

# UCF 4<sup>th</sup> Quarter 2013 PERFORMANCE WEBINAR

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# Invest responsibly. Strengthen ministry.

## **Our Mission —**

United Church Funds

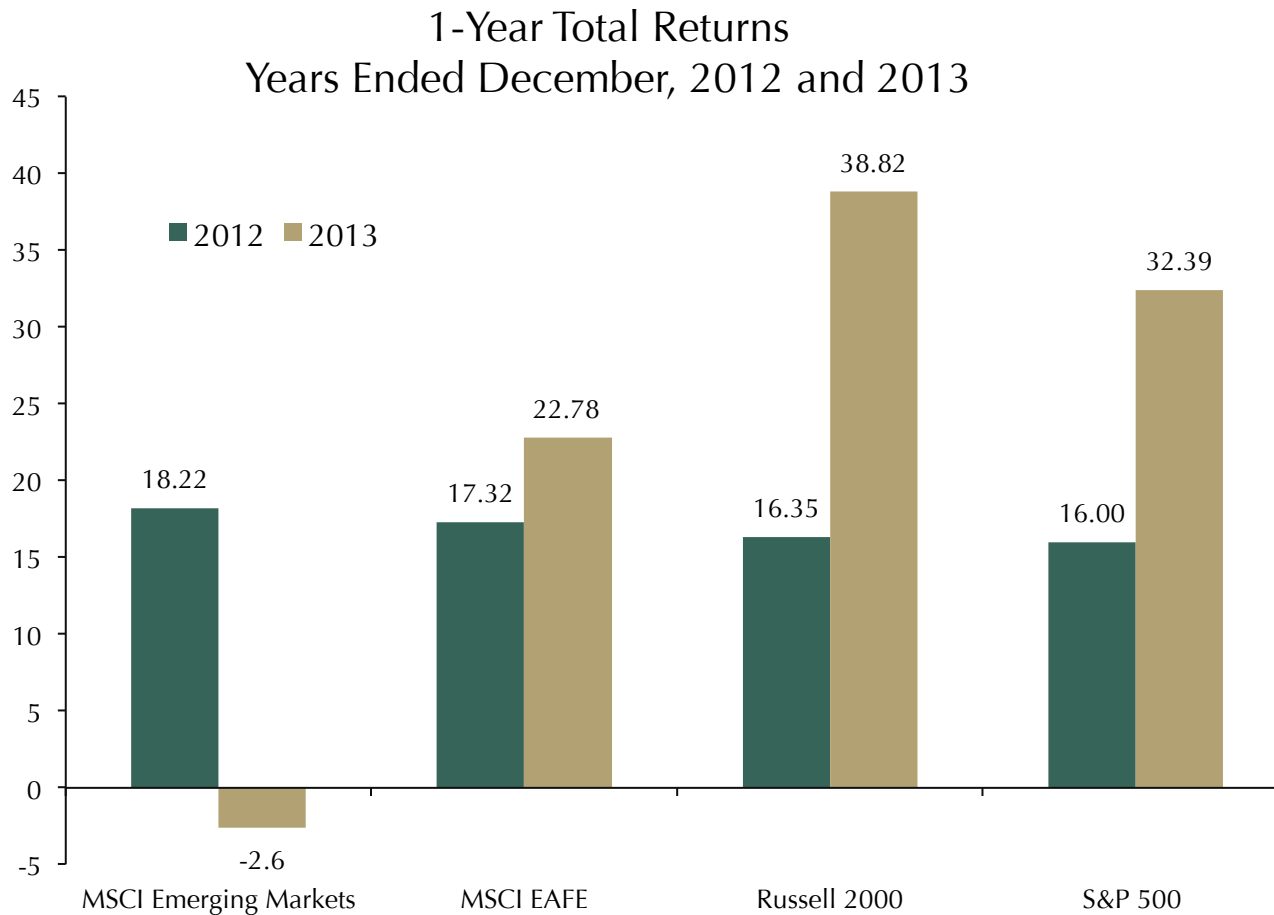
strengthens the Church's ministries

through the faithful stewardship of resources

by offering all parts of the United Church of Christ

