

April 12, 2010

To: UU Professional Organizations, Other Organizations, Plan Participants, and Other Interested Individuals
Fr: Rev. Richard Nugent, Director, UUA Office of Church Staff Finances
Re: Proposed Change in Recordkeeper and Investment Mix of the Unitarian Universalist Organizations Retirement Plan

Overview: After three years of study, research, analysis and deliberation, the UUA Compensation, Benefits, and Pension Committee (CBPC) is recommending that the UUA Board of Trustees select TIAA-CREF as the new recordkeeper for the Unitarian Universalist Organizations Retirement Plan. The Committee's recommendation was unanimously reached at its April 8, 2010 meeting. The vote was 10 to 0. In doing so, the Committee cited three main reasons for switching from Fidelity Investments to TIAA-CREF:

- The shift to TIAA-CREF is advantageous to the 2,800 plan participants. Plan participants will benefit from significantly lower fees than they currently are paying. It is expected that participants will be charged \$150,000 less annually. Additionally, the proposed line-up of mutual funds and other investments has had appreciably better past performance than those currently available in the plan based on the historical performance of the funds and the asset allocation mix of the target date funds. In addition, plan participants will have free access to more detailed financial personal advice services provided by a third party.
- The shift is a good business decision. TIAA-CREF services 3.6 million participants in 27,000 retirement plans. They have 92 solid years of meeting the retirement needs of their clients. In the opinion of UUA staff members and our independent consultants who have evaluated the operational capabilities of both TIAA-CREF and Fidelity, TIAA-CREF has the capability to provide UUA plan participants the level of customer service and reporting required.
- The shift is in keeping with our religious values. TIAA-CREF, which has a nonprofit heritage, is strongly committed to socially responsible investing. In addition, their corporate values are largely aligned with the religious values of Unitarian Universalists. This is not the case with Fidelity Investments, our current recordkeeper.

Next Steps: The Compensation, Benefits, and Pension Committee recommendation will be conveyed to the Finance Committee of the UUA Board of Trustees on April 15 and to the full Board a few days later. In the coming weeks, the UUA Board is expected to consider recommendations from the CBPC, UUA Financial Advisor Dan Brody, and the

UUA Administration. UUA President Peter Morales has indicated that he is strongly supportive of the CBPC's recommendation of TIAA-CREF as our retirement plan recordkeeper.

If TIAA-CREF is selected by the UUA Board as recordkeeper, UUA staff, along with our outside consultants, will work closely with both Fidelity Investments and TIAA-CREF to coordinate the conversion. Additionally, we will work with all plan participants and UUA-related employers (congregations, districts, and related organizations) to ensure as seamless a transition as possible. At present, it appears that the actual conversion from Fidelity to TIAA-CREF could occur in the fall of 2010. In the meantime, Fidelity remains the recordkeeper of the UUA Retirement Plan. Contributions, distributions, and loans will continue to be processed by Fidelity and all other services currently available will continue uninterrupted.

Background: More than three years ago, the UUA initiated a dialogue with Fidelity Investments, the recordkeeper for our retirement plan since 1999, regarding their philosophy toward corporate governance, stances taken when voting mutual fund proxies, and Fidelity's failure to embrace socially responsible investing as corporate policy. In July 2007, former UUA President Bill Sinkford wrote Fidelity expressing concern about their holding shares, in various Fidelity-managed mutual funds, of companies active in Sudan. These companies, particularly Petro China, are helping to finance the genocide in Darfur through their royalty payments to the Sudanese government. The dialogue with Fidelity, while cordial, was difficult. Fidelity eventually divested many, but not all, of their holdings in Petro China and in other companies doing business in Sudan. Fidelity chose not to link their actions to genocide and reserved the right to reinvest in those companies at any time.

Partially due to the frustration with Fidelity, and recognizing that it had been years since the UUA had investigated the possibility of finding another recordkeeper that could meet our service requirements and possibly do so at a lower cost to plan participants, the UUA issued a "request for proposal" for recordkeeper services in July 2008. Fidelity, TIAA-CREF, and a third firm submitted proposals, although only Fidelity and TIAA-CREF were deemed sufficiently comprehensive in terms of their capabilities. During the fall of 2008, the CBPC and staff of the Office of Church Staff Finances began the initial review of the two proposals, but further review was postponed due to the market meltdown that fall. In June 2009, a survey was mailed to all plan participants. The survey, which was completed by 535 individuals, invited plan participants to express their satisfaction with Fidelity, information about their retirement plan investment needs and preferences, and their perception of TIAA-CREF.

