

UUA Investment and Socially Responsible Investment Committee – Minutes

Via Zoom

Noon EST, November 3, 2022

Investment Committee members present: Kathy Mulvey, Chair, Brian Lasher, Ken Redd, Julie Skye, Vanessa Lowe, Asha Mehta, Eric Horvath, David Stewart, Andrew McGeorge

Members absent: John Minahan

NEPC: Krissy Pelletier, Kelly Regan

1. Check In and Covenant

Committee reviewed our covenant, and today's agenda was reviewed by the group.

2. IPS Survey Review

NEPC reviewed our IPS Survey Results (pages 15-18 in meeting book), identifying areas of strong consensus, majority view, and less agreement, and they reviewed of the open-ended questions on the survey.

Some discussion of the word “consensus”—does that mean an overwhelming majority, or is it a description of a process where an individual member can block or withhold consent?

Also discussed current drawdown—it's around 22% and we had our largest ever drawdown of 25% during 2008. No evidence of large redemptions from the fund and we've been cash flow positive over the past several months.

Overall, fairly strong consensus around risk/return, liquidity, evaluating versus peers, ESG integration and allocation to diverse managers and diversity identifiers.

DEI measurement could require multiple metrics based on common answers.

Less consensus, but still majority view around investment time horizon, maximum drawdown and “benchmark awareness.”

Lowest agreement, but items that are normally in an IPS, on measurement for financial success and tolerance for illiquidity.

Where does the committee add the most value? Value-alignment was the most common answer, and NEPC reports this as being unusual versus other clients on their roster.

3. Discussion of current draft of Investment Policy Statement

The committee next turned to pages 20-41 of the meeting book to discuss the current draft of the IPS.

Our first discussion point was the preamble, with it naming what we're for, as opposed to a list of what we're against. We thought it wise to name our commitment to participating in markets, even when there are negative externalities associated with capitalism, and that we should stay involved with and work where we can to address these externalities. There was a later discussion about capitalism and our role in markets. There are harms, but we also have a proud history and a compelling story to tell, and we should capture that in the preamble.

IPS drafting group also tried to keep the document brief and may need to include some items from the survey that were not included (e.g., drawdowns). Also, didn't touch the SRI guidelines since there's another group working on that.

What can be added to the draft IPS?

- Comments on tracking error between UUCEF and benchmarks because we aren't sector neutral
- Fees may vary
- Rebalancing or duties of committee vs. staff
- How to monitor investment managers for compliance
- Can we add measurement of diverse management by both number and asset weights
- Can we measure and report impact / ESG & Mission Alignment
- Can we incorporate language that lists our long-term return goals at being sufficient to support distributions and grow the portfolio.

The committee heard that the UUA Board would likely consider this more readily if presented well ahead of GA, like March.

Action Item 1: Ken to review the recording of this discussion and report back with the next round of edits. NEPC will add their comments to the draft as well.

4. Quarterly Performance Update

NEPC presented this section of the report and will also present the Large Cap Equity Review

All asset classes down over the quarter ending 9-30-22. US Dollar Index was up though. S&P 500 down about 5% for the quarter.

60/40 portfolio is near all-time lowest annual return levels through Q3 and down about 20% YTD.

Question from the committee if we could include hedge fund returns, as alternatives have been up for the year, albeit with higher fees. We also would like to see returns by equity sector in the US, as energy has been relatively strong YTD, and we are significantly under allocated to that sector.

Discussion of private equity valuations—figures on this report are through Q2 only, and we'll likely see these returns mirror the trajectory of public equity somewhat, but that diversification across vintages is important.

UUCEF was down 5% for the quarter ending 9-30-22. Our managers added 40 bps of return versus the allocation index, and we ranked in the 64th percentile for the quarter. We are down 21% calendar year to date, but we likely had about +5% returns in October. NEPC noted we've returned to the <\$250mm E&F peer group, which also is a better match based the composition of our portfolio.

NEPC next shared due diligence updates on Page 55. Mostly informational only, no recommendations.

Sands and Ownership Capital outperformed benchmarks over the past quarter, but still show relatively weak performance over the past year. Internationally, our investments in MFS and Boston Common have added significant value over benchmark for the quarter, driving much of our portfolio's outperformance relative to the allocation index.

NEPC has made no recommendations on changing managers, but they acknowledge Sands' recent weak performance.

Page 68 was the private equity IRR review, that compares since-inception IRR versus public market equivalents. Managers with longer track records are outperforming public market equivalents significantly.

The attribution analysis on page 72 showed that our outperformance for the quarter derived from fixed income, international equity and being somewhat overallocated to cash due to our rebalancing trades. Some discussion about excluding community investments from this report and whether they truly should be presented as a detractor from returns.

5. Large Cap Equity Review

NEPC wanted to have some discussion about growth vs. value and active vs. passive.

Three approaches they see in large cap are (1) all passive, (2) core-satellite approach, (3) all active. We're in #2 now with a core in RhumbLine and satellites in concentrated managers like Sands and Ownership.