sound financial management services

# Performance: 2012 & 2013 Equity Returns

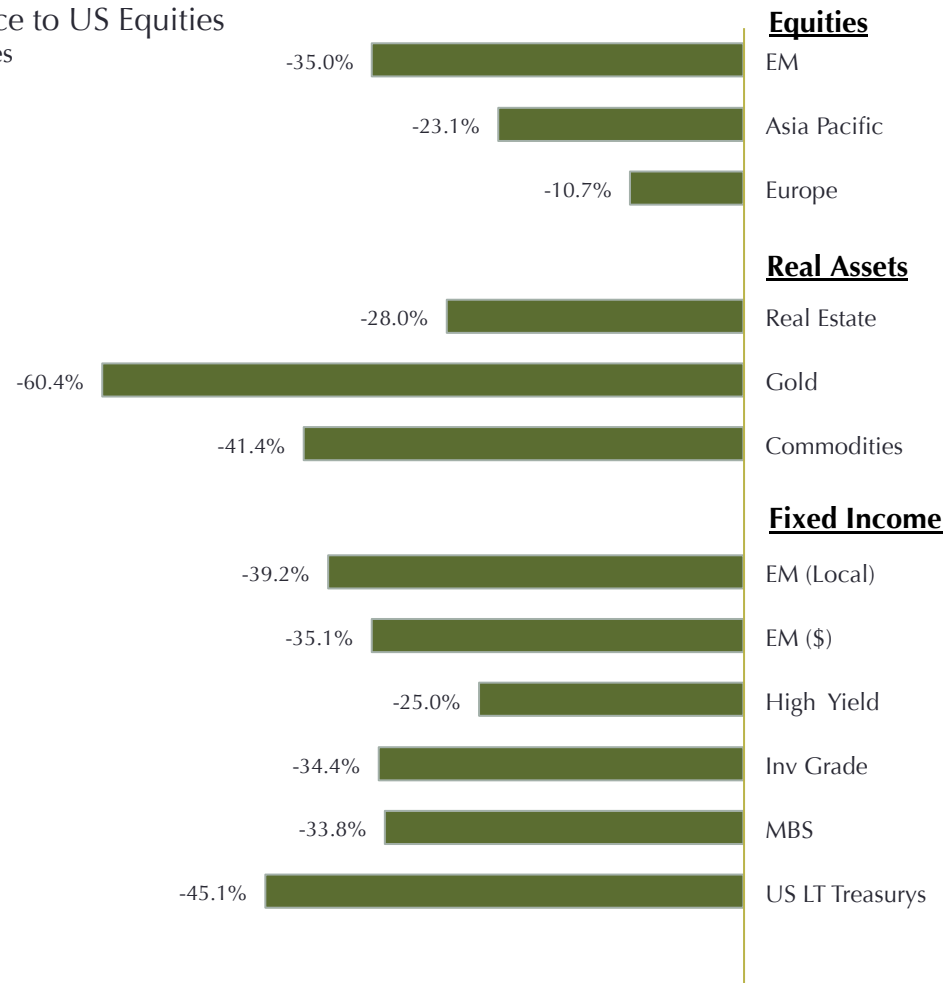


## The 2013 Diworsification Dunces Cap



# Performance: S&P 500 Outperformance

2013 Relative Performance to US Equities  
S&P 500 represents US Equities



# Performance:

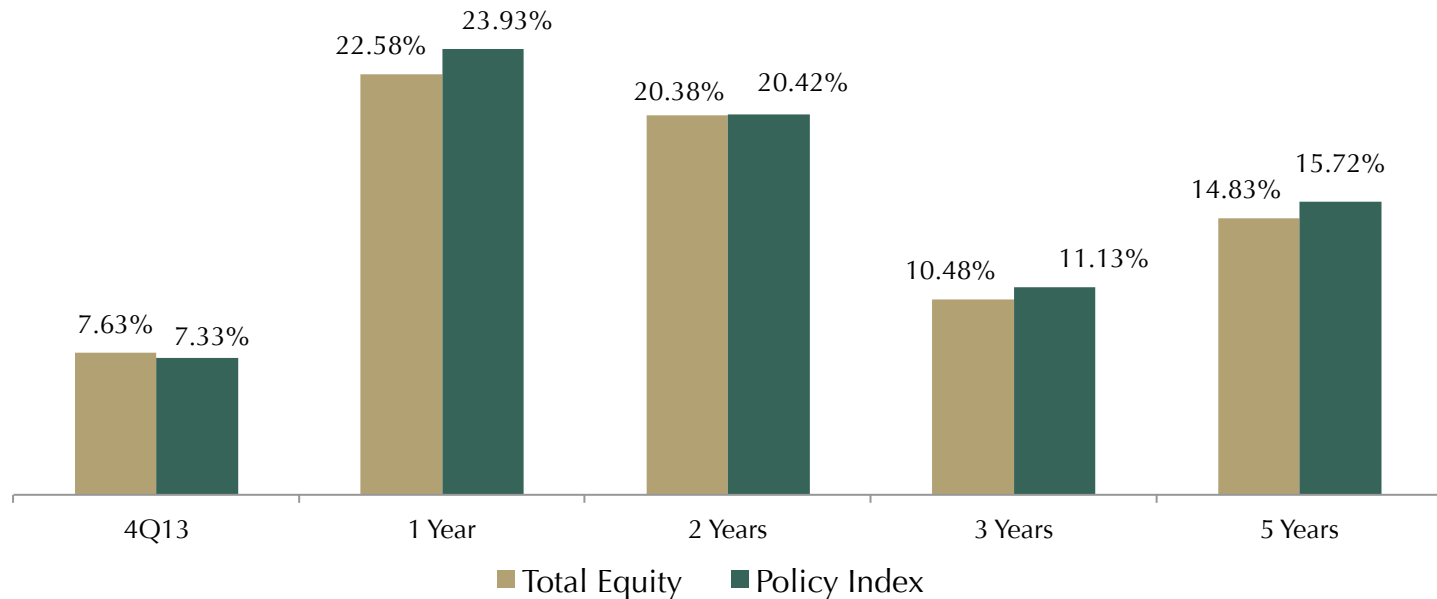
## UCF Funds 2013 Performance vs. Benchmarks

