

UUA Investment Committee – Minutes
24 Farnsworth Street
Boston, MA 02210
May 10, 2024

Investment Committee Members Present: Brian Lasher, co-Chair, Eric Horvath, Vanessa Lowe, Asha Mehta, co-Chair, Ken Redd, Amrita Sankar, Julie Skye, Pam Sparr, David Stewart, Tim Brennan (Zoom), Interim CFO

Members Absent:

NEPC: Krissy Pelletier, Alix Stewart (Zoom)

Guests: Randy Webb (Zoom)

Staff: Carey McDonald

NEPC Consent Agenda

- Mission Alignment Summary
- Diversity Equity and Inclusion
- ESG Implementation & Diversity

Motion 1: To approve the NEPC consent agenda. Moved: Lasher, seconded: Skye, motion approved.

Review actions taken over the last year

- Approved two private markets allocations 1) Carlyle, which has a focus on renewable energy, and 2) Grosvenor, which allocates capital to diverse owned and led managers.
- Approved a new account with Xponance, result will be reallocating about 20% of the portfolio to a BIPOC manager.
- Began a regular review of public equity holdings, resulting in a reallocation which aligns better with our values. Resulted in terminating GQG and RBC, shifted investment with Acadian to the fossil fuel free vehicle, and increased investment with Generation Global Equity, which emphasizes sustainability in investment process.

Semi-Annual Values Alignment Survey

- Review of public equity manager responses
 - NEPC created a set of questions to gain clarity on managers.
 - What do their funds currently, or have the ability to, invest in?
 - Availability of a vehicle that excludes fossil fuels, weapons, or tobacco?
 - What would the minimum pricing be for a separately managed account (SMA) where we could direct screens?

- While most of the managers in the portfolio have no exposure to the related investments in question, they can invest in those categories if they choose to as their mandate has no restrictions on any industry or company.
 - The exceptions to this are Ownership Capital, Generation, Lindsell Train, and Boston Common. Their philosophy and principles preclude investments in these types of companies.
 - In comparing results from last year, there are many fewer (only one) remaining in the portfolio and that is Wellington Small-Mid Cap Value which has a small amount of holdings, 1.35%, in tobacco.
- Discuss role of Wellington going forward
 - While the tobacco holding is not significant and they are a very outspoken voice on climate change further consideration is warranted.
 - Will begin looking for alternatives that may be better suited for the portfolio.
- Summary of environmental/climate tilts in portfolio
 - Across our public equity managers, only three have a direct fossil fuel free mandate in their documentation. Three of them also have additional thematic focuses on what they are looking for specific to climate change.
 - In the private market managers, most don't have specific screenings but do have thematic focuses to ensure they don't invest in such companies.

Action item 1: NEPC to begin looking for alternatives to the Wellington SMID Cap investment.

Action item 2: NEPC to look at our co-mingled accounts to see where we could move to a more aligned solution or separately managed account.

Action item 3: NEPC to contact Wellington to see if they are still holding the tobacco investment and what company it is/was.

Asset Allocation and Liquidity Review

- Overview of expected returns and market assumptions
 - Portfolio allocation is reviewed on an annual basis toward structure and how it can meet our goals and objectives.
 - Use a building block approach to asset class assumptions and apply it our portfolio to look at a forward looking projection.
- Discuss long term portfolio positioning
 - Rebalancing is in progress to bring allocations closer to interim targets.
 - Private market is now overweight to the interim target and slowly increasing towards the long-term policy target. Recommendation is to adjust the interim policy to 7.5%, to reflect the current allocation, and to adjust short duration down to 4.5%.
 - Forward-looking 10-year return projections of 5.6-6%, below 7.1% total return goal.

- Lower return expectations due to higher inflation projections and elevated equity valuations.

Portfolio Performance Review

- Performance
 - Return over the last quarter was 4.1% net which slightly underperformed the benchmarks and ranked in the third quartile among the peer universe.
 - Underperformance primarily from active managers across equity and fixed income.
 - Private markets showing some negative returns due to J-curve effect and lagged markdowns from 2022.
- Rebalancing
 - No recommendations at this time.
- Update on Xponance Efforts
 - NEPC and subcommittee are continuing to meet with Xponance to shape the fund.

Action item 4: NEPC to rename the UUA Socially Responsible Investing line of the Performance Report to Advocacy Account.

2024 Workplan

- Workplan
 - Manager fee review
 - Continue work with Xponance to finalize account structure
 - Evaluate two potential new managers aligned with Paris climate goals
 - Continue benchmarking work
 - Contact Sustainalytics to see what climate report they could do on the portfolio
 - Reviewing Sustainalytics screening report and transmit our instructions to the SMA managers

Action item 5: NEPC to provide report on the portfolios Israeli exposure.

Custodian

- Retirement of our Senior Endowment Accountant, and decision to not replace him, has created stress within the Finance Department.
- The accounting process for the UUCEF is very complicated, and a large volume of work now rests on one employee. Result is a delay in reporting performance to the account holders for their portion of the portfolio and in creating/posting performance to our website.
- In an effort to reduce the workload, the decision was made to change the format of the report to show only the net change month over month. This change has not been well received by our clients.
- A discussion with our investment consultant brought forth the fact that many of their clients, with unitized funds, are turning to banks to perform the accounting.

