

UUA Investment and Socially Responsible Investment Committee – Minutes **DRAFT**
24 Farnsworth Street
Boston, MA 02210
Room 210
February 19, 2020

Investment Committee:

Members present: Kathleen Gaffney, Chair, Brian Lasher, Andrew McGeorge, John Minahan, Ken Redd, and Lucia Santini-Field

Member absent: Vonda Brunsting

Staff: Susan Helbert

NEPC: Lily Fayerweather, Krissy Pelletier, Asher Watson

SRIC: Vanessa Lowe, Kathy Mulvey, Julie Skye

1. Review 2020 workplan

- Reviewed accomplishments from 2019.
- Discussed 2020 workplan brought forth by NEPC, made a few adjustments such as including an executive session in each meeting agenda and providing time to discuss and implement potential GA mandates.
- Discussed evaluating managers over time beginning with high-exposure managers first.
- Possible to hold some manager meetings via Zoom lessening our carbon footprint and maintaining more control of time.
- Consider meeting managers via a set schedule outside of the IC/SRIC in person meetings providing a quorum is present.

Action item 1: NEPC to create a suggested template/timeline for manager meetings.

2. Review Private Markets pacing plan

- Discussed existing manager commitments and anticipated calls/distributions, adjustments to target allocation and forecasted net growth to determine if any adjustments were needed.
- Projected to take until 2025 to reach long-term target allocation of 10%.
- A number of impact-focused strategies are in the research phase and will be profiled throughout the year.
- Over the next few years, expect to commit approximately \$5 million per year to hit and maintain target allocation.

Action item 2: NEPC to break down the Private Markets allocation into Impact Investments and Traditional Investments.

3. NEPC 2020 investment outlook

- 2019 was a strong year with positive returns particularly for equities.
- China plays a large part in the global economy, any disruption in their continued transition from a production-based economy to a consumption-based economy, will be felt globally due to their expanding role in the world economy.
- China's transition will continue for the next decade and events like the coronavirus will certainly play a role across the global economy.
- Globalization backlash is another theme to watch out for as stagnant wage growth and growing wealth inequality are fueling political discontent across the developed and emerging world.
- We're in the late stages of an economic cycle, late cycle doesn't mean end cycle and abandoning long-term target allocation early could detract from long-term results.
- Minimal evidence to suggest a US recession is imminent; nothing to suggest shifting the portfolio approach at this time.
- Changed approach from a 5-7-year outlook to a 10-year return horizon recognizing that current economic cycle is longer than what we're used to.
- 10-year return assumptions across asset classes are considerably lower in 2020 than in 2019. The exceptions are emerging and private equities.

Action item 3: NEPC to run a scenario analysis on the portfolio taking into consideration our likely cashflows and the duration of such a drawdown.

4. UUCEF asset allocation review and recommendations

- Recommended formalizing long-term policy to serve as a guide of where the portfolio is headed.
- Policy focused primarily on funding sources for Community Investments and Private Markets allocation.
- Recognizing the need to interview Private Market managers more frequently, may need to hold additional remote meetings for managers with a shorter closing timeline.
- Asked NEPC to include, in advanced materials, if they've met with the manager, particularly ones who have a shorter track record.
- Need to build in time for individual evaluation, speaking with a manager, and having time to make a decision as a committee. Keeping this in context with meeting final closing.
- Continue to think about implementation choices within the strategic allocation on where additional return enhancement could come from.
- Consider breaking out Community Investments by at-market return and below-market return.
- Comfortable with overall strategic plan as presented.

Action item 4: NEPC will stress test various spending policies for the committee.

Joint Session:

Investment Committee members present: Kathleen Gaffney, Chair, Brian Lasher, Andrew McGeorge, John Minahan, Ken Redd, and Lucia Santini-Field

Member absent: Vonda Brunsting

Staff: Susan Helbert

NEPC: Lily Fayerweather, Krissy Pelletier, Asher Watson

Socially Responsible Investment Committee members present: Vanessa Lowe, Kathy Mulvey, Julie Skye, Pat Tomaino

Member absent: Vonda Brunsting

Ownership Capital: Rhian Jones

1. Minutes from November 19, 2019 - Gaffney

Motion 1: To approve minutes from the November 19, 2019 meeting without amendment. Moved: Santini-Field, seconded Skye, all approved.