Average Total Rates of Return			Annualized				
Returns on UCF funds presented net of all fees			4th Qtr 2013	1 Year	2 Years	3 Years	5 Years
MANAGED FUNDS	<b>Fixed-Income Fund</b>		<b>0.32%</b>	<b>-1.94%</b>	<b>1.81%</b>	<b>3.61%</b>	<b>5.43%</b>
	<i>Fixed Income Policy Index (85% Barclays Capital Government Credit Index (BCGC), 10% S&amp;P LSTA Leveraged - Performing Loan, 5% JPM GBI Global Diversified as of 9/1/2013)</i>		0.07%	-2.46%	1.20%	3.65%	4.41%
	<b>Domestic Core Equity Fund</b>		<b>10.48%</b>	<b>31.95%</b>	<b>24.73%</b>	<b>15.94%</b>	<b>17.18%</b>
	<i>S&amp;P 500 Index</i>		10.51%	32.39%	23.93%	16.18%	17.94%
	<b>Small Cap Equity Fund</b>		<b>10.46%</b>	<b>39.11%</b>	<b>27.42%</b>	<b>12.57%</b>	<b>15.79%</b>
	<i>Russell 2000 Index</i>		8.72%	38.82%	27.09%	15.67%	20.08%
	<b>International Equity Fund</b>		<b>4.75%</b>	<b>12.37%</b>	<b>15.47%</b>	<b>4.98%</b>	<b>13.85%</b>
<i>Custom Index 70% EAFE net, 30% MSCI EM net</i>		4.55%	14.64%	16.15%	5.29%	12.47%	
FUNDS OF FUNDS	<b>Total Equity Fund</b>		<b>7.63%</b>	<b>22.58%</b>	<b>20.38%</b>	<b>10.48%</b>	<b>14.83%</b>
	<i>Policy Index (40% S&amp;P 500, 10% Russell 2000®, 35% EAFE, 15% MSCI Emerging Markets Net)</i>		7.33%	23.93%	20.42%	11.13%	15.72%
	<b>Conservative Balanced Fund</b>		<b>3.17%</b>	<b>6.66%</b>	<b>8.45%</b>	<b>6.36%</b>	<b>9.15%</b>
	<i>Policy Index (35% Equity Policy, 65% BCGC)</i>		2.57%	6.19%	7.74%	6.48%	8.63%
	<b>Moderate Balanced Fund</b>		<b>4.95%</b>	<b>12.67%</b>	<b>12.96%</b>	<b>8.04%</b>	<b>11.34%</b>
	<i>Policy Index (60% Equity Policy, 40% BCGC)</i>		4.39%	12.75%	12.54%	8.37%	11.49%
	<b>Aggressive Balanced Fund</b>		<b>6.10%</b>	<b>16.54%</b>	<b>15.89%</b>	<b>8.93%</b>	<b>12.70%</b>
	<i>Policy Index (75% Equity Policy, 25% BCGC)</i>		5.49%	16.84%	15.47%	9.44%	13.12%
<b>Alternatives Balanced Fund</b>		<b>5.09%</b>	<b>12.89%</b>	<b>12.73%</b>	<b>7.17%</b>	<b>NA</b>	
<i>Current Policy Index 50% Equity Policy, 30% BCGC and 20% Alternatives Policy</i>		4.14%	12.78%	12.38%	8.08%		

