the Board in October and discussed work done over the last few years to integrate the two committees.
  - Board was engaged, and presentation well received.
  - Board supported the integration of the committees.
  - Board unanimously supported the proposed change in language in the Socially Responsible Investing Guidelines.

**4. Advancing Human Rights through UU Investments: SRIC/IC discussion with UU Social Justice organizations - Mulvey**

- Summary and next steps
  - Continued a conversation with the social justice organizations which began at General Assembly earlier in the year.
  - Had strong representation from the committees and the other organizations.
  - Proposed continuing the calls/meetings on a biannual basis to keep everyone apprised of our work.
  - Need to be more visible about what we're doing on issues related to social justice, human rights and others.
  - Need to share what we do in community and partnership with other organizations.
  - Discussed inviting members of other organizations we collaborate with to join one of the meetings/calls with the social justice organizations.

**Action item 3:** Brennan to circulate the As you Sow report to both committees.

**5. Updated Socially Responsible Investing Policy – Brennan, Gaffney, Mulvey**

- Discuss and refine draft
  - Robust discussion on suggested changes and how best to implement them.
  - Once draft is finalized; need to submit to the Board for approval.

**Action item 4:** Gaffney and Mulvey to compile latest suggested changes and circulate to committee for final review.

**6. NEPC pipeline –**

- **Generation Fund III**
  - Private Equity strategy with a focus on private growth stage opportunities with broad sustainable solution themes.

- Invest across sectors including transportation, agriculture, energy, industrials and consumer.
- Unlike Fund II which was a private and public equity strategy, this will be a private equity strategy only.
- Co-heads of strategy are women.
- Targeting a \$750 million fund size and the firm's commitment is \$40 million dollars, or 5%.
- Fees are a little below market for the type of strategy.
- Recommend investment of \$1 to \$2 million.
- Received a NEPC overall rating of 2 due to change in strategy and adjustments to team.
- Committee is interested in a phone meeting with them.

**Action item 5:** NEPC to reach out to Generation to find possible dates for a call.

- **HCAP Fund IV**
  - Based in California and provide capital to underserved, high growth, small to medium sized companies in the western US.
  - Big focus on jobs, not just the number but also the quality of those jobs being created at the companies they invest in.
  - They provide some parameters for how companies will improve for their employees.
  - Recommend investment of \$1 to \$2 million.
  - Received a NEPC overall rating of 2 due to higher than usual fees associated with this type of investment.
- **HITE Carbon Offset**
  - Long/short strategy where short is carbon intensive businesses where manager believes will face challenges in the future and long side is debt exposure.
  - Recently launched a near natural strategy focused on a decarbonization theme.
  - No investment fees for first 5 years as they're looking for founding investors.
  - Has not gone through full NEPC due diligence but will if interested.

**Action item 6:** Committee showed mild interest in fund; NEPC will complete due diligence and circle back.

- **Thematic equity list**
  - In 2019, NEPC will bring a list of thematic public equity investments to the committee to explore.
  - Presently list is comprised of 4 global equity products; 3 are environmentally focused while the 4th is multi-thematic.

- **Reinventure Capital: intersection with revised SRI guidelines; next steps**
  - Discussed additional documents received from Reinventure.
  - Discussed the reservations/conditions raised by Lasher.
  - Concerned that they've been fund raising for 18 months and still don't have any investors. The UUA would be the first faith-based investor.
  - Insufficient comfort currently to invest.

## **7. HCAP Presentation – Tim Bubnack, Hope Mago (via zoom), Frank Mora**

- Founded in 2000 and provides mezzanine debt and private equity for underserved, lower-middle market companies throughout California and the Western US.
- Spend a lot of time on their Gainful Jobs Program which creates measurable impact on the employment base of companies.
- Hired an impact associate to assist companies in implementing the Gainful Jobs Program.
- Agreeing to the jobs program is a requirement to receive an investment.
- Work with companies to build a 5-year plan for implementing the jobs program; management reports to HCAP on a quarterly basis to discuss progress.
- Has steps in place should a company be unable to meet target returns or has difficulty implementing the jobs program.
- Target industries are business and professional services, healthcare, manufacturing and, IT services and software.
- Expects making 15 to 18 investments.
- Maximum fund size of \$150 million; have closed on \$65.5 million to date.
- Typical deal in between \$2 and \$10 million with a cap of \$10 million.
- Fees are 2% annually during investment period including assumed leverage, reduction schedule based on end of investment period or new fund operations.

## **8. Debrief and decision of HCAP**

- Have a 50% re-up from the last fund.
- Unique fit with the jobs program.
- First with our overall mandate.
- Have agreements in their warrants or put options; doubtful they would exercise put option if the company can't buy back the stock.

**Motion 2:** To invest \$2 million of the UUCEF funds into HCAP Fund IV. Moved, LaPann, seconded, Lasher. All approved with the exception of Santini-Field who had to leave early.

**VOTED:** That the Unitarian Universalist Common Endowment Fund, LLC, invest \$2 million of the assets of the UUCEF, LLC into the HCAP Fund IV, (the "Investment Fund"), on the terms set forth in the subscription agreements 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, 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.

### **9. Performance review – NEPC**

- In the third quarter, the endowment returned 2.8% gross of fees, ranking 43<sup>rd</sup> in the peer universe. It outperformed both the allocation and policy indices.
- Over the trailing one-year period, it returned 8.6% gross of fees, ranking 12<sup>th</sup> in the peer universe and outperformed both the allocation and policy indices.
- Over the ten-year period, performance ranked 36<sup>th</sup> placing it in the second quartile of the peer universe.
- In October the fund performed much as expected considering the way its positioned and the market conditions. Saw a lot of risk aversion despite seeing the lowest unemployment rate in a while. Rising interest rates also caused some concern.

### **10. ESG (Environmental, Social and Governance) Scorecards**

- NEPC developed the ESG Scorecard, goal is to have ESG ratings on all of their products.
- Each assessment involves a firm level and strategy level component.
- Quantitative process assigns each strategy a score of 1 through 5 based on the sophistication of ESG integration, ranging from best in class to no integration.
- Produce a qualitative assessment, outlining the reasons for the score and any unique aspects to ESG integration within the strategy.
- Working through our portfolio utilizing the system and provided ratings on our Fixed Income holdings.
- Anticipate updates to occur annually however, encourage firms to notify them if there's a big change and they may be evaluated sooner.

**Next Meeting Date  
February 21-22, 2019**