

# 2nd Quarter 2017 PERFORMANCE WEBINAR

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August 7, 2017



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# United Church Funds – Overview

## Investing with a Mission: Performance Beyond the Numbers

- A trusted investment partner of over 1,000 churches and ministries of the United Church of Christ
- Approximately \$790 million in assets under management\*
- Thirteen investment funds with socially responsible fund options
- Experienced leadership in the development, management and governance of endowments



\* As of June 30, 2017

# UCF's Updates

- In collaboration with the United Church of Christ (UCC), we launched the UCF Planned Giving Microsite to help UCC churches and ministries build a successful Planned Giving program.

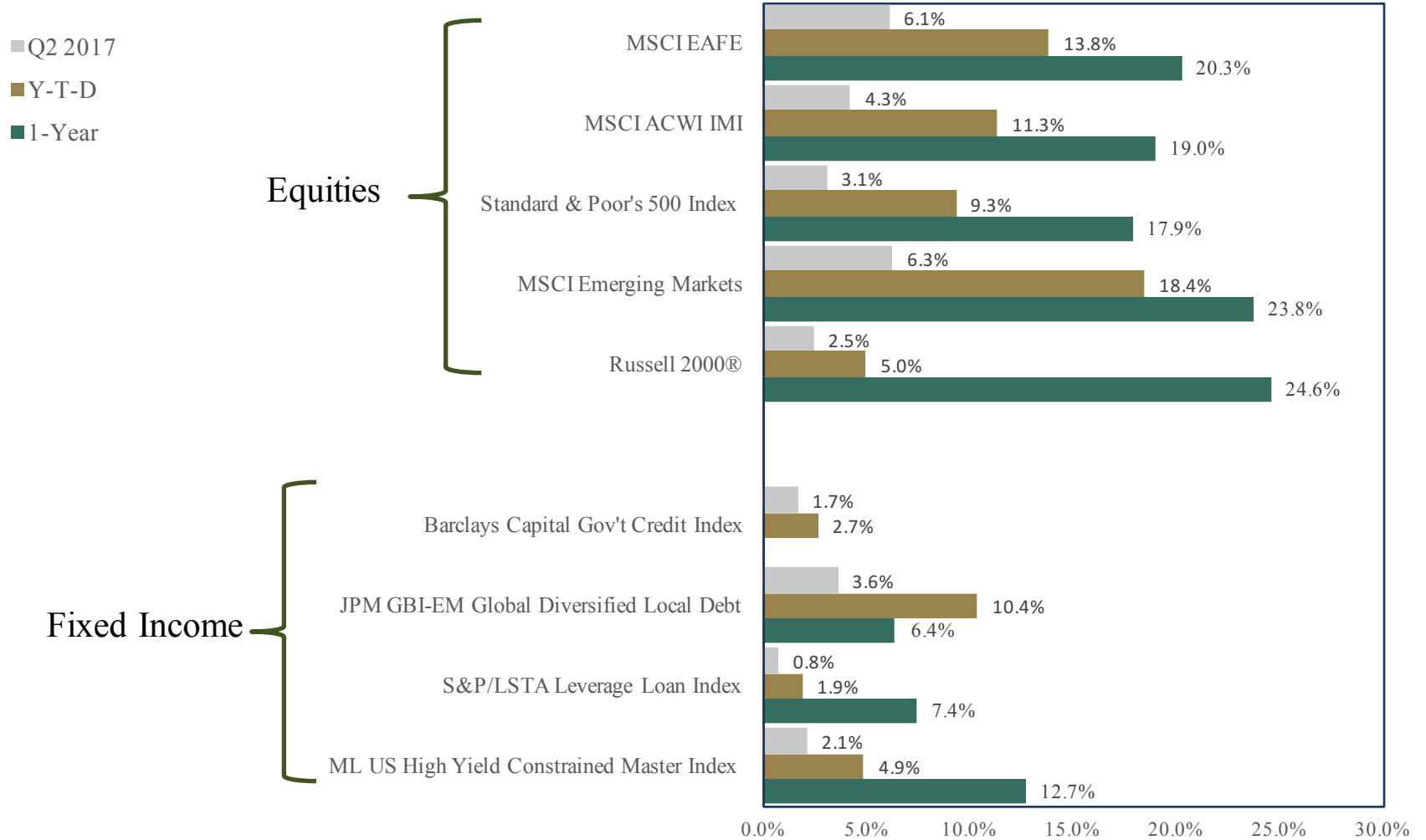
To learn more: [www.ucfmicrosites.com](http://www.ucfmicrosites.com)

- At the 31<sup>st</sup> General Synod in July, we shared the progress of our response to the call for urgent action on climate change as called for in a 2013 General Synod resolution.

To learn more: [www.ucfunds.org](http://www.ucfunds.org)

