

UCF 2nd Quarter 2014 PERFORMANCE WEBINAR

July 30, 2014



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Our Mission

Our mission in four words —

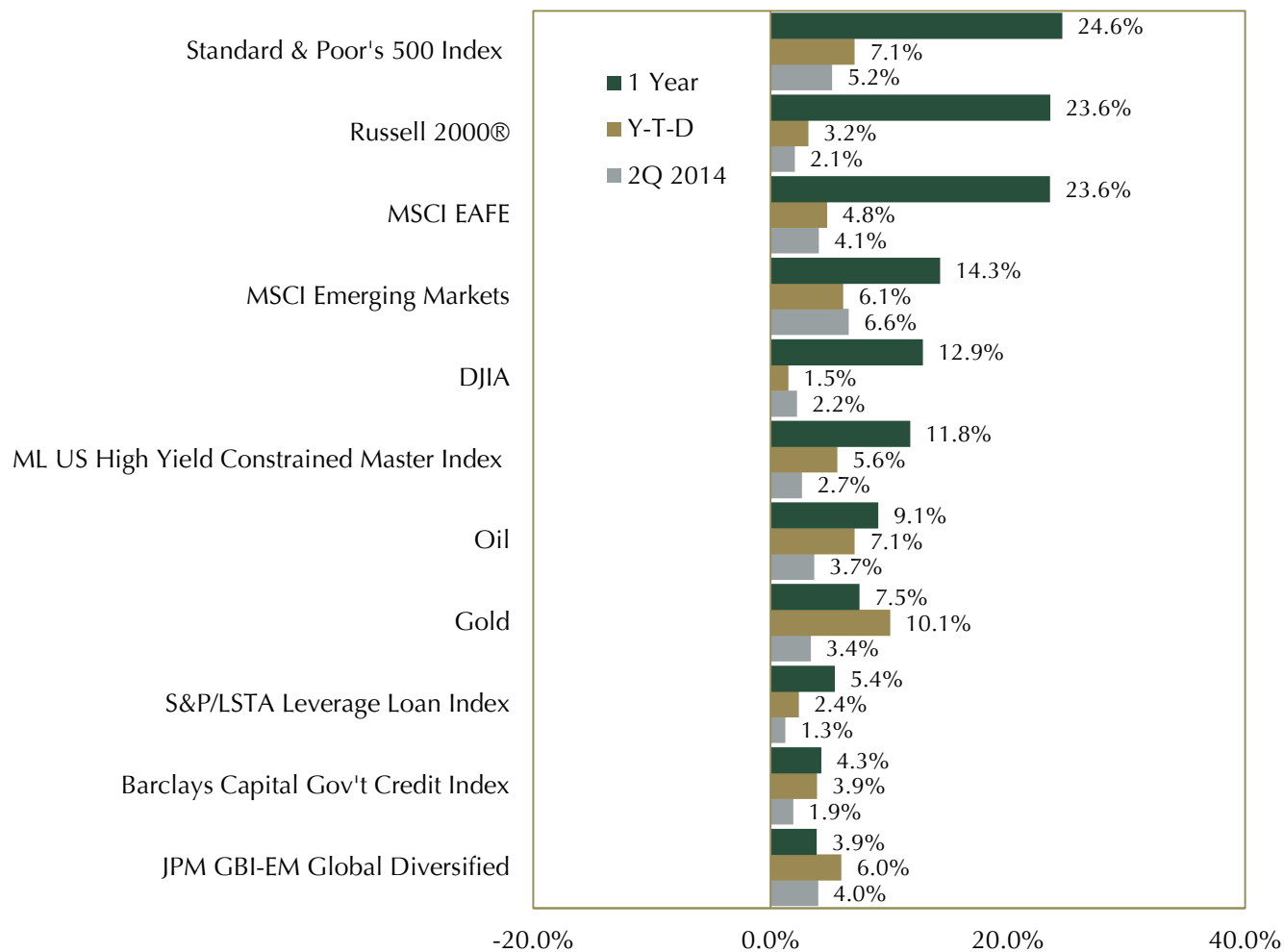
Invest responsibly. Strengthen ministry.

