

UUA Investment and Socially Responsible Investment Committee – Minutes
Via Zoom
February 24, 2021

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, Vonda Brunsting, Vanessa Lowe, Andrew McGeorge, Pat Tomaino, Julie Skye, Lucia Santini-Field

Member absent: None

Staff: Susan Helbert

NEPC: Lily Fayerweather, Krissy Pelletier, Asher Watson

1. Consent agenda – Gaffney

The Committees approved the Consent Agenda without objections. The Consent Agenda included:

- Investment Committee minutes from December 1, 2020 and February 17, 2021
- Socially Responsible Investment Committee minutes from December 1, 2020 and January 29, 2021
- NEPC ESG ratings review

2. General Assembly Update – Gaffney, Mulvey

- Still awaiting decision/confirmation if we will have a workshop at General Assembly.

3. Portfolio Discussion – NEPC

• **Performance Review**

- The Endowment returned 13.0% (gross of fees) during Q4 of 2020, ranking in the 11th percentile of the universe, outperforming both the allocation and the policy index.
- For the calendar year 2020, the portfolio returned 16.4% outperforming both the allocation and policy indices significantly.
- For the trailing 3- and 5-year periods, performance ranks in the top decile relative to peers.
- Public equities lead the way for the portfolio, managers in domestic large cap equities and international equities beat their benchmarks by 6.4% and 4.8% respectively.
- Have had a tremendous run in the portfolio over the last several years, driven by strong investment returns as well as asset inflows.

- **Market Outlook**
 - Virus trajectory and permanent interventions (monetary policies) continue to be the dominate key market themes. Global backlash remains prevalent while China transitions stay neutral.

- **Sands Allocation**
 - Sands Capital made contact regarding a holding exceeding our 8% limit of any single stock. Without a temporary increase, they will need to do a partial sell of SEA Limited (ticker SE) by the end of the week. Excess is due to gains.
 - They are requesting an increase of 15% but would be comfortable with 12%.
 - The UUCEF’s Investment Information Memorandum states that “No individual portfolio shall hold more than 8%, at market value, of its assets in the securities of any single entity”.
 - Will advise them they need to sell the excess holding and discuss with them the best timeframe in which to accomplish it.

Action item 1: NEPC to provide exposure breakdown of Facebook, Amazon, Apple, Google, Microsoft, and Netflix (FAANGM) across all UUCEF managers.

Action item 2: NEPC and McGeorge will contact Sands to ensure they are aware of our policy regarding percentage limitation for a single holding. Will arrange a meeting with them to present their proposal to increase the percentage limitation.

4. Global Equity Allocation – NEPC

- **Strategy and Portfolio Role Discussion**
 - In December, the committee approved a dedicated allocation of 10% to Global Equity. Of the four managers presented, NEPC recommends splitting between GQG and Independent Franchise Partners (IFP).
 - GQG is a boutique investment firm focused on long only equity strategies within global and emerging markets.
 - Firm was established in 2016, team is supported by twelve analysts all of whom are generalist without geographic or sector focus.
 - In addition to analysts, have two investigative journalists who use alternative research angels giving them differentiated views on companies.
 - Concentrated portfolio between 40-60 companies
 - IFP is equity focused only with a US strategy and a global equity strategy.
 - 100% employee owned (5 individual owners), ownership is well diversified with no one owner owning more than 50%.
 - Focused on owning companies that have strong business franchises with dominant intangible assets and look to buy those companies at attractive valuations. Place emphasis on high return of capital, high margin, low financial risk and, trading at a discount.
 - Strategy will preserve capital in falling markets but tend to match or lag rapidly rising markets.

- GQG is a growth-oriented strategy while IFP is value oriented and would complement each other very well. IFP provides a broader market cap spectrum with GQG focusing more on the larger and mega cap securities.
- Fee for GQG is 55 basis points and IFP is 75 basis points.
- **Implementation Discussion**
 - Comfortable adding GQG to the portfolio prior to an interview.
 - Would like interview other three managers before making an additional hire.
 - A fuller profile on diversity of the four managers, principals, firm wide and C suite, would be helpful.

Action item 3: NEPC to provide criteria for their new diversity scoring system.

Motion 1: To hire GQG fulfilling 5% of the Global Equity Target with funding coming from Wellington and WCM Capital equally. Moved: Lasher, seconded: Gaffney, all approved.