Sands recently re-rated by NEPC and still has a 1 rating. Return is disappointing of late, but it's an inherently volatile type of investment, especially when the market changes from favoring value vs. growth. Now ranks in lowest quartile; a year ago would have been in top quartile. Committee asked to see this new rating report and for data on since-inception returns.

Large cap value: NEPC still positive on value, and we still tilt that way (56% in RhumbLine / 44% in Sands & Ownership). We discussed adding to value at our last meeting, but we're in a bit of a holding pattern while we evaluate RhumbLine and Sustanalytics. Could add a new manager, but NEPC has only one manager rated 1 or 2 that will allow SMA's at the \$10mm level. Could we add to Lindsell? Yes, but we couldn't qualify for SMA, but Lindsell also explicitly avoids energy, so that might be ok.

Reviewed prospective new domestic equity manager. This firm could they take over large cap passive, but we have them in a holding pattern till we update data providers. The timeline is complicated with sequencing and SRI guidelines revisions.

Discussion of whether we could use growth balances to fund private investment calls to provide more a greater value tilt.

Consensus seemed to be that we're generally ok for now and need to keep working on evaluation of RhumbLine / Sustanalytics and a potential new manager.

6. Fee Review

NEPC presented this section. Management fees for the portfolio are currently 61 bps. Was 67 bps two years ago. This excludes custodial fees, consultant fees and manager incentive fees, but we're trending lower due to increased passive management. NEPC discussed fee benchmarking, but this data is inconsistently reported across peers. NEPC believes we are performing well on overall fees, especially given how much active management we have in the portfolio.

Sands and Wellington are the managers with above median fees and below peer performance.

Committee asked whether we add information on investment vehicle (SMA, pooled fund, private equity) and where NEPC has negotiated fee breaks?

Action item 2: NEPC to share more detail on fees by vehicle and negotiated fee breaks at next fee review.

7. Approve August 2022 Minutes

Vanessa moved to accept our August 2022 meeting minutes. Seconded by Julie. Members voted to accept minutes.

8. SRI Guidelines Update: Progress & Next Steps

Committee reviewed the recent SRI Guidelines kickoff call and tied this back to the 2021 GA Responsive Resolution. The kickoff meeting was less productive than we'd hoped, and the Board's Values & Resources group is content with having us not proceed with a public drafting of the guidelines. We will proceed with drafting with a similar process we've used on the IPS.

We noted that fossil fuel divestment is just a subset of ESG / SRI Guidelines and some of the YAs may not appreciate the much broader scope of SRI Guidelines. The anticapitalistic orientation of some in the YA group will also be a challenge, and we need to name that we need to a participant in capital markets to generate the kinds of returns that will allow us to manage a perpetual endowment.

The Committee also flagged that our current framing of the SRI guidelines is what we don't do, maybe implicitly elevating negative screening. Instead, we need to name what we stand for, our theory of change, and the various strands of work that comprise our SRI work.

Discussion included how we elevate our stories, both on the financial returns UUCEF has provided to congregations and our success stories across various engagement campaigns. Some noted that spending too much time on history could amplify the point of certain stakeholders who argue we focus too much.

The committee began a discussion of how we can engage with attendees at GA 2023, and the Committee noted we've just been presented with a January 13th deadline for GA program submissions.

Action item 3: Work on drafting SRI guidelines over the next couple months, reviewing with the IC early in 2023, sharing the draft with social justice groups and other interested, constructive participants with a goal of getting this to the UUA Board by March/April.

Additional discussion about data we need to see from NEPC going forward around ESG impact. No action for now, but committee agreed that our impact reporting needs attention soon.

9. Divestment from CU200 in separately managed accounts

Some discussion around upcoming proxy season and whether we could divest from CU200 firms now. Andrew mentioned that filing coalitions were still forming, so it may still be a bit too soon to say on divestment.

Other committee members mentioned seeing more work around other issues this year, particularly racial justice investing and workers' rights.

10. Shareholder Advocacy priorities & plan

Andrew gave a brief update on engagement work to date.

Action item 4: Julie, Asha, and Andrew to meet to discuss engagement opportunities this season. Andrew to report and highlight to the IC the current period's engagement work.

11. GA2023

Discussion of who may take the lead around submitting a GA proposal for Pittsburgh. Committee discussed putting together a program where engagement partners, and organizations we invest in, impact private investment managers, and congregations could tout the value of the UUCEF.

Action item 5: Brian volunteered to take the lead on this proposal submission.

12. Prep for Quarterly Investor Call

Quarterly call scheduled for 11-17-23. Will try to get Ujima on the call this cycle, since they were unable to attend last time. UUA administration has encouraged us to hold the investor call in a webinar format

to limit some of the chat box commentary, effectively the same protocol used by the Board at its meetings.

Exact folks who will run next Quarterly Investor Call to be determined.

13. Next Meeting Agenda & Meeting Debrief

SRI Guidelines and New CI investments definitely need to be on the agenda for next time.

Next meeting not yet scheduled. Subsequently scheduled for March 24, 2023.

Meeting adjourned at 4:58pm EST.