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

Performance

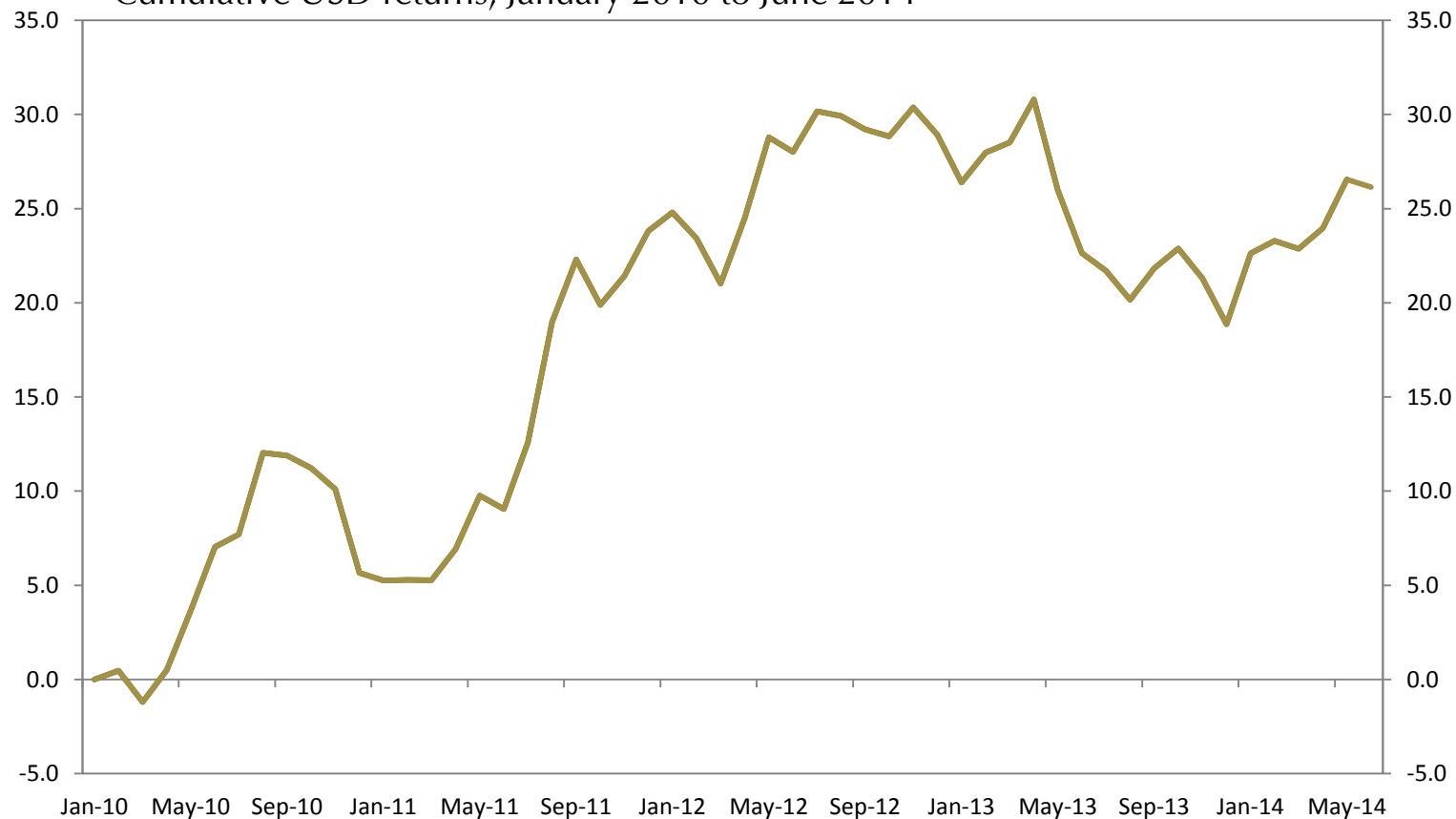
Performance — 2Q 2014 by Asset Class



Performance — Fixed Income Market

10-Year Treasury

Cumulative USD returns, January 2010 to June 2014



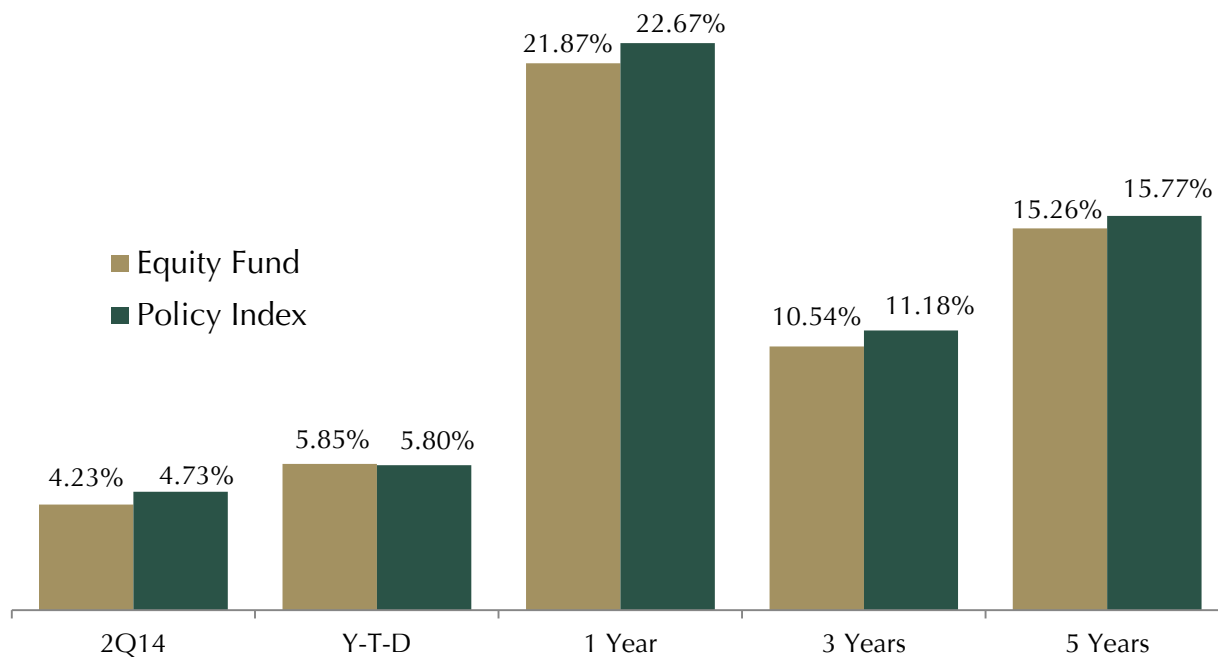
Source: Barclays Capital

Performance — UCF's Funds

Average Total Rates of Return			Annualized				
Returns on UCF funds presented net of fees			2nd Qtr 2014	Year-To- Date	1 Year	3 Years	5 Years
MANAGED FUNDS	Fixed-Income Fund		1.82%	3.81%	4.70%	4.08%	5.31%
	<i>Fixed Income Policy Index (85% Barclays Capital Government Credit Index (BCGC), 10% S&P LSTA Leveraged - Performing Loan, 5% JPM GBI Global Diversified as of 9/1/2013)</i>		1.96%	3.90%	4.36%	4.09%	5.09%
	Domestic Core Equity Fund		5.70%	8.21%	25.22%	16.58%	18.81%
	<i>S&P 500 Index</i>		5.23%	7.14%	24.61%	16.58%	18.83%
	Small Cap Equity Fund		2.53%	4.17%	24.84%	12.44%	17.47%
	<i>Russell 2000 Index</i>		2.05%	3.19%	23.64%	14.57%	20.21%
	International Equity Fund		3.42%	4.32%	19.11%	4.73%	11.46%
	<i>Custom Index 70% EAFE net, 30% MSCI EM net</i>		4.84%	5.22%	20.80%	5.62%	10.84%
FUNDS OF FUNDS	Total Equity Fund		4.23%	5.85%	21.87%	10.54%	15.26%
	<i>Policy Index (40% S&P 500, 10% Russell 2000®, 35% EAFE, 15% MSCI Emerging Markets Net)</i>		4.73%	5.80%	22.67%	11.18%	15.77%
