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ALTERNATIVES INVESTMENT  
PROGRAM

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1 DESCRIPTION STATEMENT

Established in 1909 to administer the Pilgrim Memorial Fund for the benefit of retired pastors, United Church Funds (UCF) has developed into a comprehensive investment service, managing over half a billion dollars of assets for the United Church of Christ (UCC) and other faith-based organizations. Alongside some of the historic endowments of the UCC, the assets entrusted to UCF include the savings, gifts and endowments of local churches, associations, conferences and denominational ministries.

For generations, UCC organizations have chosen to invest with UCF not only because of its affiliation with the denomination, but also for the advantages UCF offers its clients, including —

- Social responsibility in keeping with UCC values
- Competitive fees charged consistently to all accounts
- A not-for-profit structure that benefits mission
- Broad diversification designed to minimize portfolio risk
- Continuous evaluation designed to strengthen performance

Offering investors an appealing alternative to commercial firms, UCF pursues a mission to make more money available for ministry — ensuring UCC assets benefit from the skills of experienced money managers while remaining faithful to the values of the UCC.

On July 1, 2010, UCF added two new investment options for qualified investors. UCF constructed a portfolio of private investment funds (the Alternatives Fund) that seeks to increase diversification across additional asset classes and to achieve returns that are not correlated with the indices of UCF's traditional investment options. The Alternatives Fund seeks to invest in a combination of hedge funds, real estate funds, real asset funds and other investments. UCF also offers a portfolio of private investment funds and publicly-traded equities and debt (the Alternatives Balanced Fund). Both the Alternatives Fund and Alternatives Balanced Fund (the Alternatives Options) have liquidity terms and risks different from other UCF investment options. Before investing, investors should determine whether an allocation to the Alternatives Fund or Alternatives Balanced Fund is aligned with their investment objectives.

Each of the Alternatives Fund and Alternatives Balanced Fund is available only to entities religiously affiliated with the UCC that meet certain tax qualifications. Past performance is not indicative of future results. Investors should carefully review the Receipt and Agreement and Risk Factor Disclosure documents prior to investing.

# INTRODUCTION

# ALTERNATIVES FUND

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The Alternatives Fund (AF) portfolio comprises primarily of interests in hedge funds, real estate funds and real asset funds managed by third-party managers (the Private Funds). UCF allocates approximately 70% of the AF portfolio to hedge funds and 30% of AF portfolio to real estate and real asset funds. Actual allocations vary from time to time and the variances could be material. The hedge funds selected utilize a variety of strategies including relative value, event-driven, multi-strategy and directional approaches. The real estate funds include core real estate private funds and real estate investment trusts. The AF portfolio may include investments in master limited partnerships and funds that invest primarily in commodities and commodities-related investments for any purpose consistent with its investment objective, or as an attempt to offset the effects of inflation. The AF does not include direct investments in real estate or in commodities.

The investment objective of AF is to achieve attractive risk-adjusted returns while controlling the downside risk associated with adverse market conditions. UCF believes that diversifying assets among multiple Private Funds employing different investment strategies enables the investors to achieve exposure to alternative investment strategies not closely correlated to the publicly traded stock and bond markets. At the same time, the AF diversifies its portfolio of Private Funds with a view to reducing the volatility of these investments and decreasing the risk of a significant loss of capital. There is no assurance, however, that the AF will achieve its investment objective. You should carefully review the accompanying Risk Factors Disclosure Statement. The investment policies and strategies of the AF described below may be changed at any time by UCF to the extent that such changes are consistent with the overall investment objective in the opinion of UCF.

UCF has entered into a strategic partnership with an independent investment consulting firm that advises institutional clients on investment strategies, including Private Funds. The strategic advisor introduces UCF to private fund managers, identifies potential investments suitable for the AF portfolio, and assists UCF in evaluating and monitoring the performance of the AF's investments.

