

# 3rd Quarter 2015 PERFORMANCE WEBINAR

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November 3, 2015



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# Our Mission

*Our mission in four words —*

## Invest responsibly. Strengthen ministry.

United Church Funds lives its mission by —

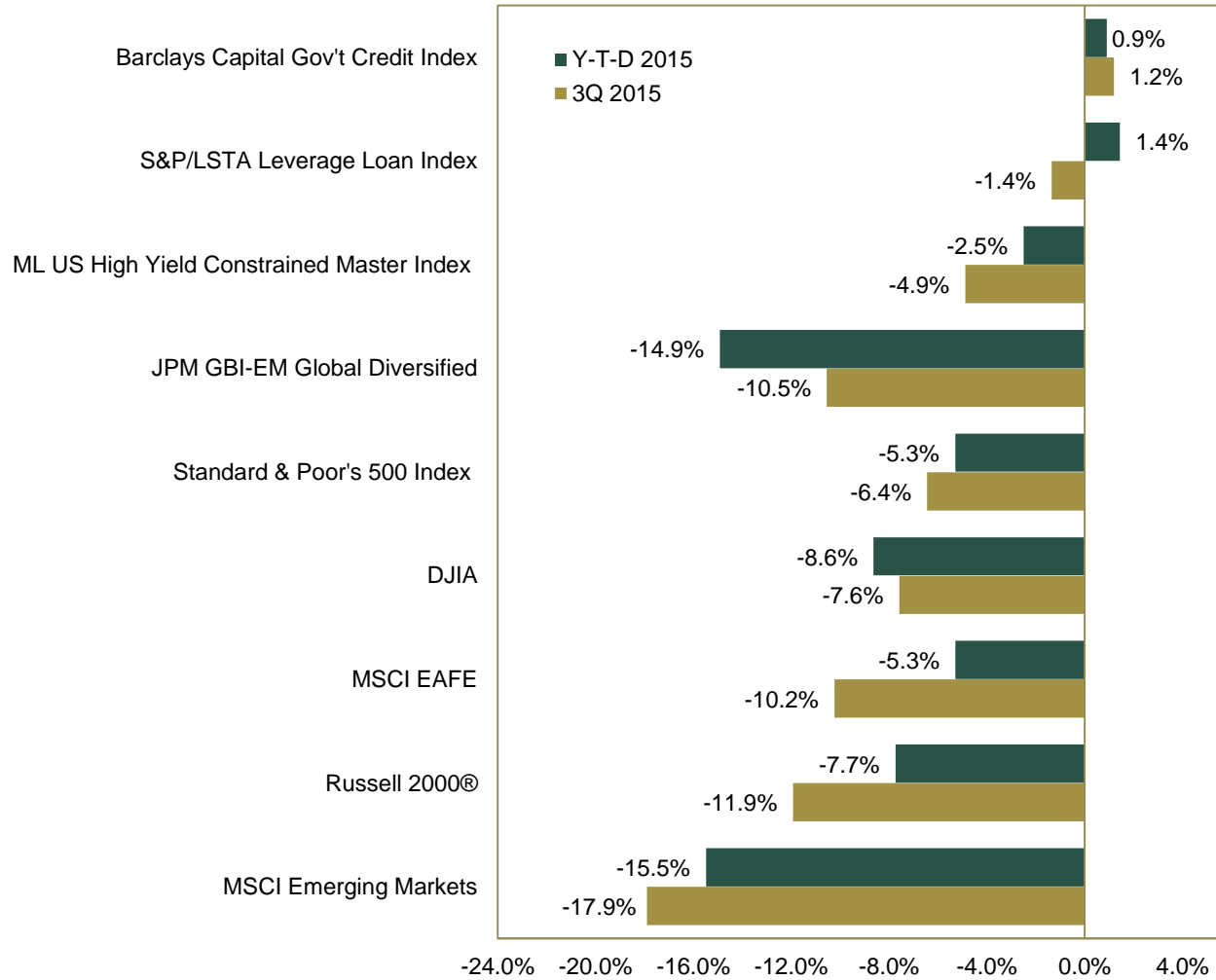
- Investing wisely to help our investors achieve their financial goals for their ministries
- Using the power of ownership to effect positive change, believing a responsibly managed company makes a better long-term investment
- Offering our investors a range of options and resources to strengthen their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

# UCF Updates

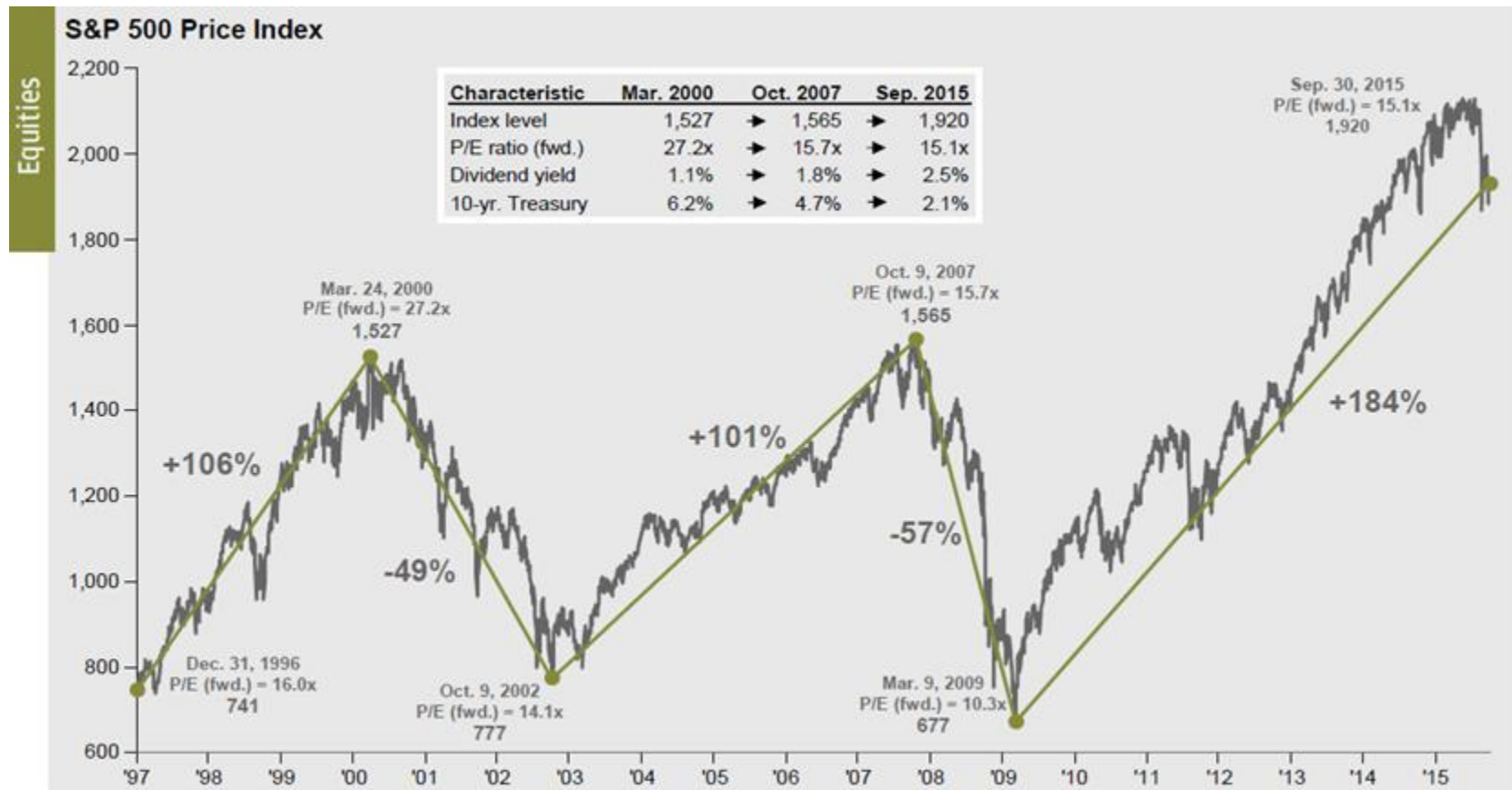
- Adopted additional investment screens in June that will exclude coal and tar sands companies and companies that directly contribute to human rights violations in the occupied Palestinian territories.
- Midwest Regional Endowment Conference will be held at Chicago Theological Seminary on November 14, 2015. Visit [conference.ucfunds.org](http://conference.ucfunds.org) to register
- Seeking to expand equity mandate in the Beyond Fossil Fuels Fund from domestic core equity to global equity once enough assets are added to the fund