- Have begun discussions with our custodian, U.S. Bank.

Consent Agenda

- February 2024 Minutes
- Stone Castle Depository Statement

Motion 2: To approve the consent agenda. Moved: Lasher, seconded: Stewart, motion approved.

GA Program Update

- Had great input and guidance from staff and committee members in putting together the panel.
- Video of the panel is complete and has been submitted for inclusion at GA.
- Will be promoting the video far and wide.

Action item 6: Sankar to circulate final GA video to the full committee.

Climate Working Group Update, Plan & Communications

- Working toward a business resolution for next year's GA, direction of resolution is not clear at this time.
- Discussed the summary of the extended discussions with multiple faith based communities.
- Strategies covered reducing emissions, divesting from fossil fuels, sustainable energy investments, addressing environmental impacts like deforestation, etc. Need to find a way to communicate our climate approach which states where we are and where we are headed.
- Discussed measuring UUA's carbon footprint, exposure to transition-ready companies, nuclear energy, better environmental practices, etc. Reviewed 11 potential climate investment strategies outlined in the memo by Pam, which came out of the faith based conversations, on additional areas where we could focus beyond divestment and engagement.

Action item 7: Mehta to work with Sustainalytics to determine the carbon footprint of the UUCEF.

Action item 8: Mehta to work with NEPC to find out our exposure to nuclear energy and companies that are engaged in better energy and environmental practices.

CFO Update, Shareholder Advocacy & Annual Meeting Reviews

- First search for a CFO did not result in an offer as the selected candidate withdrew from consideration.
- Interim CFO, Tim Brennan, has been extended beyond his original commitment and we need to find another interim solution. Focused on finding interim leadership and staffing which will carry us through the end of the calendar year and audit cycle.

- Will be restarting the search process after reviewing the structure of the position to determine if it is adequate to be able to fill the position.
- Did not have capacity to do as much advocacy as in previous years. IASJ has done a very good job, and we participated in dialogue with several companies.
- Dialogue continued with SLB (formerly Schlumberger) regarding human rights, with regard to combat areas, specifically with Russia. Report produced was not as robust as needed.
- Ford Motor, dialogue continued on the subject of living wage at home and abroad.
- Bank of America filing, regarding alignment of their lobbying in line with the Paris Agreement, went to a vote and received 27% support which is fairly strong.
- Anticipate working with IASJ for another advocacy season. Continuing to evaluate approach and improve alignment for next year's activities.

Action item 9: Brennan to circulate the advocacy report to the committee.

Founders First Discussion & Recommendation

- Have held a series of conversations with Founders First, a black-led organization that provides loans to small and medium size businesses.
- Our investment would be used to support small business loans to historically undercapitalized businesses. Loans size averages between \$200 and \$300 thousand with a duration of around two years.
- The investment vehicle is the Change Catalyst Fund. They are requesting an investment of \$2 million however, based on research, feel more comfortable with a \$500,000.00 investment.
- Term would be 7 years at 7% with interest only payments for the first 3 years and interest and principal over the remaining 4 years. There are no management fees.

Motion 3: To invest \$500,000.00 with Founders First into the Change Catalyst Fund. Moved: Lasher, seconded: Skye, all approved.

VOTED: That the Unitarian Universalist Common Endowment Fund, LLC, invest \$500,000.00 dollars of the assets of the UUCEF, LLC into Founders First Change Catalyst Fund (the "Investment Fund"), on the terms set forth in the subscription agreements and offering documentation therefore submitted by the Investment Fund to Carey McDonald, Executive Vice President of the Unitarian Universalist Association, subject to such changes and amendments therein as he may determine to be appropriate; and

VOTED: To authorize the Executive Vice President, Carey McDonald, acting singly, 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 Executive Vice President, Carey McDonald, has done or may do in connection with said investments.

Community Investments & End of Matching Program

- Messaging to congregations, and the matching institutions, was completed. No feedback from congregations was received. Did have a few institutions ask about opportunity for investments of other types.
- Will take around 18 to 24 months to close out all matching investments.
- Discussed the recent reports from Oweesta highlighting the size of the projects they invest in.
- Of monies from the Inflation Reduction Act going to CDFI's, Oweesta was an awardee of \$156 million from the EPA's Solar for All Program and Inclusiv received \$1.87 billion through the EPA's Greenhouse Gas Reduction Fund.
- Next, will begin conversations with the African American Alliance of CDFI CEOs for potential investment, and possibly begin conversations with Sunwell, who supplies solar to underserved communities.
- Hopefully, the next Director of Communications, will be open to helping us get the message out regarding these types of investments.

Action item 9: Lowe to work on scheduling a meeting with African American Alliance of CDFI CEOs.

Action item 10: Lasher to send out a Doodle Poll to find a new date for the next meeting.

Process observations

- Gratitude for the individuals who pulled together materials for the meeting, and to Tim Brennan, for his extended service.
- Did well at not talking over each other and adhering to the meeting timeline.
- The floor was shared appropriately, even with it being a hybrid meeting.

Next meeting date:

TBD