

**Unitarian Universalist Association  
Annual Report of the Treasurer  
to the 2020 General Assembly**

**Submitted by  
Andrew McGeorge, Treasurer & Chief Financial Officer**

**Financial Condition of the Association**

The Unitarian Universalist Foundation ended fiscal year 2019 in solid financial condition. Under Susan Frederick-Gray's leadership, the UUA has refocused on mission and energized its fundraising efforts. The annual certification process has shown a fairly steady count of member congregations, and UUA has also seen congregational support through the Annual Program Fund stabilize. At this writing, the UUA is tracking towards an operating surplus for the 2020 fiscal year. Here are a few highlights:

- The audited financial statements of the UUA, which follow this report, were accepted by the UUA Board of Trustees at their January meeting after thorough vetting by the Audit Committee. The Association's auditors, Mayer Hoffman McCann P.C., issued a "clean opinion." That is, they certified that the statements, which were prepared by the UUA staff, fairly present the financial condition of the Association in all material respects.
- The auditors also conducted an audit of the Unitarian Universalist Common Endowment Fund, LLC, which is organized as a separate legal entity. Because the entity is controlled by the UUA's Board of Trustees, it is treated as a subsidiary and consolidated into the UUA financial statements. A stand-alone report has also been issued primarily for the benefit of congregations investing in the fund.
- Likewise, the financial statements of the UUA Health Plan, which is organized as a separate trust (officially the UUA Employee Benefits Trust), were audited by RSM, who issued a clean opinion. They follow this report.
- The income statement of the UUA for fiscal year 2019 shows a surplus for the year from operations of \$2.9 million. Among the larger variances from prior years was a significant increase in publishing income, with net sales from publishing activities up some \$2.4 million from fiscal year 2018. The ongoing success of Beacon Press titles such as *White Fragility* and *Man's Search for Meaning* led to a very successful fiscal year 2019 for Beacon. Non-operating gains/losses, primarily related to the Common Endowment Fund, were close to flat for the year, and the Association's overall gain for the year was \$2.943 million.
- The third quarter forecast presented to the Board of Trustees at their April meeting showed an estimated operating surplus of \$188,000 for fiscal year 2020. Ignoring large one-time entries related to the Association's funding of its commitment to Black Lives of Unitarian Universalism, the forecast showed overall income about 1.4% below the fiscal year 2020 budget, while total expenses were expected to finish 2.0% below budget.

- In June 2019, the Board approved the transfer of over \$4 million to the control of Black Lives of Unitarian Universalism, money held in an account with the Common Endowment Fund. To complete this transfer, the Board authorized transferring up to \$1.8 million of the UUA's unrestricted endowment reserves to BLUU. These transfers required some large one-time entries to flow through the UUA's financial statements, the results of which will be evident in the audited fiscal year 2020 reports.

## **Operating Budgets**

The budget for the fiscal year starting on July 1, 2020, was approved by the Board of Trustees at their April meeting. The summary operating budget for fiscal year 2021 can be found at the end of this report. A Budget Hearing is scheduled during the General Assembly on Friday, June 26, 2020, at noon EDT / 9 a.m. PDT.

## **UU Common Endowment Fund**

The UU Common Endowment Fund holds the Association's endowment (including restricted, board restricted and unrestricted funds), trusts invested on behalf of others (principally congregations), and funds invested by congregations and other UU organizations. The UUCEF is structured as a unitized common fund, which means it operates like a mutual fund, with investing organizations (including the UUA) purchasing units and sharing proportionally in the income, gains, losses, and expenses of the fund. More information about the UU Common Endowment Fund is available on the [UUCEF website](#).

- As of March 31, 2020, the UUCEF held assets valued at \$177 million. Just over \$80 million is the Association's endowment, both restricted and unrestricted, while nearly \$15 million is held in trust for the benefit of congregations, and the balance represents investments from congregations and other related organizations of around \$82 million. Individuals may not invest in the UUCEF.
- For the 12 months ending March 31, 2020, the Fund achieved a gross return of -6.2% compared to a weighted average benchmark of -5.9%. In our peer group of similarly sized endowments, we ranked just above median in performance over the past year. Net of all fees and expenses the fund returned -7.2%. The market volatility in the first quarter of calendar year 2020 was evident in the Common Endowment Fund's returns. During that quarter, the fund has a return of -14.3%, although in the month of April, the fund posted a 6.9% gain. The investment committee has met more frequently than usual during these turbulent times in an effort to keep the investment allocation at our intended targets.