# Performance

# Performance — Selected Index Returns

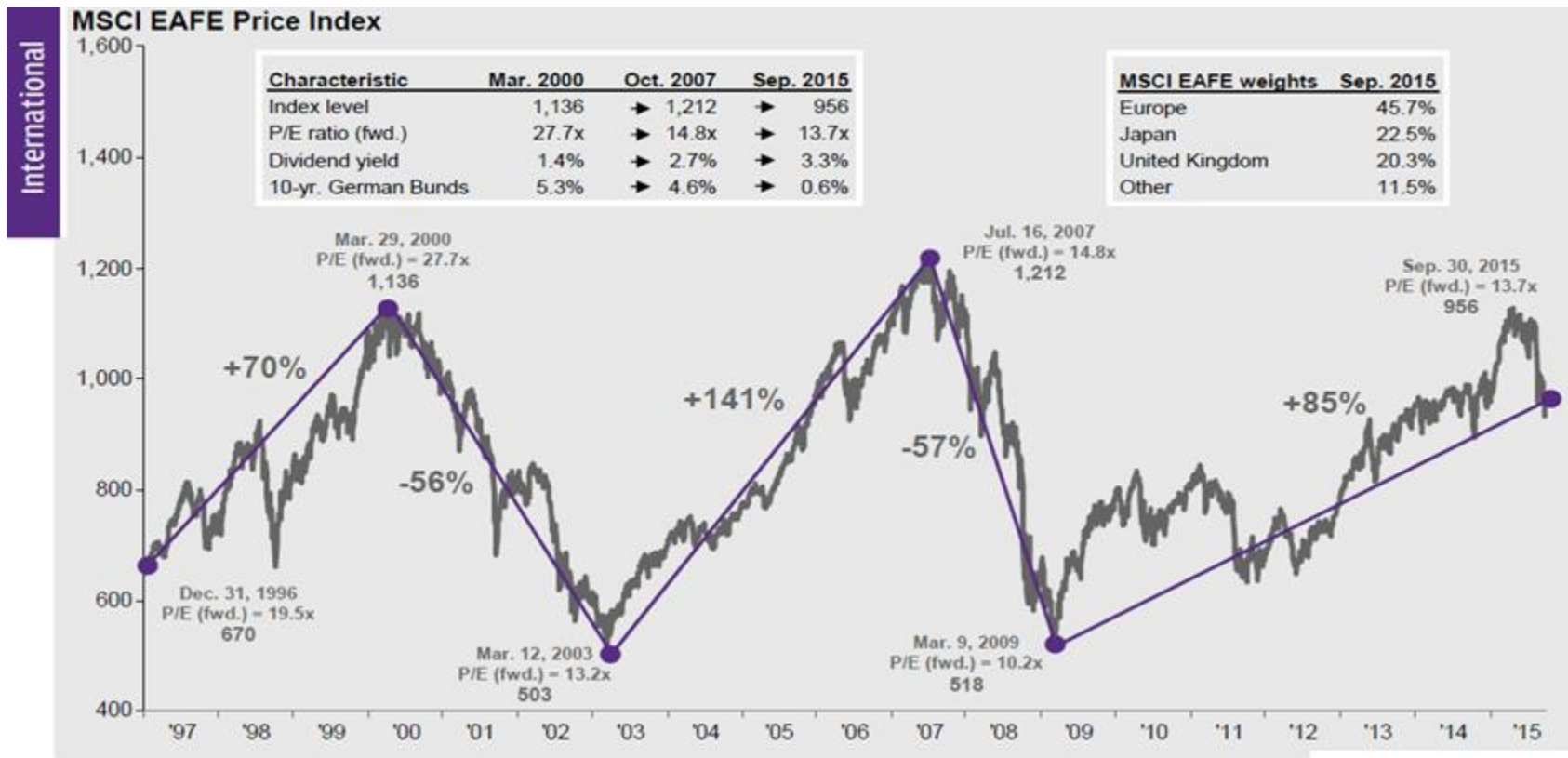


# Performance— S&P 500 Index at Inflection Points



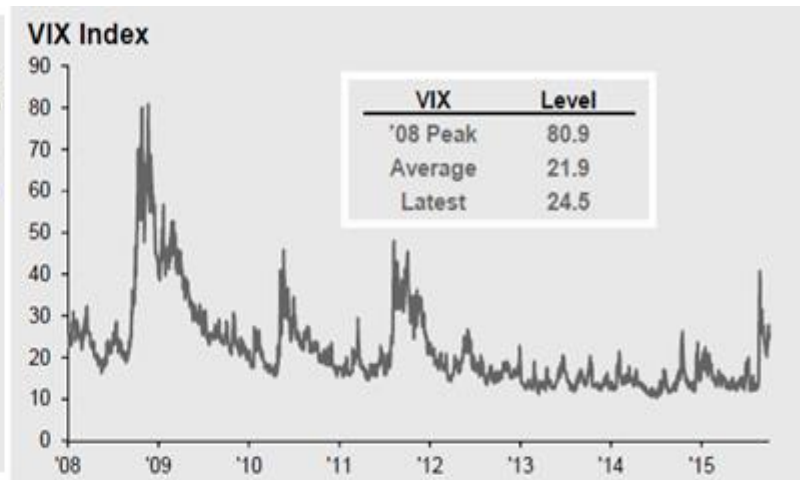
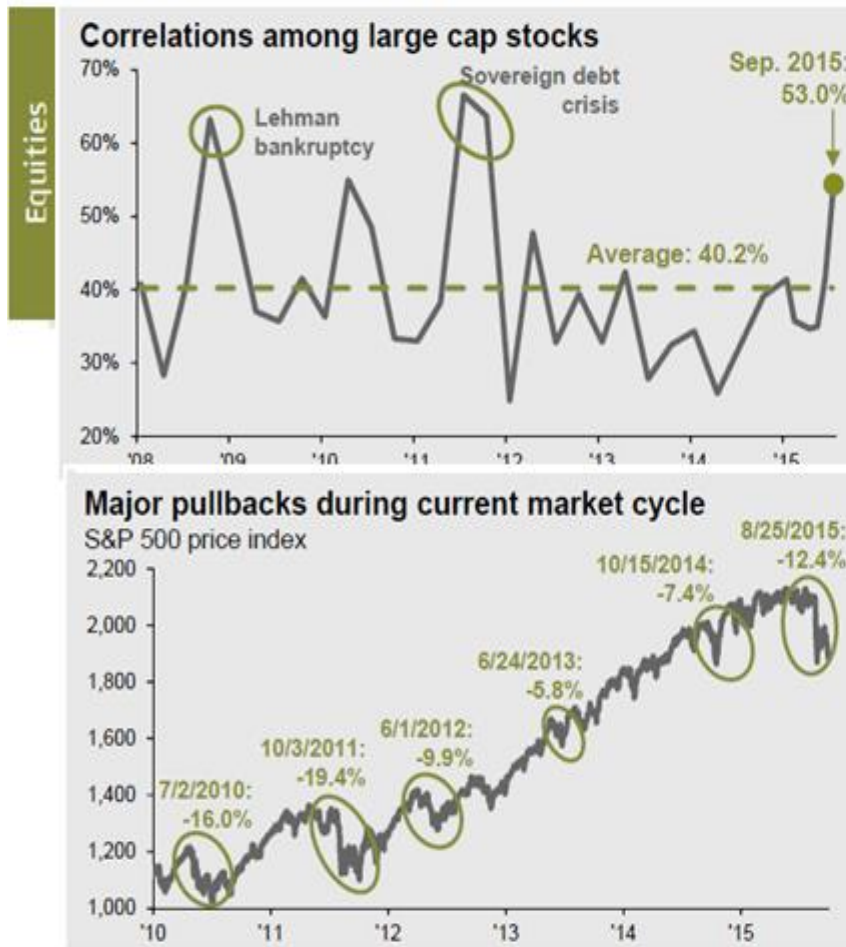
U.S. markets have been strong since 2009 with most volatility in 2011 and 2015

# Performance — MSCI EAFE at Inflection Points



Developed international markets have had a less impressive recovery; not surprising considering the European Central Bank and Bank of Japan waited much longer to start fiscal stimulus than did the Fed.

# Performance — Market Volatility



- Volatility, represented by the VIX Index, has been historically low from the summer of 2011 until the fall of 2015
- During times of stress, correlations among stocks increases and managers have a tougher time
- Between the summer of 2011 and the fall of 2015, there were no 10% pullbacks-very unusual

