# 2nd Quarter 2016
# PERFORMANCE WEBINAR

August 16, 2016

UNITED CHURCH FUNDS

Michael de Guzman
*Senior Portfolio Manager*

Donald G. Hart
*President*

David A. Klassen
*Chief Investment Strategist*

# Our Mission

*Our mission in four words —*

## Invest responsibly. Strengthen ministry.

United Church Funds lives its mission by —

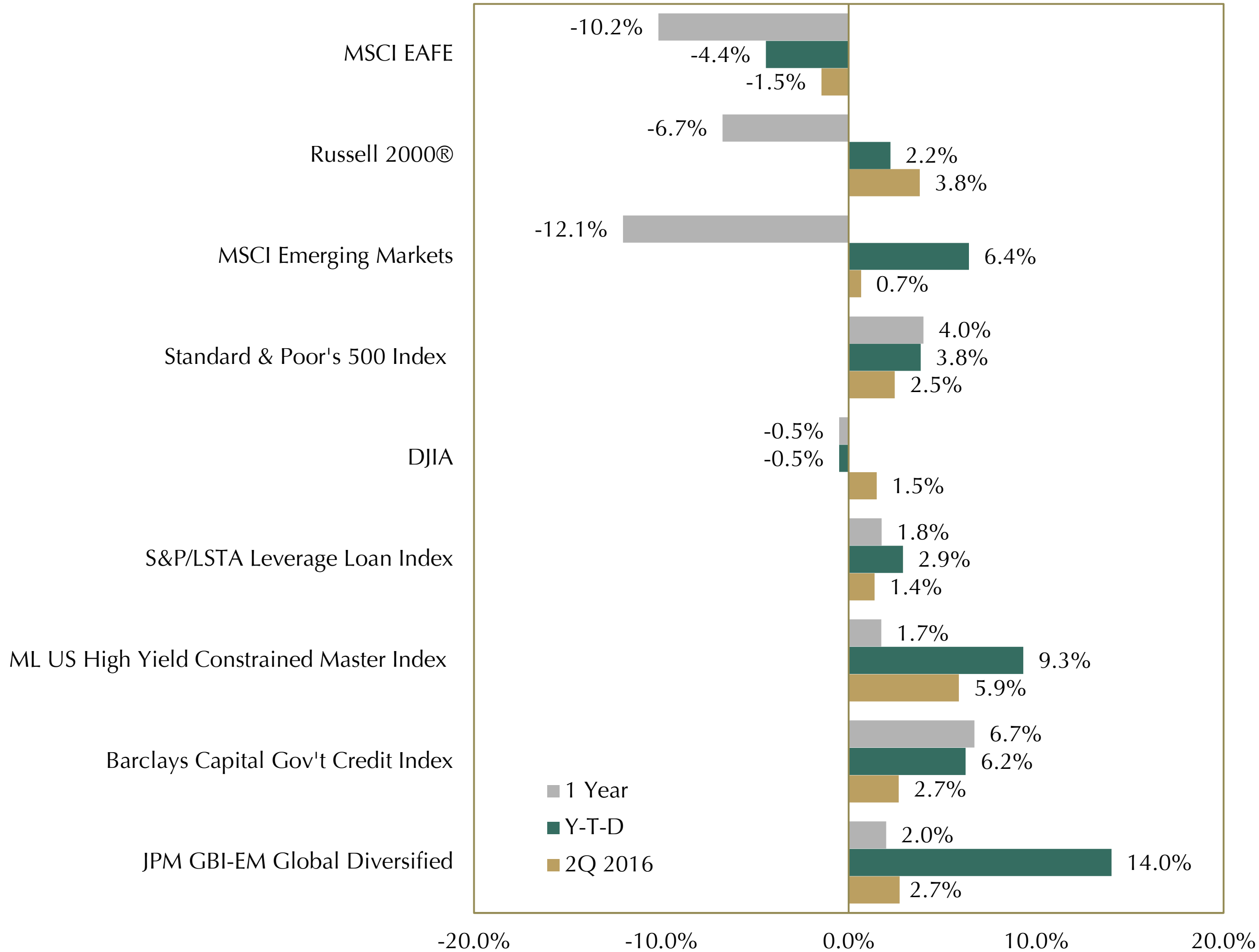
- Investing wisely to help our investors achieve their financial goals for their ministries
- Using the power of ownership to effect positive change, believing a responsibly managed company makes a better long-term investment
- Offering our investors a range of options and resources to strengthen their endowments, their management and the ministries they value

# UCF's Updates

- The Beyond Fossil Fuels Fund has been expanded from a domestic core equity to a global equity portfolio.
- The Beyond Fossil Fuels Balanced Fund is now, also, expanded to a global balanced fund.

# Performance

# Performance — Selected Index Returns




UNITED CHURCH FUNDS

# Performance — 2Q16 Continues Reversal of 2015

**2Q 2016**

| | Value | Blend | Growth |
|---|---|---|---|
| Large | 4.6% | 2.5% | 0.6% |
| Mid | 4.8% | 3.2% | 1.6% |
| Small | 4.3% | 3.8% | 3.2% |