	Conservative Balanced Fund		2.73%	4.55%	10.90%	6.67%	9.09%
	<i>Policy Index (35% Equity Policy, 65% BCGC)</i>		2.93%	4.62%	10.57%	6.79%	9.03%
	Moderate Balanced Fund		3.31%	5.04%	15.08%	8.23%	11.41%
	<i>Policy Index (60% Equity Policy, 40% BCGC)</i>		3.62%	5.09%	15.14%	8.58%	11.72%
	Aggressive Balanced Fund		3.69%	5.38%	17.85%	9.06%	12.89%
	<i>Policy Index (75% Equity Policy, 25% BCGC)</i>		4.04%	5.37%	17.93%	9.60%	13.28%
Alternatives Balanced Fund		2.58%	4.09%	13.53%	7.45%	na	
<i>Current Policy Index 50% Equity Policy, 30% BCGC and 20% Alternatives Policy</i>		3.15%	4.55%	14.09%	8.39%		

Performance — Equity Fund

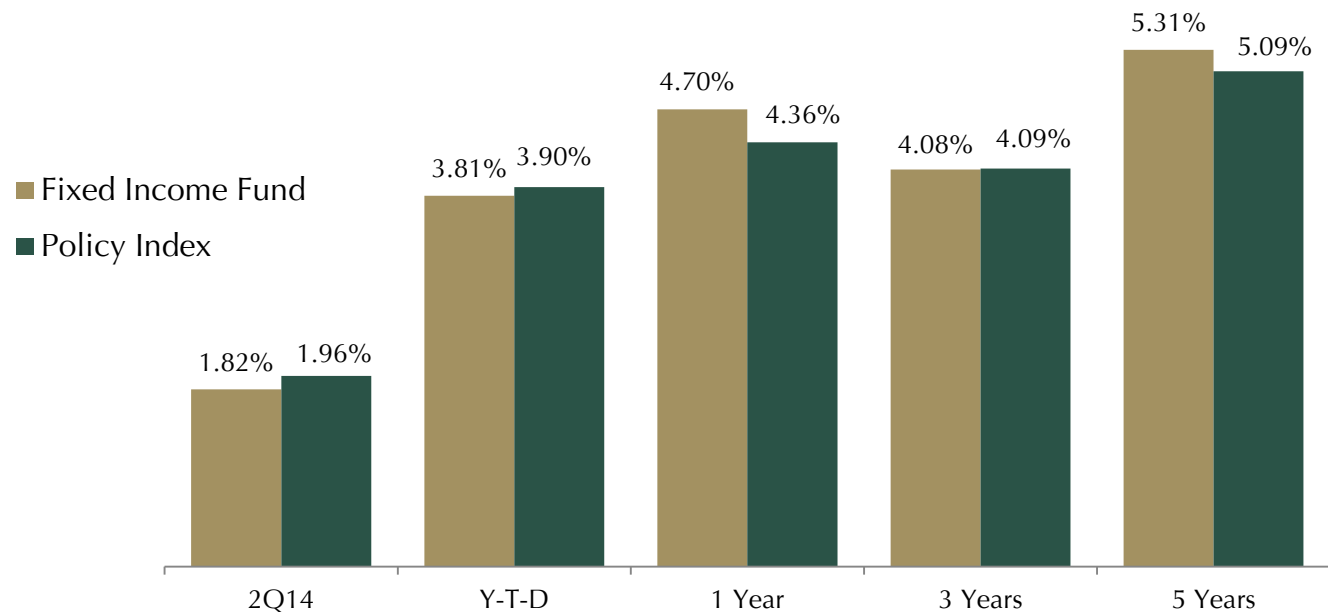
- **Absolute returns** — Equity returns were more robust in the quarter, with emerging markets leading the way and domestic large cap equities not far behind. Despite a negative reading for US economic growth, strong manufacturing figures and positive jobs reports provided a tailwind for equity markets, while the Federal Reserve “taper” continued. International Developed markets also contributed, but small capitalization US equities (Russell 2000) lagged somewhat.
- **Manager and allocation** — For 2Q14, all domestic UCF composites outperformed their benchmarks and most managers outperformed, while the reverse was true internationally as managers trailed indexes for the quarter.