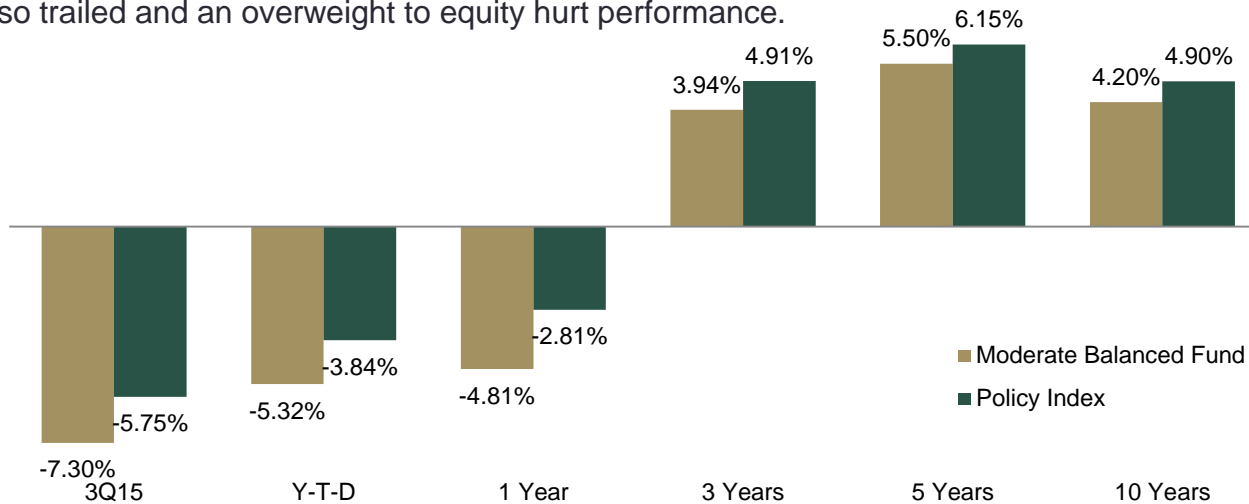


# Performance – UCF's Funds

TOTAL RATES OF RETURN AS OF		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
MANAGED FUNDS	<b>Fixed Income Fund</b>	<b>-0.58%</b>	<b>-0.83%</b>	<b>-0.65%</b>	<b>1.42%</b>	<b>0.36%</b>	<b>2.22%</b>	<b>4.27%</b>
	Custom Index 8.5% Barclays Capital Gov't/Credit Bond, 5% JPM GBI-EM Global Diversified, 10% S&P LSTA Performing Loan	0.37%	0.20%	1.43%	2.61%	1.02%	2.77%	4.44%
	<b>Domestic Core Equity Fund<sup>1</sup></b>	<b>-6.96%</b>	<b>-5.66%</b>	<b>-1.08%</b>	<b>8.99%</b>	<b>12.36%</b>	<b>13.29%</b>	<b>N/A</b>
	S&P 500 Index	-6.44%	-5.29%	-0.61%	9.09%	12.40%	13.34%	
	<b>Domestic Core - Beyond Fossil Fuels Fund<sup>4</sup></b>	<b>-6.48%</b>	<b>-4.92%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	
	S&P 500 Index	-6.44%	-5.29%					
	<b>Small Cap Equity Fund<sup>1</sup></b>	<b>-11.71%</b>	<b>-7.83%</b>	<b>-1.92%</b>	<b>3.65%</b>	<b>11.88%</b>	<b>10.40%</b>	<b>N/A</b>
	Russell 2000 Index	-11.92%	-7.73%	1.25%	2.58%	11.02%	11.73%	
	<b>International Equity Fund<sup>1</sup></b>	<b>-14.03%</b>	<b>-9.51%</b>	<b>-13.15%</b>	<b>-5.62%</b>	<b>0.27%</b>	<b>0.98%</b>	<b>N/A</b>
	Custom Index 75% EAFE net, 25% MSCI EM net	-12.14%	-7.83%	-11.37%	-3.82%	2.53%	1.97%	
<b>Alternatives Fund<sup>3</sup></b>	<b>0.56%</b>	<b>3.20%</b>	<b>8.00%</b>	<b>9.00%</b>	<b>8.11%</b>	<b>6.31%</b>	<b>N/A</b>	
Custom Index 70% HFRF Funds of Funds Composite, 30% NCRBF Fund Index	-2.30%	1.71%	3.39%	5.68%	6.60%	5.64%		
FUNDS OF FUNDS	<b>Total Equity Fund</b>	<b>-10.72%</b>	<b>-7.73%</b>	<b>-6.92%</b>	<b>1.26%</b>	<b>6.35%</b>	<b>7.41%</b>	<b>3.66%</b>
	44.1% Domestic Core Equity, 8.1% Small Cap Equity and 47.8% International Equity							
	Current Policy Index							
	42.5% S&P 500, 7.5% Russell 2000, 37.5% EAFE, 12.5% MSCI Emerging Markets Net	-9.73%	-6.67%	-5.78%	1.95%	7.37%	8.06%	4.62%
	<b>Conservative Balanced Fund<sup>2</sup></b>	<b>-4.81%</b>	<b>-3.64%</b>	<b>-3.31%</b>	<b>1.28%</b>	<b>2.46%</b>	<b>4.23%</b>	<b>N/A</b>
	36.8% Equity, 57.1% Fixed Income and 6.1% C&E							
	Current Policy Index 35% Equity Policy, 65% BCGC	-3.22%	-2.12%	-1.01%	2.49%	3.32%	4.81%	
	<b>Moderate Balanced Fund</b>	<b>-7.30%</b>	<b>-5.32%</b>	<b>-4.81%</b>	<b>1.25%</b>	<b>3.94%</b>	<b>5.50%</b>	<b>4.20%</b>
	62.0% Equity, 32.0% Fixed Income and 6.0% C&E							
	Current Policy Index 60% Equity Policy, 40% BCGC	-5.75%	-3.84%	-2.81%	2.34%	4.91%	6.15%	4.90%
