

A dark brown circular graphic containing the text "2014 ANNUAL REPORT" in white, bold, sans-serif capital letters. The background of the entire page is a blurred image of a digital stock market display with various numbers and percentages in shades of blue and green.

2014
ANNUAL
REPORT

**REPORT
of the PRESIDENT**

Some years unfold smoothly and steadily, while others progress with a bit more excitement and challenge. For United Church Funds (UCF), 2014 followed the latter course, with pursuit of new opportunities, completion of long-term projects, senior staff transitions and introduction of an innovative new investment option. We've definitely been busy!

We began the year with a retreat of board and staff to update our strategic plan, with a goal to streamline our focus. In addition to shifting from a lengthy mission statement to one of four words — Invest responsibly. Strengthen ministry. — we refined our guiding values to six that have both organizational and personal meaning: excellence, innovation, integrity, joy, ministry and respect. We also ensured our strategy for the coming years remained focused on you, our investors — improving our systems, expanding our offerings to meet your evolving needs, ensuring our organizational sustainability, and continuing to provide exceptional service.

You'll find the highlights of 2014 outlined on the next page. As you'll read in Chief Investment Strategist Dave Klassen's review of the year, UCF's investment results proved mixed yet positive overall. Many of you joined us each quarter in our performance webinars, where your questions enhanced the conversation. And as always, we enjoyed meeting many of you at presentations and annual meetings — and look forward to talking with you at General Synod in Cleveland this June.

We hope you enjoy this simplified version of our annual report, which includes the key elements of our year-end (unaudited) financials. Because final records from UCF's Alternatives Fund require a few more months to be received and audited than our traditional funds, we will separately upload to our website the final audited financials when they are completed in May.

United Church Funds is proud to serve the churches and ministries of the United Church of Christ, and we remain grateful for the trust and confidence you place in us. Please let us know how we may be of service to you in the coming year.

A handwritten signature in cursive script that reads "Donald G. Hart".

Donald G. Hart

Donald G. Hart
President



HIGHLIGHTS 2014

While our year was filled with lots of meetings, presentations, seminars and more, 2014 offered a number of significant moments that we want to share with you.

EDUCATIONAL CONFERENCES

United Church Funds began 2014 with an Investor Conference in Charleston, South Carolina. After this fourth destination-city weekend event, we decided to transition to semi-annual regional conferences held on a Saturday. Our first Endowment Conference launched in November in Long Beach, CA, with strong attendance for the plenary sessions, discussion panels and workshops. The next regional conference will be held April 11 in Salem, MA, followed by a Midwest conference on November 14 at Chicago Theological Seminary. For more information, visit conference.ucfunds.org.

PLANNED GIVING

In the wake of changes at the national setting of the UCC, United Church Funds recognized an opportunity to expand our services to our investors by assuming responsibility for the marketing and administration of planned giving. We formally accepted this new role in the summer, and have been developing an updated suite of materials that we will begin rolling out in the first half of 2015. If you have a particular interest in planned giving for your congregation, let us know how we can help you by emailing us at plannedgiving@ucfunds.org.

BEYOND FOSSIL FUELS

In November, we reached the culmination of three years of work when we launched the Beyond Fossil Fuels Funds — one of our biggest recent accomplishments and a result of the General Synod 2013 fossil fuels resolution. These new funds, which launched with over \$21 million from founding investors led by Church Building and Loan Fund, feature a domestic core equity fund that excludes companies that explore for, extract and produce fossil fuels; and a balanced fund allocated similarly to UCF's Moderate Balanced Fund. To learn more and receive updates on UCF's environmental shareholder work, visit our microsite at bff.ucfunds.org.

LIVING LEGACY CHURCH

For several years, UCF has been collaborating with Local Church Ministries and other UCC partners to create a program for churches that have decided to close. In December, we proudly launched the Living Legacy Church resource — a workbook of information, checklists and articles to assist churches who want to leave a legacy in their community and denomination. To download the PDF version of the workbook, visit livinglegacy-church.org.

