

# Investment Committee Minutes

May 4, 2006 Meeting

Greeley Library

Members Present: Scholl (Chair), Sherblom, Corkran, Ballester, Gabert, Brody

Also Present: Montgomery (UUA), Konicki (NEPC), Driscoll (NEPC), Kondry (NEPC), Gladyszak-Underhill (UUA), Morris (UUA CSRI), Cudhea (UUA CSRI), Holton (UUA)

## **1. Performance**

NEPC reviewed the performance for the March 2006 quarter. NEPC reported that most markets during the 1st quarter were pretty strong and that Small Cap reigned supreme, although NEPC does not think that this is sustainable. Small Cap was flat for April 2006. Small Cap Core (+13.9) outperformed Large Core Cap (+4.2) markets. Small Cap Growth (+14.4) outperformed Large Cap Growth (+3.1) strategies. Small Cap Value (+13.5) outperformed Large Cap Value (+5.9). International Equity Markets were positive (+8.9) and were outperformed by Emerging markets (+13.2) for the quarter.

The Lehman Aggregate Index lost (-0.6) this quarter. Short term interest rates continue to rise. Global Bonds outpaced Core Bonds but were down (-0.4) for the quarter.

The Endowment Assets totaled \$121.1 million as of March 31, 2006.

NEPC reported that the UUA Endowment allocation to equities was 51.3% which was below the Median Endowment's allocation of 65.7% and slightly higher than the revised 50% equity target.

The UUA Endowment posted a 2.8% return for the first quarter which ranked in the fourth quartile of Endowments. Active management detracted 130 basis points during the quarter as most managers underperformed their respective index.

As of the year ended March 31, 2006, the UUA Endowment Fund's year-to-date return was 12.2% and ranked in the 3<sup>rd</sup> quartile of endowments. Policy hurt return with a lower weighting to equities. Deviations from policy added 10 basis points and active management added 70 basis points.

## **2. Benchmarking GIF**

NEPC reviewed in detail the way in which the GIF is benchmarked. The GIF is benchmarked versus the Policy Index (Target Asset Allocation invested in index funds). Deviations from the target allocation and active management are also tracked. The GIF is also tracked versus the nominal target return of 8.5%. The universe of endowments that the GIF is compared to is the Independent Consultants Cooperative

endowment universe. The ICC universe represents \$119 billion in assets and consists of 420 funds.

NEPC is able to provide a subset of the endowment universe according to assets. The Committee requested that NEPC provide additional benchmarking information versus a subset of the Endowment /Foundation universe with assets in the range of \$75 - \$200 million.

### **3. Governance Strategy Manager Review**

The Governance Strategy Manager from the non-correlated section of the GIF presented a review and update to the Committee.

The Governance Strategy Manager has approximately \$4.0 billion consisting of a concentrated portfolio of U.S. common stocks. The strategy involves adding value by actively engaging each company to improve performance. They do not invest in highly leveraged companies or companies which are financially distressed. The proactive engagement seeks to cause operational, financial strategic and governance change to positively impact companies' long-term market valuation. They believe that good stewardship adds value.

### **4. Asset Allocation Update**

At the request of the Committee, NEPC presented a series of asset allocation structures with alternative asset mixes which included a 1% allocation to Community Investments and additional asset classes to help the GIF meet its 8.5% target return. The additional asset classes included real assets (real estate, TIPS, commodities, timber) up to 5%, private equity up to 5%, and Hedge Funds up to 5%. Various scenarios presented new allocations only to hedge funds and allocations to real assets. It was noted that there would be some overlap with our current allocation to non-correlated assets.

The presentation also included examples of the projected spending levels for the various asset allocation scenarios.

The Committee discussed the data presented and possible asset classes for sources of funding the new asset classes.

**Motion 1** Corkran proposed that excess cash from the current quarter be invested with the Stable Allocation Manager. Sherblom seconded. Motion passed.

### **5. Community Investing Decision**

**Motion 2** Scholl proposed that the Committee support the Committee on Socially Responsible Investing proposal recommending to the UUA Board of Trustees that Community Investments be 1% of the GIF. Corkran seconded. Motion passed.

**Motion 3** Scholl proposed that the Community Investments be included in the Fixed Income allocation in the GIF. Corkran seconded. Motion passed.

**6. Socially Responsible Investing Update**

The progress report to the UUA Board of Trustees on the collaborative efforts of both committees to clarify and implement the SRI screening techniques for the GIF was well received by the Board. Scholl thanked Brody and Saunders (CSRI, UUA Board) for their efforts.

Progressive Asset Management continues to work on the UUA GIF screens.

Scholl met with the Index Manager and reported that they are ready to implement the DNB list.

NEPC reported that they are ready to send DNB list to the active U.S. Equity managers.

Scholl handed out a draft of SRI policy guidelines for discussion on increasing clarity, transparency and how to document the achievements and continued efforts by the Committee towards increased socially responsible investing.

On September 7, 2006 a joint meeting between the Committee and the Committee on Socially Responsible Investing is scheduled. Issues that will be addressed will include questions related to asset classes and strategic planning.

**7. GIF Expense Allocation Change**

The Committee reviewed the fees for the GIF and the impact of the January 2006 UUA Board vote to reduce the administrative fee to .2%. It was noted that the reduced administrative fee will continue to be paid quarterly.

**8. GIF Marketing Project**

Kay Montgomery and Don Holton join the meeting to explain the upcoming efforts that will be invested in the UUA GIF marketing plan. The possible timeline for implementation of the plan is Fall 2006. The discussion focused on crafting a survey to be sent to those congregations that are already invested in the GIF. The possibility of changing the name of the GIF was also discussed.

**9. Minutes**

The committee reviewed the final draft of the minutes for the March 2, 2006 Investment Committee meetings.

**Motion 4**

Sherblom moved to approve the three sets of minutes. Scholl seconded.  
Motion passed.

**10. Meeting Dates**

The Meeting dates determined for the rest of 2006 are:

Thursday September 7<sup>th</sup>

Thursday November 9<sup>th</sup>

Scholl moved that the meeting be adjourned.  
Sherblom seconded. Meeting adjourned.