<b>Aggressive Balanced Fund<sup>2</sup></b>	<b>-8.88%</b>	<b>-6.42%</b>	<b>-5.84%</b>	<b>1.20%</b>	<b>4.83%</b>	<b>6.18%</b>	<b>N/A</b>	
77.95% Equity, 16.16% Fixed Income and 5.89% C&E								
Current Policy Index 75% Equity Policy, 25% BCGC	-7.25%	-4.89%	-3.91%	2.21%	5.84%	6.90%		
<b>Beyond Fossil Fuels Balanced Fund<sup>4</sup></b>	<b>-7.23%</b>	<b>-5.14%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>		
31.18% BFF, 28.12% International, 6.37% Small Cap, 31.66% Fixed Income and 2.67% C&E								
Current Policy Index 60% Equity Policy, 40% BCGC	-5.75%	-3.84%						
<b>Alternatives Balanced Fund<sup>3</sup></b>	<b>-6.01%</b>	<b>-4.00%</b>	<b>-2.29%</b>	<b>2.79%</b>	<b>5.04%</b>	<b>5.34%</b>	<b>N/A</b>	
56.6% Equity, 20.2% Fixed Income, 23.2% Alternatives								
Current Policy Index 50% Equity Policy, 30% Fixed Income Policy and 20% Alternatives Policy	-5.26%	-2.87%	-1.72%	3.01%	5.48%	6.22%		
<sup>1</sup> Inception: October 1, 2005		<sup>2</sup> Inception: January 1, 2006		<sup>3</sup> Inception: July 1, 2010		<sup>4</sup> Inception: November 1, 2014		

# Performance — Moderate Balanced Fund

- **Equities:** In 3Q15, performance was negative across all regions in action reminiscent of the third quarter of 2011. All sectors and asset classes gave back their gains from 1H15 and are now negative for the year. Emerging markets and U.S. small cap were the worst performers followed closely by international developed and then U.S. large cap. (Note: markets have bounced dramatically off the September 30<sup>th</sup> lows.)
- **Fixed Income:** Core-fixed gained throughout the quarter as equity volatility rose and a flight-to safety once again came back into focus, although less than typical. Emerging markets debt remained challenged, mostly driven by currency, as capital flows out of EM continued. Bank loans retained year-to-date gains but were slightly negative in 3Q15.
- **Manager and allocation:** 7 out of 9 UCF equity managers trailed benchmarks during the quarter, reversing the earlier trend, but the only real impact was from international managers, where value strategies lagged. However, fixed-income managers also trailed and an overweight to equity hurt performance.

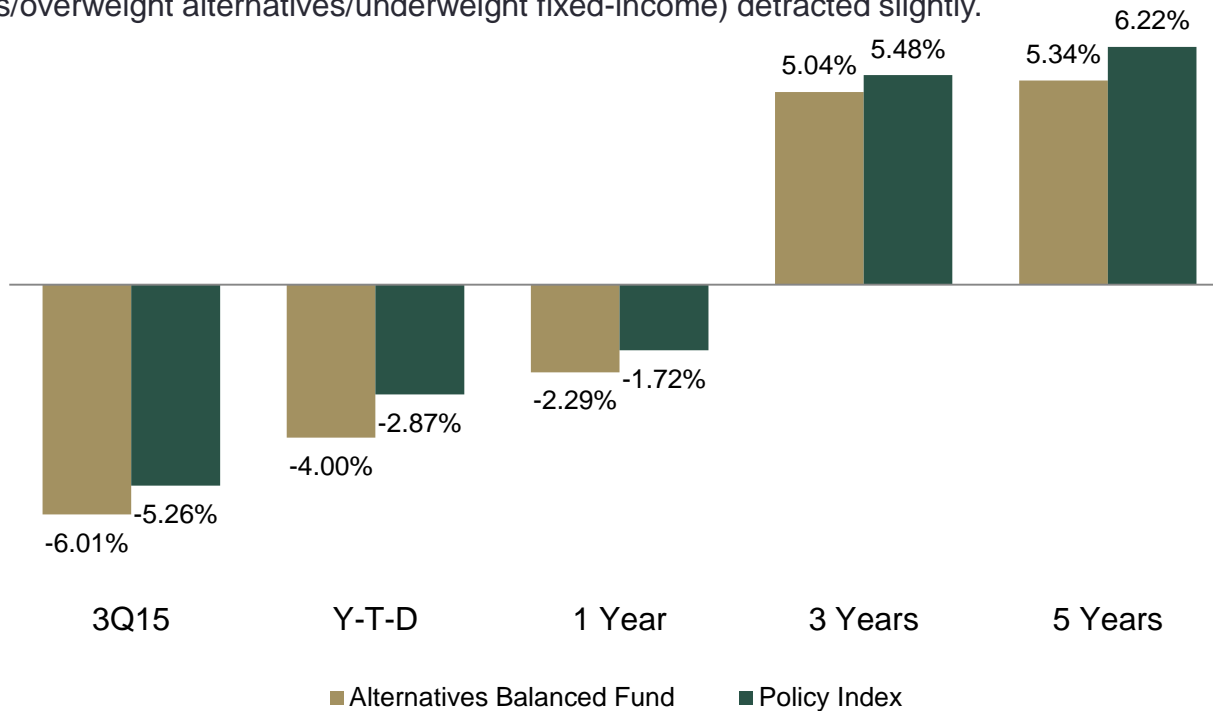


\* Returns on UCF Funds are presented net of all fees.

Note: Returns for the Beyond Fossil Fuels Balanced Fund were -7.23% and -5.14% for the quarter and year-to-date respectively.

