



MEMORANDUM

To: UUA Board of Trustees
From: UUA Treasurer/CFO Andrew McGeorge

Re: Operational Impact and Analysis of 2023 Business Resolution, "Complete Divestment from the Fossil Fuel Industry & Subsequent Reparations"
Date: April 3, 2023

The UUA Board of Trustees has received a Business Resolution that, having received the threshold of at least 250 individual signatures, will go before the delegates of the 2023 General Assembly (GA). This resolution was developed independently and was not reviewed by UUA staff or volunteers prior to being circulated. The UUA shares the resolution's underlying goals of leveraging the UU Common Endowment Fund (UUCEF) assets to push for a carbon free future, as part of our overall commitment to human rights in investing.

As detailed in this memo, if approved, the business resolution would create significant operational challenges to implement and make it difficult for the UUCEF to deliver on its dual bottom line of stable returns and social impact on behalf of UU values. Impacts would likely include higher fees for investors, greater risk in the portfolio, lower returns, and a material decrease in the UUA's operating income.

[The full resolution](#) is available online and calls upon the UUCEF to immediately cease purchasing securities from and to divest from all "fossil fuel companies," which it defines as companies, industries, and financial institutions that are connected to fossil fuel projects. This includes:

- financial institutions that underwrite loans for or issue or own bonds in any fossil fuel company
- companies that build or own oil fields
- companies involved in hydrocarbon exploration
- fossil fuel pipeline builders and owners
- utility companies

The resolution also calls upon the UUA to redistribute all funds that the UUCEF currently holds in any of these industries in the form of reparation to Indigenous, Black and Brown communities, under a separate new committee created by the resolution. These reparations would be taken out of the unrestricted funds available in the endowment of the UUA, not the holdings the UUCEF manages on behalf of congregations.

As congregational delegates consider how they will vote, this memo was developed by the UUA's Treasurer and the members of the UUA Investment Committee to provide an initial public analysis of the impact to the UU Common Endowment Fund of adopting this resolution. Please note that this memo is limited to the operational and financial impact of the resolution.

A separate memo from the Investment Committee will describe the mission-based impact of this resolution and outline the UUCEF's commitments to climate action.

What investments does the UUCEF currently hold?

Holdings

The business resolution names 40 companies to exclude and identifies the UUCEF holdings in these companies as of June 30, 2022. Since then, the UUCEF holdings in these companies have been reduced. This is in part due to a new policy which went into effect on July 1, 2022 to limit holdings to \$100,000 in fossil fuel companies in separately managed accounts. Since the 2014 Business Resolution on Fossil Fuel Divestment, the UUA has only retained shares in fossil fuel assets for the purposes of shareholder advocacy.

Because the companies in the resolution are named individually, rather than as classes or industries, it is a list determined by the drafters of the resolution. One of the companies listed, "Royal Bank of Canada," does not meet the definitions provided for these companies by the resolution. While the RBC does finance fossil fuels, the UUCEF's holding is not directly in RBC, but in the RBC Global Emerging Markets Fund, which is a separate business entity.

Shareholder Advocacy

This 2023 Business Resolution calls upon the UUCEF to divest from investments held in shareholder advocacy portfolios and would effectively end our ability to engage in shareholder advocacy in banking, utilities, and other sectors beyond direct fossil fuel companies.

Divestment from banks who finance fossil fuel development, rather than fossil fuel companies themselves, was the primary focus of the [2021 General Assembly Responsive Resolution](#). Following GA that year, the Investment Committee (IC) discussed the idea of bank divestment. As a values-based investor, the IC has preferred to be an active owner working via shareholder advocacy to advance our values in the corporate world. Through those discussions, the IC also created the above-mentioned policy to limit holdings in fossil fuel companies with which the UUCEF is engaged in shareholder advocacy.

Through shareholder advocacy, Unitarian Universalism has been part of a coalition advocating for banks to stop financing new fossil fuel development. This has been a core part of the UUCEF's operational commitments for decades. We have also been active participants in the Investors & Indigenous People's Working Group, which promotes Indigenous people's free, prior and informed consent and examines the effect of extractive industries on indigenous communities.

You can [learn more about the Investment Committees shareholder advocacy](#) and the work that came out of the 2021 responsive resolution on the UUCEF website.

What operational and financial impact would this resolution have on the UUCEF?