2. Manager Interview – Ownership Capital

- Long-only sustainable public equity manager based in the Netherlands.
- Firm's singular focus is managing a concentrated sustainable global equity strategy that invests on a multi-decade horizon.
- Primarily works with US and European pension funds and foundations and manages over \$3 billion in assets.
- Integrates full spectrum of ESG factors into their decision-making at every step in the investment process. Engages with 100% of the companies in the portfolio.
- Typically holds around 25 companies in portfolio but have 100 to 150 on their watch list with 10 to 15 considered immediately investable. Usually adds 2 to 4 companies a year with turnover being about 17% per year.
- Uses a three-factor approach: valuation, risk and diversification, to determine position sizing, position sizes are typically 2%-4%, 4%-6% and 6%-8%.
- 2-person Investment Committee: the Chief Investment Officer and the Lead Portfolio Manager.

3. Discussion/decision on Ownership Capital – all members

- Minimal overlap with Sands holdings; would increase small cap exposure.
- Strong track record of risk-adjusted returns over the long term.
- Aligns well with desire for active engagement and emphasis on ESG.
- Negotiated a fee of 55 basis points, provided NEPC clients invest \$100 million over the next year, with a 20% performance fee every three years measured against the MSCI Kokosai.
- Over the past several years the US has been a more conducive environment for growth and innovation leading them to be a bit over weighted in the US market. Not constrained in terms of sector or domicile, have the ability to invest where the opportunities arise.
- Soft cap is \$5 billion with a hard cap at \$10 billion.

Action item 4: NEPC to provide a list of holdings in Sands Capital to committee.

Motion 2: To invest \$10 million in Ownership Capital to be funded from Sands Capital. Moved: Gaffney, seconded Santini-Field, all approved.

VOTED: That the Unitarian Universalist Common Endowment Fund, LLC, invest \$10 million of the assets of the UUCEF, LLC into Ownership Capital, (the “Investment Fund”), on the terms set forth in the subscription agreements and offering documentation therefore submitted by the Investment Fund to Andrew McGeorge, 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, Andrew McGeorge, and the Executive Vice President, 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, Andrew McGeorge, has done or may do in connection with said investments.

4. Update on community investing –

- A few small changes to the policy were made after the Investment Committee last viewed it. Added criteria for referred CDFI’s, added a chart of trade associations and other resources which can be used by congregations to research investments and, added limits of what can be approved by the Socially Responsible Investing Committee alone and what requires Investment Committee approval.
- Working on a document for potential CDFI’s to complete for our due diligence process if they’ve not been vetted by one of the recognized trade associations.

5. Performance update – NEPC

- The Endowment returned 6.2%, gross of fees, during the fourth quarter of 2019, ranking in the 15th percentile of the investment universe and outperforming both the allocation and policy indices.
- In 2019, the Endowment returned 20% (gross of fees), ranking in the top third of the investment universe and outperforming both the allocation and policy indices.
- Over the ten-year time period the portfolio ranks in the top half of peers.
- Recently invested in Acadian Emerging Market Equity and Stone Castle.

Action item 6: NEPC to include a full market cycle on the Total Fund Performance Summary – Gross and the Total Fund Asset Growth Summary pages of the meeting materials.

6. Working lunch:

- Report back of Board discussion on policy
 - Board is very pleased committees have structured a way to work collaboratively toward shared goals.
 - Socially Responsible Investing Guidelines and Community Investment Policy were unanimously approved by the Board.
- Update on 2020 Business Resolution, and review by Sustainalytics on Human Rights
 - Proponents have gathered enough signatures to get the resolution on the general assembly agenda.
 - Worked closely with the proponents to craft a resolution that could be acted upon.
 - Things for committee members to do at and for GA include: actively engage in the mini assembly to discuss Business Resolution contents, attend workshop promoting investing

with your values, and send communication to all congregations about the workshop encouraging attendance.