# Performance – Alternatives Balanced Fund

- **Alternatives:** The Alternatives component is designed to produce returns not correlated to the equity and fixed income markets; currently includes three funds of hedge funds and one core real estate manager.
- **Manager and allocation:** Equities were weak but alternatives manager allocations produced positive returns in 3Q15 and for the year. Returns from real estate at Heitman were particularly strong, as were returns at relative value manager Magnitude Capital. Evanston, more weighted to equity managers, struggled. Abbey Capital had a volatile quarter but added strong gains. Asset allocation (overweight equities/overweight alternatives/underweight fixed-income) detracted slightly.



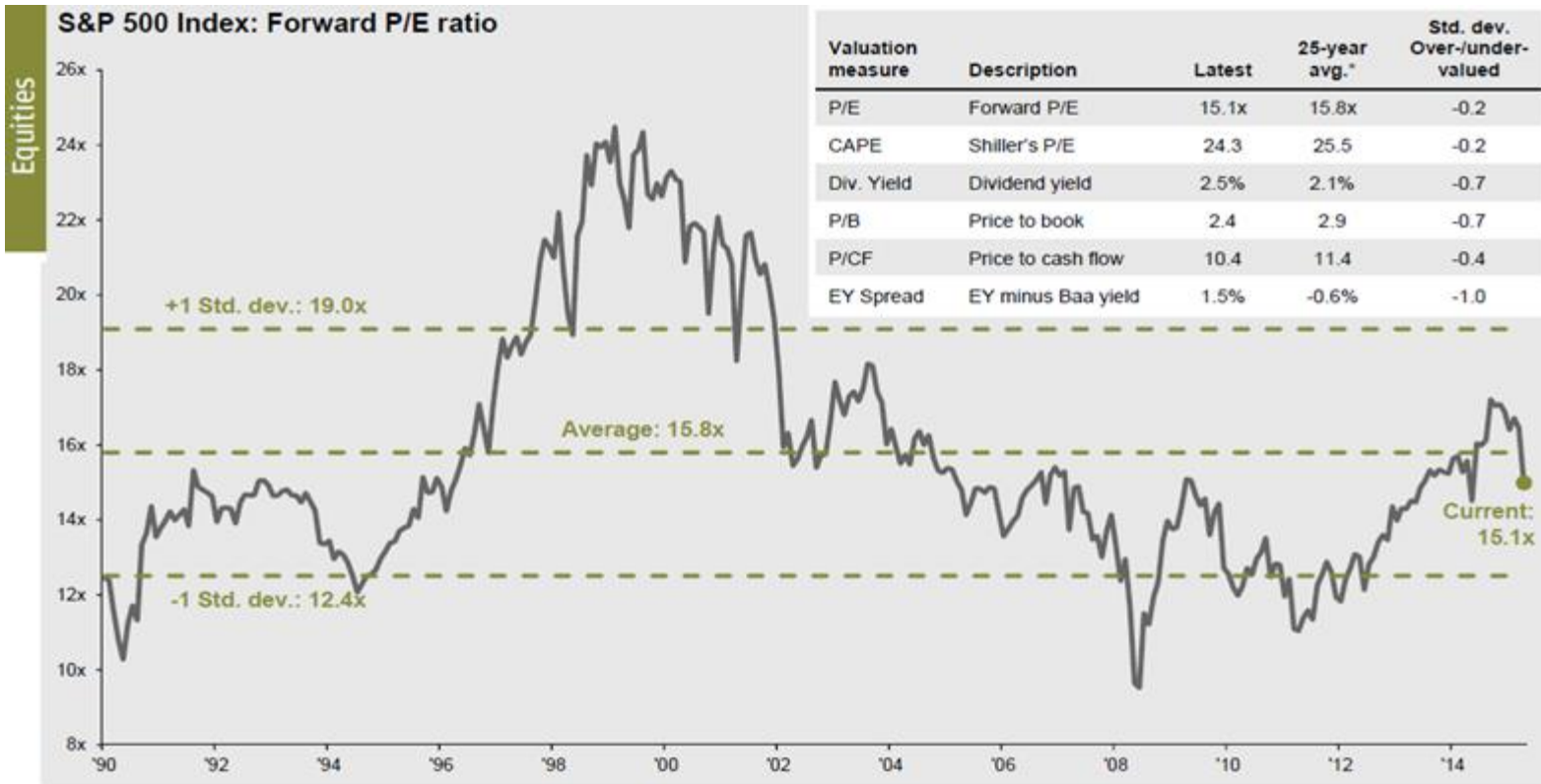
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# Performance — Summary

- The Total Equity Fund experienced losses during the increased volatility and global sell-off in 3Q, which was led by emerging markets this time (versus US in 2008 and Europe in 2011). Rally in October has wiped out losses through September, and managers have outperformed.
- Balanced Funds' results hurt by overweight to equities and manager performance. A small cash position entering the quarter, increased to almost 6% by quarter end, helped to mitigate some of the equity volatility and will be used opportunistically as the risk-return outlook improves.
- The Beyond Fossil Fuels Fund continued its favorable start in relative terms but also declined, as energy prices fell along with other global commodities.
- Core-fixed (80% of Fixed Income Fund) saw a return to favor as capital flows left the volatile equity markets in search of safer assets; lower than market duration position resulted in underperformance but still positive absolute returns. Emerging markets local currency is difficult but we had previously lowered exposure. Bank loans are still favored because of their protection in a higher interest rate environment.
- Long-term value still favors equities over fixed income but sluggish global growth, Central Bank uncertainty, and “risk-off” sentiment are aiding US fixed income asset classes. Evidence is now mixed that the Federal Reserve will raise rates in 2015. We are taking the longer-term approach to asset allocation for now by overweighting equities, especially with favorable monetary support.