STAFF TRANSITIONS

In mid-January, United Church Funds mourned the passing of Michelle Andrée, our Director of Finance & Administration, who had valiantly battled cancer for a number of years. In May, we welcomed Michelle's successor, Ted Phillips, who joined UCF from Carnegie Hall. In December, we bid farewell to Nelson Murphy, who served UCF for 14 years as Director of Investor Development. In retirement, Nelson will continue to serve as administrator of The Richard & Helen Brown Endowment for Pastoral Scholarships.



REPORT of the CHIEF INVESTMENT STRATEGIST

A Year of Simplicity

David A. Klassen

Equity and fixed income markets ended the year with mixed, but still positive results. Global economic and geopolitical concerns resurfaced, with more underlying turbulence than indicated by headline results. One business magazine called 2014 the year that nothing worked! In other words: the best way to thrive was just to stay simple.

The first way to be “simple” was to invest in US large companies, as represented by the Standard & Poor’s (S&P) 500 stock index, which returned 13.69% for all of 2014. Smaller companies returned less, only 4.89% for the year. Emerging market equities (MSCI EM) gave up positive early year outperformance and were down a disappointing 2.19% for 2014. Most complex was the return of the international developed equity markets index (MSCI EAFE), down 4.90%. Why complex? Although local stock market results were generally positive, US investors experienced negative returns due to the impact of translating returns in weaker currencies (euro, yen) back into the strong US dollar.

The same simplicity dynamic held true in the fixed income world, where US treasuries and high quality corporates led the way, as yields fell and prices rose the most. This confounded the majority of experts expecting higher interest rates. Fixed income benefitted from still weak global economic growth, the spillover effect from a dramatic decline in bond yields in Europe, and very low inflation which was made more pronounced by a sharp drop in energy and commodity prices.

UCF’s Total Equity and balanced funds have meaningful equity allocations to the US, and our managers saw an excellent year versus benchmarks. However, we are diversified globally, as the attractiveness of relatively strong growth in the US was still offset by somewhat less attractive valuations here and higher potential opportunities elsewhere in the world. Bottom line: being diversified, if even for good reasons, hurt this year.

As for the Fixed Income Fund, a component of UCF’s balanced funds, our core-fixed income manager had been positioning our US-oriented fixed income portfolios to protect against an eventual rise in interest rates — with clear rationale. Although this manager had positive returns, they fared less well than prior years in generating benchmark-beating returns. A prudent diversification strategy into the two areas of bank loans and emerging market debt also held back performance.

Finally, in the Alternatives Balanced Fund, we are able to use diversifying strategies (such as real estate and absolute return strategies), and were successful in adding positive value above expectations and benchmarks.

For 2015, investors are likely to have concerns about the global economy. Slow but steady economic improvement, however, continues in the US. The conundrum in Europe remains whether more accommodative policy will offset the lack of growth and potential deflation. Some emerging economies have adjusted to fast-changing global growth patterns and investor sentiment, meaning selectivity remains vital internationally. Divergences in global growth have caused the US dollar to remain strong compared to most other currencies and this could continue, further complicating matters.

Over the long term, our priorities remain to scrutinize and select relationships with talented managers who are experienced at navigating these markets, to allocate assets to attractive asset classes, and to maintain high focus on the socially responsive mission of United Church Funds.

