

Unitarian Universalist Association Annual Report of the Treasurer to the 2023 General Assembly

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

Financial Condition of the Association

The Unitarian Universalist Foundation ended fiscal year 2022 (FY22) in a strong financial condition. The two most noteworthy features of our financial performance in FY22 were continued excellent performance in our operating results and overall weakness in our investment returns, which in turn adversely affected the UUA's net assets.

Our largest source of unrestricted fundraising is the Annual Program Fund (APF), and yet again, we have seen amazing generosity from our congregations in support of the UUA. For FY22, our total APF receipts were up 4.6% versus FY21, to a total of just over \$8.4 million. APF asks of congregations are based on the operating budgets of congregations, and the financial pressures that many congregations have faced since the pandemic are only now appearing in our FY23 APF results, which are expected to be down 3.7% relative to FY22. However, the current year's APF total will still exceed our FY21 results.

FY22 also saw a significant increases in other unrestricted gifts, mostly the Friends of the UUA program but also legacy bequests. Unrestricted individual gifts to the UUA were up over \$300k versus FY21, to a total of \$1.87 million. The UUA was also the beneficiary of a number of large bequests in FY22, and our total received bequests of \$1.74 million was historically large, and up nearly \$700k from FY21.

Total expenses were up about \$1.2 million between the two fiscal years. The increase in expenses is entirely explained by two categories, travel and employee costs. FY22 marked a major return to the in-person work of the UUA relative to FY20/FY21, and our travel spending increased notably as a result. Total spending on staff and volunteer travel for FY22 was \$792k, compared to just \$99k in FY21. It is important to note that the UUA administration endeavored to keep travel spending well below 50% of pre-Covid levels and we succeeded in that. In FY19, for example, total travel spending for staff and volunteers exceeded \$1.9 million. As for employee costs, an increase in the cost of benefits (up 11.4%/\$401k), was the primary source of the increase, while the cost of salaries (up 2.0% / \$225k) was in line with our typical cost of living adjustment amount.

Overall, the UUA recorded a net surplus in its operating section of \$1.297 million for FY22. Recall that for FY21, we finished with a surplus of \$1.6 million, so even the comparatively higher expenses in FY22 relative to gains in fundraising allowed us to close the year with a surplus. The UUA will need the FY21/22 surpluses in the years ahead. The Association is

currently undertaking a number of short-term projects, some of which were recommended in the Commission on Institutional Change's report, Widening the Circle of Concern, others being necessary for the modernization of the UUA's data systems. We anticipate that the current year, as well as FY24 and FY25, will rely on these recent surpluses to balance the UUA's finances.

The audited financial statements of the UUA, which follow this report were thoroughly vetted by the UUA's Audit and Risk Committee. The Association's auditors, CBIZ / 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 Annual Report of the Treasurer to the 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.

FY24/25 Budget

The budget for the fiscal year starting on July 1, 2023, was approved by the Board of Trustees at their April meeting. The summary operating budget for fiscal year 2023 can be found at the end of this report. An online Budget Hearing is scheduled during the General Assembly on Friday, June 23, 2023, at 12:30 pm EDT / 9:30 am 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, 2023, the UUCEF held assets valued at \$241.8 million. Just over \$105 million of this is the Association's endowment, both restricted and unrestricted, while about \$16 million is held in trust for the benefit of congregations and affiliated entities. The balance represents investments from congregations and other related organizations of around \$120 million. Individuals may not invest in the UUCEF.

For the 12 months ending March 31, 2023, the Fund achieved a gross return of -5.3% compared to a weighted average benchmark of -5.6%. In our peer group of similarly sized endowments, we ranked at the 77th percentile (i.e., moderate underperformance) over the past year. Net of all fees and expenses the fund returned -6.1%.

Our returns were adversely affected by a few investment managers that underperformed their benchmarks. The largest laggard was Sands Capital (domestic large-cap growth), a manager that has a concentrated portfolio subject to more volatile returns. In other periods, Sands has been our best performer, and over the long run it has generated excellent returns. The portfolio segments that outperformed included our small/mid-cap holdings, global equities, and fixed income, where our short duration limited our downside risk in a rising rate environment.

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. As of 3/31/23, the UUCEF used 25 different specialized money management firms.

UUCEF Annualized Return, Periods Ending 3/31/23

	1 Year	3 Years	5 Years	10 Years
Net Return	-6.1%	8.5%	4.1%	4.8%
Weighted Average Benchmark	-5.6%	9.3%	4.6%	5.6%
Percentile rank compared to like-sized endowments <i>1 = highest 1%; 99 = lowest 1%</i>	77	77	78	79

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

In June 2022, the UUA Board of Trustees voted to formally merge the Investment Committee and the Socially Responsible Investing Committee (SRIC) into a single body, the Investment Committee (IC). This result formalizes the process we have had in place for several years, where the work of IC centers the values-based investing at the heart of UUCEF. Among our key

socially responsible investing strategies are security and manager selection, shareholder advocacy, proxy voting, 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 separately managed accounts) consist of domestic equities. 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 92 percent of the UUCEF's assets are with managers whose investment criteria either match the UUA's or who incorporate a quality ESG integration as part of their security selection process.
- **Shareholder advocacy:** The UUA is an active shareholder, witnessing for social justice through its ownership position in companies. The past shareholder resolution season was our first in over 15 years without Tim Brennan leading our effort, and while our volume of shareholder advocacy slowed somewhat in 2023, the UUA remained a valuable partner in important engagement campaigns. The UUA scored a major success in a filing with New York Community Bancorp (NYCB), a regional bank that conducts much of its business under the Flagstar Bank brand. The UUA's filing asked the bank to evaluate how its direct and indirect (i.e., via trade associations) lobbying and policy influence activities were aligned with the goals of the Paris Agreement to limit global warming, and to offer solutions to address that misalignment. The resolution passed at NYCB's annual meeting with the support of the Board and over 95% approval. The coalitions the UUA belongs to have a comprehensive campaign with the Big 6 US Banks, large Canadian banks, and regional banks on energy finance and climate lobbying, and our progress with NYCB may be an important building block toward gaining similar commitments from other banks in the years ahead. The UUA also filed multiple human rights-related resolutions this season, and we have begun a productive dialogue with a large, S&P 500 firm that has operations in nations whose governments are complicit in human rights abuses. We continued to serve as part of investor teams engaging companies on climate change through the Climate Action 100+, a global coalition of investors with \$68 trillion in assets under management.
- **Community Investments:** The UUA Board of Trustees approved at its January 2020 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. Among our community investing advances over the past year was a \$2 million commitment to the Oweesta Corporation, the nation's leading Native CDFI intermediary, who will direct our funds to smaller Native loan funds and communities working to invest in indigenous lands.

Holdeen Trusts

As of December 31, 2022, the Holdeen Trusts were valued at \$33.7 million, down nearly \$7 million for the calendar year. Under the terms of the Holdeen and certain other trusts, the Association has a right to receive and 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 4,386 participating individuals with investments of \$453.3 million as of December 31, 2021. This compares to 4,358 participating individuals with investments of \$545.8 million as of December 31, 2021. These totals include 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 around \$102,800, and the median balance is approximately \$33,600.

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