## OVERVIEW OF THE HEDGE FUND, REAL ESTATE FUND & REAL ASSET FUND MARKET

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Hedge funds, real estate funds and real asset funds are private, pooled investment vehicles that typically are not subject to investment restrictions imposed by federal securities laws on publicly offered securities or mutual funds. As a result, Private Fund managers have the ability to employ hedging and other investment techniques such as short sales, leverage, derivatives, and arbitrage, which usually are not available to many investment managers. Private Funds may be appropriate for high net worth and institutional investors with longer-term investment horizons, seeking additional diversification for their portfolios and the potential for returns greater than those of public markets.

Private Funds utilize a fee structure that is different from those of traditional investments. Fees typically include a management fee of 1% to 2% of assets under management annually, plus a performance fee which is typically 20% of net investment gains. Real estate funds and real asset funds may include a preferred return which investors are paid before any performance fee is paid. The performance fee can serve as a strong incentive to align the interests of the manager with those of the hedge fund's investors. These managers usually invest a significant amount of their own capital in the Private Funds they sponsor.

Private Funds offer a number of benefits over traditional investments to compensate for their added risk, illiquidity, lack of transparency and higher fees. Because Private Fund returns may not be highly correlated to the public equity and bond markets, they can reduce the overall volatility of an investor's portfolio. Hedge fund managers typically attempt to achieve absolute, not relative, performance. This means many hedge fund managers set out to produce positive returns or, at a minimum, preserve partners' capital, regardless of the performance of the market. Real estate fund managers and real asset fund managers typically seek to achieve returns that correlate with the industries or business cycles of the companies in which they invest. Most traditional managers, by contrast, focus on relative performance as measured against a broad-based securities index, such as the S&P 500®.

Private Fund investing involves substantial risks, including the risks described in the accompanying Risk Factors Disclosure Statement. Private Fund managers generally are not legally required to share much information regarding their funds, even with their existing investors. Many hedge funds have so-called "lock-up" periods which cause them to be illiquid investments.

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Redemptions are often limited to specific times during the year. Real estate funds and real asset funds typically have a longer-term (up to 10 years or more) during which investors' capital will remain invested. Performance is highly dependent upon the skills of one or more individual managers, not on the performance of the broader market.

The AF seeks to invest in Private Funds and other investments managed by a diverse selection of unaffiliated managers. The actual number of investments in the AF portfolio will vary depending on the amount of capital committed to the AF, the Private Fund manager's style, and the capacity of the Private Funds for new investments. This diversification is intended to defend against the cyclical nature of results expected from individual strategies, as well as against single-manager or style risk.

UCF believes that diversifying the AF's assets among multiple Private Funds enables its investors to achieve exposure to alternative investment strategies not closely correlated to the stock and bond markets. At the same time, the AF's diversification is intended to reduce the volatility of these investments and decrease the risk of a significant loss of capital.

UCF Alternatives Fund was established to provide investors with the following benefits —

- **Access to a Diversified Portfolio of Private Funds** — The Alternatives Fund provides investors the ability to access a unique and diversified portfolio of Private Funds through one investment vehicle. UCF actively pursues diversification of the AF's portfolio by investment manager in order to manage the investment risk undertaken by investors in the AF. As the AF aggregates the investment capital of its investors for investment into several Private Funds, the investors gain the benefit of spreading the investors' risk among a number of Private Fund managers employing a variety of investment strategies.
- **Access to Private Fund Managers** — The most successful Private Fund managers often are selective about which new investors they admit to their funds. As a result, it can be difficult to be accepted as an individual investor in certain Private Funds. UCF draws upon its relationships with Private Fund managers in order to access certain Private Funds deemed attractive by UCF.
- **Due Diligence and Performance Evaluation** — As part of its due diligence process, UCF meets with the manager of each Private Fund in which the AF proposes to invest, in person or by telephone. UCF reviews and evaluates the strategy and risk management practices of the manager of each Private Fund considered for investment. This review focuses on the Private Fund manager's investment style, diversification, exposure, leverage, liquidity, reporting obligations, business plan, fund terms and the manager's personal capital commitment to its fund. Once a Private Fund is added to the AF's portfolio, UCF regularly reviews the fund's performance, including periodic meetings with the manager in person or by telephone.
- **Scale** — Individual investors may lack sufficient capital to meet the minimum investment requirements of multiple individual Private Funds and, thus, may not be able to gain sufficient diversification of their Private Fund investments. By aggregating its investors' capital, the AF can invest on a larger scale than an individual investor and can meet the minimum investment requirements of multiple Private Funds. Professional Private Fund investing involves extensive due diligence, negotiation, and legal and tax analysis. Many individual investors lack the administrative resources and skills needed for those tasks. UCF can undertake these processes on a more professional and cost-effective basis than most individual investors could on their own.