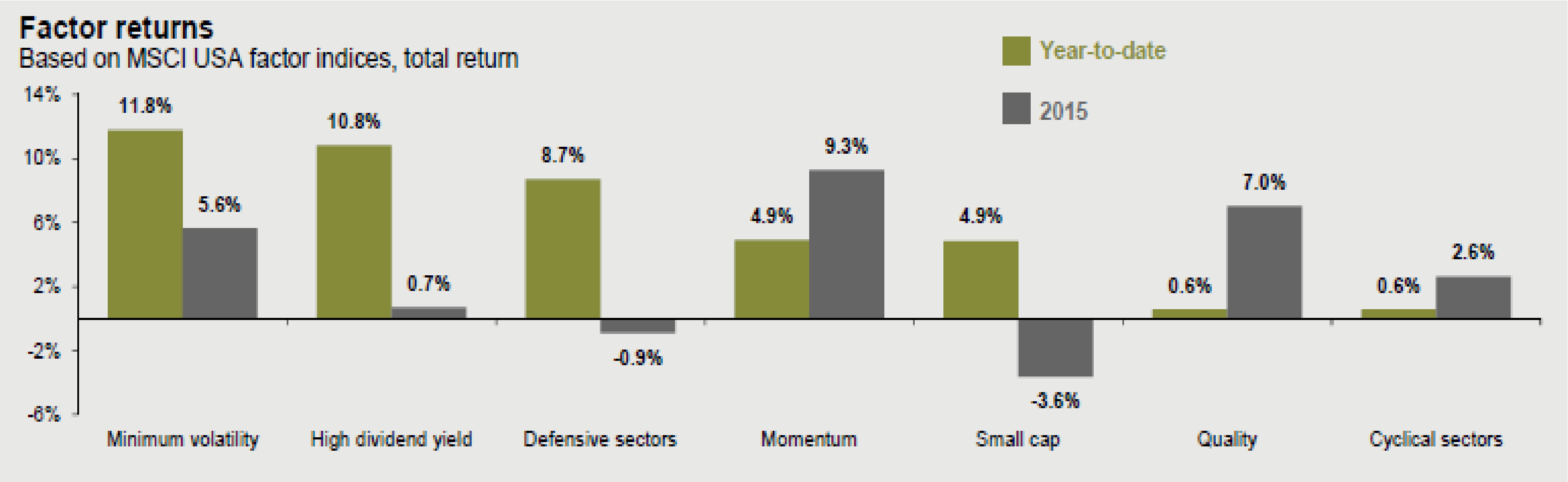
**YTD**

| | Value | Blend | Growth |
|---|---|---|---|
| Large | 6.3% | 3.8% | 1.4% |
| Mid | 8.9% | 5.5% | 2.2% |
| Small | 6.1% | 2.2% | -1.6% |

| | 2016 YTD | | 2015 | |
|---|---|---|---|---|
| Country / Region | Local | USD | Local | USD |
| **Regions / Broad Indexes** | | | | |
| All Country World | 0.0 | 1.6 | 1.8 | -1.8 |
| U.S. (S&P 500) | - | 3.8 | - | 1.4 |
| EAFE | -6.8 | -4.0 | 5.8 | -0.4 |
| Europe ex-U.K. | -7.4 | -5.3 | 9.1 | 0.1 |
| Pacific ex-Japan | 0.5 | 2.5 | -0.8 | -8.4 |
| Emerging Markets | 3.6 | 6.6 | -5.4 | -14.6 |

- A sharp reversal in relative performance characterized 1Q16, which has continued in 2Q16.
- Value far outpacing Growth after several years of Growth outperformance.
- The U.S. dollar had a two-year uptrend reverse in 1Q16 and has stabilized within ranges in 2Q.
- In 1H16, dollar weakness and foreign market strength has contributed to emerging markets equity performance.

# Performance — "Minimum Volatility" Contribution to Equity Returns

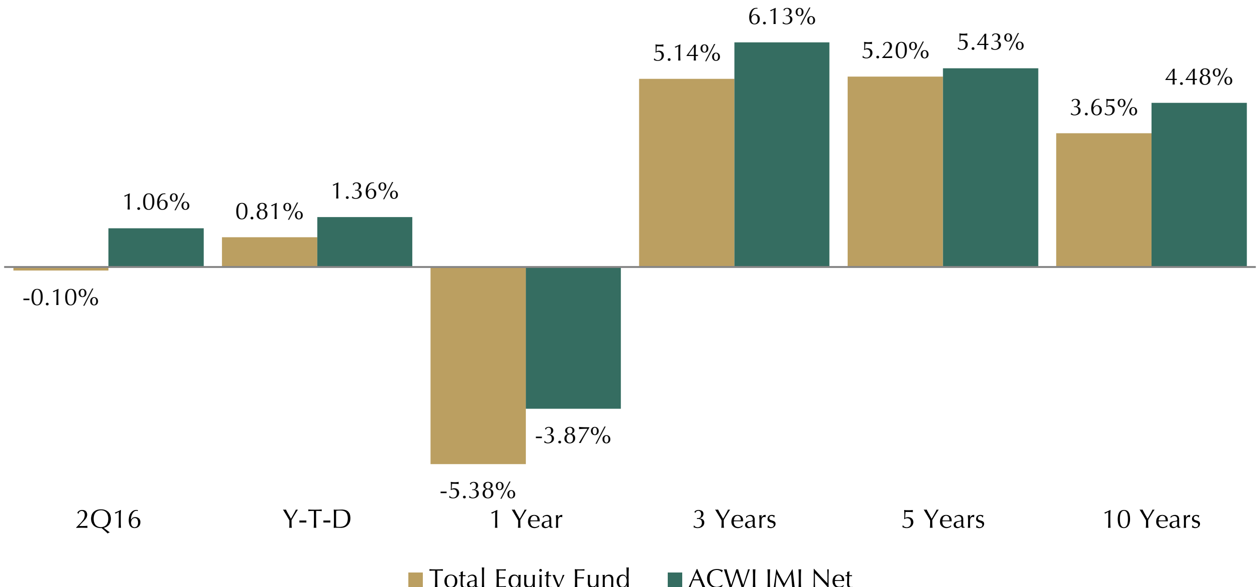



- Uncertainty--economic, political and geopolitical---has investors searching for stability even within equities.
- Minimum (low) volatility, high dividend paying stocks and defensive sectors are more historically more stable areas of equities and as such have benefitted in 1H16.
- It is difficult, if not impossible, to predict when investor moods will shift but continued global uncertainty has benefitted these stocks in the short term and made it difficult for some managers.
- Seasoned, active managers use stock underperformance caused not by business fundamentals to add to highest conviction investments.

# Performance — Total Equity Fund

- **Absolute returns:** Despite the surprising result of the UK referendum exit the European Union at the end of June, global equity market indices ended the quarter with modest gains. Global regions with more direct Brexit exposure underperformed the US and emerging markets, which both ended the quarter in positive territory. Expectations that the Federal Reserve would not raise interest rates as soon as previously anticipated, increased monetary easing by central banks outside of the US, and signs of further stabilization in emerging markets helped risk assets move higher in the quarter. US equities generally saw gains of around 2-4% for the quarter.

- **Manager and allocation:** Eight of the nine managers had positive absolute performance for the quarter, with only the Brexit-impacted international mandates down for the quarter. Five of the six domestic equity managers were up over 1% for the quarter, with Fiduciary Large Cap, SSGA, and Westfield up over 2%, although trailing their respective benchmarks. QMA in US large cap and LSV internationally had the largest negative impact while Oaktree, the emerging markets manager, had positive absolute and relative returns for the second quarter. (Note: strong absolute and relative performance across the board in July.)