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

Performance — Fixed Income Fund

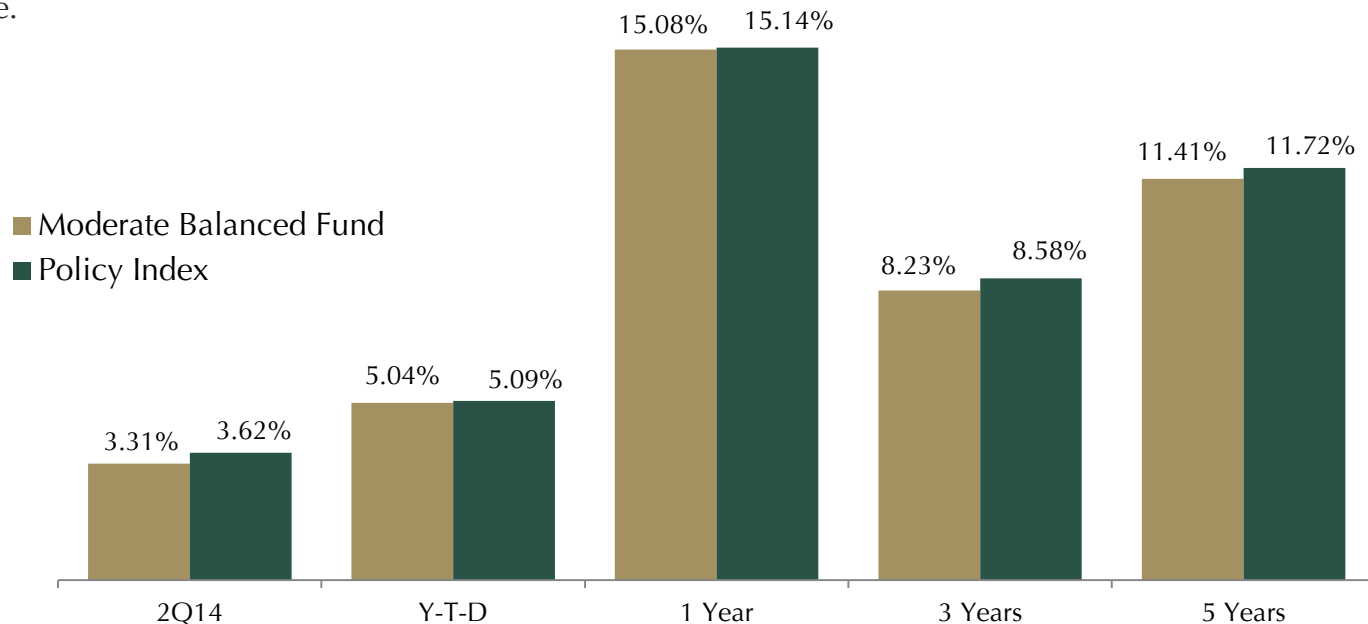
- **Absolute returns** — Another positive quarter for fixed income as weaker US GDP growth, an absence of wage inflation, and continuing geopolitical worries supported bond prices. Emerging Markets Debt continues to regain performance lost in 2013 and generated the highest return for Q2, doubling Core-Fixed and Bank Loans where returns, while lower, were still positive.
- **Managers and allocation** — Manager performance versus benchmarks was mixed with no significant deviation. EMD – Local Currency slightly outperformed, while Core-Fixed was flat and Bank Loans slightly underperformed. The overweight to bank loans vs Core-Fixed held back performance.