# Performance

# Performance — Selected Index Returns



# Performance — Summary

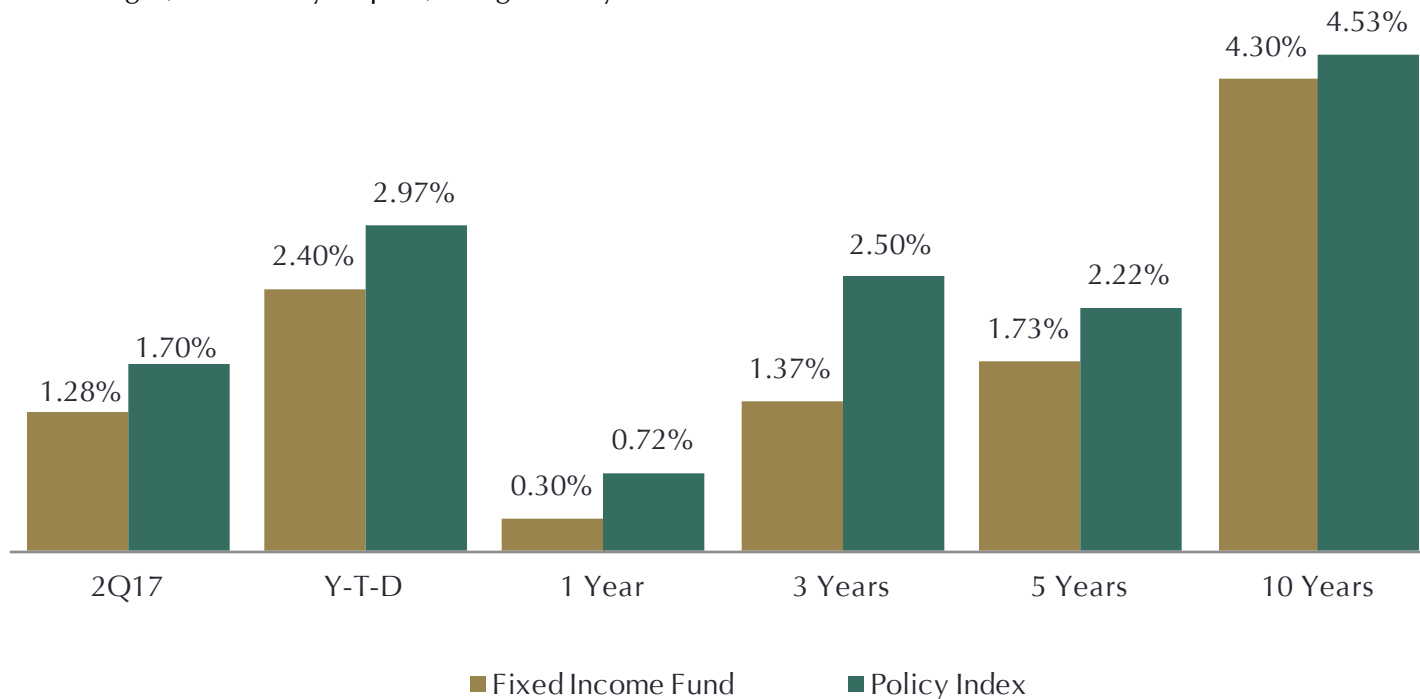
- The Total Equity Fund saw strong gains for 2Q17 as equities were again up across all regions (domestic, international developed and emerging markets). The Fund's overweight to emerging markets was additive to returns and results were buoyed by international manager outperformance. *For 2Q17, comfortably ahead of benchmark net of all fees.*
- The Beyond Fossil Fuels Fund again saw a favorable return for 2Q17 and outperformed in relative terms as well, aided by manager outperformance. *For 2Q17, well ahead of benchmark net of all fees.*
- Core-fixed (85% of the Fixed-Income Fund) saw positive returns for 2Q17, continuing a trend from 1Q17, but underperformed its index, holding back relative performance overall. Emerging markets debt strategies continue their 1Q17 rebound, and contributed to returns. Bank loans lagged in 2Q17, returning 0.80%. We are in the process of changing managers. The impact investment manager was in-line with its benchmark. *For 2Q17, behind benchmark.*
- Balanced Funds' 2Q17 results generally were ahead of benchmarks net of all fees due to a slight overweight to Total Equity Fund, which outperformed. Only the Conservative Balanced Fund with its heavy benchmark weight to fixed-income lagged. *For 2Q17, ahead of benchmarks for all but one balanced fund.*
- The Alternatives Balanced Fund narrowly outperformed, net of all fees, for 2Q17 as an overweight to equities benefitted the Fund. Alternatives returns were slightly positive for the quarter with strong real estate and long-short equity hedge funds contributing, offset by our trend-following manager, Abbey Capital. *For 2Q17, slightly ahead of benchmark net of all fees.*

