

BEYOND FOSSIL FUELS A NEW UCF FUND

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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

2013 General Synod Resolution

- **UCF Partnered in Shaping the Language** — The General Synod resolution *Urging Divestment – Along with Other Strategies – From Fossil Fuel Companies* was presented to delegates in nearly final form and was overwhelmingly passed.
- **Calls for Several Responses to Climate Change** — Individual activism; institutional investor shareholder engagement; the creation of an optional fund free of fossil fuel companies; an eventual best-in-class approach to fossil fuel investment across full portfolio.
- **Focus of Today** — To discuss the progress we've made on the creation of the optional fund free of fossil fuel companies, as a tool for UCF clients to be consistent with their obligations to care for creation.

Beyond Fossil Fuels — Overview of a Climate Response Strategy

Aims

- To preserve and grow capital through investing in a portfolio of high quality equities
- To create an offering benchmarked to the Standard and Poor's 500
- To invest in companies whose operations and governance align with the teachings of the United Church of Christ and the tenets of sustainability
- To engage our portfolio companies and advocate for changes that positively impact corporate behavior

Avoids

- Investment in companies primarily engaged in fossil fuel production and exploration
- Investment in companies that are outside of the investable universe for the traditional United Church Funds portfolios

Beyond Fossil Fuels — Implementation Options

Our Decision Making Process Led to the Following Observations —

- Actively managed separate account, commingled fund, or mutual fund would not be advisable
 - The investment team and our investment consultant examined seven firms with active strategies
 - Some firms have the ability to run custom mandates, depending on the asset size being invested
 - Some industry participants have different definitions of what a “fossil-fuel-free” portfolio would look like
 - Some strategies also provide sustainability research and social advocacy
 - Active strategies are expensive

- Implementation via a passive/enhanced index managed account is preferable
 - Investment management fees for these strategies are much cheaper
 - At \$10 million in assets, index and enhanced index fund managers will create custom strategies that incorporate UCF’s broader SRI and fossil fuel screens
 - UCF will need to determine cost and methodology for determining universe to be screened

- If assets grow, increase the diversification over time by adding strategies or expanding the mandate
 - Larger dollar amounts allow for potential addition of other asset classes (i.e., non-US, US small cap, etc.)

Beyond Fossil Fuels — Striving for \$20M

Actual implementation subject to assets raised and final negotiation on fees.

- **If \$10M-\$19M is raised for the fund, utilize a passive strategy**
 - Offer a fossil-fuel-free portfolio (with current UCF screens) that is optimized to the S&P 500 Index

- **If >\$20M is raised for the fund, utilize an enhanced index strategy (Preferred option)**
 - This option provides additional alpha potential which may help offset fees
 - Optimize to the S&P 500 less the restrictions (low weight to energy) or optimize to the full S&P 500 Index (try to substitute in energy names to bring percentage closer to that of the full S&P)

Beyond Fossil Fuels — Return Comparison

Fossil Fuel Free Portfolio Optimization Relative to S&P 500			
Backtest Returns			
	<u>5 Years</u>	<u>10 Years</u>	<u>Since 1/1/2002</u>
QMA Hypothetical BFF Fund Portfolio ¹	20.47%	7.63%	7.08%
S&P 500 Less Restrictions	19.11%	7.25%	5.97%
Composite Returns			
QMA Large Cap Core ^{2,3}	19.82%	8.34%	7.35%
Official S&P 500	18.83%	7.78%	6.49%

Note: All manager returns are gross of fees.

1. The performance of this hypothetical BFF Portfolio includes Fossil Fuel screens in addition to UCF current screens
2. QMA composite results are without screens
3. QMA has managed a screened portfolio on behalf of UCF since April 2006 with comparable results to the composite
4. Contact UCF at **1-877-806-4989** for historical risk statistics including beta and tracking error for the BFF Portfolio, which should be considered when making any investment.

Beyond Fossil Fuels — Risk Analysis

Risks

- An often remarked on concern of energy sector divestment is that reduced diversification will lead to volatility and tracking error

Expected Results of the Beyond Fossil Fuels Fund

- If properly-implemented, not investing in the energy sector would add only marginally to the tracking error of an index fund
- It wouldn't appreciably change the tracking error of an actively-managed ESG strategy such as our own

United Church Funds — Environmental Shareholder Work

➤ ENVIRONMENTAL

- Carbon Asset Risks
- Greenhouse Gas Emissions
- Hydraulic Fracturing
- Water
- Sustainable Agriculture

Examples —

Addressing unburned reserves with oil companies

Encouraging sustainable oil production

Demanding disclosures on fracking process and fracking fluid additives

Highlighting manufacturers' water use in water-stressed regions and the human right to water

Persuading food conglomerates to use practices that ensure safe, sustainable food production

RECENT WIN

70 investor partners, including United Church Funds, have expanded the public's awareness of the potential risks companies continue to incur by counting unburned fossil fuels as assets on corporate balance sheets.

United Church Funds — Upcoming Sustainability Report



United Church Funds — Staff Carbon Foot-printing

BEYOND FOSSIL FUELS
because creation deserves no less

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Welcome
Mitigating climate change requires a collective effort to lessen global reliance on fossil fuels. Through the website, we aim to provide a comprehensive guide to working towards a carbon free future — from educational resources and corporate engagement strategies — to how you can have an impact in your daily life. To better understand our passion for reducing the impacts of climate change, please read the [historic resolution](#) passed at the United Church of Christ's General Synod in July, 2012. On the first year anniversary of this groundbreaking resolution, UCF announced its progress towards opening a fund free of fossil fuel companies. Read more about the [Beyond Fossil Fuels Fund](#) [here](#).

We invite you on our journey to rescue creation and welcome any feedback, ideas or questions you may have, as well as stories about your church's commitment to reduce its carbon footprint. Faith demands that we examine the facts around climate change, as well as work towards a better future — beyond fossil fuels.

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Beyond Fossil Fuels — How to Invest

Commitments to Date

- The Endowment and Investment Committee of the United Church of Christ's Board has committed \$10M to the fund – of the endowments of the Covenanted Ministries of the Church
- The Church Building and Loan Fund will be an early investor in the fund

How Your Church Can Invest

- We are aiming to open the fund on October 1, 2014, to give investment and endowment committees the opportunity to discern their level of commitment to the fund
- Contact United Church Funds to discuss whether and how you're church's endowment is invested in United Church Funds and how best to replicate that expected level of risk/return with an allocation to the Beyond Fossil Fuels fund
- **Call us toll-free at 877-806-4989**

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Q & A