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

Performance — Moderate Balanced Fund

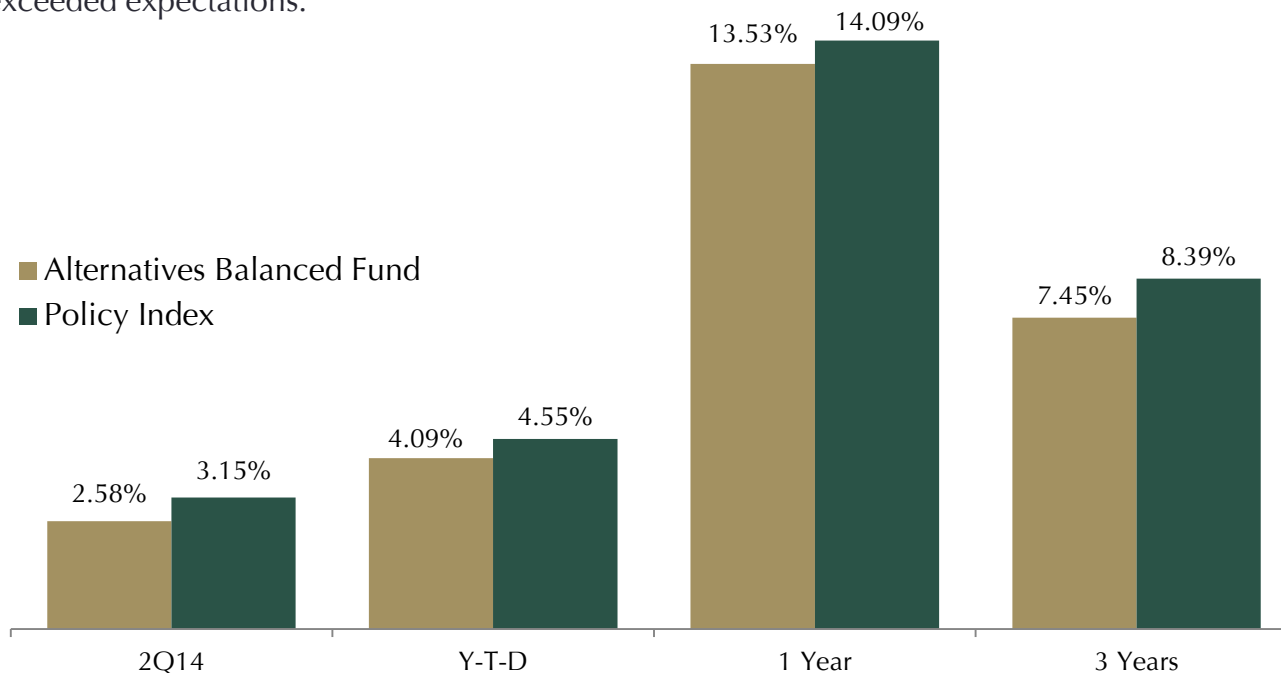
- **Equities** — US equity allocations continued to benefit the fund although large stocks have recently bested small. Developed International (EAFE) had positive returns. Allocation to EM continued to add to returns after a strong March and was the best performer for 2Q14.
- **Fixed Income** — Fixed Income continued to generate positive returns and is the surprise of 2014 so far, after a challenging 2013. Strategy was aided by Core Fixed returns. Emerging markets debt allocations helped in the quarter and year-to-date after a weaker 2013.
- **Manager and allocation** — Manager performance less additive in International Equities and Fixed Income than in Q1. Overweight equities within ranges set by Investment Committee was positive in Q2 and for 2014 to date.



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

Performance — Alternatives Balanced Fund

- **Alternatives** — The Alternatives component is comprised of three fund of hedge funds — Evanston Weatherlow, Magnitude Capital and Abbey Capital, and a core real estate manager, Heitman.
- **Manager and allocation** — Domestic equity and alternatives managers have contributed to results year-to-date, with International trailing somewhat. Abbey Capital, a macro manager (expected to move opposite the broader market) had a more favorable 2Q. Asset allocation (overweight alternatives/underweight fixed income) within ranges set by Investment Committee was neutral in 2Q14 and for 2014 to date, as fixed income performance has exceeded expectations.