# Q2 2017 Performance

TOTAL RATES OF RETURNS AS OF 6/30/17					ANNUALIZED				
<i>Returns on UCF's funds are presented net of fees</i>		<i>Inception Date</i>	<i>Quarter</i>	<i>Year To Date</i>	<i>One Year</i>	<i>Three Years</i>	<i>Five Years</i>	<i>Ten Years</i>	
MANAGED FUNDS	<b>Fixed Income Fund</b>	10/1/1994	<b>1.28%</b>	<b>2.40%</b>	<b>0.30%</b>	<b>1.37%</b>	<b>1.73%</b>	<b>4.30%</b>	
	Fixed Income Policy Index 85% Barclays US Govt/Credit Aggregate, 5% JPMGBI-EM Global Diversified, 10% S&P LSTA Performing Loan			1.70%	2.97%	0.72%	2.50%	2.22%	4.53%
	<b>Domestic Core Equity Fund</b>	10/1/2005	<b>2.93%</b>	<b>8.48%</b>	<b>17.84%</b>	<b>8.52%</b>	<b>14.30%</b>	<b>6.55%</b>	
	S&P 500 Index			3.09%	9.34%	17.90%	9.61%	14.63%	7.18%
	<b>Beyond Fossil Fuels Fund</b>	11/3/2014	<b>5.29%</b>	<b>13.15%</b>	<b>22.67%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	
	S&P 500/MSCI ACWI IMI net, linked			4.25%	11.32%	19.01%			
	<b>Small Cap Equity Fund</b>	10/1/2005	<b>1.62%</b>	<b>4.71%</b>	<b>21.15%</b>	<b>5.48%</b>	<b>13.24%</b>	<b>3.73%</b>	
	Russell 2000 Index			2.46%	4.99%	24.60%	7.36%	13.70%	6.92%
	<b>International Equity Fund</b>	10/1/2005	<b>6.81%</b>	<b>16.74%</b>	<b>23.58%</b>	<b>1.49%</b>	<b>6.90%</b>	<b>1.54%</b>	
	MSCI ACWI ex US net			5.78%	14.10%	20.45%	0.80%	7.22%	1.13%
<b>Alternatives Fund</b>	7/1/2010	<b>0.14%</b>	<b>1.09%</b>	<b>1.04%</b>	<b>4.27%</b>	<b>5.44%</b>	<b>N/A</b>		
Custom Index 70% HFRI Funds of Funds Composite Index, 30% NCREIF Fund Index			0.43%	2.65%	6.24%	4.23%	6.10%		
FUNDS OF FUNDS	<b>Total Equity Fund</b>	10/1/1994	<b>4.74%</b>	<b>12.11%</b>	<b>21.02%</b>	<b>4.90%</b>	<b>10.62%</b>	<b>3.75%</b>	
	38% Domestic Core Equity, 10% Small Cap Equity and 52% International Equity								
	MSCI ACWI IMI net			4.25%	11.32%	19.01%	4.87%	10.74%	3.95%
	<b>Conservative Balanced Fund</b>	1/1/2006	<b>2.46%</b>	<b>5.75%</b>	<b>7.25%</b>	<b>2.52%</b>	<b>4.85%</b>	<b>4.41%</b>	
	36% Equity, 63% Fixed Income and 1% C&E								
	Current Policy Index 35% MSCI ACWI IMI net, 65% Fixed Income Policy Index			2.59%	5.84%	6.83%	3.53%	5.29%	4.83%
	<b>Moderate Balanced Fund</b>	circa 1958	<b>3.31%</b>	<b>8.13%</b>	<b>12.34%</b>	<b>3.41%</b>	<b>7.02%</b>	<b>4.26%</b>	
	61% Equity, 38% Fixed Income and 1% C&E								
	Current Policy Index 60% MSCI ACWI IMI net, 40% Fixed Income Policy Index			3.22%	7.92%	11.38%	4.18%	7.45%	4.81%
	<b>Aggressive Balanced Fund</b>	1/1/2006	<b>3.86%</b>	<b>9.68%</b>	<b>15.67%</b>	<b>3.97%</b>	<b>8.42%</b>	<b>4.10%</b>	
76% Equity, 23% Fixed Income and 1% C&E									
Current Policy Index 75% MSCI ACWI IMI net, 25% Fixed Income Policy Index			3.61%	9.19%	14.20%	4.54%	8.73%	4.72%	
<b>Beyond Fossil Fuels Balanced Fund</b>	11/3/2014	<b>3.73%</b>	<b>9.00%</b>	<b>13.82%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>		
61% BFF, 38% Fixed Income and 1% C&E									
Current Policy Index 60% MSCI ACWI IMI net, 40% Fixed Income Policy Index			3.22%	7.92%	11.38%				
<b>Alternatives Balanced Fund</b>	7/1/2010	<b>2.75%</b>	<b>7.00%</b>	<b>10.89%</b>	<b>3.84%</b>	<b>7.09%</b>	<b>N/A</b>		
54% Equity, 23% Fixed Income, 23% Alternatives									
Current Policy Index 50% MSCI ACWI IMI net, 30% Fixed Income Policy and 20% Alternatives Policy			2.71%	7.02%	10.71%	4.27%	7.47%		

# Performance — Fixed Income Fund

- **Absolute returns:** The Fixed-Income Fund had positive returns for the second quarter of 2017. Rates fell after rising considerably in 2017 post-election. Emerging markets followed a strong first quarter with a good second quarter performance, and the index finished the first half up just over 10%. Bank loans trailed Core bonds for the second quarter. Core fixed-income manager returned 1.46% net of fees for 2Q17.
- **Managers and allocation:** The Pension Boards core fixed-income manager underperformed the index as did the bank loan manager. The emerging markets debt manager underperformed its benchmark but had the highest total return at 2.21% for the second quarter. The impact manager, Community Capital, was generally in-line with its benchmark.