Meanwhile, Angell Pension Group, an independent consultant, was retained to advise the Committee. They were tasked with thoroughly analyzing both companies' proposals. In submitting its report in late August 2009, the Angell Pension Group concluded: "The proposed recordkeeping and administrative services for Fidelity and TIAA-CREF have more similarities than differences. No single issue eliminates either from consideration."

Their analysis, summary, and conclusion did not factor in the UUA's mission compatibility and its ultimate alignment with both organizations. Angell Pension Group recommended that we retain an independent investment advisor to work with us to revise our investment platform and to negotiate with both competing firms. An RFP for such services was issued to 16 companies in the fall of 2009. Eight proposals were received, four firms selected for interviews, and Fiduciary Investment Advisors, headquartered in Windsor, Connecticut, was unanimously selected by a subgroup of the CBPC.

Fiduciary Investment Advisors worked diligently with the Committee, UUA Staff, Fidelity Investments, and TIAA-CREF during March and April, 2010. In doing so, they were able to negotiate substantially lower fees for plan participants while securing better-performing mutual funds for inclusion in our retirement plan. Meanwhile, the Committee held conference calls with both Fidelity and TIAA-CREF in February and March to follow up on a range of issues and then met separately with representatives of both companies on March 29.

In making its decision, the Committee weighed various factors including:

- a. Recordkeeper fees
- b. Fund management expenses
- c. Investment options and fund performance
- d. Recordkeeper functions (processing contributions, distributions, loans, etc)
- e. Customer service capabilities (telephone, on-line tools, offices)
- f. Consumer/Participant education opportunities
- g. Values Alignment/Mission Compatibility (SRI, environmental, social, and governance issues as well as investment options, proxy voting, etc)
- h. Institutional history, record of performance, and general capabilities
- i. Relationship values and institutional commitment to the UUA
- j. Conversion costs (including timing, fund restrictions, blackouts, etc)

At the April 8 CBPC meeting, Fiduciary Investment Advisors advised that both companies had submitted final proposals that were essentially equivalent in terms of the mix of mutual funds and fees to participants. Based on certain fund characteristics and historical investment performance, certain funds in the TIAA-CREF proposal were seen as likely to provide better returns to participants.

The major remaining question before the Committee was which company's philosophy better aligns with our religious values. The Committee has wrestled with this issue since the beginning of the recordkeeper review process. The underlying philosophy of Fidelity Investments is to maximize earnings for their plan participants, without regard to the implications of those investments. The underlying philosophy of TIAA-CREF combines maximizing earnings for plan participants with a concern for the greater good. How companies behave as corporate citizens is an important component of their investment strategy. After much discussion, the Committee concluded that TIAA-CREF is the better partner for the UUA.

Compensation, Benefits, and Pension Committee: CBPC members, along with supporting staff, are:

- Mr. Vern Blodgett (Winchester, MA), Chair CBPC
 - Mr. Tim Brennan, UUA Treasurer
 - Mr. Dan Brody, UUA Financial Advisor and UUA Board Member
 - Rev. Fred Campbell (Williamston, MI)
 - Rev. Paul Johnson, (Manhasset, NY)
 - Ms. Marj Lynn (Ipswich, MA)
 - Rev. Richard Nugent, Director, Office of Church Staff Finances
 - Ms. Barbara Ridge (Needham, MA)
 - Ms. Paige Roth (Fairhaven, MA)
 - Mr. Glenn Solomon (Cleveland, OH)
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- Rev. Beth Miller, Director, Ministry and Professional Leadership
 - Ms. Joyce Stewart, Director, UUA Retirement Plan
 - Mr. Rob Molla, Director, UUA Human Resources
 - Mr. Ibrahim Essa, UUA Human Resources

For More Information: Contact Joyce Stewart, UUA Retirement Plan Director, and the Rev. Richard Nugent, Director, Office of Church Staff Finances for more information. Joyce can be reached at jstewart@uua.org or (617) 948-6421 while Richard can be reached at rnugent@uua.org or (617) 948-6456.