## ASSET ALLOCATION

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UCF expects to invest the AF's assets, employing hedged and other investment strategies. The actual number of Private Fund investments varies depending on the amount of capital invested in the AF, the Private Fund manager's style, and the capacity of the Private Funds for new investments. This approach is designed to produce returns that are not correlated with other asset classes and have lower volatility than traditional asset classes.

Certain investment strategies that may be utilized by managers of the Private Funds are described below. The specific strategies of the Private Funds are subject to change. The AF may, in the future, invest in Private Funds with different

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investment strategies and will not necessarily invest in each strategy. Certain funds may utilize a “hybrid” strategy that employs techniques of both typical hedge funds and of private equity funds, investing in both liquid and illiquid securities, and may be subject to a holding period. By actively monitoring and reallocating assets as market opportunities change, UCF believes it has the potential to increase the efficiency and effectiveness of the AF’s investment strategy.

#### **Equity Market Neutral**

In this strategy, a fund’s manager attempts to insulate the fund’s portfolio from overall market risk by balancing long and short positions in equity markets within a country. Market neutral portfolios are designed to be either beta or currency neutral or both. Funds typically control for industry, sector, market capitalization or other exposure.

#### **Event Driven**

This investment strategy is designed to capture price movements generated by an anticipated corporate event. In a takeover or merger, a fund’s manager may attempt to exploit the change in price of a firm’s securities. In such cases, the manager generally will take a long position in the stock of a target firm and a short position in that of the acquiring firm, or vice versa. This strategy also may involve taking positions in illiquid debt or equity of companies at or near bankruptcy to profit from potential recovery. Other investments in this strategy may include investments in companies involved in liquidation, spin-offs or capital re-structuring.

#### **Convertible Bond Arbitrage**

In this strategy, the fund’s manager seeks to profit from mispricing of the embedded option in a convertible bond. The strategy is often characterized by a long, convertible position and corresponding short position in the underlying stock or vice versa. Managers may limit their activities to a single market (e.g., the United States), or they may invest globally.

#### **Fixed Income Arbitrage**

This strategy seeks to profit by exploiting pricing inefficiencies between related fixed income securities while neutralizing exposure to interest rate risk. Fixed income arbitrage can include interest rate swap arbitrage, U.S. and non-U.S. Government bond arbitrage, forward yield curve arbitrage and mortgage backed securities arbitrage.

#### **Equity Arbitrage**

This strategy exploits the mispricing of equity and equity derivative securities. For index arbitrage, the fund’s manager evaluates the pricing differences between the futures market and the cash or physical markets. Usually, this strategy is implemented through long positions in the stocks that underlie the index and short positions in the equity derivative security.

#### **Distressed/Special Situations**

This strategy is designed to invest long and short in the debt, equity or trade claims of companies in financial distress. Such securities typically trade at substantial discounts to par value, and may be attractive to investors when managers perceive a turnaround will materialize. This strategy may also invest in special situations where a corporate event such as a merger, spin-off or other significant action is announced or anticipated.