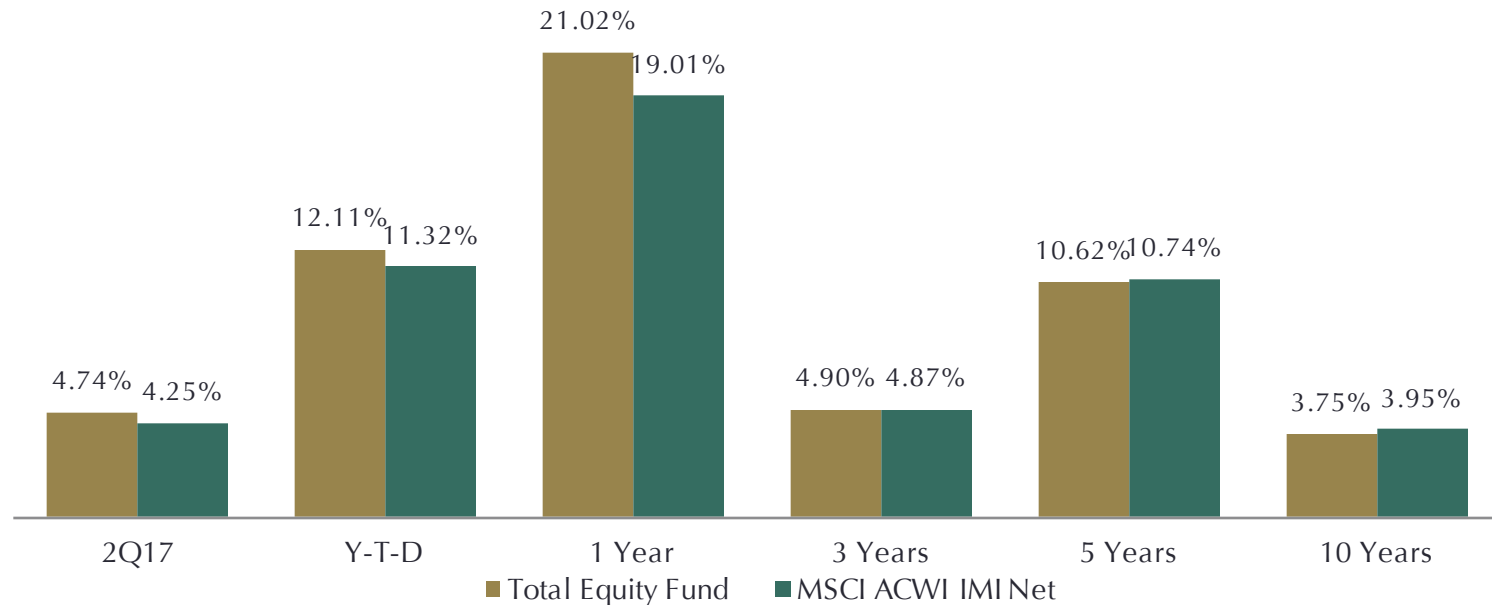
\* Returns on UCF's funds are presented net of all fees.



# Performance — Total Equity Fund

➤ **Absolute returns:** Global equity markets produced gains across all regions in 2Q17. Emerging markets again had robust returns of over 6% while US large cap, as represented by the S&P 500, achieved just over 3% returns. International equities were also ahead of the S&P 500 with returns of 6.12%. Small Cap US companies trailed but still had good returns, nearly identical to the first quarter, of 2.46%. Total Equity Fund returns were comfortably ahead of benchmarks for 1Q17, net of all fees.

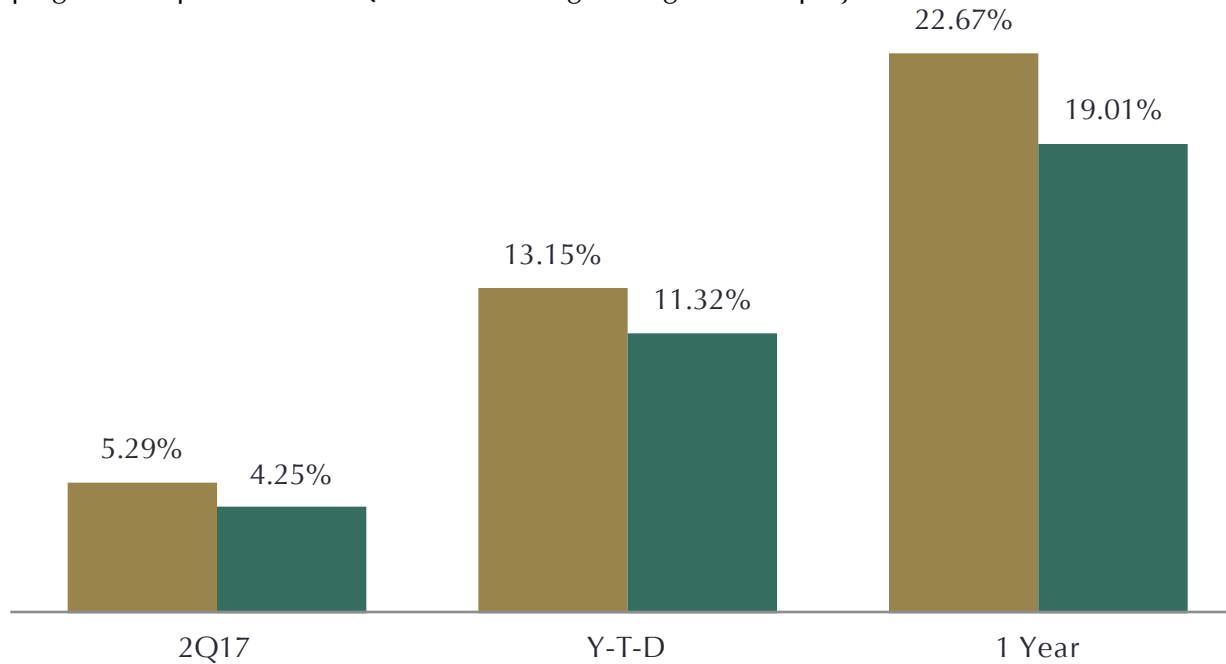
➤ **Manager and allocation:** Allocations were positive with an overweight to emerging markets most beneficial. LSV, an international value manager, underperformed its benchmark slightly but is still ahead YTD at 14.78% net versus 14.10%. Oaktree, an emerging markets manager, underperformed after a strong relative 1Q17, 5.33% vs 6.27%. The third international manager, Baillie Gifford, again outperformed by the largest amount, and has returned 19.56% YTD versus 14.10% for the index YTD. Fiduciary Small Cap's outperformance could not make up for DFA's underperformance and the small cap allocation lagged its benchmark, 1.79 versus 2.46%. Large cap US managers were in-line, returning 3.07% in aggregate versus 3.09% for the quarter.



