

UUA Investment Committee – Minutes
Via Zoom
June 8, 2023

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: Pamela Sparr

NEPC: Krissy Pelletier, Nick Deliberto

Market Review and Outlook

Committee reviewed calendar Q1 2023 results, across a variety of asset classes, and NEPC noted they have added a hedge fund index to this page. The most recent quarter was basically a reversal of 2022, as every sector except commodities showed gains in 1Q23.

For the S&P 500, the 6 mega cap names (Alphabet, Amazon, Microsoft, Meta, Tesla and Nvidia) were responsible for about 80% of the gains in Q1. Excluding those names, S&P500 would have trailed the Russell 2000 handily. This is important when considering active management, as over/underweights to the mega-cap names would drive much of any active manager's results relative to benchmarks.

Value equity segments lagged in Q1, with energy and financials showing declines. Again, this represents a near reversal from 2022 results. Tech and consumer discretionary sectors outperformed in Q1. Results in the financial service sector were influenced by the Silicon Valley Bank failure, with December 2023 Fed funds futures falling about 1% after the SVB collapse.

Data on inflation was also presented, and it shows a better picture, but still persistently high, now driven by core inflation and the service sector more than food and energy.

Little change to NEPC portfolio positioning views. Continue to recommend holding equity exposure near target, to keep extra liquidity and safe haven fixed income in line with targets, and to be alert for equity rebalancing opportunities when they emerge.

Portfolio Performance

UUCEF returned +4.6% net in 1Q23, our second straight positive quarter following a weak first three quarters of 2022. Our Composite and Allocation Index returns were equal in Q1 for FYTD, indicating that managers are matching their benchmarks. We are also above peer median in Q1 and FYTD. NEPC suggested this is a particularly good result since we are comparing ourselves to investors with more mature private markets portfolios who are realizing more gains on their holdings due to the vintage of their holdings.

Portfolio is up 8.5% annualized over 3 years, which represents the return in the post-Covid interval.

One big change on the performance sheet this quarter is that NEPC now reports net returns. This has led to generally lower percentiles in our peer rankings, although we are comparing like-to-like, i.e., UUCEF's net returns versus our peers' net returns.

We also reviewed our allocations versus peers. While we show as being near private markets, NEPC contends we have a less mature portfolio given our more recent entry to this segment. Our 0% allocation to hedge funds is clearly an outlier relative to our peers.

NEPC reviewed specific holdings, and discussed their over/underperformance. For most holdings, the explanations are some combination of concentrated portfolios and exposure to tech and consumer discretionary names that outperformed in Q1.

Committee next reviewed OCP Asia holding (Orchard Landmark). This holding offers liquidity on a 3-year cycle, with a redemption option that must be exercised in August 2023 with no subsequent redemption option until 2026. NEPC recommends holding our illiquid funds in private equity rather than private credit solutions such as OCP. Also should be able to rotate into more values-aligned investments in private equity investments, which is where we'll likely deploy the OCP funds.

Motion 1: To exercise our redemption option in OCP Asia / Orchard Landmark. Moved by B. Lasher, seconded by K. Mulvey. Motion passed unanimously.

Equity Manager Survey

NEPC presented the results of a values alignment review of our public equity managers. NEPC surveyed these managers across their theoretical exposure to sectors including fossil fuels, weapons, tobacco and violators of human rights. NEPC also asked about whether managers offered SMA structures and what the minimum position size would be for an SMA structure.

SMA's are not available for all public equity market managers, and those who offer it have minimum investments of \$25m to \$100m.

Committee expressed appreciation for this data. A detailed discussion followed about how we institutionalize surveys and information like this into our manager selection and monitoring process.

Post-Survey Path Forward

Committee discussed three broad sets of options.