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Economy & Observations

Economy — US Sluggish but Resilient

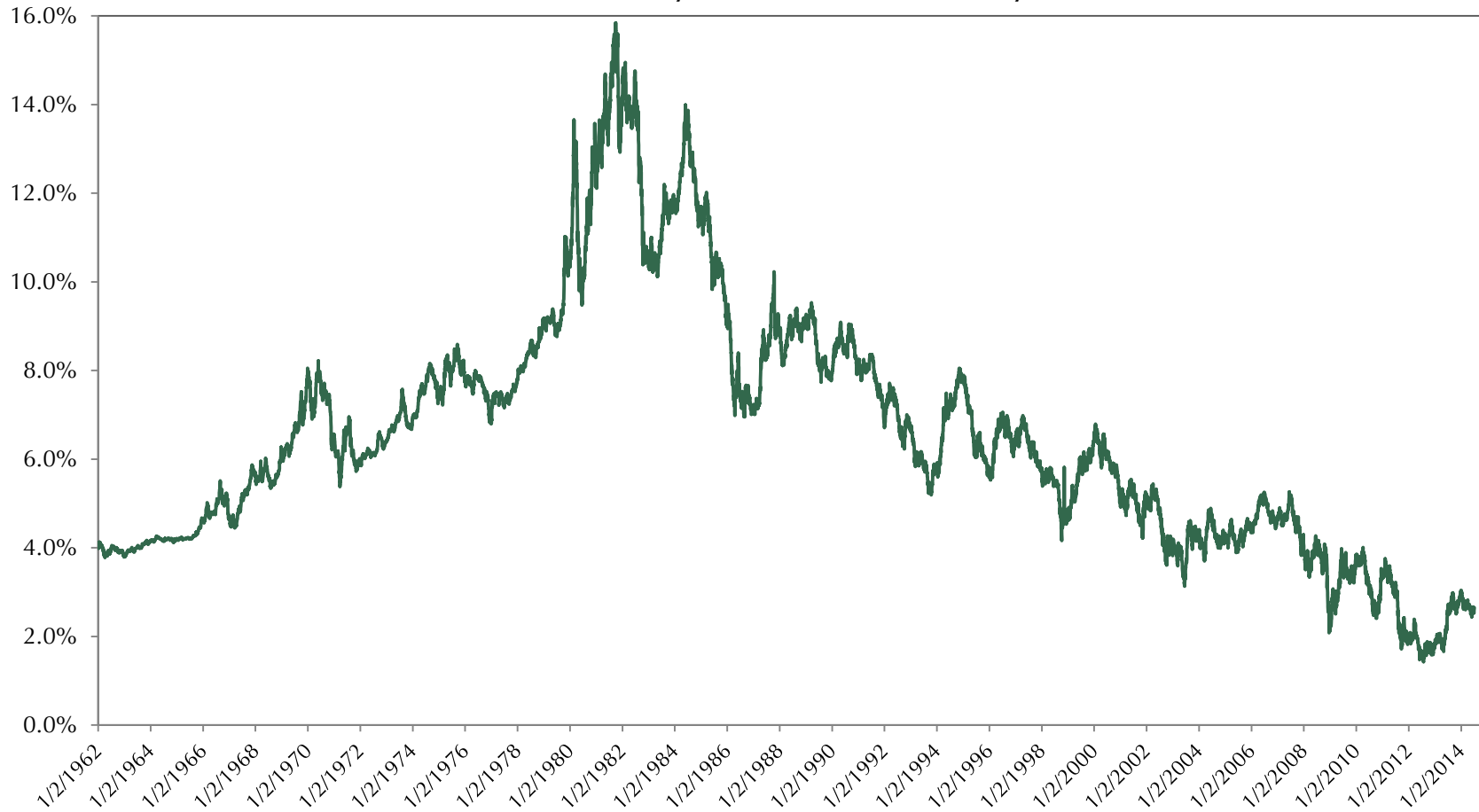
- US economic data continues to be more encouraging than official numbers
 - Jobless claims are the lowest since 2006
- Consumer Balance Sheets continue to recover
 - Housing and confidence have been more disappointing
- Federal Reserve support continues to be withdrawn
- Low interest rates currently favorable
- Earnings revisions are positive

Economy — Global Outlook

- Europe – Geopolitical concerns and greater sense of stagnation grip the continent
- Japan – Dramatic monetary and fiscal policy changes continue
- Emerging Markets – China data somewhat better