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

# Performance — Beyond Fossil Fuels Fund

- **Absolute returns:** The Fund again outperformed its benchmark, net of all fees, in the second quarter of 2017. International markets continued to have the strongest performance. US equities continued to gain but at a more moderate pace following the strong run up after the Presidential election. The transition to a global portfolio in the second quarter of 2016 has continued to benefit the portfolio.
- **Manager and allocation:** Quantitative Management Associates (QMA, the BFF manager) again outpaced the global benchmark for 2Q17, after doing the same for 1Q17 and 2016. Although fossil fuel exclusions had been a headwind to performance generally in 2016, QMA's portfolio management approach overcome that headwind. Additionally, this trend reversed in 2017 and energy companies have lagged YTD, helping relative performance. QMA is achieving it's target return projections.



\* Inception: 11/03/2014

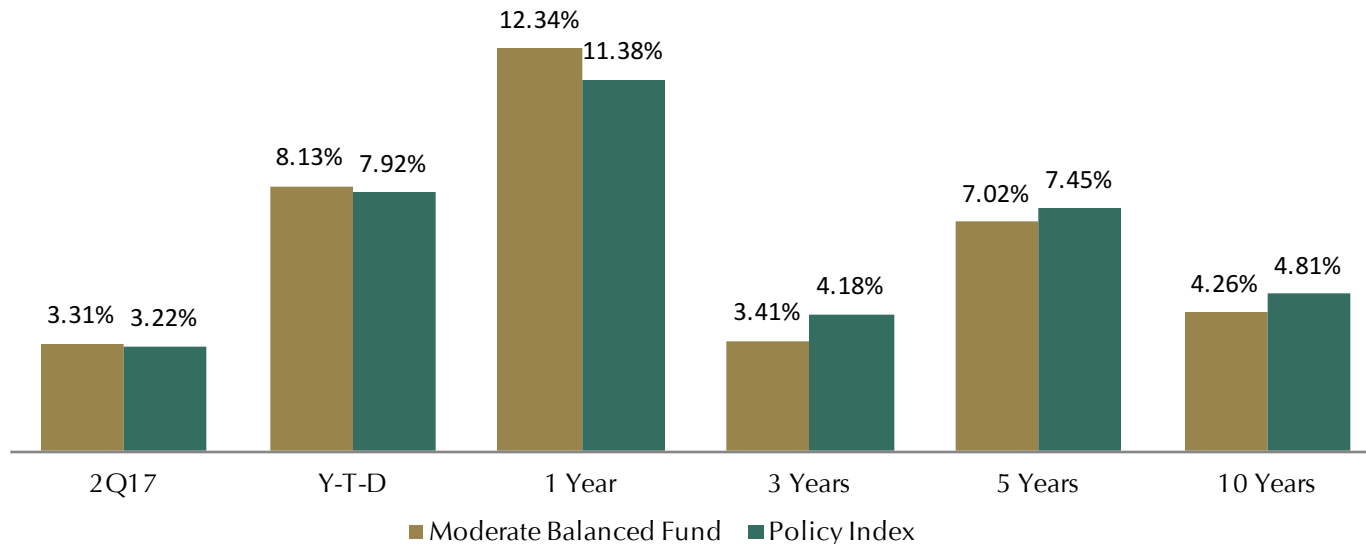
\*\* Returns on UCF's funds are presented net of all fees.

■ BFF Fund

■ S&P 500/MSCI ACWI IMI net linked

# Performance — Moderate Balanced Fund

- **Equities:** Performance for the second quarter of 2017 was positive as all global regions produced gains. Emerging markets led the way, followed by international developed and then U.S. markets. The Equity Fund component was comfortably ahead of its benchmarks for 2Q17, net of all fees.
- **Fixed Income:** Core-fixed was positive for the quarter but underperformed its benchmark. The emerging markets debt manager underperformed its benchmark but had another strong quarter. Bank loans were a strong diversifier in 2016, as rates finally have started to move higher, but generally performed in-line with Core-fixed in 1H17.
- **Manager and allocation:** Manager outperformance was broadly positive with limited disappointments. Overweight to equities was positive and, combined with Equity Fund outperformance, overcame a slightly lagging performance by the Fixed Income Fund. The Moderate Balanced Fund was ahead of benchmark net of all fees.



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

Note: Returns for the Beyond Fossil Fuels Balanced Fund were 3.73% for the 2nd<sup>h</sup> quarter, 9.00% Y-T-D and 13.82% 1-year.

