

**Unitarian Universalist Association
Annual Report of the Treasurer
To the 2017 General Assembly in New Orleans, LA**

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

Financial Condition of the Association

On April 1 Peter Morales, the president of the UUA, resigned. That was followed shortly thereafter by the resignation of Harlan Limpert, chief operating officer. Then on May 13, 2017 moderator Jim Key resigned his position due to ill health. These upheavals in the management and governance of the Association present challenges and risks as well as opportunities. It is impossible to know at this time whether these changes will have effects on the financial condition of the Association. The UUA's management team and finance staff will monitor the situation closely and take action should that prove necessary.

- 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 – Tofias New England Division, 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 2016, for the first time, the auditors conducted a second audit of the Unitarian Universalist Common Endowment Fund, LLC, which is now 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 McGladrey & Pullen, LLP who issued a clean opinion. They follow this report.
- The income statement of the UUA for fiscal year 2015 shows a small surplus for the year from operations of \$74 thousand. However, there were significant non-operating losses, primarily due to financial market conditions that resulted in an overall decline of \$12.3 million. Markets dropped dramatically immediately before the June 30 year-end due to the vote in the UK to leave the European Union. Financial markets recovered in the months following which resulted in strong 1-year performance through March 31, 2017.
- The third quarter forecast presented to the board of trustees at their April meeting shows a small surplus forecasted for fiscal year 2017.

Operating Budgets

The budget for the fiscal year starting on July 1, 2017 was approved by the Board of Trustees at their April meeting. The summary operating budget for fiscal year 2017 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, 2017 the UUCEF held assets valued at \$179 million. Just over \$87 million is the Association's endowment, both restricted and unrestricted, \$15 million is held in trust for the benefit of congregations, and the balance represents investments from congregations and other related organizations of \$81 million. Individuals may not invest in the UUCEF.

UUCEF Annualized Return Periods ending 3/31/17

	1 Year	3 Years	5 Years
Gross return	11.0%	3.5%	5.8%
Weighted average benchmark	10.4%	4.3%	6.1%
Percentile rank compared to like-sized endowments (as of 12/31/13) <i>1 = highest 1% 100 = lowest 1%</i>	53	75	70
Net return	9.8%	2.4%	4.7%

- For the 12 months ending March 31, 2017, the Fund achieved a gross return of 11.0% compared to a weighted average benchmark of 10.4%. Net of all fees and expenses the fund returned 9.8%, ranking at the median of similarly sized endowments. This is a welcome turnaround from the last two years during which returns were well below median.

- As of January 1, 2016, the assets of the UUCEF were moved into a separate legal entity called UUCEF, LLC, a nonprofit, charitable organization controlled by the UUA board of trustees. As a result, in fiscal 2016 for the first time a separate audited financial statement was issued for the endowment. This should provide additional assurance to investing congregations that the funds are being properly accounted for. From the perspective of investing congregations, there will be no difference from the current arrangement. However, the new structure will insulate the congregations' assets from the UUA's liabilities, thus providing a more secure investment structure.

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 (GTAA), private capital and hedge funds), geography (U.S., developed international, emerging markets), and managers. The UUCEF uses 19 money management firms, each with its own specialty.

The Association encourages member congregations, districts 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 strategies are: investment 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 70% 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, 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 2015-16 season, the UUA

filed or co-filed resolutions at 15 companies.

- 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 40% 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, 2017, the Holdeen Trusts were valued at \$33 million, up \$2 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 3,774 participating individuals with investments of \$308 million as of December 31, 2015 compared to 3,609 participants with \$288 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 \$82,332, and the median balance is \$26,649.

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.