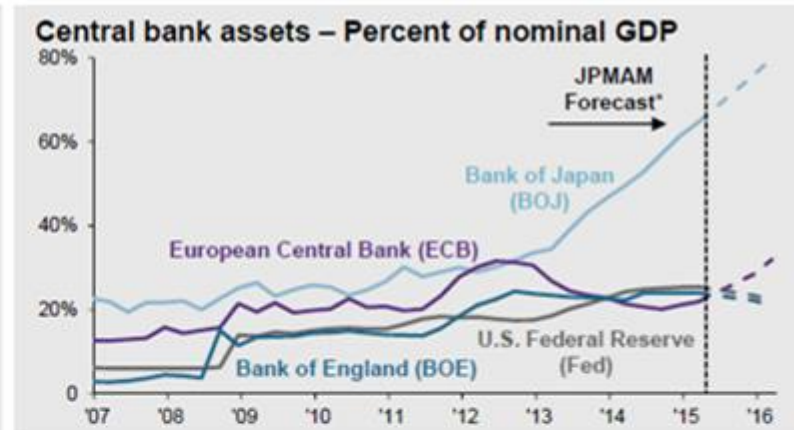
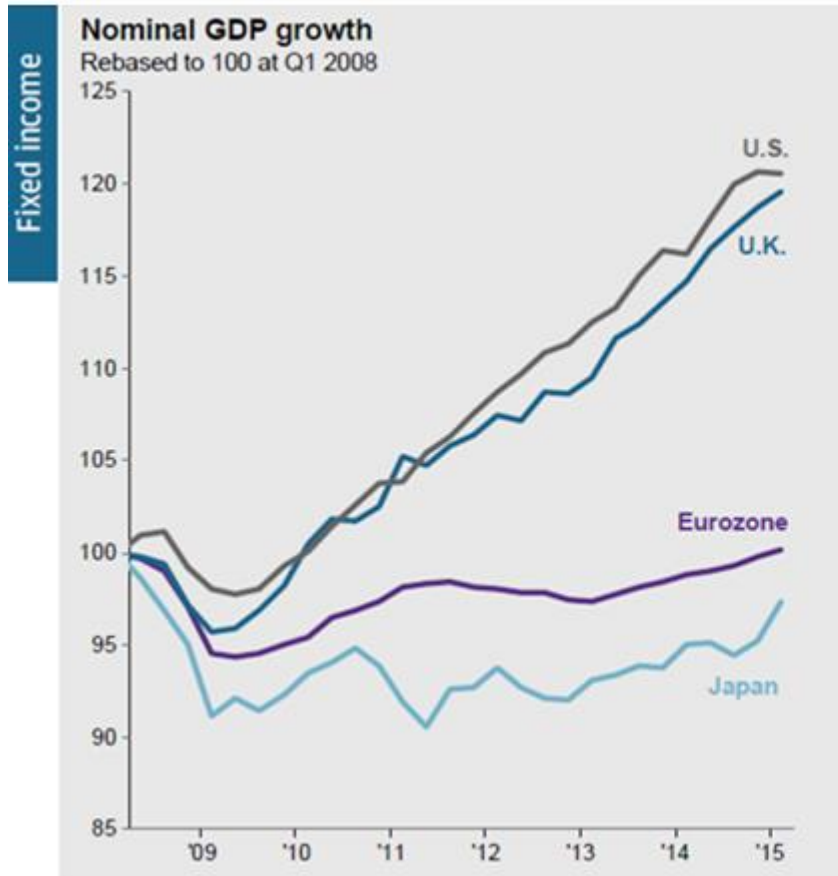
# Strategy & Positioning

# Strategy & Positioning — S&P Valuation Measures



The S&P 500 is at valuations back below long-term averages and is “fairly valued”

# Strategy & Positioning — Developed Markets Divergences



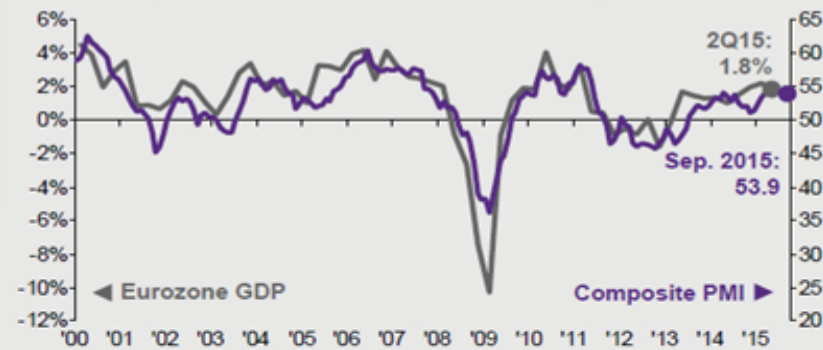
- The U.S. and the U.K. have outpaced the Eurozone and Japan in terms of Growth; Europe and Japan have also had persistent deflation
- The Bank of England and the Fed started fiscal stimulus sooner than the ECB or BOJ
- The ECB and BOJ are now using monetary stimulus to fight deflation, create nominal GDP and, hopefully, stimulate their economies and create inflation

# Strategy & Positioning — European Recovery

International

## Markit PMI and GDP growth in the eurozone

Markit Composite PMI index and eurozone GDP q/q SAAR

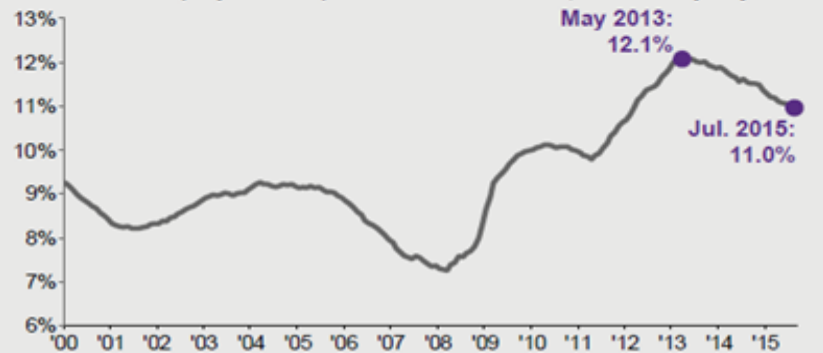


## U.S. dollar per euro



## Eurozone unemployment

Persons unemployed as a percent of labor force, seasonally adjusted



- Europe started using all its tools in 2014 and 2015 after foreshadowing this intent in 2013
- Eurozone GDP has turned positive and PMI, a leading indicator of manufacturing health, has also rebounded
- Unemployment has also been declining after hitting a peak in 2013