## **PRIVATE FUND SELECTION**

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UCF evaluates Private Funds against several criteria which include, but are not limited to: investment style and decision process; internal control and risk management policies; staff; professional background; historical performance; and references. While UCF generally selects only Private Funds whose managers have documented track records, assets of the Alternatives Fund may, from time to time, be placed with Private Funds whose managers do not have meaningful historical performance but who impress UCF as being highly skilled in the application of their particular strategy.

**Private Fund selection involves a considerable subjective aspect, and should not be regarded as a scientific, precise or objective process. Past performance is not necessarily indicative of future results.**

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## CERTAIN LIMITATIONS ON UCF'S ROLE

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The selection of Private Funds in which the Alternatives Fund invests and the allocation of assets among any additional or replacement Private Funds involve significant judgmental and subjective elements. Although certain statistical and quantitative methods of analysis may be applied in this process, no representation is or could be made that this process is done entirely objectively or scientifically.

**The Alternatives Fund investment program is speculative and entails substantial risks. There can be no assurance that the investment objectives of the Alternatives Fund will be achieved, and results may vary substantially over time. UCF is not in any respect acting as a guarantor or insurer of the success of the UCF Alternatives Fund.**

## THE ALTERNATIVES BALANCED FUND

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The Alternatives Balanced Fund is a non-diversified portfolio of private investment funds and publicly-traded equities and debt. UCF allocates the Alternatives Balanced Fund portfolio as follows: 30% in core fixed income (primarily intermediate and long-term US dollar-denominated government and investment-grade corporate fixed income obligations), 20% in US large capitalization stocks (typically with a weighted average market capitalization over \$5 billion), 14% in hedge funds, 17.5% in international equities (typically the common stock of companies headquartered in developed countries), 5% in small capitalization stocks (typically with a weighted average market capitalization under \$1.5 billion), 6% in real estate and real asset funds and 7.5% in emerging markets. Actual allocations will vary from time to time and the variances could be material. The private investment funds selected for the Alternatives Balanced Fund are substantially similar to those selected for the Alternatives Fund and are subject to similar risks.

**The Alternatives Balanced Fund investment program is speculative and entails substantial risks, including the risks identified above under the Alternatives Fund. There can be no assurance that the investment objectives of the Alternatives Balanced Fund will be achieved, and results may vary substantially over time. UCF is not in any respect acting as a guarantor or insurer of the success of the Alternatives Balanced Fund.**

## TERMS OF PARTICIPATION IN THE ALTERNATIVES FUND & ALTERNATIVES BALANCED FUND

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### Investment

Investors may elect to contribute funds to Alternatives Options on the first business day of each quarter. UCF must receive notice of an investor's intent to invest no later than 30 days prior to the date of investment. Investors generally must invest at least \$5,000,000 to participate in an Alternatives Option.

### Withdrawals

Investors generally may withdraw up to 25% of their investment in an Alternatives Option on the last business day of each quarter, subject to the initial lock-up period described below, provided that they provide written notice to UCF no later than 100 days prior to the date of withdrawal. Withdrawal proceeds will be distributed as soon as reasonably practicable and subject to the redemption rights of the underlying private funds.

Each investment is subject to an initial one-year lock-up period during which no withdrawals are permitted. On the last business day of the quarter following the anniversary of an investment, the investor may begin withdrawing its investment, subject to the 25% limitation. For example, if an investor made an investment on January 1 and wished to completely withdraw its investment, the investor generally would be permitted to withdraw 25% of its investment on the last business day of March, June, September and December of the following year.

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### **Expenses**

The Alternatives Options bear the fees and expenses charged by the underlying private funds. UCF selects the investments in which the Alternatives Options assets are invested and provides oversight and management, as well as some administrative and information technology services.

In addition to these fees and expenses, the Alternatives Options pay a management fee: to UCF, which generally does not exceed 0.50% per annum of the fair market value of the investor's investment at the time the management fee is set. UCF will notify investors annually of the management fee that will be charged for the next 12 months.

