

UUA Investment and Socially Responsible Investment Committee – Minutes
Via Zoom
February 25, 2022

Joint Investment Committee and Socially Responsible Investment Committee:

Investment Committee members present: Kathy Mulvey, Acting Chair, Vonda Brunsting, Brian Lasher, Asha Mehta, Andrew McGeorge, Ken Redd, Lucia Santini-Field

Members absent: John Minahan

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

NEPC: Krissy Pelletier, Kelly Regan

Guest: Maddie Ulanow

1. Minutes from November 3rd and 4th, 2021– Mulvey

Motion 1: To approve the Investment and Socially Responsible Investment Committee minutes from the November 3rd and 4th, 2021 meetings without amendment. Moved: Santini-Field seconded Brunsting, all approved.

2. Private Markets Recommendation, Generation – NEPC

- One of the most well-known managers in impact investing. Focused on sustainability but not limited to environmental.
- Bringing out Fund IV focusing on private growth stage opportunities with broad sustainable solutions themes, which they define as providing goods and services for a low-carbon, prosperous, equitable, healthy and safe society.
- The Fund is a NEPC rated 2 strategy due to some turnover at the team level.
- Management fee of 1.75% is below market for private equities.
- Concentrated portfolio targeting 15 to 20 investments. This level of concentration may leave them exposed to outsized impact from company underperformance.
- Recommending a \$4 million investment in Fund IV.

Action item 1: NEPC to contact investment managers regarding impact reports for public posting.

Action item 2: NEPC to include manager impact reports in the meeting materials.

Action item 3: NEPC to add goal of bringing more diverse led/owned investment opportunities to the 2022 workplan. Adding black and/or indigenous led/owned/focused funds which also meet our mission goals to be added to our current investment themes.

Motion 2: To accept NEPC’s recommendation to invest \$4 million in Generation Fund IV. Moved: Lasher, seconded Redd, Lowe abstained, all others approved.

VOTED: That the Unitarian Universalist Common Endowment Fund, LLC, invest \$4 million of the assets of the UUCEF, LLC into the Generation Fund IV, (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.

3. Xponance – DEI and ESG Enhanced Index Proposal – NEPC

- A female and diverse owned manager.
- Preferred manager for NEPC offering passive mandate.
- Offer separate accounts, likely able to allow for portfolio customization.
- Xponance created a licensing agreement with As You Sow (AYS) to use their new Racial Justice and Workplace Equity dataset in their portfolio construction.
- NEPC developed with them an S&P 500 enhanced index using Sustainalytics ESG data and AYS’s DEI data. Goal is to create an S&P 500 enhancement that has lower ESG risk than the stated S&P 500 and better scores on the AYS’s metrics around DEI.
- Strong manager willing to be creative using new datasets.

Action item 4: NEPC to work with McGeorge to select a few of our excluded companies, and then discuss with Xponance, the possibility of customizing an account before having a call with them.

Action item 5: NEPC to work on scheduling a call with Rhumblin for an update.

Action item 6: NEPC will circulate an Investment Philosophy Survey to the committee.

4. Portfolio Review – NEPC

- Market and Performance Review
 - For 2021 equity indices were very positive with S&P Large Cap leading the way.
 - Shortfall was emerging equity down about 2.5%. Regulatory changes in China heavily impacted large cap companies while small cap companies performed extremely well and were up 18%. China is about 30% of the index.
 - Within the Barclays aggregate, the rise in interest rates, caused a slight downside in returns.
 - In 2022, the S&P 500 is down about 9%, Barclay’s Aggregate down about 4%, concerns around inflation persist and now concerns out of the invasion of the Ukraine has caused some volatility in the markets.
- Portfolio transitions update
 - Approved a new allocation to equities, 2% to public global equities and increased private markets from 5% to 10%.

- Within Fixed Income shifted allocation from credit and long treasuries to treasuries and TIPS.
 - Transitions should be complete by the end of March.
 - NEPC negotiates fees on behalf of clients, recently re-negotiated with MFS who offered a reduction from .80bps to .53bps providing a savings of approximately \$46,000 annually.
- Performance Update
 - Full calendar year 2021 returned 8.9% gross.
 - The Endowment returned 2.0% gross during Q4 of 2021, ranking in the 88th percentile of the universe, underperforming both the allocation and policy indices.
 - For the trailing 3- and 5-year periods, performance ranks in or near the top half relative to peers.

Motion 3: To approve the new MFS fee structure as proposed. Moved: Mulvey, seconded Santini-Field, all approved.

5. Review ESG data sources – All

- Pros and cons of Sustainalytics, MSCI, other providers
 - Sustainalytics has stronger controversy monitoring. Another provider with very strong controversy monitoring is RepRisk.
 - MSCI has better reporting for ESG business practices along with breadth of coverage and granularity.
 - Over the last couple of years all providers have stepped up their game.
- Questions and factors to consider
 - What market will the data be used for?
 - What will the governance approach be for utilizing the data?
 - What has changed for us over the last few years and how will the data be used over the next few years?
- Timeline/urgency
 - Identifying the ESG monitoring needs and updating of the Socially Responsible Investing Guidelines should be on parallel tracks.

Action item 7: Screening subcommittee, to be joined by Mehta, to perform a needs assessment and set a meeting with Sustainalytics to discuss those needs and their current offerings.