INVESTMENT PERFORMANCE AS OF DECEMBER 31, 2014

AVERAGE TOTAL RATES OF RETURN		ANNUALIZED									
<i>Returns on UCF's funds are presented net of fees</i>		Quarter	Year To Date	One Year	Two Years	Three Years	Five Years	Ten Years	Current Yield	Unit Value	Market Value
MANAGED FUNDS	Fixed Income Fund	0.18%	3.40%	3.40%	0.69%	2.34%	4.02%	4.55%	2.36%	\$ 4.8197	\$213.8M
	Custom Index 85% Barclays Capital Gov't/Credit Bond, 5% JPM CBI-EM Global Diversified, 10% S&P LSTA Performing Loan ⁴	1.23%	5.00%	5.00%	1.20%	2.45%	4.50%	4.60%			
	Barclays Capital Gov't Credit Bond Index (BCGC)	1.82%	6.01%	6.01%	1.74%	2.76%	4.69%	4.70%			
	Domestic Core Equity Fund¹	4.85%	13.97%	13.97%	22.63%	21.04%	15.27%	N/A	1.97%	\$16.9175	\$220.4M
	S&P 500 Index	4.93%	13.69%	13.69%	22.68%	20.41%	15.45%				
	Domestic Core - Beyond Fossil Fuels Fund⁵	2.69%	2.69%	N/A	N/A	N/A	N/A	N/A	1.90%	\$10.2469	\$23.2M
	S&P 500 Index	2.43%	2.43%								
	Small Cap Equity Fund¹	6.42%	5.53%	5.53%	21.17%	19.66%	13.12%	N/A	0.90%	\$15.6454	\$ 48.3M
	Russell 2000 Index	9.73%	4.89%	4.89%	20.67%	19.21%	15.55%				
	International Equity Fund¹	-4.02%	-6.03%	-6.03%	2.76%	7.80%	4.67%	N/A	2.50%	\$11.9791	\$217.0M
	Custom Index 70% EAFE net, 30% MSCI EM net	-3.84%	-4.01%	-4.01%	4.90%	9.00%	4.25%				
	Cash & Equivalent Fund	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%	N/A	0.00%	\$1.0000	\$ 13.8M
	Lipper Money Market Funds Index (annualized)	0.00%	0.01%	0.01%	0.01%	0.01%	0.02%				
	Alternatives Fund³	4.65%	10.86%	10.86%	9.35%	8.80%	N/A	N/A	N/A	\$13.2810	\$ 54.7M
Custom Index 70% HFRI Funds of Funds Composite, 30% NCREIF Fund Index	0.55%	4.92%	4.92%	7.66%	7.32%						
FUNDS OF FUNDS	Total Equity Fund	0.87%	3.24%	3.24%	12.49%	14.37%	10.09%	4.95%	2.10%	\$14.0726	\$428.0M
	45.6% Domestic Core Equity, 10.0% Small Cap Equity and 44.4% International Equity										
	Current Policy Index										
	40% S&P 500, 10% Russell 2000, 35% EAFE, 15% MSCI Emerging Markets Net	0.96%	3.76%	3.76%	13.40%	14.59%	10.59%	5.72%			
	Conservative Balanced Fund²	0.35%	3.19%	3.19%	4.91%	6.67%	6.38%	N/A	2.19%	\$12.2461	\$ 14.8M
	42.0% Equity, 55.5% Fixed Income and 2.5% C&E										
	Current Policy Index										
	35% Equity Policy, 65% Fixed Income Policy Index	1.14%	4.63%	4.63%	5.41%	6.70%	6.89%				
	Moderate Balanced Fund	0.54%	3.16%	3.16%	7.81%	9.60%	7.86%	5.12%	2.11%	\$9.8616	\$329.6M
	67.0% Equity, 30.0% Fixed Income and 3.0% C&E										
	Current Policy Index										
	60% Equity Policy, 40% Fixed Income Policy Index	1.07%	4.33%	4.33%	8.46%	9.73%	8.43%	5.62%			
	Aggressive Balanced Fund²	0.62%	3.15%	3.15%	9.64%	11.48%	8.72%	N/A	2.08%	\$13.2624	\$ 30.3M
	82.24% Equity, 15.22% Fixed Income and 2.54% C&E										
Current Policy Index											
75% Equity Policy, 25% Fixed Income Policy Index	1.03%	4.12%	4.12%	10.30%	11.55%	9.28%					
Beyond Fossil Fuels Balanced Fund⁵	-0.15%	-0.15%	N/A	N/A	N/A	N/A	N/A	2.10%	\$9.9645	\$ 63.8M	
31.13% BFF, 29.54% International, 6.54% Small Cap, 30.25% Fixed Income and 2.54% C&I											
Current Policy Index											
60% Equity Policy, 40% Fixed Income Policy Index	-0.33%	-0.33%									
Alternatives Balanced Fund³	1.77%	4.73%	4.73%	8.73%	10.00%	N/A	N/A	13.55%	\$238.0000		
56.1% Equity, 22.3% Fixed Income, 21.6% Alternatives											
Current Policy Index 50% Equity Policy, 30% Fixed Income Policy and 20% Alternatives Policy	0.96%	4.44%	4.44%	8.65%	9.75%						