### **Reports**

Investors will receive quarterly reports from UCF showing the transactions during the quarter, and value of their interest in the Alternatives Option portfolio based upon information provided by the Private Funds. Each year, UCF makes available an Annual Report, which includes audited financial statements, as well as a Schedule of Investments. UCF uses reasonable efforts to provide any investor with additional reports upon an investor's written request.

Each Alternatives Option's actual performance is available upon request, but is subject to the information made available to UCF by the Private Funds. Typically Private Fund managers update the net asset value of interests in their funds monthly, however there can be no assurance that all such managers will provide updates on the same basis, and the values may be based on the judgment of the manager and may not reflect the price that could be received in an arm's-length transaction.

### **Social Responsibility**

Each Alternatives Option portfolio is not subject to any restrictions on its investments to reflect the socially responsible investment guidelines of the United Church of Christ. The Alternatives Options portfolios will hold interests, along with other investors, in pooled investment vehicles that are not necessarily subject to any restrictions based upon investors' investment guidelines.

### **Transfer Privileges**

An investor's interest in an Alternatives Option portfolio is neither negotiable nor transferable. Any attempt to negotiate or transfer any such interest will not be recognized or given any effect. An investor's only right in this regard is the redemption or transfer of the interests pursuant to the terms of the Receipt and Agreement entered into by each investor.

At any time, an investor may request to transfer its interest in an Alternatives Option portfolio to other UCF funds as needs and objectives change by sending a letter, email or fax to UCF describing the transfer desired. To protect the interests of investors, UCF reserves the right to refuse transfer by any investor if, in the judgment of management, such a transfer would negatively affect the interests of other investors.

### **Risks**

**An investment in an Alternatives Option entails a number of risks which are summarized in the Risk Factors Disclosure Statement attached. Investors are strongly encouraged to review the Risk Factors Disclosure Statement prior to investing.**

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## **RECEIPT AND AGREEMENT**

At the time of entry into investment in any of the funds, each investor must execute a Receipt and Agreement, setting forth the terms under which the invested funds are held, and acknowledging the amount received to establish the account.

## LEGAL INFORMATION & DISCLAIMERS

An associated ministry of the UCC and a Connecticut not-for-profit corporation, United Church Funds (UCF) is authorized to receive and administer cash and property transferred by UCC entities and commingled for collective investment and reinvestment. Only UCC entities are eligible to invest with UCF, and include any legally constituted entities qualified as tax exempt under the Internal Revenue Code and operating as a congregation, association, conference, ministry or other institution affiliated with the UCC, including but not limited to any trust, gift annuity fund or pooled income fund established in whole or in part for the benefit of a UCC-related entity. All marketable securities owned by the Common Investment Funds are held in the name of United Church Funds and are held in custody by UCF's custodial bank, which is currently BNY Mellon. UCF carries fidelity insurance up to \$10,000,000 protecting it against dishonest acts of employees, officers, directors, and trustees.

The Board of Directors of UCF must approve changes in UCF's investment program as well as the objectives of each strategy. Notice of any such change will be appropriately communicated to investors in the funds. UCF's Investment Committee may make changes to manager objectives, in guidelines and in operating procedures.

In accordance with the Philanthropy Protection Act of 1995, UCF and its funds are not subject to registration, regulation, or reporting under the Investment Company Act of 1940, the Securities Act of 1933, the Securities Exchange Act of 1934, the Investment Advisers Act of 1940, or state securities laws. Investors, therefore, will not be afforded the protections of those provisions. Neither United Church Funds, and any of its Common Investment Funds, nor The Pension Boards — United Church of Christ is an investment company registered under the Investment Company Act of 1940 or an investment advisor registered under the Investment Advisers Act of 1940. Investment in UCF is subject to certain investment risks and disclaimers described in this document. No person has been authorized to give any information or to make any representations in connection with investment in any of UCF's funds other than those contained in the accompanying Funds Description Statement, and if given or made, such information or representations must not be relied upon as having been made or authorized by UCF.