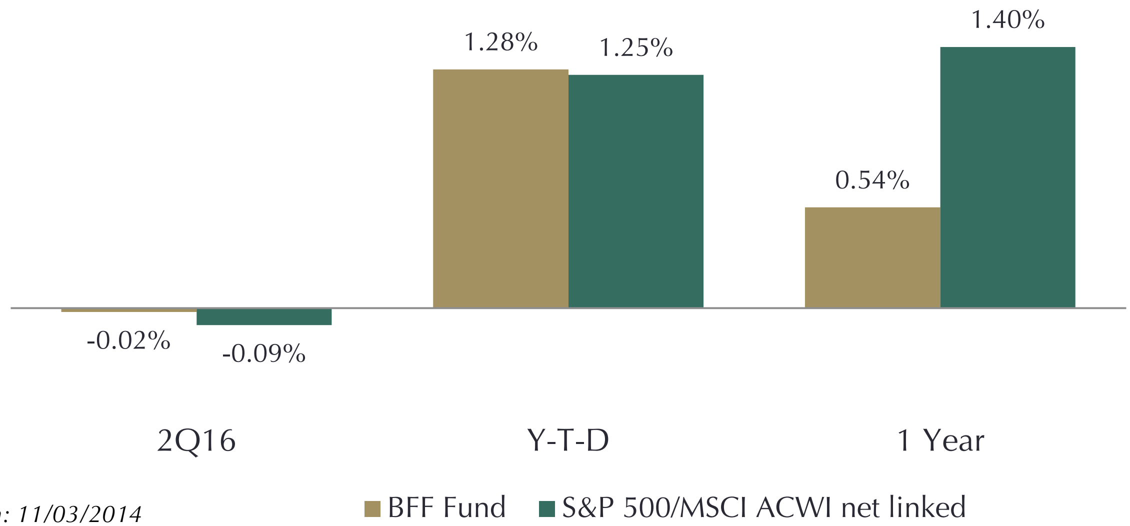



** Returns on UCF Funds are presented net of all fees.*

# Performance —
# Beyond Fossil Fuels Fund (BFF)

- **Absolute returns:** The Fund had flat performance in the second quarter of 2016. Late-quarter Brexit interruptions did not shake the domestic equity market, which saw strong positive returns for the quarter. The S&P 500 has posted positive returns over each of the past four months. The Fund transitioned to a global portfolio during the quarter.

- **Manager and allocation:** QMA, the BFF manager, outperformed the benchmark in the second quarter of 2016. Fossil Fuel Free constraints have been a material detriment to performance for the quarter and calendar year-to-date as energy prices have rallied.




** Inception: 11/03/2014*

*** Returns on UCF's funds are presented net of all fees.*

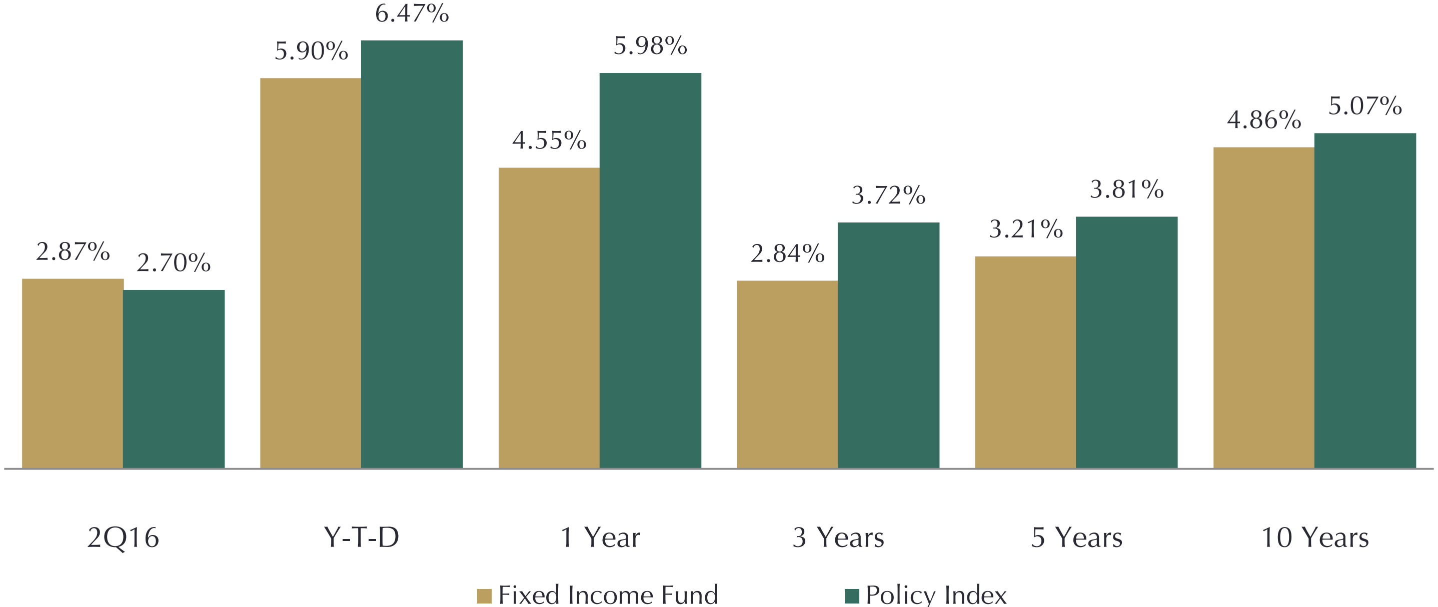


UNITED CHURCH FUNDS

# Performance — Fixed Income Fund

- **Absolute returns:** Continued low growth and inflation expectations, in conjunction with increased equity market volatility, kept the demand for bonds high in the second quarter. Yields decreased with inflation expectations and real rates, and investment grade spreads tightened modestly during the quarter. The 10-year US Treasury yield ended the quarter at 1.47%, 30 bps lower than in March and 80 bps lower than in December. Bank loans were up almost 3% broadly for the quarter as credit continued to be one of the best-performing sectors. Emerging market bonds also performed well during the quarter, with the rally in interest rates more than offsetting modest EM currency declines.

- **Managers and allocation**: The core fixed income managers performed mostly in line with the broad domestic benchmarks for the quarter. The bank loans manager outperformed for the quarter as the commodity and energy-related sectors rallied. The emerging markets debt blend manager also outperformed as bottom-up positioning in external debt benefitted the portfolio, particularly underweight positions in higher-quality Asian countries and overweight positions in South America.