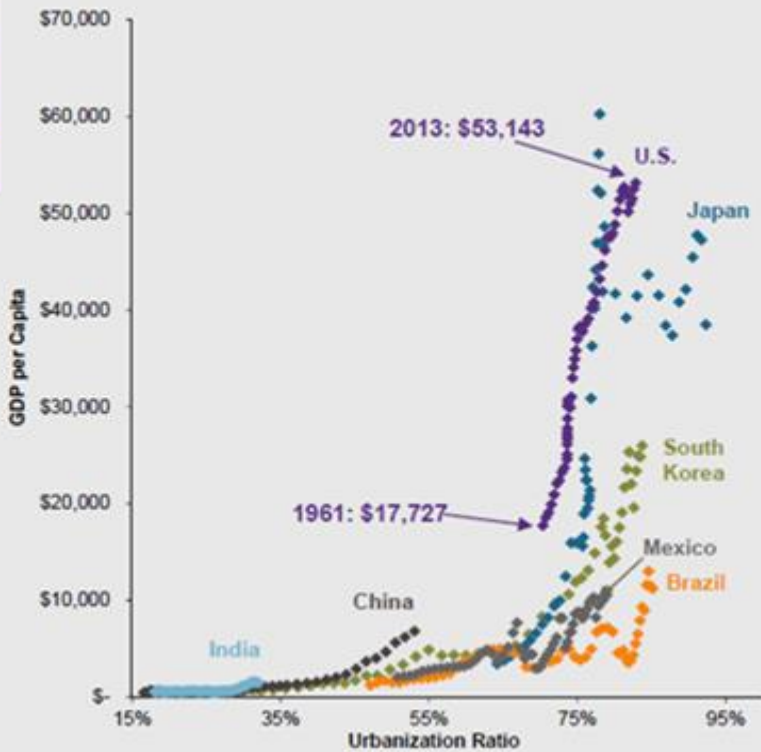


# Strategy & Positioning — Emerging Markets in Transition

International

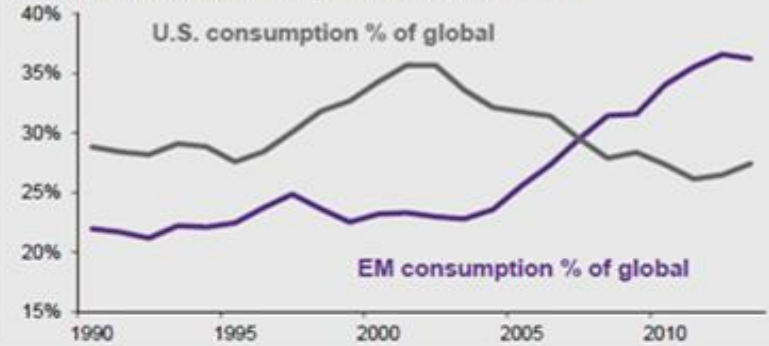
## The impact of urbanization

Urbanization ratios and GDP per capita (2013 USD), 1961 – 2013



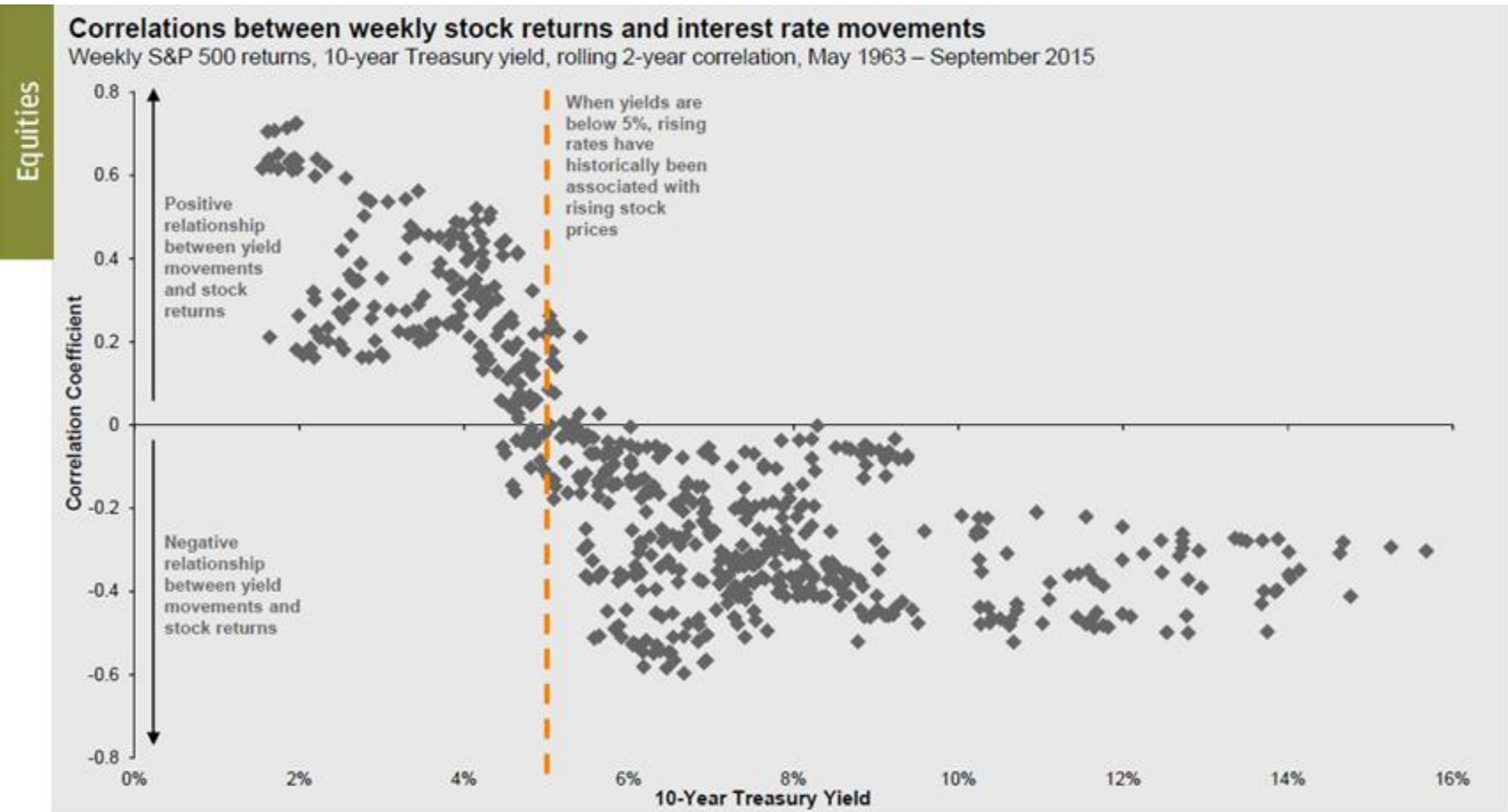
## Share of global nominal consumption

Current dollar household expenditures, 1990 – 2013



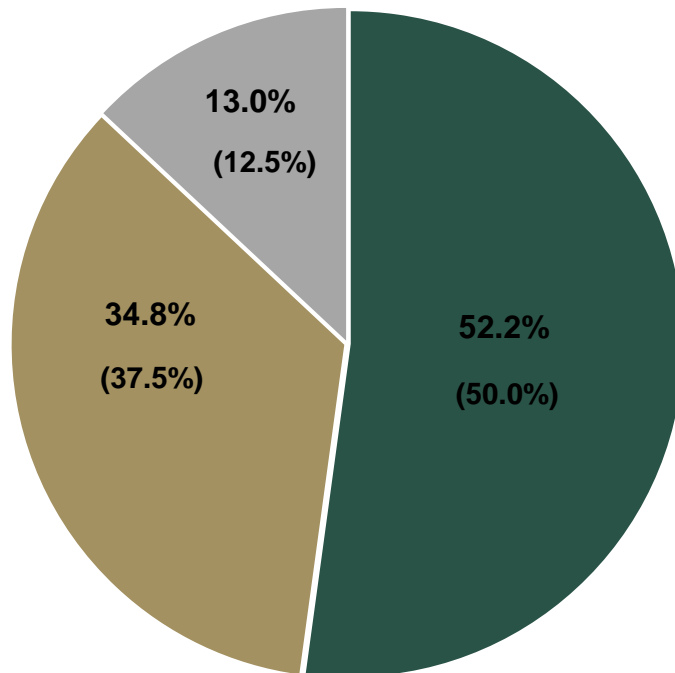
- Emerging market equities and bonds have been subject to the effects of capital flow and currency shifts; some economies are still robust
- The largest emerging market economies are at the tipping point for consumption growth from urbanization and a larger middle class
- Emerging markets economies are playing a larger role in global consumption