VOTED: That the Unitarian Universalist Common Endowment Fund, LLC, invest 5%, roughly \$12 million dollars of the assets of the UUCEF, LLC into GQG Global Equity, (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 2: To further reduce small cap equity to target of 6% and place proceeds into cash until second global equity manager has been selected.

5. Subcommittee Updates:

- **Investment Policy Statement Sub-Committee – John, Ken Lucia, and Vonda**
 - **Update**
 - a) Goal is to integrate all investment policies (Investment, Socially Responsible Investment and Community Investing) into a single document.
 - b) Streamline policies by eliminating redundancies and extraneous information and putting the details into appendices.
 - c) Make language accessible for non-professionals.
 - d) Will be starting from scratch instead of trying to rewrite existing policies.
 - e) Policy will begin with a preamble which frames the entire policy.
 - f) Considering moving away from a stated numerical return goal. Having a stated return goal can be a disadvantage, it can encourage taking on additional risk in down markets to achieve goal.

- g) Goals should go beyond numeric value and describe how returns are used to support mission and spending goals.
- h) Will be inviting Eric Horvath of Common Futures to join the sub-committee to assist with writing and thought process.

- **Next steps**

- a) To agree on an outline and structure for the IPS. Have UUA Board and our attorneys weigh in to ensure proposal is acceptable.
- b) Begin writing the first draft.

Action item 4: Minahan to circulate return goal and impact return portion of the IPS to the committee for review.

- **Community Investing Sub-Committee - Vanessa, Brian, Julie, and Kathleen**

- **Update:**

- a) Held calls with the Kaufman Foundation and Living Cities who funded two of projects we recently considered investing in, 1863 Ventures and Collab Capital.
- b) Discussed how adding a weight for impact into their framework of risk and return helped triangulate their decision-making process.
- c) Possibly able to partner with them on future projects.
- d) Without additional resources it could be hard to add a lot of new investments. Lowe will be speaking with Opportunity Finance Network (OFN), one of the largest trade association for CDFI's, about their new fund on racial equity. This could be a more sizable investment opportunity as opposed to several smaller ones.

- **Discussion/Reflection**

- a) The work of integrating social justice and our commitment to antiracism is clearly happening across all sub-committees.
- b) Community investing has long been a separate piece of the portfolio that helps fulfill the "S" (Social) in ESG (Environmental, Social and Governance). Would like to mainstream, not just community investing, but also the racial piece into the larger portfolio.
- c) Watched a portion of the video from the SOCAP Global Conference session ["Achieving True Racial Equity in Asset Management in Deployment Spaces"](#). Panelists: Yvonne Moore, Moore Philanthropy, Rachel Robasciotti, Adasina Social Capital, Ada Williams Prince, Pivotal Ventures and Bahiyah Robinson, VC Include.
- d) Social justice movements have done a great job connecting with the public and people who own the assets. Now facing biased, outdated due diligence processes, that orient everything toward the idea of risk.
- e) An obvious conundrum exists between fiduciary responsibility and risk due diligence.
- f) Track record cannot continue to be the only way to measure risk, need to be more imaginative and create better systems.

- g) While it is important to address injustices in investing, it must go beyond what we say and become part of what we do.
- h) Look into working with some of the panelists from the SOCAP video. May be able to have one or more of them help us with our discussions and potentially invest with them.
- i) Need a measurement to determine when we have met the objective of having “equitable” representation of women and people of color owned investments within our portfolio.

Action item 5: Brunsting and Lowe to prepare a reading list for the committee based on the work they are currently doing.

- **Screening Sub-Committee - Andrew, Kathy, and Pat**

- **Implementing Business Resolution on human rights investing**

- a) **Update on Sustainalytics products:**

- a. Human Rights Radar
 - i. Continuing to review the product to determine what criteria to put in place for excluding companies.
 - ii. Reviewing and giving a sensibility check to the results.
 - iii. Current limitation is that it only flags companies that are involved in 15 trouble areas.
- b. Global Screening Standards
 - i. Waiting on a large data dump that can then be sorted and scored.

- b) **Update on next steps in communicating with UU social justice groups**

- a. A report must be prepared for GA on our progress in implementing the resolution that passed last year.
- b. If given a workshop, would be another opportunity to provide more background.
- c. Increasingly encouraging anyone to join the quarterly calls, it is not just for financial committees of those congregations invested with us. It is also for those who want to learn how we align investments with UU values.
- d. One thought is, when we have the criteria defined, to present it as part of a quarterly call. Another is, once we can engage in person again, holding regular workshops at GA.

Next Meeting

May 21, 2021