

UUA Investment and Socially Responsible Investment Committee – Minutes
Via Zoom
December 1, 2020

Joint Investment Committee and Socially Responsible Investment Committee:

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

SRIC members present: Kathy Mulvey, Chair, Vanessa Lowe, Pat Tomaino, Julie Skye, Vonda Brunsting, Lucia Santini-Field, Andrew McGeorge

Member absent: None

Staff: Tim Brennan, Susan Helbert

NEPC: Lily Fayerweather, Krissy Pelletier, Asher Watson

Guest: Lowell Steinbrenner

1. Minutes from August 24-25, 2020 – Gaffney

Motion 1: To approve the Investment Committee minutes from the August 24-25, 2020 meeting without amendment. Moved: Gaffney, seconded Mulvey, all approved.

Motion 2: To approve the Socially Responsible Investing Committee minutes from the August 24-25, 2020 meeting without amendment. Moved: Gaffney, seconded Mulvey, all approved.

2. Shareholder Advocacy Update – Brennan

- Supporting litigation that would block rules adopted by the SEC that make it much more difficult to file shareholder resolutions.
- Climate Action 100+ launched an effort to benchmark each of the 161 companies against 10 criteria including whether they had made a public commitment to net zero GHG emissions by 2050. To date a lot of companies have very responsive.
- Update on Ford Motor: confirmed they will officially announce their new lobbying disclosure in the first quarter of 2021. Hopeful we can generate a press release on the win.
- Have joined with Zevin Asset Management to co-file a resolution with Alphabet (Google parent company) on diversity and inclusion.
- Collaborating with Calvert and the City of New York Comptroller's Office on a campaign to urge companies to disclose the EEO data they are already required to file with the U.S. Government but not required to disclose publicly.

- Lead filer at Thermo Scientific and co-filer with Calvert on EEO disclosure at Activision Blizzard and Union Pacific.
- A condensed advocacy report detailing highlights in the meeting materials and for use in the quarterly investor calls would be helpful.
- Excellent information in the full report could be used for blogs.

3. Subcommittee Updates:

- **Community Investing**

- Members: Vanessa, Brian, Julie, and Kathleen.
- Goals are to develop processes and tools needed to grow the Community Investment portfolio by roughly \$8 million and to learn from others as old decision-making tools are updated and new tools are developed to address risk/return factors and benchmarks and impact factors.
- Alternative language is being discussed; need to choose/define terms for aligning the UUCEF with UU values.
- Growth strategies include adding more to current investments that focus on our favored targets/goals, add significantly larger investments than the current average, and to add some investments at the same average size as those already in the portfolio.
- Discussing staff and consulting resources due to the amount of work involved in research, investment and operational due diligence and monitoring of the portfolio.
- Questions have been raised on how/where some investments should be listed on our performance reports.
- Discussing the need to clearly identify Community Investment priorities.
- Reviewed action steps identified to achieve goals and example decision tables which could be used to evaluate investments.

Action item 1: NEPC to connect Vanessa with a foundation they work with that focuses on Native American communities.

- **Investment Policy Statement**

- Members: John, Ken Lucia, and Vonda
- Charge to the committee is to conduct a review of the Investment Policy Statement and to recommend changes as appropriate.
- Two phase process. The first phase has three steps, discern investment beliefs, review current policy documents, and draft new documents as appropriate. Second phase is to circulate draft for feedback.
- Preamble draft will include items from earlier group discussions on social justice, diversity, and SRI investing.
- Would like to engage members in a two-hour workshop to help in determining investment beliefs.

Action item 2: NEPC to provide sample Investment Policy Statements to John.

- **Screening**

- Members: Andrew, Kathy, and Pat.
- Charge to the subcommittee is threefold:
 - 1) guide implementation of the Business Resolution, including ensuring that we have the necessary research to meet its screening requirements, proposing screening criteria to the full SRIC/IC, applying the screening criteria, and leading development of communications mechanisms with UU social justice groups;
 - 2) conduct the semi-annual sense-checks of the Sustainalytics research vs. our criteria to ensure that our policies and guidelines are being followed; and
 - 3) dig into any issues emerging from the semi-annual screening review by NEPC.
- The Human Rights Radar identifies regions involved in or contributing to human rights conflicts. It is a cut and dried screen; will need to set our criteria in using this as a hard-negative screen.
- The Global Standard Screening tool is very similar to the ESG tool currently used in that it evaluates companies across a multitude of dimensions. This screen will take a little longer to evaluate and set our criteria for.
- Will be reviewing the Sustainalytics report with fresh eyes to ensure it is working as intended.

Action item 3: The screening subcommittee will take responsibility for outreach coordination with the social justice groups.

4. Portfolio Discussion – NEPC

- Market Environment
 - Emerging Market Equities led the way in the third quarter followed closely by the U.S. Developed Markets. Continuing to lag were the International Developed Markets, remains negative for the year. Fixed Income had slightly positive results for the quarter, continuing strong performance for the year.
 - November proved to be a strong month for all asset classes.
 - Markets responded positively to election results and the continued optimism for a vaccine.
 - Reviewed NEPC key market themes.
- Performance review
 - The Endowment returned 5.7% (gross of fees) during the third quarter of 2020, ranking in the 24th percentile of the peer universe, outperforming both the allocation and policy indices.
 - For the year-to-date period, the portfolio returned 3.1%, making up all losses from the volatility seen in March and outperforming both the allocation and policy indices.
 - For the trailing 3- and 5-year periods, performance has ranked in the top quartile relative to peers.