Observations — US Interest Rates

10-Year Treasury Constant Maturity Rate

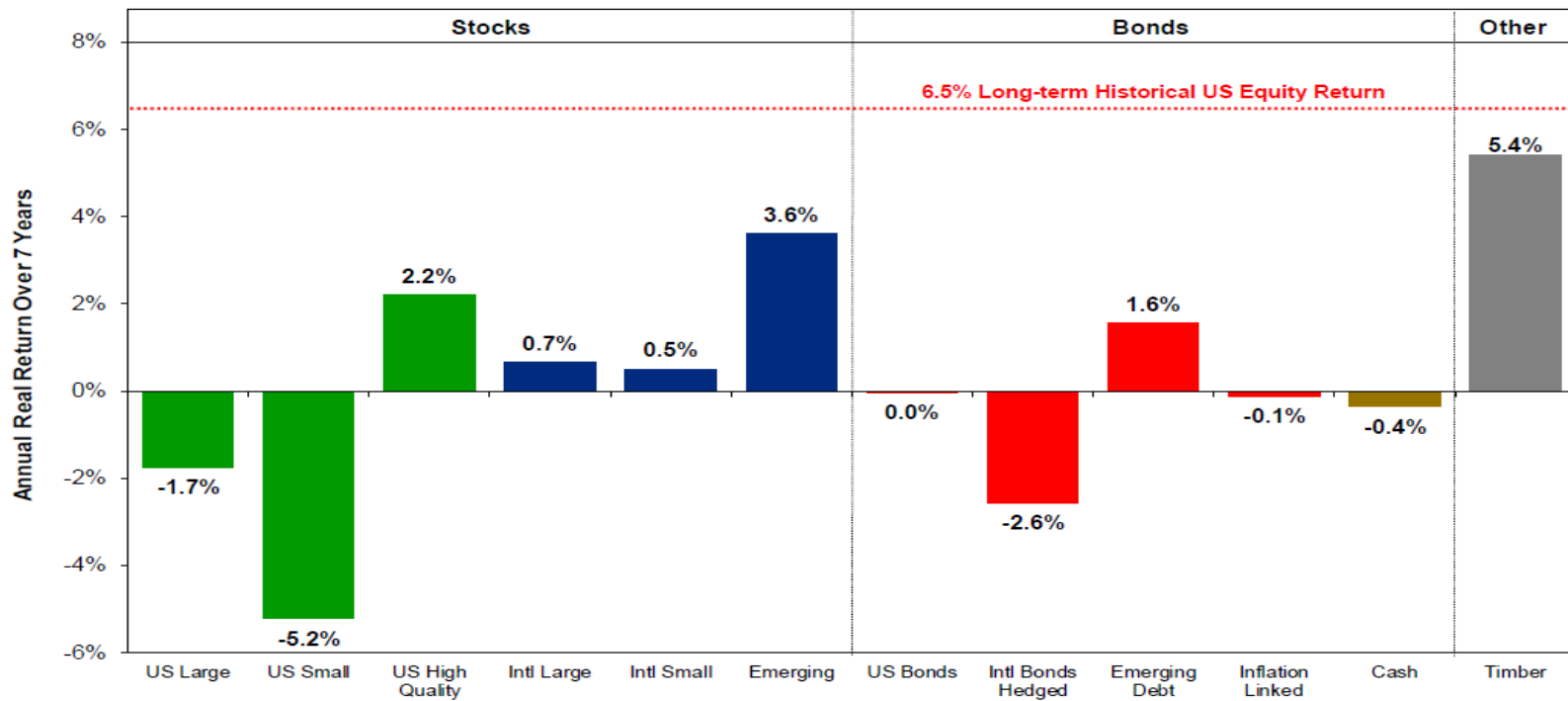


Source: Federal Reserve

Observations — Projected Returns

GMO 7-Year Asset Class Real Return Forecasts*

As of June 30, 2014



*The chart represents real return forecasts for several asset classes and not for any GMO fund or strategy. These forecasts are forward-looking statements based upon the reasonable beliefs of GMO and are not a guarantee of future performance. Forward-looking statements speak only as of the date they are made, and GMO assumes no duty to and does not undertake to update forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks, and uncertainties, which change over time. Actual results may differ materially from those anticipated in forward-looking statements. US inflation is assumed to mean revert to long-term inflation of 2.2% over 15 years.

GMO
GMO Asset Management

Source: GMO 0

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Strategy & Positioning

Strategy — What Are We Doing?

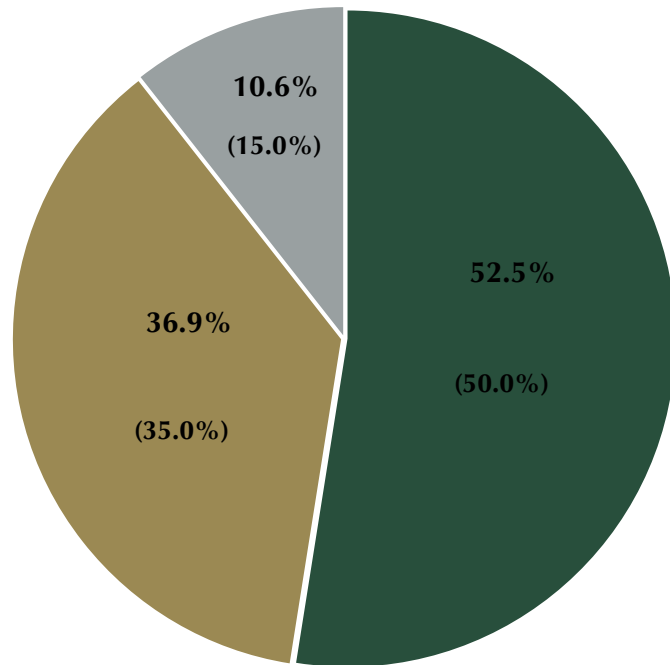
- Low bond yields a challenge to Core Fixed Income
 - Added 2.5% cash allocation to Balanced Funds in Q2
- Closely monitor small cap US Equity performance
 - Defensive manager has outperformed, as expected
- Continued overweight to Equities in Balanced Funds
- Upgrade of International Equity manager in June
 - Prior manager had outperformed since inception
 - New manager resulted in increase in emerging markets exposure

Strategy — Fixed Income

- Few signs of inflation, continuing economic headwinds, persistent demand for yield will keep interest rates range-bound over the near term.
- Demand for yield will keep sector spread valuations fair to rich but range-bound as well.
- Asymmetric risks from rates and stretched valuations from spreads require caution:
 - Maintain lower portfolio duration
 - Maintain sector over-weights but approach issue selection with a conservative bias
 - Maintain bank loan allocation as a hedge against higher rates – closely monitor market sentiment
 - Maintain or increase exposure to Emerging Markets Debt as valuations offer better opportunities and expected returns over the longer term are more appealing.

Our Strategy — World Market Capitalization

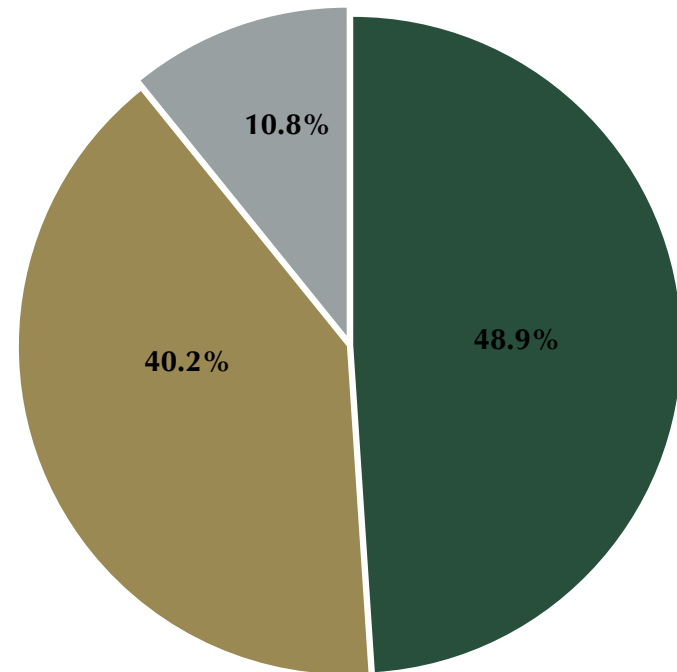
UCF Equity Fund Allocation*
as of 06/30/2014



- U.S. Equity
- Developed International Equity
- Emerging Market Equity

* Actual emerging market allocation is 12.8% and developed international is 34.7%, with new manager hire.