- Began discussion on GA workshop.
 - Topics get on Sustainalytics radar based on engagement and location. They use a two-pronged approach, one based on countries and one based on shareholder advocacy; the nexus of these trigger companies being excluded based on human rights issues.
- Discuss establishment of Screening Subcommittee on Human Rights
 - With the Business Resolution on the GA agenda, need to be prepared with a refined process for adhering to the resolution and be able to share and communicate where the portfolio stands in its investments with relation to the resolution.
 - Need to ensure that the risks are being appropriately factored into the Sustainalytics reports.
 - Currently engage in three strategies to address companies:
 - a) Screen out companies using the Sustainalytics tools.
 - b) Advocate with companies in our portfolio
 - c) Purchase nominal amount of a company to be able to engage with.
 - Subcommittee will be McGeorge, Skye and Tomaino.

Action item 7: McGeorge to distribute next Sustainalytics report to committees and NEPC.

Socially Responsible Investment Committee:

Members present: Kathy Mulvey, Chair, Vanessa Lowe, Andrew McGeorge, Lucia Santini-Field, Julie Skye, Pat Tomaino

Member absent: Vonda Brunsting

Staff: Susan Helbert

Guest: Tim Brennan (via Zoom)

7. Discuss potential investment in The Working World, Inc. DBA Seed Commons and renewal of investment in Working Capital for Community Needs (WCCN) – all members
 - Started in 2005 in response to Argentina’s collapse. Founders developed a fund to support worker owned cooperative businesses.
 - Internationally, has funded \$4 million in over 800 projects from over 200 businesses, creating hundreds of jobs in the process.
 - In 2011, began making non-extractive loans in the U.S. Non-extractive is defined as returns to the lender not ever exceeding the wealth created by the borrower using the capital.
 - Programs focus on training, education and research into non-extractive lending and practices.
 - Seed Commons started as a project of The Working World to develop a U.S. network.
 - While they’ve been lending in the U.S. since 2011, only began repaying investors based on portfolio performance in 2018 and 2019. Interest accrues annually; however, the first 2% of what the overall fund makes stays in the fund. If they earn above that, the investors begin to receive payouts.
 - Discussed current investment with Working Capital for Community Needs (WCCN) which provides services for underserved sectors and supports fair trade initiatives thereby promoting alleviation of poverty to improve the lives and communities of the working poor.

Motion 3: To invest \$100,000.00 in The Working World, Inc. DBA Seed Commons for a 2-year term. Moved: Mulvey, seconded: Skye, Brunsting and Santini-Field absent for vote, all others approved.

VOTED: That the Unitarian Universalist Common Endowment Fund, LLC, invest \$100,000 of the assets of the UUCEF, LLC into The Working World, Inc. DBA Seed Commons, (the “Investment Fund”), on the terms set forth in the subscription agreements and offering documentation therefore submitted by the Investment Fund to Andrew McGeorge, 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, Andrew McGeorge, and the Executive Vice President, 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, Andrew McGeorge, has done or may do in connection with said investments.

Motion 4: To renew the investment in Working Capital for Community Needs (WCCN) for an additional 2 years at 2%. Moved: Lowe, seconded Mulvey, Brunsting and Santini-Field absent for vote, all others approved.

8. Shareholder Engagement & Advocacy – Brennan

- Check-in on resolutions and engagement in 2020 proxy season
 - Received update on the climate action 100 companies we’re engaged with. Lead investor with Devon Energy, co-lead with CalPERS at Exelon and collaborating investor with Calvert at Xcel. Also, in dialogue with Ford Motor Company through a joint filing with the City of New York.
 - Reviewed engagements with Marathon Oil, Range Resources and Noble Energy. Noble Energy is the first electric power company to commit to be carbon neutral by 2050.
 - After filing at BlackRock for the past three years, they’ve finally agreed to list and publish all trade associations and will add oversight of lobbying and political spending to the charter of their governance committee.

Action item 8: Brennan to draft announcement of Blackrock agreement for UUCEF blog.

- Discussion of proposed changes to SEC rules re: shareholder resolutions
 - SEC received over 14,000 letters concerning the changes, most overwhelmingly opposing the new rules, expectation is that the changes will go through.
 - UUA submitted its own letter in opposition to the changes as well as signed onto the letters from Ceres and PRI.
 - Will need to rethink advocacy strategies when changes do go through.

**Next Meeting:
May 19, 2020**