# Strategy & Positioning

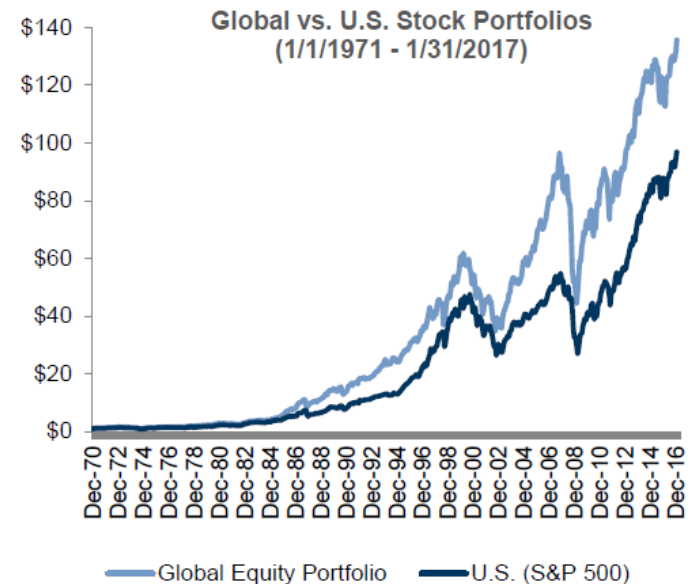
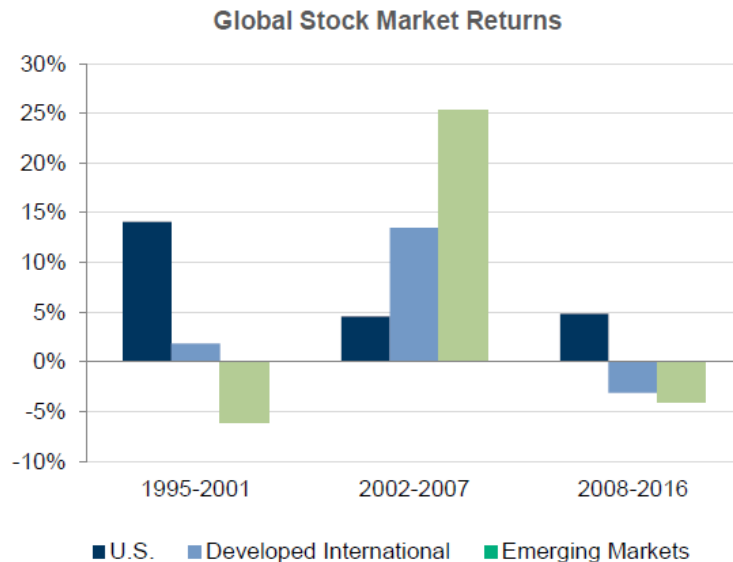
# Strategy and Positioning Themes

- The global economy seems to be improving across many regions in a synchronized recovery.
- US equities are slightly extended but the trend is positive; international markets have had very strong YTD performance but still offer value and positive earnings growth.
- The lower dollar, which we had anticipated, is no longer definitively a headwind for US investors with international exposure.
- Low interest rates are a hindrance to returns from historical safe US fixed income investments and continue to pose risks if rates rise quickly.
- A globally diversified approach to stocks and bonds will likely generate more favorable returns than a US-only strategy.

# Strategy and Positioning

## The Case for Global Diversification

- Equity markets are cyclical and one should be wary of extrapolating recent trends far into the future
- Despite the recent outperformance of U.S. stocks, the case for global equity exposure remains compelling

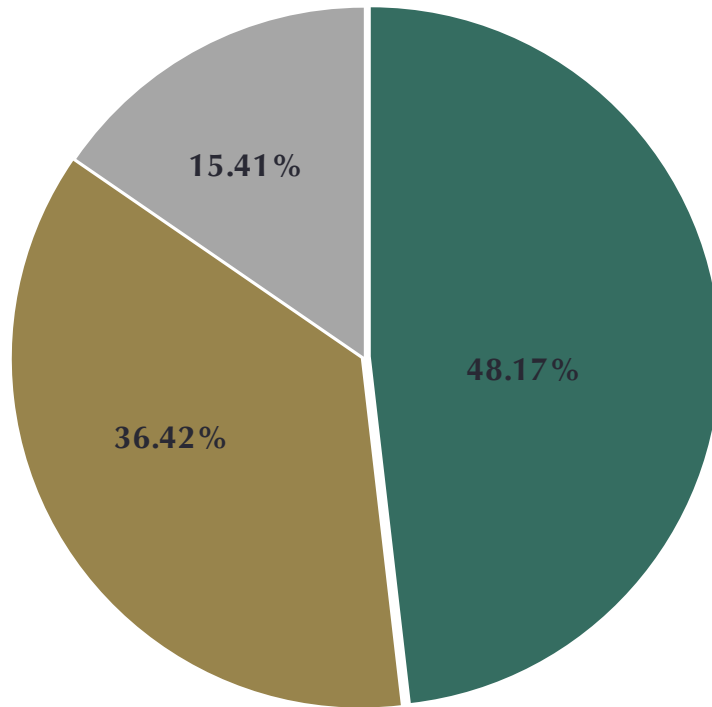


Source: MSCI, S&P 500 as of January 2017. Left chart: Indices used due to longest available timeframe: MSCI USA Index, MSCI World ex USA Index, and MSCI EM Index (price return on the left graph for full history). Indices are total return and are not currency hedged (i.e., unhedged). Indices on the right hand chart: 1971 to 1987, global equity portfolio is 60% S&P 500 and 40% MSCI EAFE. From 1988 onward, portfolio is 60% S&P 500, 20% MSCI EAFE, and 20% MSCI Emerging Markets. Past performance does not guarantee future results, which may vary. Although certain information has been obtained from public sources believed to be reliable, without independent verification, we do not guarantee its accuracy, completeness or fairness. Diversification does not protect an investor from market risk and does not ensure a profit.