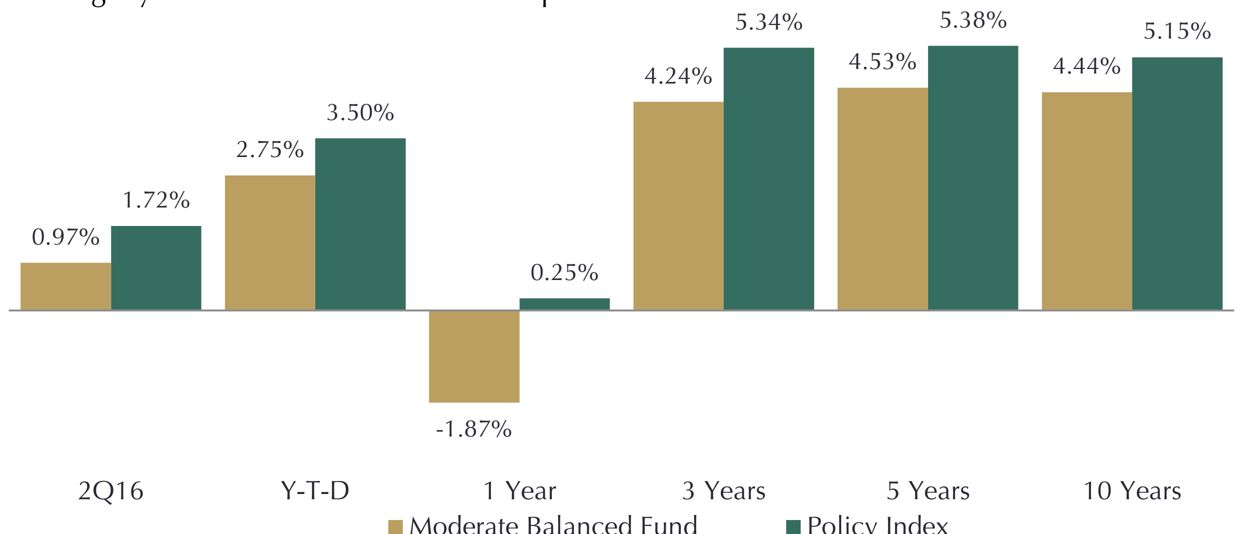

** Returns on UCF's funds are presented net of all fees.*

# Performance — Moderate Balanced Fund

- **Equities:** Despite a news-filled June, domestic equity markets had a strong finish to the quarter. The S&P 500 shook off Brexit woes to finish the second quarter with a 2.5% gain. US small cap stocks led the way for the quarter, up almost 4%. Not surprisingly, international developed markets felt the bulk of the Brexit impact and its resulting uncertainty, with broad developed international large cap stocks down 1.5% and small cap stocks down 2.5%. Emerging markets proved to be a bright spot in the international equity space, posting a positive return just under 1% for the quarter.

- **Fixed Income:** Fixed income assets provided strong, positive returns across the board in the second quarter. Yields fell on real interest rate declines, and the 10-year U.S. Treasury yield ended the quarter at 1.47%, 30 bps lower than at the end of March. With continued volatility and uncertainty in equity markets, along with ongoing low growth and inflation expectations, bonds continued to provide a lower-risk safe haven for investors. Credit spreads tightened in the quarter as well, continuing a run of strong performance.

- **Manager and allocation:** Weak equity manager performance, especially in June, offset strong fixed income performance for the quarter, bringing the Fund slightly below the benchmark for the quarter.




** Returns on UCF's funds are presented net of all fees.*

# Performance — Summary

- The Total Equity Fund was essentially flat for the quarter, as US equity gains were offset by Brexit-related losses in the international equity space. Regional asset allocation was generally neutral, with the relative underperformance of two domestic equity managers and one international manager, LSV, driving underperformance versus the Index for the quarter. (Note: very strong equity manager performance in July.)

- The Balanced Funds' second quarter results were hurt by a slight underweight to fixed income. Relative underperformance, particularly from domestic equity managers, also detracted from performance for the quarter.

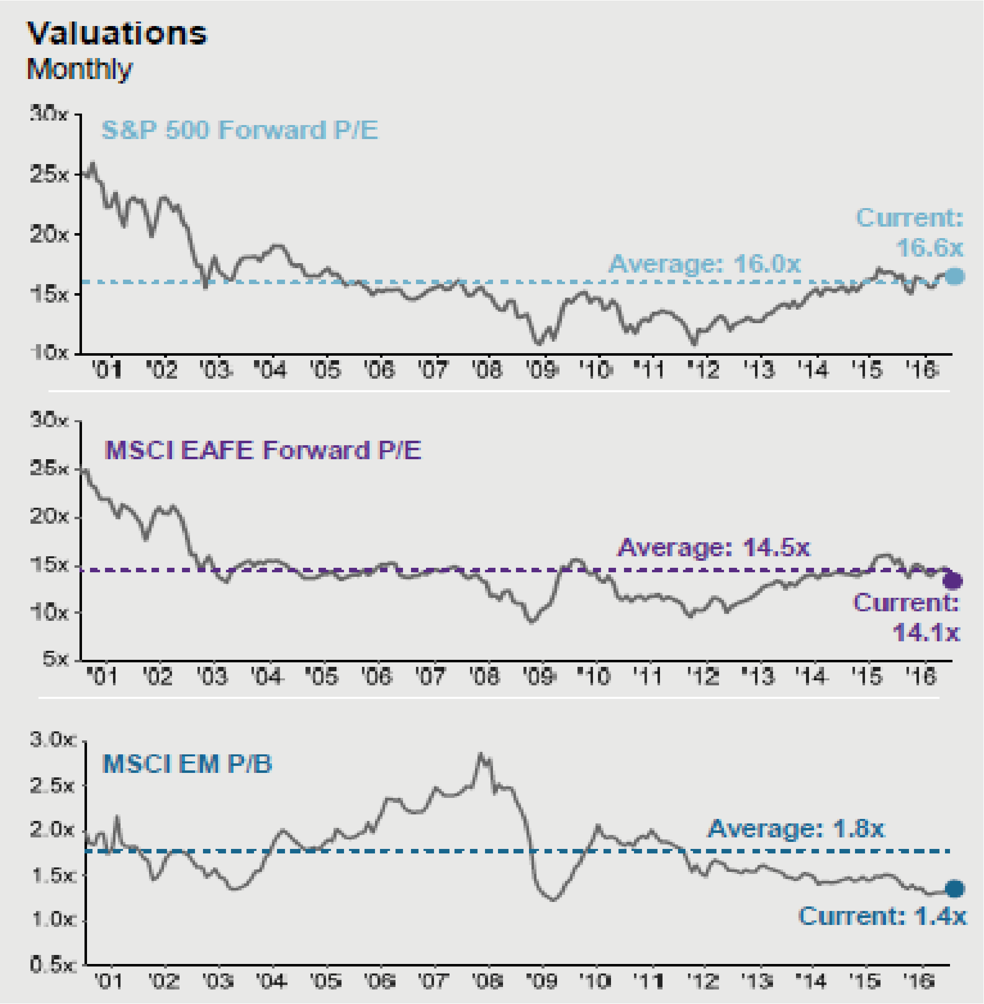
- The Beyond Fossil Fuels Fund was flat for the quarter in absolute terms, but, on a relative basis, the Fund slightly outperformed the benchmark. Fossil Fuel Free constraints were a detriment.