6. Debrief on 1st session on Racial Justice Investing training with Erika Seth Davies – All

- Excellent at educating and engaging in a thoughtful, constructive way.
- Appreciative of bringing historical context and giving time to discuss and respond to presentations.
- Excited about assessment framework and her views on where we might focus efforts.
- Expect next session to be even better and provide more knowledge and tools to help operationalize our aspirations.
- A committee survey, after the second session, could be helpful to see where each members is.
- Financial consultation around the community investment portfolio, like NEPC's consultation of the overall portfolio, would be incredibly helpful.

- Find ways to share this work with other department leaders.

Action item 8: Brunsting to organize a call to discuss what the racial justice work/sessions are bringing up for each Caucasian member. Call will be open for anyone to join.

Action item 9: McGeorge, Lowe and Mehta to hold a call with Erik Seth Davies to discuss content expectations for second session.

Action item 10: McGeorge to provide, to Erika Seth Davies, our governing documents to get feedback on language which could be incorporated to imbed what has been learned and agreed upon by the committee after the second session.

7. Update in Investment Policy Statement process – Brunsting

- After thorough review of the statements, a decision to start over was made.
- Drafted an outline and are working on filling it in.
- Were aided in the literature review and review of many Investment Policy Statements conducted and presented by Maddie Ulanow. It was noted that, in searching for examples of model language on racial justice in investment policy statements there were few, and none were found in faith-based investing.
- Important to include a preamble linking up our mission alignment and prioritizing the work on racial justice.
- Timeline includes having a draft to the subcommittee by the end of March and a draft to the full committee in May. Afterwards would include outreach to stakeholders including the Board and social justice groups of the UUA.
- Any additional members that wish to join the subcommittee are welcome.

Action item 11: Brunsting to send a draft of the IPS to Lowe and McGeorge.

Action item 12: Lowe to forward to subcommittee, and Ulanow, the model language incorporated into the investment policy statement of the Valentine Foundation.

Action item 13: Skye to send a link to her client survey to the committee and will share the results at a future meeting.

8. Proposed composition of combined Investment/Socially Responsible Investing Committee – Santini-Field

- Discussed the outline of the New Investment Committee Structure and Composition.
- Suggested emphasizing equivalent experience.
- Experience usually means years in industry, to be groundbreaking, must look at the individual.
- How many members should be on the combined committee? NEPC suggests 5-7 would be optimal but is that enough to accomplish the work? Is it possible to have ad hoc taskforces, people who don't have to commit to the standard tenure of a member?
- Overall UUA commitments must be documented so potential members know what they are committing to uphold and work towards.
- Commitment and statement should be added that openings will be promoted to the BIPOC community and their associations.

Action item 14: Santini-Field will incorporate suggestions of the group and rewrite the proposal for additional review ahead of sharing it with the Values and Resources Alignment working group of the Board.

9. Engagement and Advocacy – Brennan

- Update on SEC litigation regarding 14A8 rules
 - Case is before the judge, anticipate ruling on the matter in mid-March.
- Clarifying questions and discussion of written report
 - Brennan is stepping down as Special Advisor on Socially Responsible Investing.
 - Will provide a memo to McGeorge on alternatives for taking the work forward.
 - Currently engaged with 21 companies. Highlights include:
 - a) Abbott Labs, originally filed in 2014, voting results have climbed over the years and are hopeful we can get a majority vote this year.
 - b) Chevron has announced their intent to withdraw Myanmar.
 - c) Tone at Exxon has changed due to last years lobbying proposal receiving a majority vote and the political spending proposal vote increasing by 50%. Dialogue with them was positive and believe that some of the disclosure for the lobbying will satisfy a lot of what missing from the political spending reporting.
 - d) NRG was withdrawn, sent a draft of reporting and was accepting of majority of suggested edits.
 - e) PPL was withdrawn, agreed to do the requested report.
 - f) Uber was unresponsive in request for dialogue, after multiple attempts did connect and dialogue has begun.
- Discussion of FPIC and Line 3 statement, shareholder proposals co-filed
 - Sign on letter to the banks is now up to 144 signatories with \$417 billion in assets under management. Still seeking signatories.

Action item 15: Brennan to redo the spreadsheet showing how each filing is tracked to the broader priorities set earlier by the committee. Will send new spreadsheet to McGeorge for full circulation.

Action item 16: McGeorge to share new shareholder advocacy process with committee once finalized.

10. Process for updating SRI Guidelines by GA2023

- Ideas for engaging UU Young Adults, UU social justice groups, congregations, and individual UU's concerned about social justice
 - No interest garnered from the UUYA's in joining the committees.
 - May be able to get more interest in being on a subcommittee working on the guidelines.
 - GA breakout meeting may induce interest in learning more. Lowe will see what is possible.

Action item 17: Subcommittee of McGeorge, Mulvey and Skye to work on process for updating the SRI Guidelines

Action item 18: Screening subcommittee to draft process and procedure for divestment considerations.

11. Communication with UUCEF investors, UU Young Adults and other interested parties

- Quarterly call 3/8/2022 at 2pm ET/1pm CT/12nMT/11am PT

- Brunsting volunteered to be a presenter on the call.
- Will be profiling The Enterprise Center.
- Consultant project, laying groundwork for GA2022
 - Need to engage communication assistance soon to provide clear impactful articles on the theory of change, how the fund works in terms of engagement, divestment and our values.

Action item 19: McGeorge to reach out again to Robert McNatt and Joe Ward regarding trio of articles for the website.

Action item 19: Helbert to work with committee members to coordinate presenters for remaining Quarterly Investors Zoom meetings.

12. Next meeting agenda

- NEPC survey results
- Policy statement work review
- Process/progress on SRI Guidelines
- Finalize committee structure

Next Meeting
May 3, 2022