# Performance:

## UCF Equity Fund Performance

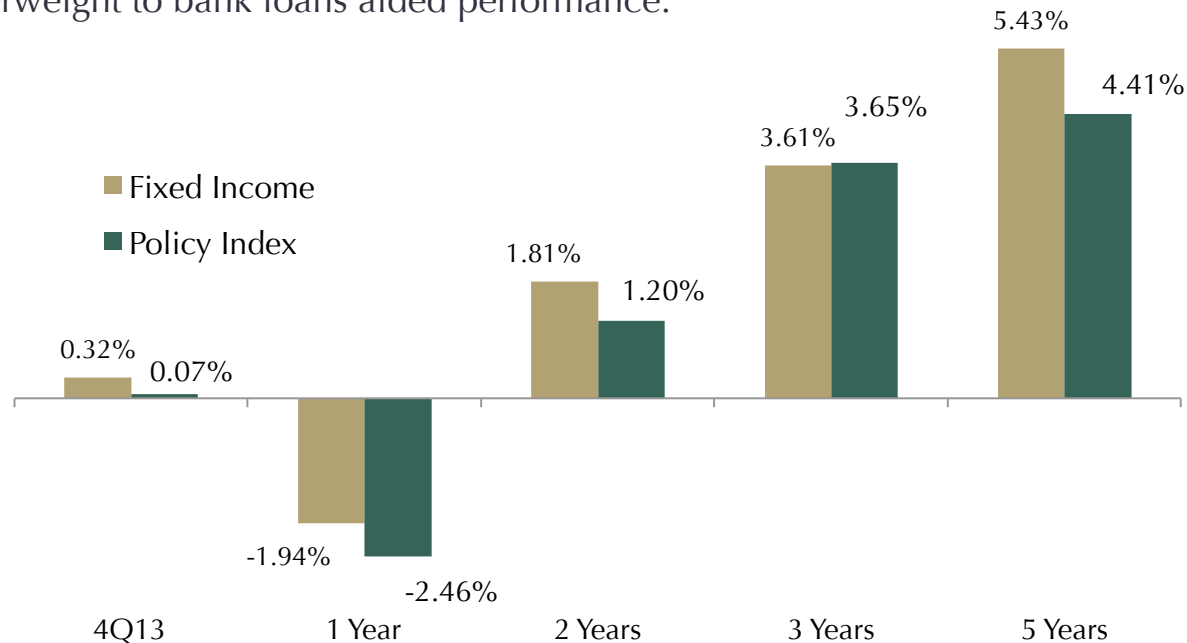
- **Absolute returns:** Domestic equities led the way for the quarter and the year as improving economic growth and better articulated Federal Reserve (Fed) “taper” plans resulted in the best market returns since 1997. International Developed markets also participated nicely, but weighting to Emerging Markets (EM) equities held the Fund back with down performance in 2013.
- **Manager and allocation:** For 2013, international composite at UCF trailed benchmarks for the first time in years. Timely move from Aberdeen (EM) to Oaktree aided relative performance. Allocations a positive versus global benchmark targets.



# Performance:

## UCF Fixed Income Fund Performance

- **Absolute returns:** Positive performance for the quarter partially offset an overall negative 2013. Improving economic conditions and increasing risk appetite caused investors to move away from rate-sensitive fixed income. Variable rate bank loans contributed to performance, but partially offset by more difficult year for emerging markets debt.
- **Managers and allocation:** All managers beat benchmarks, with highlight being Core Fixed and that strategy's focus on intermediate US investment grade corporate securities and prudent interest rate management (lower than benchmark interest rate exposure and yield curve management). Overweight to bank loans aided performance.