The Business Resolution calls upon the UUCEF to immediately cease purchasing securities from and to divest from all fossil fuel companies, including the industries and financial institutions that support fossil fuel projects, as well as any pooled funds that are unable to comply with this policy.

The spectrum of companies the resolution asks the UUCEF to divest from is very broad and could require as much as 60% of the portfolio to be immediately sold and repositioned into assets that are able to comply. It is unclear whether the UUCEF would be able to identify money managers who are willing and able to implement the resolution's strict requirements for "pooled funds", which are those funds managed by third-party investors and currently

make up the majority of the UUCEF portfolio.

The Investment Committee strives to maintain a diversified portfolio across geography (domestic, international, and emerging markets), market capitalization (large/mid/small cap) and style (growth vs. value). This helps minimize risk and deliver stable returns. The spectrum of companies this resolution would eliminate would significantly limit the ability of the UUCEF to mitigate risk through a diverse portfolio.

Additionally, if the UUCEF prohibits investments in any financial institution that underwrites any fossil fuel loan, issues any bonds for fossil fuel companies, or owns bonds in any fossil fuel company either in their proprietary portfolio or in their asset management divisions, this will remove virtually all major, regional, and super-regional banks from our list of permissible investments, including the institution the UUCEF currently uses as its custodian for all our directly held financial assets, US Bank.

These challenges are particularly acute because the requirements for exclusions under the resolution are absolute, require a strict level of verification, and do not provide for any margin of flexibility for tradeoffs with the UUCEF's other concerns in its human rights investing commitments (e.g. the commitment to engage BIPOC money managers).

The implementation would come at a time when the IC is still engaged in implementing the [2020 Business Resolution on Embodying Human Rights in Our Investing Decisions](#), which has involved scaling up racial justice community investments, rewriting the Investment Policy, and establishing new metrics for environmental, social and governance (ESG) screening and prioritization. Implementation of this new resolution would require significant volunteer and staff capacity that is not readily available.

The difficulty of implementing the requirements of the resolution, both identifying the criteria to be used to divest, finding investment managers capable of meeting these restrictions, and identifying new investment vehicles will likely result in a portfolio with lower returns, higher fees, and increased risk.

What impacts would this approach to reparations have on the UUCEF and the UUA?

The total of the amount identified in the resolution to be redistributed as reparations is \$13,946,369, based on the identified list of companies and their June 30, 2022 valuation. While the timeline the resolution asks for the paying of the reparations is unclear, assuming the payout is over 20 years, the impact on the UUA operating budget would be an amount of approximately \$700,000 each year for 20 years to fund this reparations work.

At present, the UUA receives about \$2.4 million annually from the unrestricted endowment to fund the general work of the Association. This level of payout would require a nearly \$700,000 reduction in UUA operations, which would likely require layoffs and a reduction of mission and programmatic capacity. Based on the median UUA staff salary of \$70,000 plus benefits, this is roughly the equivalent of seven full-time staff positions.

Additionally, the UUA's legal advisors have identified a concern that distributing these funds to entities which may not be directly related to the UUA or its mission may be contrary to our fiduciary duty and to our IRS obligations as a tax-exempt 501(c)3 organization.

What do we still need to learn?

The impact of the Business Resolution is significant, and the impacts on the UUCEF would be complex. The Investment Committee (IC) will continue to have discussions regarding the resolution and its implications for how or whether the UUCEF could continue to operate should this resolution be passed. Some remaining areas to explore are:

1. A complete evaluation of whether the UUCEF current money managers can meet the resolution's divestment requirements. The IC will need to identify which pooled investments would need to be sold and if the managers of the UUCEF separately managed accounts are able to implement their investment approach with the increased constraints.
2. Identify new, compliant funds available to the UUCEF. With the need to exit many funds, the IC would need to assess options for reinvesting this money. While the IC prefers to preserve as much diversification as possible, it is not currently clear what options would be available with these limitations.
3. Once items 1 and 2 are complete, the IC would need to model a hypothetical post-divestment portfolio, forecasting the expected long-term rate of return for the endowment and infer from that what the resolution would mean for prudent endowment distributions both for the UUA and congregations.

The Investment Committee plans to share the conclusions of their work with congregations at the quarterly Investor/Stakeholder call in the spring. Please visit [UUCEF.org](https://uucef.org) for updates and more information as it becomes available.