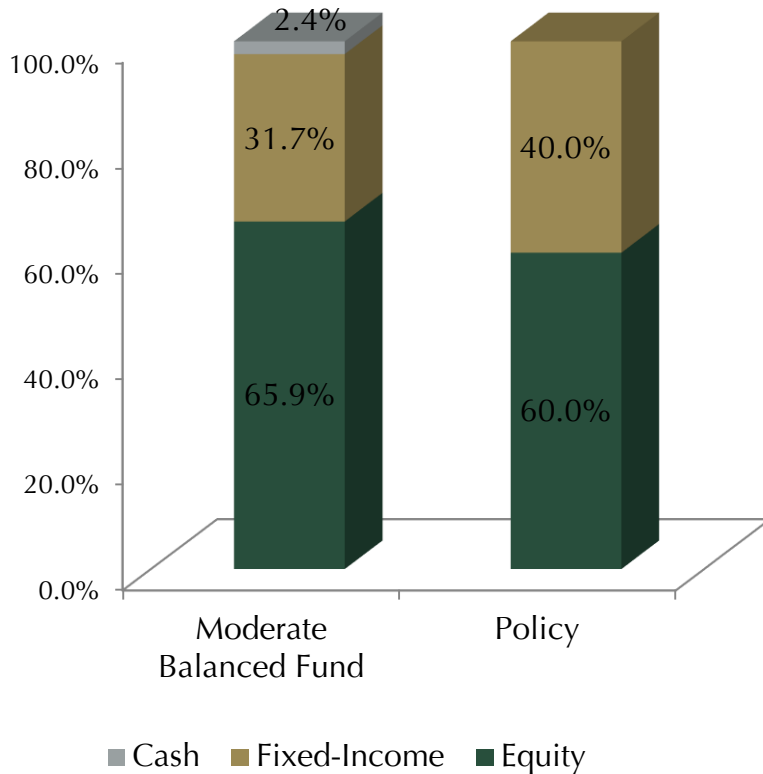
MSCI All Country World Index (ACWI) IMI Index
Allocation as of 6/30/2014



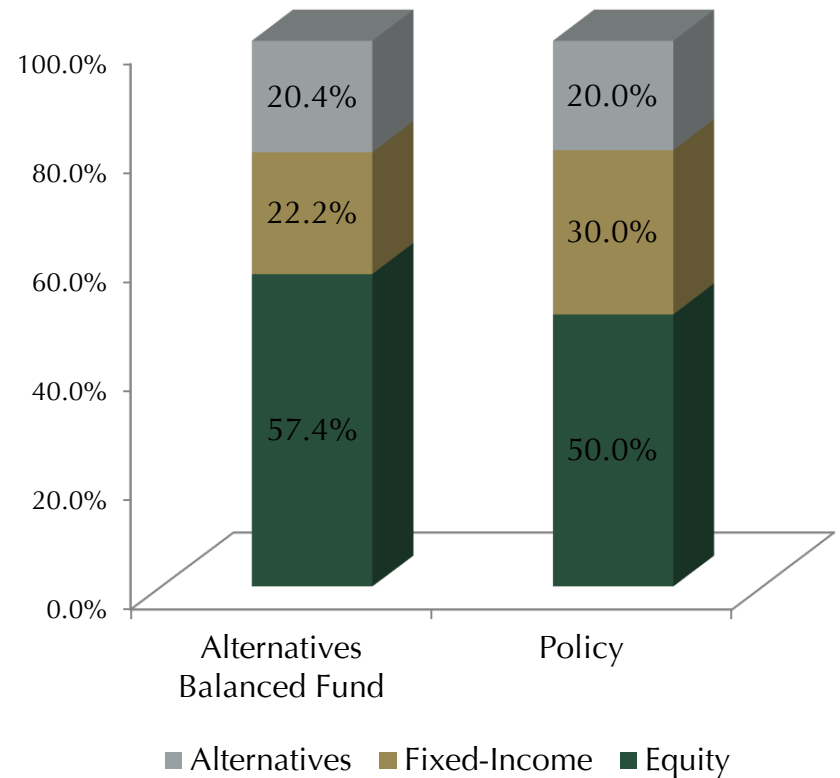
- U.S. Equity
- Developed International Equity
- Emerging Market Equity

Our Strategy — Balanced Funds Allocation

Moderate Balanced Fund Allocation
as of 06/30/2014



Alternatives Balanced Fund Allocation
as of 06/30/2014



United Church Funds — Wrap Up

- **Adapting** to changes in Core Fixed Income outlook
- **Diversifying** because valuation ultimately matters
- **Focusing** on the longer-term opportunity
- **Maintaining** positive performance momentum
- **Supporting** UCF's mission
 - Beyond Fossil Fuels Fund work continues

There Is a Better Way!



“It’s OK to invest again. The market’s up.”

Invest responsibly. Strengthen ministry.

Q & A