¹Inception: October 1, 2005

²Inception: January 1, 2006

³Inception: July 1, 2010

⁴Inception: June 1, 2013

⁵Inception: November 1, 2014



REPORT of the DIRECTOR, SOCIAL RESPONSIBILITY

Kathryn O'Neill McCloskey

When the General Synod spoke to the United Church of Christ on climate change in 2013, United Church Funds listened. In 2014, we are extremely proud to have heard the clarion call for investing for climate sustainably by creating the Beyond Fossil Fuels Fund, which eliminates fossil fuel companies from the large cap core domestic universe. Investors can also opt for the Beyond Fossil Fuels Balanced Fund, which substitutes the Beyond Fossil Fuels Fund for the Domestic Core Equity allocation of UCF's Moderate Balanced Fund.

While the creation of these funds was a tremendous undertaking of which UCF is immensely proud, we have by no means rested on our laurels as it relates to active shareholding on climate and other issues of concern to the faith-based investor.

- We were a part of a small coalition of domestic investors to pilot a new, international effort to use shares of BP and Shell to file resolutions on broad-ranging climate impacts. This effort, known as "Aiming for A", uses CDP (formerly known as the Carbon Disclosure Project) data to undergird calls for improvements. We are proud to be co-filers.
- In support of the leadership of a UCC member fighting for climate justice, UCF co-filed a resolution with Ameren Corp on their lobbying practices related to the company's ties to American Legislative Exchange Council (ALEC) and that organization's deceptive stance on climate change.
- United Church Funds is one of many signatories to a campaign of shareholders questioning the methods of banks' financing of projects that lead to climate change, and the need for finance institutions to tighten their lending standards in the face of ecological harm.
- As in previous years, UCF co-filed a resolution with Exxon Mobil and Chevron on issues of creating GHG emissions targets and hydraulic fracturing disclosures, respectively.
- We co-filed a resolution with Marathon Petroleum, for the first time, asking that company to create and disclose its GHG emissions targets.

In addition to the climate work, UCF continues to work with a group of like-minded investors questioning how companies monitor the human rights abuses of their products, especially in areas of conflict. In fulfillment of this, we've co-filed shareholder resolutions with HP and Caterpillar, asking for those companies to evaluate their human rights policies. We have taken the lead role for work with Motorola Solutions along similar issues, though we will not be able to file a resolution until 2016, due to the prevailing rules of the Securities and Exchange Commission.

Our partnerships with the Interfaith Center on Corporate Responsibility, USSIF, and our longstanding status as a signatory of the UN Principles for Responsible Investment strengthen this work. Our clients can be proud to be among a selective but growing segment of investors – those who understand that corporate impacts could and should be the responsibility of the owners: shareholders.

UNITED CHURCH FUNDS
Selected Financial Information
For the Years Ended December 31, 2014 and 2013

Financial Position

	2014*	2013
Investments	\$ 791,291,000	\$ 778,966,000
Other Assets	4,148,000	4,109,000
Total Assets	<u>795,439,000</u>	<u>783,075,000</u>

Funds Held for Others

Common Investment Funds	709,290,000	696,336,000
Endowments & Split-Interest Agreements	77,133,000	78,014,000
Total Liabilities	<u>786,423,000</u>	<u>774,350,000</u>

Net Assets

	<u>9,016,000</u>	<u>8,725,000</u>
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Revenues

Fees earned on Managed Funds	6,263,000	5,372,000
Unrealized Appreciation in Investments	(1,579,000)	779,000
Other revenues	2,013,000	249,000
Total Revenues	<u>6,697,000</u>	<u>6,400,000</u>

Expenses and Grants

Investment Related Expenses	2,910,000	2,705,000
Common Funds Administration	1,986,000	1,955,000
Marketing Expenses	1,000,000	834,000
Grants Paid	324,000	295,000
Other expenses	185,000	142,000
	<u>6,405,000</u>	<u>5,931,000</u>

Increase in Net Assets	<u>292,000</u>	<u>469,000</u>
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*Unaudited