- Core-fixed (~70% of the Fixed Income Fund) and Community Capital (~14% of the Fixed Income Fund) saw positive returns as low growth and inflation expectations, combined with continuing equity market volatility, led to a decrease in yields. In the emerging markets debt space, gains from the interest rate rally were more than enough to offset very modest emerging markets currency declines. Bank loans are still favored because the floating-rate nature of the asset class offers protection in a higher or rising interest rate environment; additionally, the credit-oriented sectors of the market continue to draw demand from investors, especially on the domestic front.

- Global growth expectations remain low as demographic, deleveraging, and productivity headwinds remain at the forefront of investor concerns. Uncertainty (in global monetary policy, geopolitical arenas, and recessionary fears) remains as the most prevalent global investment theme currently. However, pockets of attractiveness continue to exist across a wide range of individual economies and sectors globally, providing significant future investment opportunities.

# Strategy & Positioning

# Strategy & Positioning — S&P Valuation Measures



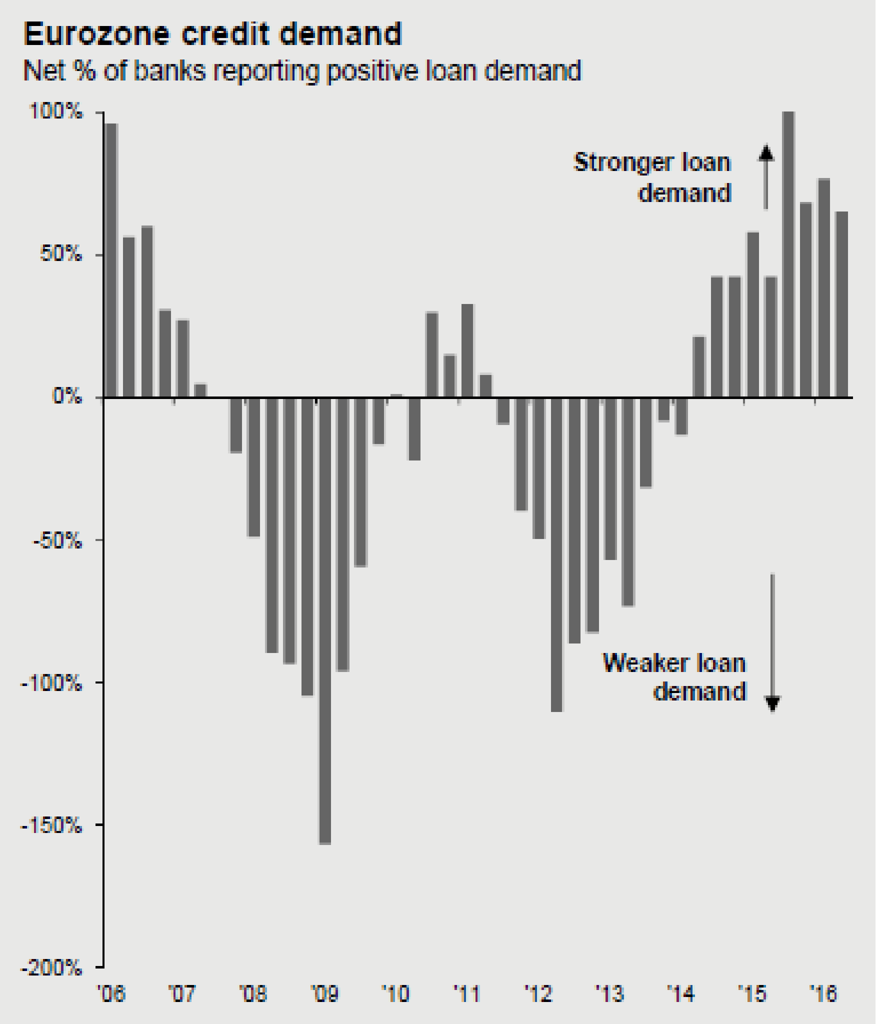

- The S&P 500 Index is right in-line with its average historical valuation (but margins are high and falling).
- The MSCI EAFE Index, which represents developed international equity markets like Germany and Japan, is also almost exactly in-line with its historical average valuation.
- The MSCI EM Index, which represents emerging market country equity markets, is still well below its historical average valuation, and has seen positive performance momentum in 1H16.