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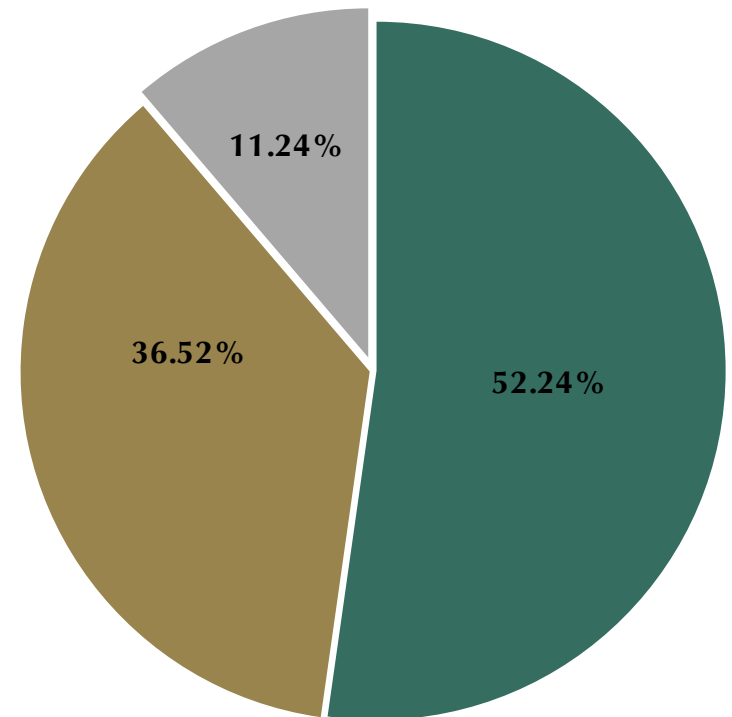
# Strategy & Positioning— World Market Capitalization

UCF Equity Fund Allocation  
as of 6/30/2017



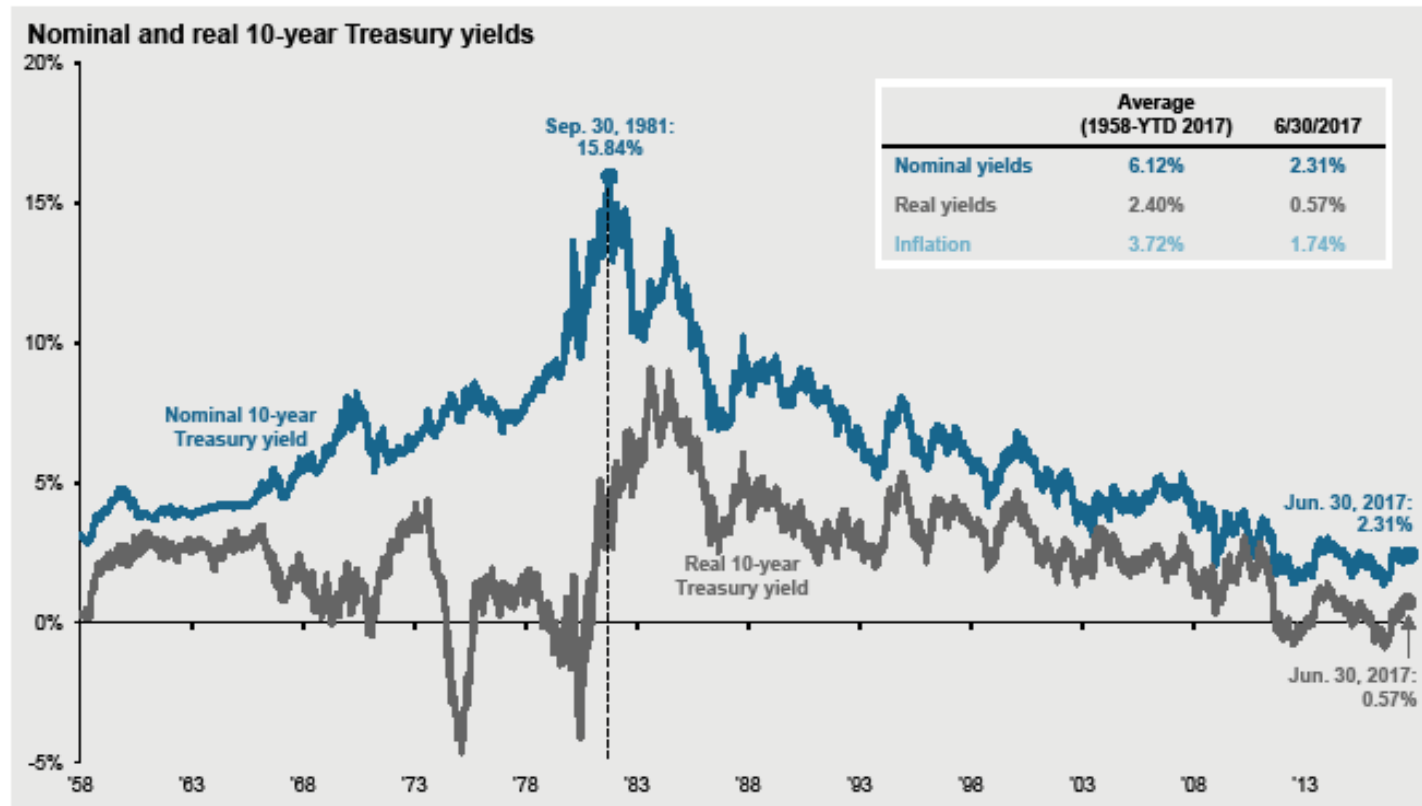
- U.S. Equity
- Developed International Equity
- Emerging Market Equity

MSCI All Country World Index (ACWI) IMI Index  
Allocation as of 6/30/2017



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

# Strategy and Positioning – End of Low Rates?



- Fixed income assets have enjoyed a long bull cycle; have we reached the turning point?
- If the cycle has turned, investors might not be fully prepared.