# Strategy & Positioning — Interest Rates and Equities



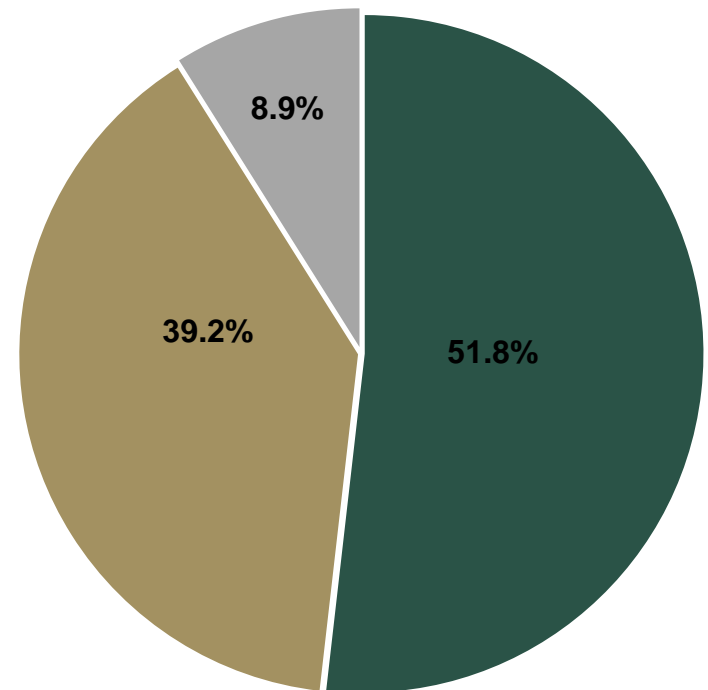
# Strategy & Positioning— World Market Capitalization

Equity Fund Allocation  
as of 9/30/2015



- U.S. Equity
- Int'l Developed Markets Equity
- Emerging Markets Equity

MSCI All Country World Index (ACWI) IMI  
Allocation as of 9/30/2015



- U.S. Equity
- Int'l Developed Markets Equity
- Emerging Markets Equity

# Strategy & Positioning – Fixed Income

- Our strategy:
  - Maintain long term view of modest rise in interest rates driven by:
    - Fed's desire to make a minimal adjustment to monetary policy
    - Expectation that low 1<sup>st</sup> Quarter GDP is temporary
    - U.S. Dollar strength is supportive of Fed restraint
  - Monitor bank loan allocation in appealing role as hedge against higher rates

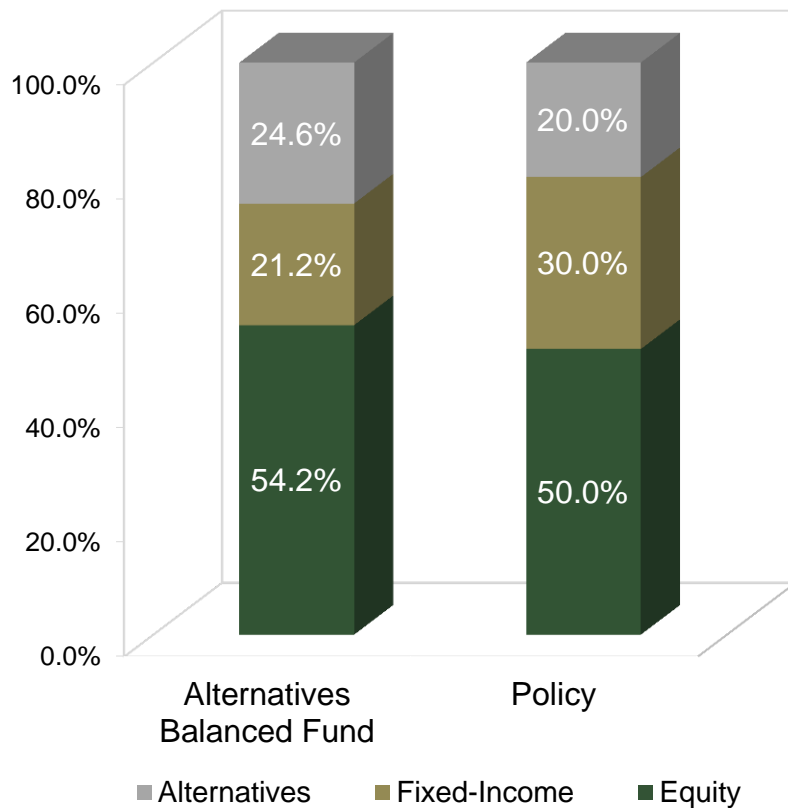
# Strategy & Positioning — Fixed Income Fund

## Selected Portfolio Characteristics September 30, 2015

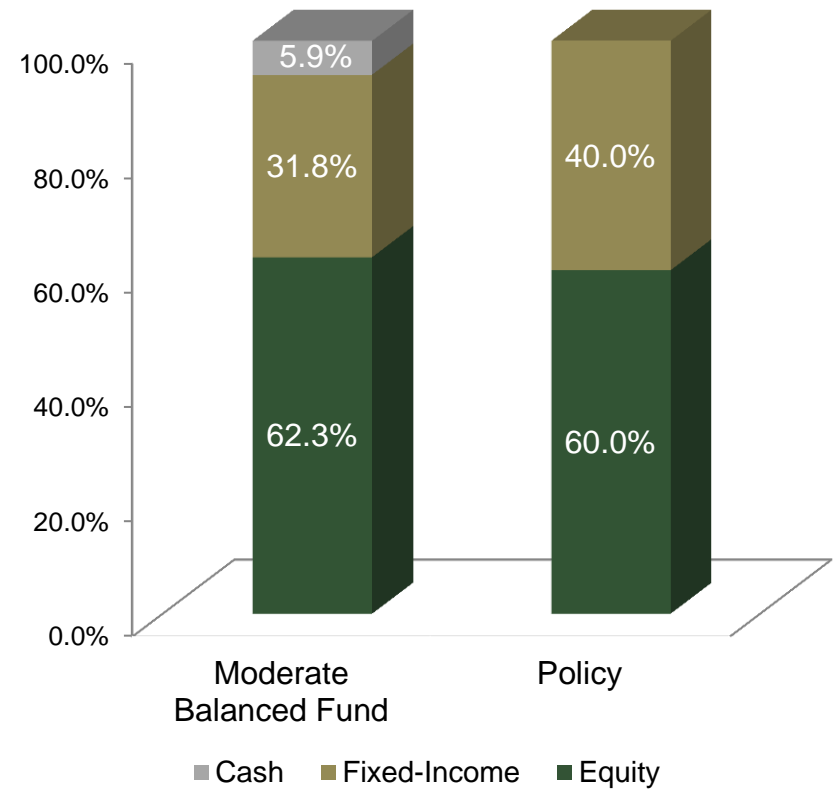
Average Characteristics	UCF Total	Core Fixed	EMD	Bank Loans	Barclays*
Positioning	100%	81.6%	5.4%	13.0%	100%
Moody's Rating	A3	A1/A2	Baa1	Ba3	Aa2/Aa3
S&P Rating	A-	A+/A	BBB+	BB-	AA/AA-
Average Maturity (Years)	7.0	7.6	7.2	2.8	8.5
Effective Duration	4.6	5.2	4.9	0.6	6.2
Yield-To-Worst(%)	3.2%	2.4%	6.5%	6.9%	2.2%

# Strategy & Positioning – Balanced Funds Allocation

Alternatives Balanced Fund Allocation  
as of 9/30/2015



Moderate Balanced Fund Allocation  
as of 9/30/2015



# United Church Funds — Wrap Up

- **Adapting** to eventuality of higher rates but there has been a meaningful pause in short-term
- **Diversifying** because valuation ultimately matters
- **Focusing** on the longer-term opportunity
- **Maintaining** positive performance momentum but if we use active management/managers we must overcome fees
- **Supporting** the UCF's mission
  - Beyond Fossil Fuels Fund
  - Focusing on ESG and Impact

Invest responsibly. Strengthen ministry.

# Q & A