- Reviewed the Impact Summary chart which scores the managers based on NEPC ESG rating and identifies if they are a screened using a UUA mandated screen or are an impact manager. Chart will continue to evolve as manager research continues.
 - Reviewed the due diligence monitor noting disappointment in lack of diversity in succession planning for the companies on the report.
- Rebalancing update
 - Recent actions by the committee were to approve trimming \$6.75 million from Sands and \$2 million from Baxter Street while adding \$5 million to Ownership Capital and \$3.75 million to Wellington SMID. These transactions will take place over November and December.

Action item 4: NEPC to add a manager liquidity profile chart to the meeting materials appendix.

Action item 5: Gaffney and Santini-Field to pursue writing the managers on the due diligence monitoring report to express concern over lack of diversity at top level.

5. Strategic Asset Allocation and Fixed Income Review – all members, NEPC

- Review of asset allocation structure
 - Previously reviewed return assumptions on an annual basis, now shifted to a quarterly basis. This was done to ensure clients have the most up-to-date information.
 - Reviewed the asset class return assumptions for 10- and 30-year returns based on 9/30. Compared to 6/30 assumption, overall decrease of roughly 50 basis points.
 - Assumptions show Emerging Market Equities are anticipated to do well outperforming Large Cap and International.
 - Most noticeable gap is between Fixed Income and Equities. Anticipated returns for Fixed Income are markedly lower than a year ago and the gap between income and equity is wider. Role and yield of Fixed Income is not necessarily additive to the overall returns making it more difficult to achieve our return objective of 4-4.5% plus inflation.
 - NEPC overall equity recommendation is 60% US, 25% International Developed and 15% Emerging Market.
 - Also recommends the use of safe-haven fixed income for downside protection and as a source for liquidity. Encourage investors to hold treasury exposure of 10% or more as it is critical to influence overall portfolio outcomes in times of market stress.
 - Reviewed and discussed, at length, the asset allocation updates recommended by NEPC.

Motion 3: To terminate Cevian Capital. Moved: Santini-Field, seconded, Gaffney, all approved.

Motion 4: To accept NEPC's proposed allocation with the exception of reducing Corporate Credit to 2% and increasing Short Duration to 8%. Moved: Gaffney, seconded Lasher, all approved.

6. Manager Fee review - NEPC

- Overall manager fee, excluding incentive fees, is currently 0.67% which is in line with peers. Industry surveys provide only limited context for these fees, making direct comparisons challenging.
- Review of our managers shows that we are invested with six managers whose fees are above the median of their peers. In looking at those managers, five have added value above their benchmark, net of fees.
- Wellington is the one manager who has not. Their fee is 10 basis points above median while they have underperformed their benchmark by 300 basis points over the trailing 5-year period.
- NEPC research team will be reviewing the SMID Equity managers on the Focus Placement List in early 2021. At that time will bring recommendations to the committee.

Action item 6: NEPC to follow up with McGeorge to discuss other components making up to total UUCEF fee.

7. Discussion of re-commitment to SJF Ventures

- SJF has Fund V in the market and anticipates a final closing by year end.
- They are a well-known venture capital manager focusing on mitigating climate change, advancing economic opportunities, and improving health and wellness.
- While they fit with our values, performance has been mixed historically.
- Has maintained the same team from Fund II through Fund V; however, the composition of the team, in terms of background, is not as typical for a venture capital firms and may not be positioning them well for success.
- SJF will be committing 1% to the fund where most general partners commit between 4-5%.
- Expecting HCAP and Generation to being new funds to the market in 2021.

Motion 5: To not re-up with SJF Ventures. Moved: Lasher, seconded Santini-Fields, all approved.

8. 2021 Calendar Planning

- Quarterly meeting Dates
 - Confirmed dates of Q1 and Q2 meetings, February 24th, and May 21st.
 - Have been unable to find common date for 2-day meeting in August and one day meeting in November.
 - Each sub-committee is preparing their own meeting schedules which may help inform schedule for additional committee meetings.
 - For the first half of 2021, we will continue to meet virtually and may need to schedule topic-specific calls in between quarterly meetings.

Action item 7: Helbert to send out new poll with potential dates for a two-day meeting in August and one-day meeting in November.

Action item 8: Gaffney to check on setting up a call with the CEO and Chief Diversity Officer (CDO) at Templeton. Afterwards, committee will follow up to discuss potential goals for ourselves and our managers regarding diversity.

- Investment Work Plan
 - Q1 – Equity manager implementation
 - Q2 – Private Market pacing plan
 - Q3 – Annual screening review and annual Investment Policy Statement
 - Q4 – Annual manager fee review
- GA Deadlines and Dates
 - January 15th is the deadline for submitting workshop proposals.
 - Last year’s workshop was valuable and well attended. The exhibit hall was only useful in that it gave an additional 30-minute workshop which had 30-40 attendees engaged in conversation on the UUCEF and aligning investments with values.
 - Will need to prepare the written report for last year’s Business Resolution.
 - Would be beneficial to highlight a local Milwaukee-based CDFI or congregation that is doing work aligned with UU values, including racial justice/anti-racism.

Action item 9: Helbert to poll committees for potential open meeting date in the first week of January to discuss GA workshop title and description.

Next Meeting
February 24, 2021