# Strategy and Positioning – Traditional Asset Allocation

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	YTD	2002 - 2016	
																	Ann.	Vol.
Comdty.	25.9%	56.3%	31.6%	34.5%	35.1%	39.8%	5.2%	79.0%	27.9%	8.3%	19.7%	38.8%	28.0%	2.8%	21.3%	18.6%	REITs	EM Equity
Fixed Income	10.3%	47.3%	26.0%	21.4%	32.6%	16.2%	1.8%	59.4%	26.9%	7.8%	19.6%	32.4%	13.7%	1.4%	14.3%	14.2%	EM Equity	REITs
High Yield	4.1%	39.2%	20.7%	14.0%	26.9%	11.8%	25.1%	32.5%	19.2%	3.1%	18.6%	23.3%	6.9%	0.5%	12.0%	9.3%	High Yield	Small Cap
REITs	3.8%	37.1%	18.3%	12.2%	18.4%	7.1%	-26.9%	28.0%	16.8%	2.1%	17.9%	1.9%	5.2%	0.0%	11.8%	6.8%	Small Cap	DM Equity
Cash	1.7%	32.4%	13.2%	8.1%	15.8%	7.0%	-33.8%	27.2%	15.1%	0.1%	16.3%	7.3%	4.9%	-0.4%	11.6%	6.5%	Asset Alloc.	Comdty.
Asset Alloc.	-5.9%	28.7%	12.8%	4.9%	15.3%	5.5%	-35.6%	21.5%	14.8%	-0.7%	16.0%	2.9%	0.0%	-2.0%	8.6%	5.0%	Large Cap	Large Cap
EM Equity	-6.0%	26.3%	10.9%	4.6%	13.7%	4.8%	-37.0%	25.0%	13.3%	-4.2%	12.2%	0.0%	0.0%	-2.7%	8.3%	4.9%	DM Equity	High Yield
DM Equity	-15.7%	23.9%	9.1%	3.6%	4.8%	3.2%	-37.7%	18.9%	8.2%	-11.7%	4.2%	-2.0%	-1.8%	-4.4%	2.6%	2.3%	Fixed Income	Asset Alloc.
Small Cap	-20.5%	4.1%	4.3%	3.8%	4.3%	-1.6%	-43.1%	5.9%	6.5%	-13.3%	0.1%	-2.3%	-4.5%	-14.6%	1.5%	0.3%	Cash	Fixed Income
Large Cap	-22.1%	1.0%	1.2%	2.4%	2.1%	-15.7%	-53.2%	0.1%	0.1%	-18.2%	-1.1%	-9.5%	-17.0%	-24.7%	0.3%	-5.3%	1.2%	Cash

Source: Barclays, Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management.

- Traditional U.S.-only asset allocations fared well in 2016, but an asset allocation approach to just U.S. equities and fixed income may not produce sufficient future returns based on where equities and bonds are currently valued.

# Strategy and Positioning – Fixed Income Characteristics

## Fixed Income Fund Characteristics

Selected Characteristics as of June 30, 2017



Asset  
Management

Average Characteristics	Fixed Income Fund Total	Core Fixed	Impact	Emerging Markets Debt	Bank Loans	Barclays Govt/Credit Index
Positioning	100%	69.9%	13.8%	5.2%	11.1%	100%
Moody's Rating	A2	Aa3/A1	Aa1	Ba2	Ba3	Aa2/Aa3
S&P Rating	A	AA-/A+	AA+	BB	BB-	AA/AA-
Average Maturity (Years)	7.1	7.7	6.5	11.2	2.5	8.7
Effective Duration (Years)	5.0	5.6	5.3	6.1	0.4	6.5
Yield-To-Worst (%)	3.1%	2.5%	2.9%	7.4%	5.6%	2.4%

Source: UCF, Community Capital, Lazard, WAMCO, Barclays. Reflects portfolio holdings. Portfolio holdings and/or allocations shown above are as of the date indicated and may not be representative of future investments. The holdings and/or allocations shown may not represent all of the portfolio's investments. Future investments may or may not be profitable. Portfolios and benchmarks are not rated by an independent ratings agency. GSAM may receive credit quality ratings on the underlying securities of portfolios and their respective benchmarks from the three major rating agencies: Standard & Poor's, Moody's and Fitch. GSAM calculates the credit quality breakdown and overall rating for both portfolios and their respective benchmarks according to the client's preferred method or such other method as selected by GSAM in its sole discretion. The applicable method may differ from the method independently used by benchmark providers. Securities that are not rated by all three agencies are reflected as such in the breakdown. For illustrative purposes, GSAM converts all ratings to the equivalent S&P major rating category when reporting the credit rating breakdown. Ratings and portfolio credit quality may change over time. Unrated securities do not necessarily indicate low quality, and for such securities the investment adviser will evaluate the credit quality. EM risk stats based off of Lazard Emerging Markets Debt Portfolio (LEDIX).

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# United Church Funds — Wrap Up

- **Adapting** to possibility of higher rates, but we continue to adjust duration (rate sensitivity) through the year
- **Diversifying** because valuation ultimately matters; 2017 has especially illustrated the benefits of that approach
- **Maintaining** positive performance momentum with a combination of active and passive managers
- **Collaborating** with new top-tier consultant on asset allocation, fund design, manager selection, and social responsibility efforts
- **Supporting** UCF's mission
  - Evolution of negative screening methodology
  - Focus on ESG (environmental, social and governance factors) and Impact

# Investing with a Mission: Performance Beyond the Numbers

## Q & A