

UUA Investment and Socially Responsible Investment Committee – Minutes

Via Zoom

9am EDT, March 24, 2023

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

Members absent: none

NEPC: Krissy Pelletier, Kelly Regan

1. Check In and Covenant

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

2. Composite Holding Assessment

Committee reviewed composite holding report as of 12-31-22. This includes our 4 SMAs: RhumbLine, Sands, WCM and Boston Common and our pooled funds. For the pooled funds, we took the overall portfolio details shared by the managers and scaled this to the size of our holdings.

We shared a composite holdings report, as well as a Top 60 holdings report, and a holding needed to be about \$600k to land on the top 60 list.

We spent much of our discussion on one of our pooled funds whose holdings have migrated significantly from what they owned when we first engaged them. At the time of our initial investment with the manager, we liked their growth orientation, downside protection from active management, a strong ESG process, and their diverse ownership (AAPI). However, if we saw the current portfolio at the time, we were first assessing the manager, we may not have signed up.

Committee spent a lot of time on what's next for this manager and our due diligence process. Seemed good consensus to use this as a case study for improving our vetting process.

Committee also noted that the IPS/SRI revisions could have language around commingled funds that would affect our next steps coming from the analysis. Consensus was we were not ready to move ahead with manager changes without having a more fundamental understanding of their process and our tolerances.

Action Item 1: NEPC to evaluate what happens to commingled portfolio based on enforcing broad exclusions and our managers' current discretion. This is a significant undertaking, but NEPC will begin working on this for us.

3. Market recap and outlook

NEPC presented this section and began on pages 10-11 by noting the rare occurrence of double-digit negative returns in both stocks and bonds in 2022. Indeed, everything was negative last year except cash and commodities. NEPC mentioned a prior period ask to add hedge fund benchmarks to this report and will do that for next time.

Action Item 2: NEPC to add hedge fund returns to the Asset Class Returns report.

NEPC noted the recent turmoil in regional banks and that we had no exposure to Silicon Valley Bank in the portfolio and a minimal allocation to Signature Bank.

Committee asked about current duration of fixed income portfolio, noting that it would be interesting to see if this has changed in conjunction with interest rate changes.

Action Item 3: NEPC to include duration measures in future quarterly reporting.

Reviewed capital market return assumptions as of 12-31-22 (pg. 20). All 10-year expected returns are higher YOY. Among UUCEF's investments, private equity has seen the smallest increase in expected return, but NEPC advised us to maintain our pacing plan and to continue to diversify by vintage, and private equity remains a great spot for mission aligned investing.

No rebalancing in 2022, and not recommending and changes this time. Based on updated return assumptions, our policy allocation would be expected to yield a beta-only return of 6.5% over the next decade, with manager outperformance potentially increasing this even more.

Reviewed investment themes, mostly focused on stagflation trends and recession. Strong labor markets mitigate much of this risk, but to be fair it takes some time for higher interest rates to show up in macroeconomic data. Recession signs seem more based on sentiment and on the inverted yield curve than hard data, and a soft landing remains a realistic scenario.

Reviewed fund performance vs. peers: Top quartile over last quarter, top half over longer term (5-7 years), but more like 70th percentile over 1-3 years. Underperformance driven mostly by large cap domestic equity, but other equity sectors have underperformed too. Reviewed asset allocation relative to peer—story is consistent with prior periods. Somewhat overallocated to global and international equities, and near peer elsewhere, except for hedge funds where we have virtually no exposure.

4. Mission Alignment Summary (pg. 66-67)

Will be revised once IPS work is complete. NEPC showed 4 years' worth of data on PRI signatories, ESG integration practices, diverse owned, use of thematic investments and use of screening. As thematic investing has increased, screening has trended slightly lower over time. Spent some more time in the details on our diverse owned managers and the thematic investing strategies of our managers.