United Church Funds

# Strategy & Positioning — European Recovery

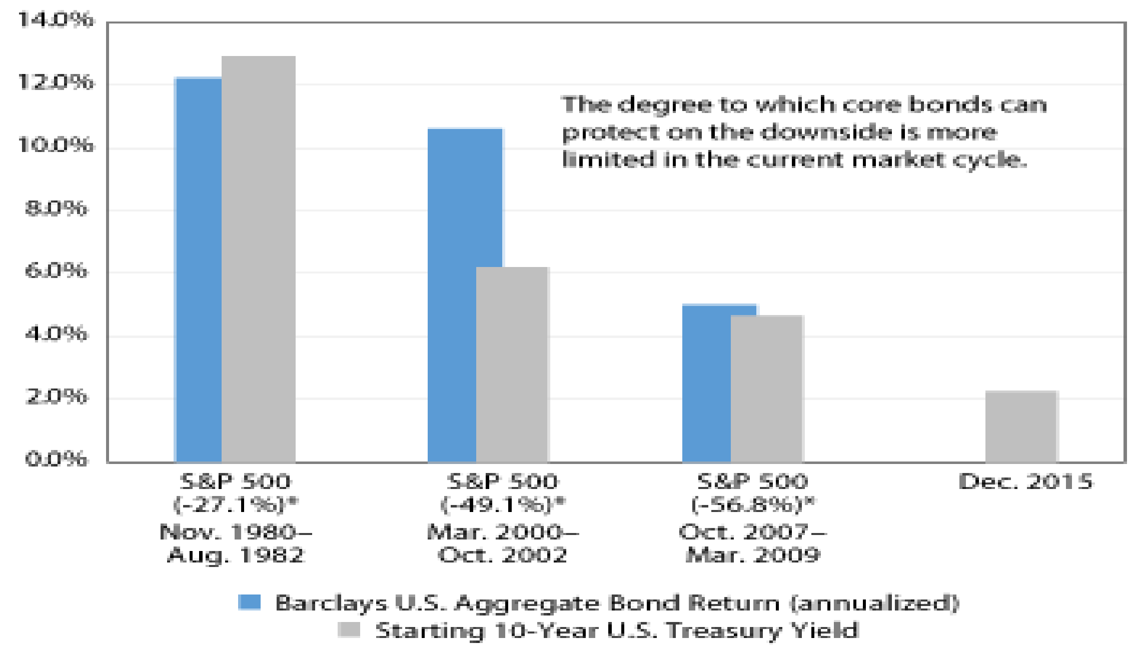

- Eurozone manufacturing is expanding and GDP growth is very low but positive. Above 50 is considered expansion.
- Credit demand has improved since the European Central Bank started taking actions in 2014. Loan growth is paramount for GDP growth and is a positive sign for those economies.
- Uncertainty due to "Brexit" is expected to dampen economic growth.





United Church Funds

# Strategy & Positioning — Bonds and Protection



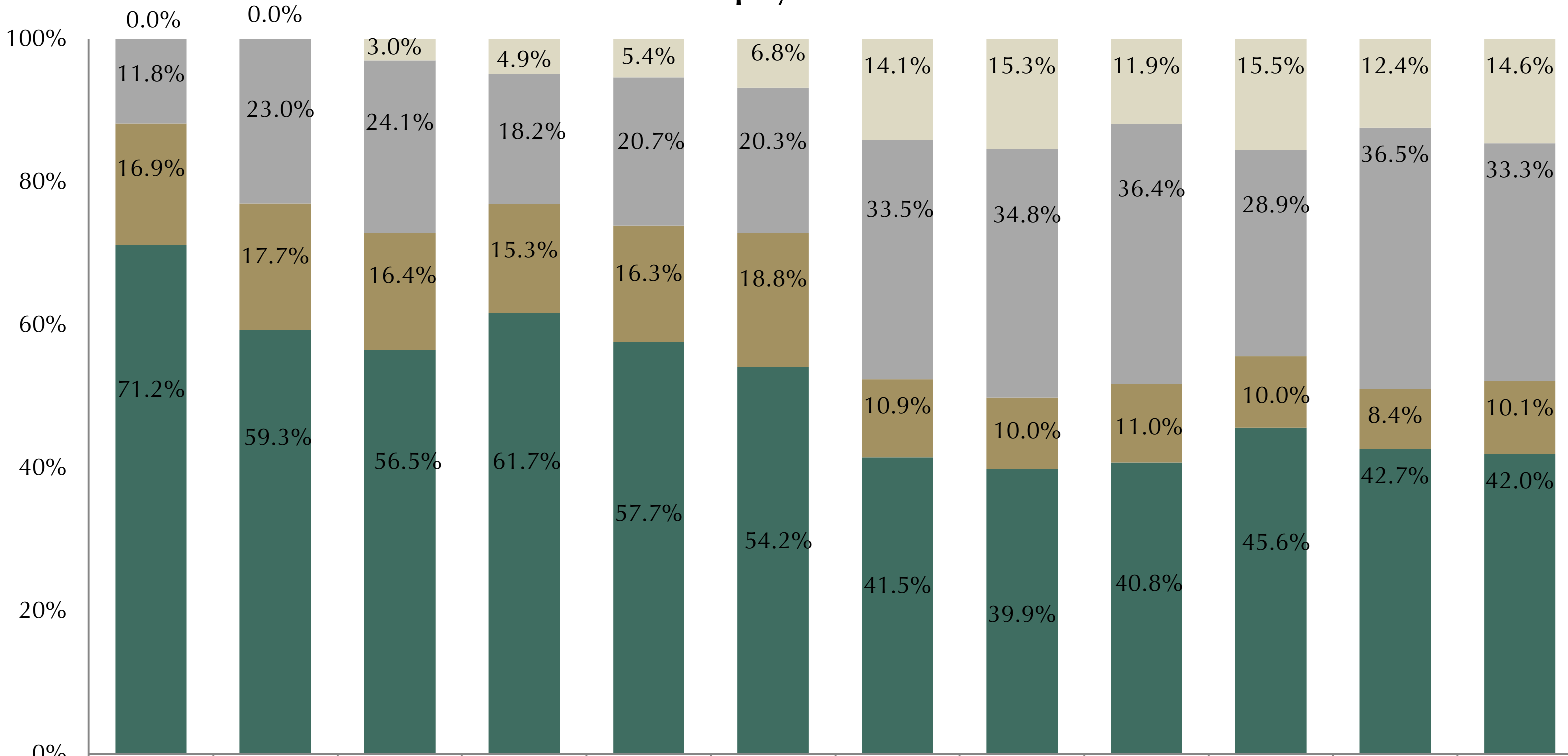

- In past major market downturns, U.S. Treasury 10-year yields were starting from much higher levels and thus yields could fall further, creating price gains AND strong portfolio diversification.
- The protection of U.S. core bonds has diminished in each major bear market.
- In the past, investors were being paid much higher income to hold that protection. With historically low yields today, investors are being paid very little for the benefits of that protection/ diversification benefit.



