

UUA Investment Committee – Minutes
24 Farnsworth Street
Boston, MA 02210
September 11, 2024

Investment Committee Members Present: Brian Lasher, co-Chair, Eric Horvath, Vanessa Lowe, Asha Mehta, co-Chair, Ken Redd, Julie Skye, Pam Sparr (Zoom), David Stewart, Randy Webb, Lee Meinicke

Members Absent: Amrita Sankar

NEPC: Krissy Pelletier, Alix Stewart

Guests: Courtney Wicks IASJ (last minute cancellation)

Staff: Carey McDonald, Mathew Jensen

The main themes and activities of the meeting are summarized as follows:

1. **Review of Agenda and Meeting Structure:** The meeting opened with a review of the day's agenda, including reviewing the consent agenda, fee study, investment policy statement (IPS), performance overview, climate discussion, community investing, and shareholder advocacy.
2. **Manager Performance and Portfolio Strategy:** A significant portion of the meeting focused on reviewing the performance of various investment managers, including Sands, Wellington, and Ownership Capital. Underperformance, especially in U.S. large-cap equities and active management decisions, was discussed at length. The Magnificent 7 (large-cap tech stocks) and their impact on benchmarks were also highlighted, with a focus on whether the current portfolio's structure would continue to meet performance expectations.
3. **ESG and Values Alignment:** The committee discussed the importance of values-based investing, including environmental, social, and governance (ESG) factors. The transition to Xponance was noted as a key action in maintaining better alignment with values, particularly in terms of reducing the reliance on certain benchmarks and improving systematic approaches.
4. **Challenges with Tracking Error and Active Management:** Tracking error, allocation versus policy index differences, and the lag in performance due to active management strategies were recurring topics. There was a need to balance performance with adherence to ESG and UU Values goals.

5. **Action Plan and Process Improvements:** The committee highlighted the urgency to take further action by researching and possibly replacing underperforming managers, with a focus on transitioning to new managers and improving rebalancing strategies.
6. **Communication and Process Improvement:** There was a discussion about improving communication with congregations regarding the portfolio's fees, values alignment, and the importance of having a clear narrative around fees and performance. The committee also noted the importance of making improvements in processes, including rebalancing and decision-making speed.

Outcomes of the meeting are summarized as follows:

1. **Portfolio Rebalancing and Transition to Xponance:** The committee decided to move forward with transitioning to Xponance, particularly in U.S. large-cap equity. This transition aims to improve tracking error, better align the portfolio with values, and address underperformance.
2. **Review of Investment Managers:** Several investment managers, including Sands, Wellington, and Ownership Capital, were reviewed. There was consensus that Sands and Wellington were underperforming. A follow-up action for November was agreed upon to review these managers, particularly for the small-cap manager and international equities.
3. **Consent Agenda Approved:** The committee approved the consent agenda, which included minor changes to the Investment Policy Statement (IPS), including updates to interim targets and some typographical corrections.
4. **Governance Improvements:** The committee identified that improvements were needed in the rebalancing process to ensure that allocation matches the policy targets. This would address some of the gaps observed between policy and actual portfolio allocation in recent years.
5. **Commitment to Active Management Despite Challenges:** The committee discussed the performance challenges of active management, especially in the large-cap U.S. equity space. Despite these challenges, it was agreed that active management remains crucial to maintaining the values alignment of the portfolio. However, there was a need to balance this with performance considerations going forward.
6. **Future Areas of Focus:** The committee expressed a sense of urgency to take action on underperforming managers and agreed to review the U.S. small-cap and international equities space by November.
7. **Communication and Reporting Enhancements:** It was noted that improvements in communication and process transparency would be helpful, especially in reporting on

fees, performance, and values alignment to stakeholders. The committee will work on creating a more effective narrative around the portfolio's strategy and performance.

These outcomes reflect the committee's focus on improving portfolio performance while staying aligned with values-based investing and ensuring better governance and process management.

The resulting actions from the meeting include:

1. **Transition to Xponance:** The committee decided to proceed with the transition to Xponance for U.S. large-cap equity to improve tracking error and alignment with values. This will replace RhumbLine Advisors and Sands.
2. **Replacement of Underperforming Managers:** With NEPC, the committee will review and identify replacements as merited for underperforming managers, particularly in the small-cap and international equity sectors. This review will be prepared for the November meeting.
3. **Investment Policy Statement (IPS) Updates:** The committee approved minor changes to the IPS, including updates to interim targets and correcting typographical errors. These changes will be submitted for board approval.
4. **Improvement in Rebalancing Process:** The committee asked staff to document and enhance the rebalancing process to ensure that allocations are more closely aligned with policy targets. This aims to reduce tracking error and improve overall performance.
5. **Communication and Reporting Strategy:** The committee agreed to prioritize work on better communication with stakeholders, focusing on fees, performance, and values alignment in particular climate just transitions. They will develop a clearer narrative to explain the strategy and performance of the portfolio.
6. **Focus on Manager Performance:** A follow-up review of U.S. small-cap and international equity managers will be conducted. This will be part of a broader effort to upgrade performance while maintaining alignment with values.

These actions are aimed at addressing underperformance, improving process efficiency, and ensuring the portfolio remains aligned with the organization's values.

Process observations

- Effective Time Management.
- Good Participation and Engagement.
- Lack of Process Observer at the Start: this was addressed midway through.
- Alignment with Covenants of respect, engagement, and presence.
- Clear Next Steps: The discussions led to clear actions and decisions on key items.

Two members are leaving the committee and were acknowledged for their service and contributions over the years:

Julie Skye - Her departure was acknowledged with gratitude for her years of service and contributions to the committee.

Ken Redd - Ken is also rotating off the committee after six years of service, and his work was similarly deeply appreciated by the committee.

**Next meeting date:
Nov 7, 2024**