- Option 1 – to take the results of the survey and proactively restructure the portfolio to get more values alignment. The risks here are potentially narrowing our opportunity set of managers, perhaps forsaking certain sectors where we cannot identify a value-aligned manager, and the uncertain effect on our fees.
- Option 2 – effectively a hold/status quo approach, but incorporating the new survey tool when evaluating new managers. This risk here involves a “hold” on current managers who may not invest precisely how we would.
- Option 3 = a reconstruction of our portfolio into a more passive approach. We could transition many actively managed holdings into an enhanced index approach. This could help us on measures of racial equity through manager selection, and it would result in lower fees. The risks are not seeing new opportunities from NEPC and some uncertainty about our risk metrics.

Consensus seemed to be that the best strategy was to task NEPC to presenting some new investment options to address current misalignments. Concern was named that we haven't yet shared sufficient constraints with NEPC around things like tolerance in exposure to problematic sectors, DEI measures, etc. and that will make it difficult for them to make optimizing suggestions. Committee needs to devote some more time to developing these quantitative limits for NEPC to use in helping construct the portfolio.

ACTION ITEM 1: NEPC to come up with some alternatives for our current investments in emerging markets and global equities to replace current managers that the committee has been watching. By August we will have recommendations from NEPC.

Meeting Minutes

Minutes from the November and March meetings were shared with the committee, but members wanted more time to review. We will review after this meeting and vote on them at next meeting.

IPS Review

Committee talked about our current work on integrating our SRI Guidelines more explicitly into the current IPS revision. This action has the support of the UUA Board. Some discussion about whether this document should be more aspirational in nature or whether it should offer some guidance to NEPC to optimize our portfolio given our tolerances for potentially holding investments that may not perfectly align with UU values.

Committee also discussed competing priorities, like hypothetically if we had a great black- or indigenous owned firm that couldn't guarantee zero exposure to tobacco firms? Committee expressed a desire that we could hold our investment consultant to finding better ideas, but this prompted some good discussion on strategic priorities.

Committee also discussed merits of NEPC's ESG rating and how it may not necessarily align with ESG results, and how we may be able to incorporate outcomes rather than process into our due diligence process.

Conversation pivoted back to investments managed/owned by black, indigenous or women owned firms. We have a goal to get this to 30%, a number that was the result of the IC's work with our racial justice consultant and the deliberation we've done. Discussed how we may be able to leverage remaining contracted hours with our consultant about how we could monitor progress on this and incorporate it into our initial due diligence.

Spoke about how our final version of the IPS should proceed to approval. Needs to go the the Board via the Values and Resources committee. We also had a deadline of GA 2023 to get the SRI Guidelines done. These goals seem to be in competition as there doesn't seem to be a path to get Board approval on this before GA using our standard process. Consensus was to follow normal approval rules, while socializing the document and inviting feedback from social justice groups (stopping short of accepting edits), even if this means slightly missing the deadline to have the SRI guidelines revised by GA 2023.

Also had a discussion about the creation of a values-alignment dashboard that could explicitly score measures and reporting system for racial justice investing.

Action Item #2: Andrew to connect with RJI consultant to ask for a review of our IPS and see about capacity and timeframe to develop a measurement system to track our progress on integrating racial justice into our investment portfolio

Committee votes to release IPS to Values and Resources Committee, subject to a review by our racial justice investing consultant and with a known need to add a scoring tool to measure our progress on racial justice in our investments.

GA Preview

Discussion about upcoming General Assembly and mini assembly and the proposed business resolution.

We spoke a little of next steps should the resolution pass, but it's difficult to make concrete plans just yet. However, it seems pretty clear that the GA has the authority to direct the investment activities of the UUA's endowment, and the business resolution has been ruled 'in order' by our general counsel.

Committee next spoke about the mechanics of the resolution being debated on the floor. Strong consensus to identify which IC members may wish to speak and to identify other investors who would be willing to speak against the resolution. More to follow on this after the upcoming mini-assembly. Also encouraged each other to think about questions we might encounter at GA and stories and successes we may want to tell when we interact with delegates there.

Closing

Committee closed by offering appreciation to Kathy Mulvey as our outgoing chair and celebrated her many years of service, her significant contributions and how much we all enjoyed working alongside her.

Next meeting date: Thursday, August 10, 2023.