UNITED CHURCH FUNDS

# Strategy & Positioning —
# Total Equity Fund Diversification

**UCF Equity Asset Allocation**



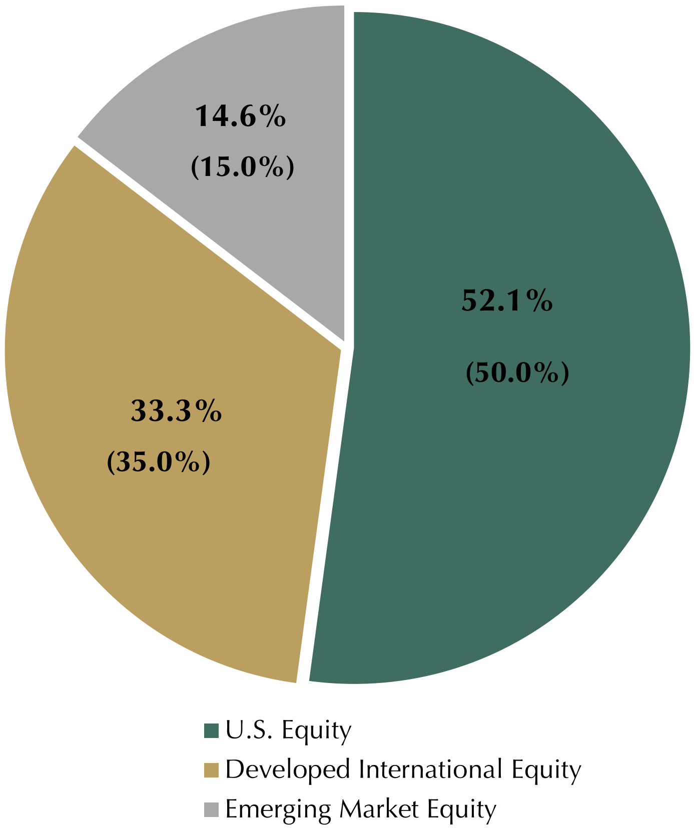

| Periods ending 12/31 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | June 2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Emerging Markets Equity | 0.0% | 0.0% | 3.0% | 4.9% | 5.4% | 6.8% | 14.1% | 15.3% | 11.9% | 15.5% | 12.4% | 14.6%* |
| Int'l Developed Equity | 11.8% | 23.0% | 24.1% | 18.2% | 20.7% | 20.3% | 33.5% | 34.8% | 36.4% | 28.9% | 36.5% | 33.3%* |
| Small Cap Equity | 16.9% | 17.7% | 16.4% | 15.3% | 16.3% | 18.8% | 10.9% | 10.0% | 11.0% | 10.0% | 8.4% | 10.1% |
| Large Cap Equity | 71.2% | 59.3% | 56.5% | 61.7% | 57.7% | 54.2% | 41.5% | 39.9% | 40.8% | 45.6% | 42.7% | 42.0% |