Under the oversight of the Investment Committee, the UUCEF pursues a goal of achieving long-term real returns (after inflation) sufficient to allow regular distributions while maintaining the purchasing power of the corpus within a moderate risk tolerance. It pursues this goal through diversification – diversification among asset classes (large cap equities, small cap equities, fixed income, global tactical asset allocation funds, and private capital), geography (U.S., developed international, emerging markets), and managers. The UUCEF currently uses 25 different money management firms, each with its own specialty.

## UUCEF Annualized Return, Periods Ending 3/31/20

	1 Year	3 Years	5 Years	10 Years
Gross return	- 6.2%	3.5%	3.3%	5.8%
Weighted average benchmark	- 5.9%	2.5%	3.2%	5.3%
Percentile rank compared to like-sized endowments (as of 3/31/20). <i>1 = highest 1% 100 = lowest 1%</i>	42	11	29	47
Net return	- 7.2%	2.4%	2.1%	4.78.9%

The Association encourages member congregations, regions and affiliates to invest endowment funds in the UUCEF along with the UUA's endowment. Investing with the UUA offers the advantage of investment and administrative stability, broad diversification, professional investment guidance, and the oversight of the Association's Investment Committee.

### Socially Responsible Investing

The Investment Committee and the Socially Responsible Investing Committee (SRIC) have worked together to strengthen the UUCEF's socially responsible investing (SRI) practices. More recently they have begun integrating their work more intentionally. The three principle SRI strategies are: security and manager selection, shareholder advocacy, and community investments.

- **Investment and manager selection**: The UUCEF portfolio holdings include both individual securities and pooled funds (mutual funds and private co-mingled funds). Individual security holdings (also called separate accounts) are primarily US equities, or individual stocks. The UUA instructs its managers to avoid companies that are poor performers on environmental, social and governance issues. When selecting managers for pooled funds, the Investment Committee incorporates values criteria into the selection process. Nearly 85 percent of the UUCEF's assets are with managers who use SRI and/or ESG strategies.
- **Shareholder advocacy**: The UUA is an active shareholder, witnessing for social justice through its ownership position in companies. We are fortunate to have Tim Brennan continue to work in a part-time capacity to advance our advocacy work. We remain a leading voice on issues of climate change, human rights and disclosure of political and lobbying expenditures. Across these areas we are directly engaged with 10 companies and serve as the lead investor on four of these engagements. We also continue to serve as part of investor teams engaging three companies on climate change through the Climate Action 100+, a global coalition of investors with \$40 trillion in assets under management. In addition to these ongoing efforts, we have been an active voice in opposing the proposed SEC regulations to curtail the ability of

small investors to submit shareholder proposals. The Covid-19 pandemic also presented new opportunities to advocate for prioritizing worker health and safety, providing paid leave, and maintaining employment.

- **Community Investments:** The UUA Board of Trustees approved at its January meeting a change to the Common Endowment Fund Community Investment Guidelines and Policy that allows for up to 5 percent of the Common Endowment Fund to be placed into Community Investments. Additionally, half of this allocation may be invested in below market return investments, while the remainder must have a market rate of return. Examples of common community investments include community loan funds, affordable housing, micro-finance, and community development credit unions and banks. [The UUA offers an investment matching program](#) for congregations into community investments, with a minimum congregational investment of \$2,000 and a maximum UUA match of \$10,000.

### **Holdeen Trusts**

As of December 31, 2019, the Holdeen Trusts were valued at nearly \$35.5 million, up over \$4 million during the calendar year. Under the terms of the Holdeen and certain other trusts, the Association has a right to receive and to use the income earned on the trust assets for designated purposes, but the principal itself will never be available to the Association nor does the UUA control how these funds are invested. The Holdeen Trusts are used primarily to support the Association's international work including the [Holdeen India Program](#).

### **Retirement Plan**

The [UU Organizations Retirement Plan](#) has 4,317 participating individuals with investments of \$420 million as of December 31, 2019 compared to 4,162 participants with \$347 million as of 12-31-18. This includes active participants, retirees and survivors, and individuals who are no longer employed by a UU organization but have kept their funds in the Plan. The average plan participant balance is \$97,289, and the median balance is \$30,325.

The Plan is overseen by a [Retirement Plan Committee](#) appointed by the Board of Trustees. The committee is advised by [Fiduciary Investment Advisors](#), a leading investment consulting firm.