

**Unitarian Universalist Association
Annual Report of the Treasurer
To the 2019 General Assembly in Spokane, Washington**

**Submitted by
Tim Brennan, Treasurer & Chief Financial Officer**

Financial Condition of the Association

The Unitarian Universalist Foundation ended fiscal year 2018 in solid financial condition. Under Susan Frederick-Gray's leadership, the UUA has refocused on mission and energized its fundraising efforts. The membership of the Association's congregations has shown a small increase in the annual certification process, and congregational support of the Annual Program Fund has stabilized. At this writing, the UUA is tracking towards a slight loss for the 2019 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 April 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.
- In fiscal 2018, the auditors 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 2018 shows a surplus for the year from operations of \$1.6 million, primarily representing donations held for future periods. There were also significant non-operating gains, primarily due to financial market returns that resulted in an overall gain of \$11.6 million.
- The third quarter forecast presented to the board of trustees at their April meeting showed a small deficit of \$178,000 for fiscal year 2019. The UUA staff is making its best effort to reduce or eliminate that deficit by year-end.
- In October of 2016 the UUA Board of Trustees made an historic commitment to provide \$5.3 million in funding for Black Lives of Unitarian Universalism. In addition, the UUA has provided \$225,000 per year in operating support during the fundraising period. The UUA launched a major fundraising campaign during fiscal year 2017 which is expected to be wound up by the end of this fiscal year with some pledge payments still to come.

The UUA has committed \$1 million of its own assets to this effort. We plan to fulfill this commitment by the end of the year and transfer the assets to BLUU, which has established itself as an independent legal entity.

Operating Budgets

The budget for the fiscal year starting on July 1, 2019 was approved by the Board of Trustees at their April meeting. The summary operating budget for fiscal year 2020 can be found at the end of this report.

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, 2019 the UUCEF held assets valued at \$193 million. Just over \$88 million is the Association's endowment, both restricted and unrestricted, \$16 million is held in trust for the benefit of congregations, and the balance represents investments from congregations and other related organizations of \$89 million. Individuals may not invest in the UUCEF.
- For the 12 months ending March 31, 2019, the Fund achieved a gross return of 4.2% compared to a weighted average benchmark of 1.9%, ranking in the top quartile of similarly sized endowments. Net of all fees and expenses the fund returned 3.0%. Over the last 12 months, the markets have become much more volatile, with rapid swings up and down. The investment committee has adjusted the asset mix to position the portfolio for continued volatility.

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, private capital and hedge funds), geography (U.S., developed international, emerging markets), and managers. The UUCEF uses 21 money management firms, each with its own specialty.

UUCEF Annualized Return
Periods ending 3/31/19

	1 Year	3 Years	5 Years	10 Years
Gross return	4.2%	9.5%	5.5%	10.0%
Weighted average benchmark	1.9%	7.7%	5.1%	8.9%
Percentile rank compared to like-sized endowments (as of 3/31/18) <i>1 = highest 1% 100 = lowest 1%</i>	20	14	52	38
Net return	3.0%	8.2%	4.4%	8.9%

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. Approximately 83.5% 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. Over the last year, encouraged by the 2014 Business Resolution on Fossil Fuel Divestment, our engagement efforts have focused on climate

change, and particularly on companies in the fossil fuel industry. In addition, we have continued our work on disclosure of political and lobbying spending and human rights. During the 2018-19 season, the UUA filed or co-filed resolutions at 7 companies. To ensure the accountability of companies with which we have come to agreements in past shareholder seasons, the UUA has had ongoing dialogues with 5 companies. Additionally, the UUA has been part of investor teams engaging three companies on climate change through the Climate Action 100+, a global coalition of investors with \$33 trillion in assets under management addressing climate change.

- Community investments: The UUA allocates 1% of the Common Endowment to community investments. These include community loan funds, affordable housing, micro-finance, and credit unions. Approximately 16 of these investments are matching investments whereby a congregation makes a community investment of up to \$10,000 and the UUA matches it. See:

<http://www.uua.org/finance/investment/sri/communitydevelopment/60928.shtml>

Holdeen Trusts

As of March 31, 2019, the Holdeen Trusts were valued at \$33 million, down \$1 million from the previous 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 4,162 participating individuals with investments of \$347 million as of December 31, 2018 compared to 3,944 participants with \$362 million one year previous. 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 \$83,487, and the median balance is \$27,047.

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.

Farewell

This will be my last Treasurer's report to the General Assembly. On June 30th I will step down from my position as Treasurer and Chief Financial Officer of the Association. It has been a blessing to serve the Association in this role for the last 13 years. I can honestly say that I have never been bored. I believe that we have made many improvements to our systems over my tenure. And I am particularly proud of the shareholder advocacy work of the UUA, holding

corporations accountable for their impacts on people and the planet. I'm not quite ready for the rocking chair yet. I plan to continue working in the responsible investing field as a consultant to other faith- and values-based investors. It has been an amazing privilege to hold this office. I am very grateful.