5. IPS and SRI Guidelines

Committee reviewed status of SRI Guideline revisions work. We've removed some of the preamble text from the SRI guidelines, built out the three major strategies of SRI, aligned language with IPS text. Still some work to do on Human Rights Due Diligence.

- Screening: added commitments about commingled funds and annual review & ongoing monitoring. Led with prohibitions. Still work to do on specific environmental and social criteria.
- Shareholder Advocacy: clearly articulated our strategy about our best leadership role as a small investor, added language on proxy voting, added annual prioritization informed by UU social justice leaders.
- Community investing: added focus on black and indigenous communities, removed some historical context language, left matching program in place.
- Remaining questions: should guidelines expand beyond 3 major strategies, specific screening criteria updates, level of detail (policy vs. guidelines), what can we achieve re: consultation before GA.

Committee also reviewed recent Board-level feedback on our IPS work. Board is concerned about the use of GA resolutions to manage our portfolio decisions. Board suggested adding more identity measures to our reporting, perhaps around disability and LGBTQ+ identifiers, suggested highlighting returns (but we did note the committee's preference to make returns co-equal with other mission aligned goals), and to add an executive summary.

Consensus: integrate IPS and SRI guidelines into single document. Interaction of prohibited securities with commingled funds, waiting on input from NEPC.

Action Item 4: identify drafting group to finish up writing and integration of policies.

Action Item 5: Continue to engage with 2020 Business Resolution proponents between now and the end of GA about our draft SRI Guidelines/Policy document. Want input from these groups particularly on the human rights sections.

6. Oweesta

Committee heard from Oweesta, a Native CDFI intermediary, about a prospective investment from the UUCEF. Oweesta currently has investments with 46 indigenous CDFIs in its portfolio and offers financial education and training to its partners.

Motion: to invest \$2 million with Oweesta in a 7yr note at 1.5%. Moved by Vanessa, ultimately decided to give everyone two weeks for review and further due diligence.

Action Item 6: Committee to reply within two weeks on Oweesta proposal.

Action Item 7: Andrew to develop ongoing credit monitoring and due diligence reports for these umbrella loan organizations and the entire community investing portfolio.

Action Item 8: Contemplate whether we need a maximum counterparty investment size within the community investing portfolio.

7. Climate Justice Action Plan

IC was joined by staff from UUA's Organizing Strategy Team to discuss our climate justice action plan, this is document prompted by, but not directly in response to the 2023 Business Resolution. This is complex topic with no easy answers. Long run goal should be divestment, and communication is key. Distilling our complex program into relatable communication is important.

Current draft of the Climate Action Justice Plan calls for:

- Full divestment from CU200 companies and fossil fuel infrastructure companies in our separately managed accounts.
- Play a leadership role on shareholder engagement with banks over energy finance.
- Work with other aligned investors on engaging other companies key to decarbonization, including utilities and insurance.
- Adopt proxy voting policies aligned with climate ambition and accelerating progress, including voting against directors on the basis of climate concerns.
- Work with investment consultant to complete annual assessment of holdings in commingled funds, up to terminating managers who do not respond adequately to our concerns.
- Engage with Private equity managers to cease fossil fuel investments, disclose Scope 1,2 and 3 emissions, while actively seeking opportunities to invest in clean, renewable energy in our private equity and community investing portfolios.
- Ongoing communications about how UUCEF uses investments to address the climate crisis.

Weren't quite ready to vote on the climate action plan as presented but considered key parts of it:

Motion to divest from all Carbon Underground 200 positions in separately managed accounts, subject to resolution of current year shareholder engagements. Moved by Kathy, seconded by David. Unanimously approved.

Action Item 9: develop objective implementation criteria for fossil fuel infrastructure and services company divestment.

8. Prep for Quarterly Investor Call

Quarterly call not yet scheduled. Staff will work with presenters to identify best times to host the call.

9. Next Meeting Agenda & Meeting Debrief

Next meeting scheduled for June 8, 2023

Meeting adjourned at 2:10pm EDT