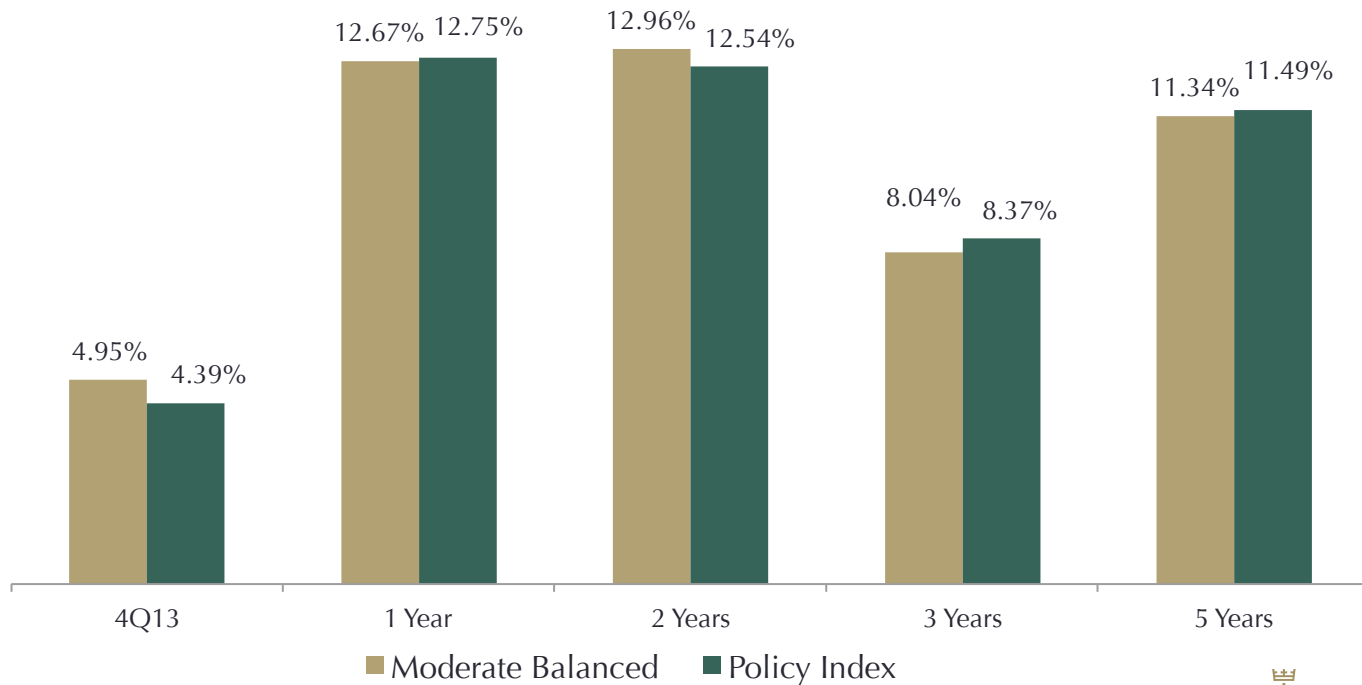




# Performance:

## UCF Moderate Balanced Fund Performance

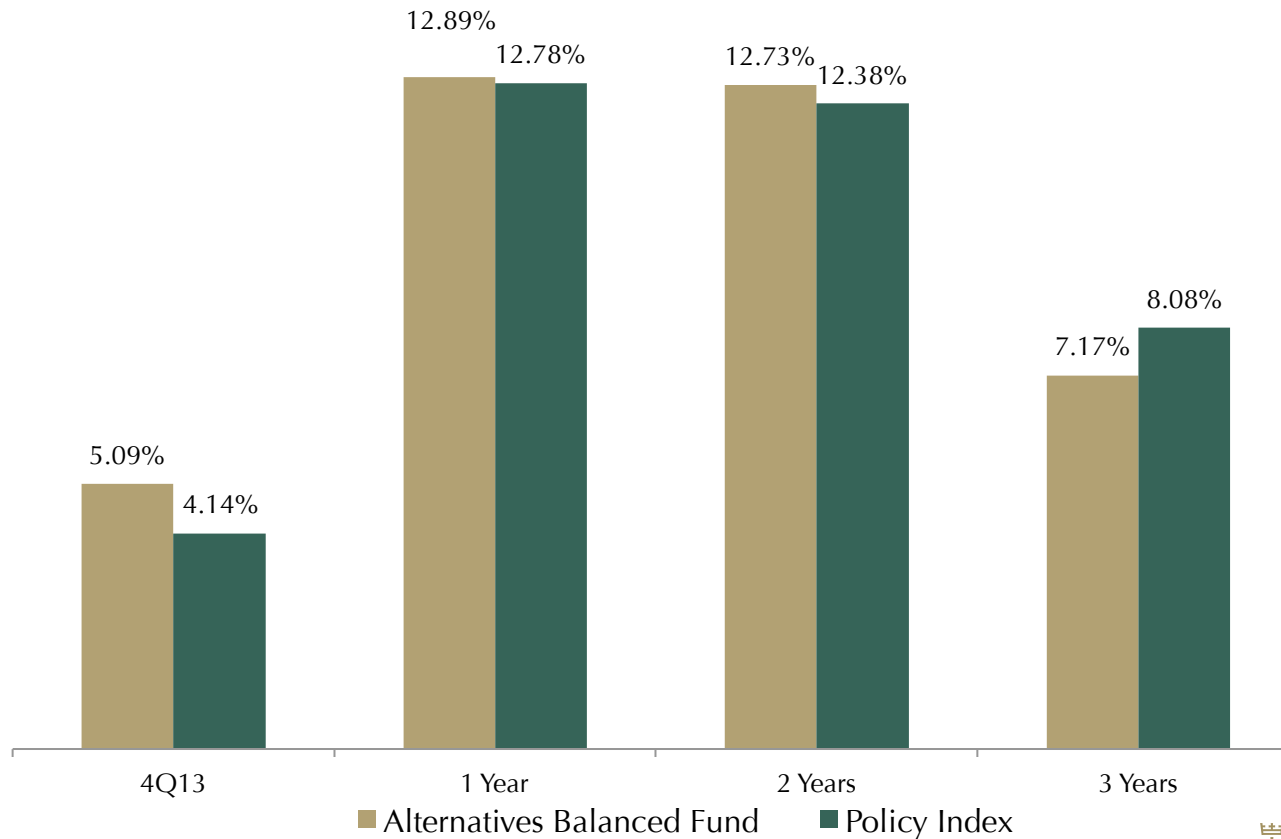
- **Equities:** US equity allocations (S&P 500 and Russell 2000) have led throughout the year but Developed International (EAFE) outperformed expectations. Allocation to EM did not contribute to 2013 returns.
- **Fixed Income:** Shorter duration (interest rate exposure) and addition of floating rate securities led to outperformance versus benchmark.
- **Manager and allocation:** Overweight equities within ranges set by Investment Committee (IC) added to relative performance.



