

Investment Committee Minutes

September 7, 2006 Meeting

Rice Room

Members Present: Scholl (Chair), Sherblom, Corkran, Dion, Brennan, Brody

Also Present: Fishman (NEPC), Driscoll (NEPC), Gladyszak-Underhill (UUA)

1. International Equity Manager Selection

During the 2006 summer, the Investment Committee had reviewed the asset allocation target presented by NEPC at the May meeting and approved decreasing small cap equities to 5% and increasing international equities to 20%. At the request of the Committee, NEPC conducted an International Equity Manager Search for a manager that would complement the current International Equity Manager's value style. On September 6, 2006, the current International Equity Manager and four finalists made presentations. In-depth discussions followed the presentations. During the formal meeting on September 7, 2006, the discussion continued and the following decision was made:

Motion 1: Sherblom moved that the Committee choose the International Core Manager as the finalist and allocate to each international manager 50% of the new international equities asset allocation target of 20%. Scholl seconded. Motion passed.

The Committee agreed to defer the discussion of other alternative investments to the November meeting.

2. U.S Equity Socially Responsible Investing Implementation Update

In June 2006, Progressive Asset Management compiled its efforts to evaluate the GIF and its screens into a report that was distributed to the Committee. The Committee met by telephone and email to discuss the recommendations. The following motions were approved:

Motion 2: Adoption of the 46 stock "Do Not Buy" list for the Russell 1000.

Motion 3: Adoption of the 64 stock "Do Not Buy" list for the Russell 2000.

Motion 4: Adoption of the Russell 1000 rankings for use by UUA GIF Index Manager in managing the S&P 500 "UU Values" index fund.

As of June 30, 2006 the UUA GIF domestic equity managers became in compliance with the UUA's revised "Do Not Buy" list. The UUA GIF Index manager reconstructed the S&P 500 "UU Values" index fund to comply with the UUA's revised "Do Not Buy" list and paired this effort with stocks favored by the Russell 1000 ranking system.

3. GIF Legal Status

Brennan gave an update on the GIF legal status review which was requested as part of the GIF Marketing Plan process. Brennan reported that a Blue Sky review is in process and a complete report will be forthcoming.

4. GIF Marketing Update and Discussion

The Committee received the first draft of the GIF marketing plan created by Don Holton. Scholl asked that the Committee members review the plan and provide comment and suggestions. Some of the areas of focus during the review should include:

- Review of the policies.
- Communication matrix of resources and options that go beyond the Holton work.
- Determine the trade-off's with respect to resources available.
- Accuracy
- Revisions to make it more user-friendly, shorter and more effective.

Scholl suggested that it may be possible to post a quarterly commentary/letter from the Chair.

Scholl will send a CD of sample corporate annual reports for committee members to review.

Corkran and Scholl volunteered to manage the marketing plan review efforts.

5. GIF Investment Policy Review and Board Report Discussion

Brody updated the Committee on the UUA Board requests for reports/proposals regarding Investment policy. The Board is expecting a report for the October meeting that discusses which changes in policy are needed, what has been done thus far, what process is in place and the timeline for completion. Brody suggested a proposal for a 2 tier policy, where Tier 1 would be the Board policies and Tier 2 would be Investment Committee policy or practices. The report should include a short strategic goal to empower the Investment Committee to be a fiduciary of the GIF. It should also include a delineation of the trade-offs as well as where the two committees share common ground. Scholl will send out an email requesting input from members of the Committee.

6. Performance

NEPC reviewed the performance for the June 2006 quarter and reported that most markets were down during the second quarter. NEPC predicted correctly that the spectacular first quarter returns in Small Cap (+14.0) were not sustainable as investors turned risk averse in the second quarter with a sharp decline in Small Cap (-5.0). The NASDAQ index fell as well (-7.2). Large Cap Core (-1.7) outperformed Small Cap Core (-5.0) markets. Large Cap Growth (-3.9) outperformed Small Cap Growth (-7.3) strategies. Large Cap Value (+0.6) outperformed Small Cap Value (-2.7). International Equity Markets were positive (+0.9) and outperformed Emerging Markets (-2.5) for the quarter.

The Lehman Aggregate Index lost (-0.1) this quarter. Short term interest rates rose yet again. Global Bonds outpaced Core Bonds and were up (+3.2) for the quarter.

The Endowment Assets totaled \$117.1 million as of June 30, 2006. NEPC has created a new custom universe of endowments and foundations between \$50 and \$150 million in assets. NEPC reported that the UUA Endowment allocation to equities was 50.8% which was below the Median Endowment's allocation of 63.4% and remained slightly higher than the revised 50% equity target.

The UUA Endowment posted a -1.9% loss for the second quarter which ranked in the fourth quartile of the custom endowment universe. Deviations from policy detracted 80 basis points for the quarter. Active management detracted 90 basis points during the quarter as several of the equity managers dampened return.

As of the year ended June 30, 2006, the UUA Endowment Fund's return was 6.8% which ranked in the 4th quartile of endowments that are between \$50 and \$150 million in assets. Policy enhanced return. With a lower weighting to equities, policy ranked in the top quartile of the custom endowment universe. Deviations from policy detracted 90 basis points and active management detracted 150 basis points.

The annualized three year return of 11.4% ranked slightly below the median endowment fund.

7. Minutes

The minutes of the May 4, 2006 meeting were reviewed and approved by the Committee.
Motion 5: Sherblom moved to approve the minutes. Dion seconded.
Motion passed.

8. Future Meeting Dates

The Meeting dates proposed for the rest of 2007 and 2008 are:

Thursday February 15, 2007
Thursday May 17, 2007
Thursday September 13, 2007 (Joint meeting with CSRI)
Thursday November 15, 2007
Wednesday February 13, 2008
Thursday May 15, 2008
Thursday September 11, 2008
Thursday November 13, 2008

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

9. Joint Afternoon Session with CSRI

The afternoon portion of the meeting was spent in a joint session with the UUA Committee on Socially Responsible Investing (CSRI). The agenda for the afternoon included:

- Anti-Oppression/anti-racism training

- GA Justice and Money workshop track
- Community Investing Update
- Shareholder Activism update
- GIF marketing plan and implementation considerations
- Individual visions regarding SRI within GIF
- Next steps with Progressive Asset Management's score process
- GIF responsibilities review
- IC/CSRI Policy and Board reports