** Current actual allocation for International Developed and Emerging Markets.*

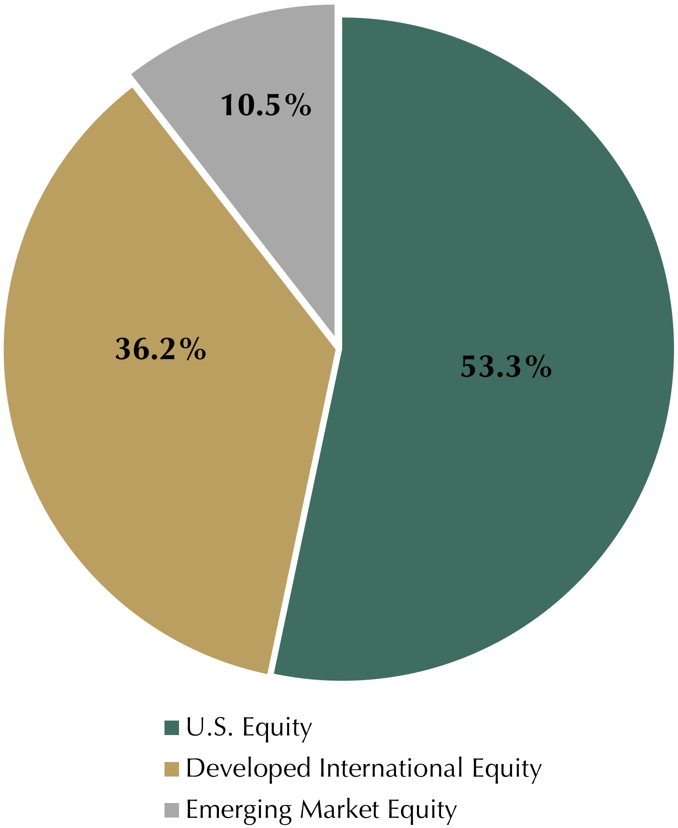
United Church Funds

# Strategy & Positioning—World Market Capitalization

UCF Total Equity Fund Allocation
as of 6/30/2016



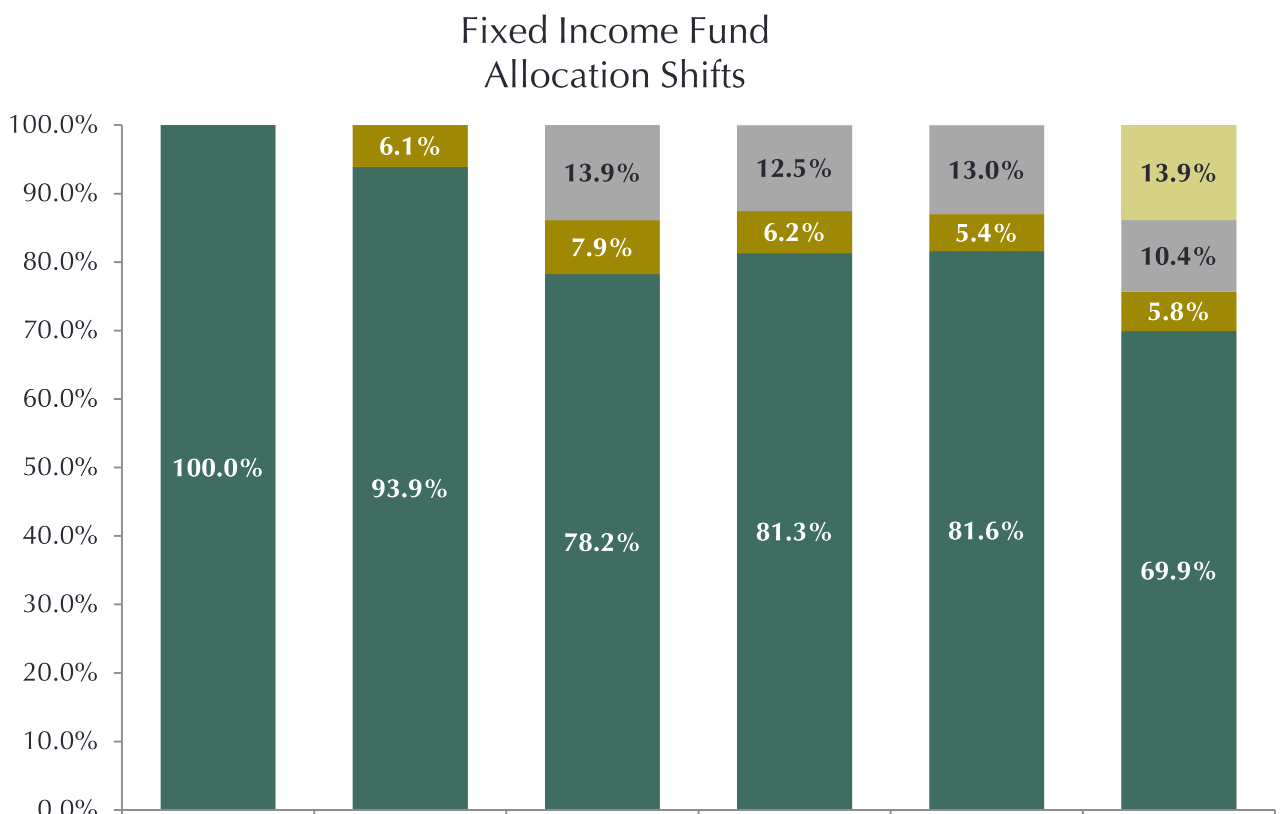

MSCI All Country World Index (ACWI) IMI Index
Allocation as of 6/30/2016






United Church Funds

# Strategy & Positioning —
# Fixed Income Fund Diversification




| | 2011 | 2012 | 2013 | 2014 | 2015 | June 2016 |
|---|---|---|---|---|---|---|
| Core Impact | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 13.9% |
| Bank Loan | 0.0% | 0.0% | 13.9% | 12.5% | 13.0% | 10.4% |
| Emerging Market Debt | 0.0% | 6.1% | 7.9% | 6.2% | 5.4% | 5.8% |
| Core Fixed Income | 100.0% | 93.9% | 78.2% | 81.3% | 81.6% | 69.9% |


UNITED CHURCH FUNDS

# Strategy & Positioning — Fixed Income Fund

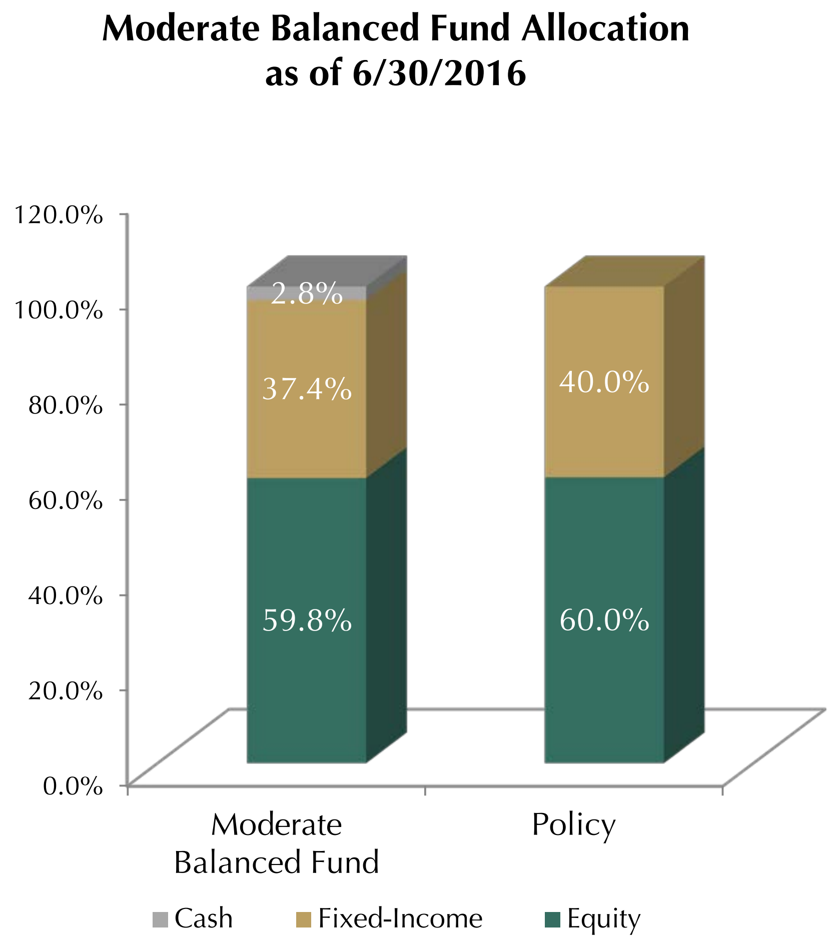
Selected Portfolio Characteristics
June 30, 2016

| Average Characteristics | UCF Total | Core Fixed | EMD | Bank Loans | ESG Impact | Barclays* |
|---|---|---|---|---|---|---|
| Positioning | 100% | 69.9% | 5.8% | 10.4% | 13.9% | 100% |
| Moody's Rating | A3 | AA3/A1 | Ba1 | Ba2 | Aa1 | Aa2/Aa3 |
| S&P Rating | A- | AA-/A+ | BB+ | BB | AA+ | AA/AA- |
| Average Maturity (Years) | 8.1 | 9.2 | 9.8 | 2.4 | 6.0 | 9.0 |
| Effective Duration | 6.0 | 6.9 | 6.2 | 0.5 | 5.4 | 6.7 |
| Yield-To-Worst(%) | 2.6% | 2.0% | 6.2% | 5.6% | 2.0% | 1.9% |



UNITED CHURCH FUNDS

# Strategy & Positioning – Moderate Balanced Fund Allocation



# United Church Funds — Wrap Up

- **Adapting** to eventuality of higher rates, but we recognize global growth concerns and have lengthened duration
- **Diversifying** because valuation ultimately matters but last three years have been frustrating
- **Focusing** on the longer-term opportunity
- **Maintaining** positive performance momentum but if we use active management/managers we must overcome fees
- **Supporting** UCF's mission
  - Global BFF Fund
  - Focusing on ESG and Impact

# Q & A