# Performance:

## UCF Alternative Balanced Fund Performance

United Church Funds  
Alternatives Balanced Fund  
Annualized Returns as of 12/31/2013



# Agenda

- **The Economy**
- **Current Observations**
- **Our Strategy**

- **The Economy** ←
- Current Observations
- Our Strategy

# The Economy: US is Better

- Housing continues to improve
- Unemployment at 6.7% is lowest since 2008
- Better Consumer Balance Sheets
- Ongoing recovery in Consumer Confidence

# The Economy: Global Outlook

- Eurozone “Resurrection” with help from Mario Draghi
- Japan Last Resort
- Emerging Markets “Tale of Two Cities”

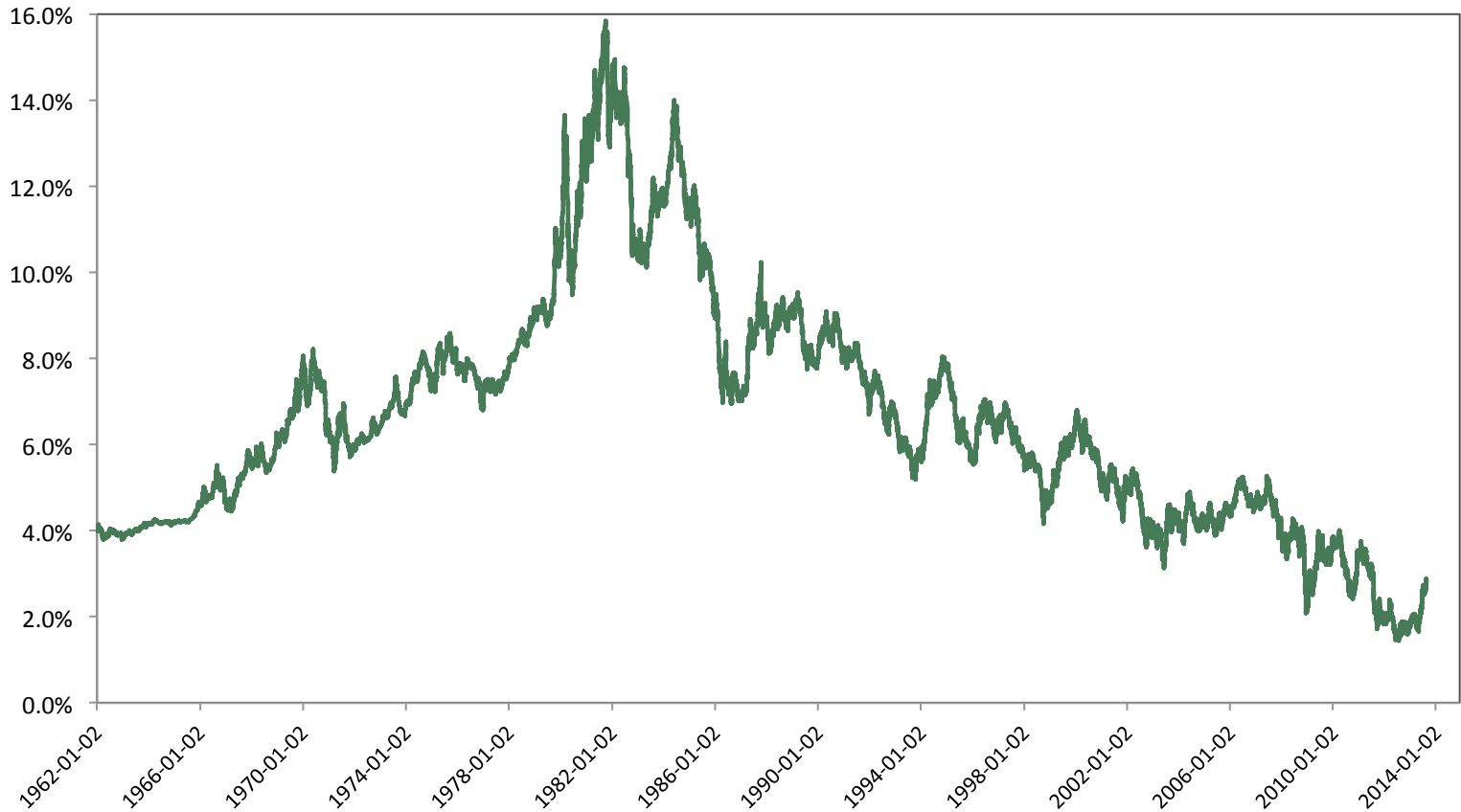
➤ The Economy

➤ **Current Observations** ←

➤ Our Strategy

# Current Observations: Treasury Yields

## 10-Year Treasury Constant Maturity Rate



Source: Federal Reserve



# Current Observations: Importance of Being Selective in Equities

Developed Markets	CAPE		FY1 PE		Price/Book		Dividend Yield	
	Level	% time cheaper	Level	% time cheaper	Level	% time cheaper	Level	% time cheaper
US	21.9	71%	15.0	58%	2.6	65%	2.0	71%
UK	13.6	50%	12.5	46%	2.0	60%	3.5	70%
France	15.2	47%	13.0	51%	1.5	47%	3.2	64%
Germany	16.3	57%	12.2	29%	1.7	54%	3.0	62%
Italy	10.9	26%	12.3	32%	1.0	28%	3.3	37%
Japan	31.9	48%	14.2	14%	1.3	14%	1.8	38%
