



How Investment Decisions Get Made – Unitarian Universalist Common Endowment Fund

November 2021

uua.org



UU Common Endowment Fund

The Unitarian Universalist Common Endowment Fund is a diversified investment fund seeking current income and long-term investment returns through portfolio allocation and professional asset management with UU socially responsible investing goals.

- Current valuation (as of 10/31/21) - \$274,515,343
- UUA's endowment is just over 43% of total, or approximately \$118 million
- 333 congregations and UU affiliated organizations are invested
- Website – www.uucef.org



FOUNDATIONS FOR THE UUCEF

uua.org



Authorization for the UUCEF

- Certificate of Incorporation
 - Legally creates the UU Common Endowment Fund as a separate entity
 - Establishes fiduciary duty for the UUA
- UUA Bylaws
 - Establishes the Investment Committee, gives the IC responsibility for managing the UUCEF
 - Requires the UUA to use the UUCEF for its endowment
- Board Governance Manual / Policy
 - Establishes the Socially Responsible Investing Committee
 - Charges the IC and SRIC with broad policy goals



Fund Documents

- Operating and Subscription agreements (signed by investors)
 - Sets financial and legal structure of the UUCEF
 - Names rights of investors and responsibilities of the UUA
- Investment memorandum (maintained and updated by the UUA, with notice to investors)
 - Sets policies and principles for investing decisions
 - Establishes roles and responsibilities for committees, staff and investment managers involved in the UUCEF
 - Includes Socially Responsible Investment Guidelines and Investment Policy Statement
 - Investment Committee can make technical changes, Board of Trustees approves policy changes



ROLES AND RESPONSIBILITIES



UUA Board's Role

- Appoints Investment Committee and Socially Responsible Investment (SRI) Committee members
- Approves policy changes in the Investment Memorandum, including Investment Policy and SRI Guidelines
- Sets Board Governance Manual Policy
- Supports engagement and provides oversight for UUCEF
- UUA Financial Advisor is primary liaison to UUCEF



Investment Committee's Role

- Provides overall leadership for UUCEF financial management
- Proposes Investment Policy language, maintains and updates fund documents,
- Manages portfolio allocations & approves direct investment decisions
- Selects and monitors investment managers
- Works closely with SRIC to implement SRI Guidelines



Current Portfolio Allocation

Asset Group	Current Policy
Large Cap Equity	27.0
Small/Mid Cap Equity	6.0
International Equity	14.0
Emerging Market Equity	8.0
Global Equity	12.0
Total Equity	67.0
Private Markets	10.0
Private Markets	10.0

Asset Group	Current Policy
Safe-Haven Fixed Income	7.0
Global Multi Sector	5.0
Opportunistic Fixed Income	5.0
Total Fixed Income	17.0
Community Investments	5.0
Community Investments	5.0
Cash and Other	1.0
Cash and Other	1.0



Investment Characteristics

- Separately managed accounts with 5 managers
 - RhumbLine, Domestic Large Cap Equity
 - Sands, Domestic Large Cap Equity
 - WCM, Domestic Small Cap Equity
 - Boston Common, International Equity
 - Breckinridge, Fixed Income
- These accounts total 32.6% of portfolio, or nearly \$90m
- **Holdings in separately managed accounts are subject to UUA's custom screening instructions**
- 64.3%, or just over \$176m, is in pooled investments
- Balance in cash and community investments



Socially Responsible Investing Committee's Role

- Provides overall leadership for the values-based commitments of the UUCEF
- Proposes changes to the SRI Guidelines, sets investment screens based on guidelines
- Manages shareholder advocacy efforts
- Works closely with the IC to implement the SRI Guidelines



UUA Staff's Role

- Advises and supports IC and SRIC, UUA CFO is the primary staff liaison
- Implements IC/SRIC decisions (e.g. signing contracts)
- Acts as a liaison with congregations and other subscribers/investors



Investment Managers' Role

- Selected by the IC based on their performance and commitments to UUCEF values and investing goals
- For individually-held securities, choose investment strategies and make decisions within IC policy and SRI Guidelines
- For pooled funds, manage assets in accordance with their investment program which was selected by the IC
- Report their work as required to the IC



Congregations' Role

Subscribers/Investors' Role

- Decide how much to invest, when to withdraw
- Follow the UUCEF reports and outcomes
- Weigh in on key UUCEF decisions

General Assembly Delegates' Role

- Elect UUA Board members and approve UUA Bylaws
- Approve business resolutions as foundations for SRI policy



CURRENT UUCEF PROJECTS



Current Work of IC/SRIC

Three sub-committees are at work in:

1. Rewriting the Investment Policy Statement (IC Guidelines), portion of the Investment Memorandum that addresses investment goals, risk tolerance and asset allocation, among other topics.
2. Enhancing Community Investing program. Growing the portfolio from 1% to 5% of the fund requires larger investments and better use of staff and volunteer time to conduct due diligence.

Recently engaged a consultant to provide Racial Justice Investing training, with a further consulting engagement on investment due diligence, selection and monitoring to follow.

3. Operationalizing Screening Data in support of the 2020 Business Resolution on incorporating Human Rights in Investment Decisions.



Current Investment Screening Approach

- Screens are given to investment managers to operationalize IC Policy and SRI Guidelines, which are often written in a way that is subject to interpretation:
 - Ex. “UUCEF seeks to avoid investing in companies that show a below-average record of environmental performance and/or are responsible for significant environmental damage.”
- Screening is as much art as science, (lack of) data on what companies are doing is often a limiting factor
- Various investment managers can draw different conclusions about the same company



How Screening Works

- Fully applicable to individual securities and community investments. For pooled funds, manager selection is primary focus
- Exclusions based on industry (weapons, tobacco)
- Possible exclusions based on controversies
 - Controversies rated from 1 (low) to 5 (severe)
 - Criteria on controversy scores to flag companies for review vary
- Positive screen identifies bottom 10% of each industry for additional review and possible exclusion
- Ad hoc exclusions for individual companies
 - Enbridge, Motorola Solutions, HP Inc., Volvo AB



Shareholder Engagement Priorities

- For the 2022 corporate Annual General Meeting season, the IC/SRIC agreed on engagement priorities around
 - Racial Justice
 - Climate Change with particular focus on Just Transition and Environmental Justice
 - Political Spending
- Plan to file around a dozen resolutions, but the goal of a proposal is to engage the corporation in discussion and reach an agreement



Shareholder Engagement Priorities

- If agreement cannot be reached, resolution will go to vote at AGM, and we have specific tactics at our disposal to generate support for the resolution
- Recently co-filed resolution with Mercy Investment Services at JPMorgan Chase, asking the bank to ensure its financing does not contribute to new fossil fuel supplies that would be inconsistent with the IEA's Net Zero Emissions by 2050 Scenario.



Racial Justice Investing

- Recently completed search for a consultant to offer RJI training to the IC & SRIC
- Will pursue second engagement with a consultant to assist with due diligence and investment selection as we grow our Community Investing portfolio to 5% of total assets
- Made a \$1 million commitment to Inclusiv (national association for community development credit unions) to make capital investments in minority depository institutions.
- Commitment to adding diversity to our investment managers, with a recent report from Grosvenor Capital Management to UUCEF investors