<b>Total Developed</b>	<b>19.7</b>	<b>54%</b>	<b>14.3</b>	<b>31%</b>	<b>2.1</b>	<b>53%</b>	<b>2.5</b>	<b>59%</b>
<b>Emerging Markets</b>								
Brazil	10.0	27%	11.0	89%	1.5	60%	3.8	41%
China	12.7	29%	9.1	16%	1.5	31%	3.2	16%
India	16.1	31%	14.5	64%	2.7	40%	1.4	58%
Russia	6.5	14%	5.1	23%	0.8	16%	3.4	10%
Mexico	23.1	79%	17.4	99%	2.9	81%	1.4	81%
South Korea	14.3	35%	9.1	31%	1.1	30%	1.0	94%
<b>Total Emerging</b>	<b>13.5</b>	<b>25%</b>	<b>10.7</b>	<b>29%</b>	<b>1.6</b>	<b>30%</b>	<b>2.6</b>	<b>30%</b>

Source: Goldman Sachs Asset Management

- The Economy
- Current Observations
- **Our Strategy** ←

# Our Strategy: What Are We Doing?

- Low bond yields a challenge to Core Fixed Income
- Closely monitor US Equity outperformance
- Continued overweight to Equities in Balanced Funds

# Our Strategy: US Interest Rates



# Our Strategy: Fixed Income

➤ Reward versus Risk Favors Credit over Rates

↑ Higher yield corporate credit

↑ Short/intermediate maturities

↑ Floating-rate coupons

↓ Portfolio duration

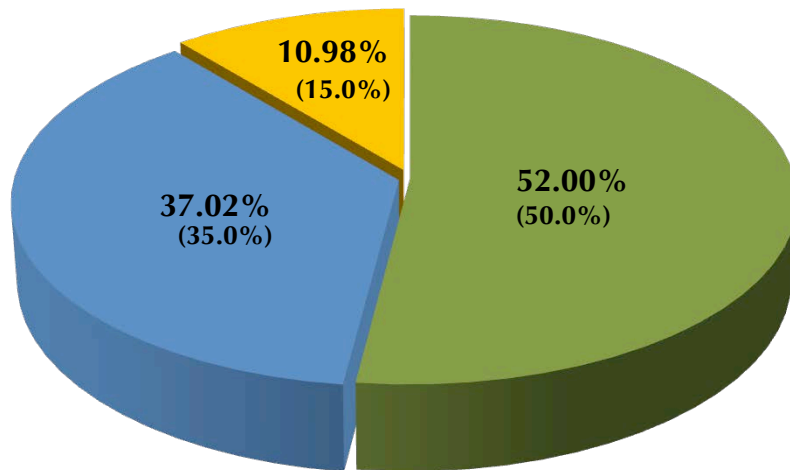
↓ Long Maturities

↓ Fixed-rate coupons

➤ Introduce and increase less correlated asset classes – bank loans and emerging markets debt

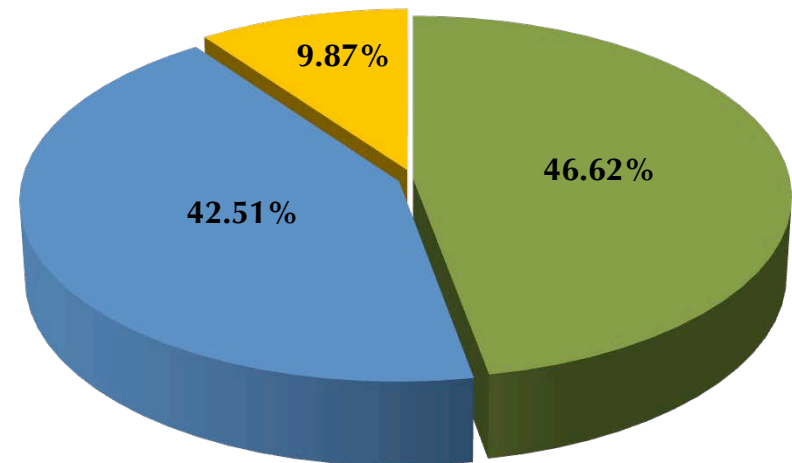
# Our Strategy: World Market Capitalization

UCF Equity Fund Allocation  
as of 12/31/2013



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

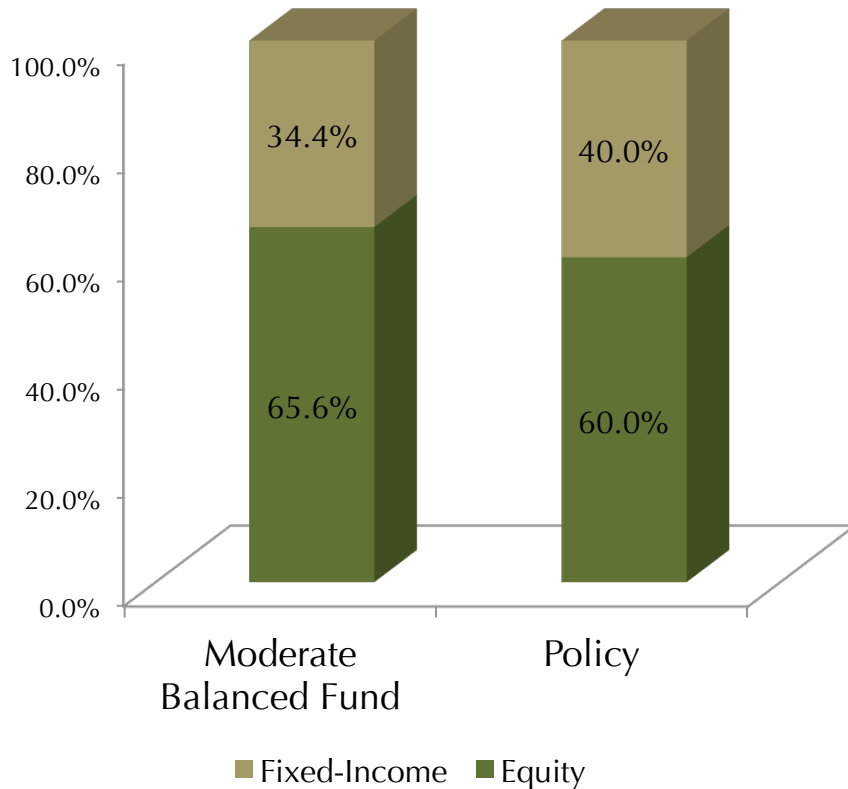
MSCI All Country World Index (ACWI) IMI Index  
Allocation as of 12/31/2013



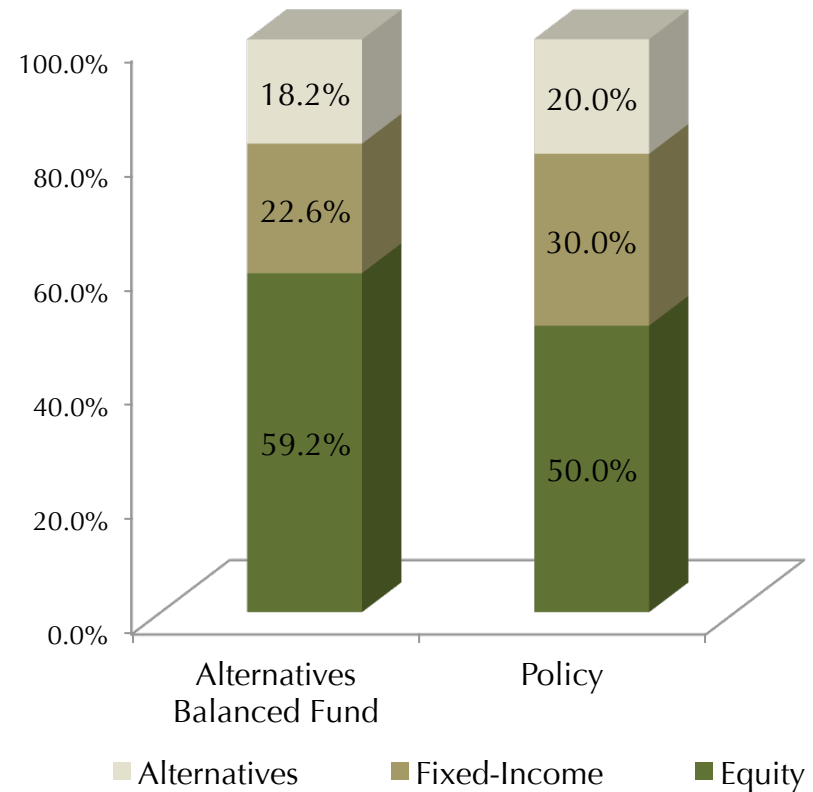
- U.S. Equity
- Developed Market Equity
- Emerging Market Equity

# Our Strategy: Balanced Funds Allocation

Moderate Balanced Fund Allocation  
as of 12/31/2013



Alternatives Balanced Fund Allocation  
as of 12/31/2013



# 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** the UCF's mission



# There is a better way!



*"It's OK to invest again. The market's up."*

**Invest responsibly. Strengthen ministry.**

**Q & A**