United Church Funds

2015 ANNUAL REPORT

REPORT of the PRESIDENT

Unlike the markets, which experienced bouts of volatility, uncertainty, and slower global growth, United Church Funds witnessed a series of positive events in 2015.

For example, 29 United Church of Christ (UCC) churches and organizations – healthcare, conference, and cemetery – from 18 conferences selected UCF to manage their endowments; four of which invested $1million or more in at least one of UCF funds. UCF also witnessed continued growth in planned giving, with 12% year-over-year growth in new life-income gifts and 108% in new gift amounts respectively.

The Business Development team hired three new employees; Howard W. Hawkins III, Stacey Pettice, and Indra Gandy. Howard serves as Director, Business Development, responsible for managing UCF's sales and marketing initiatives. He possesses 25 years of institutional sales experience with corporate, non-profit and religious institutions, having worked at firms such as Putnam Investments, Christian Brothers Investment Services, Inc., and Commonfund. Stacey is an Executive, Business Development and joins Matt Wagner in cultivating new relationships and servicing existing investors. Stacey comes to UCF from Fidelity Investments and previously was employed at Goldman, Sachs & Co. as a member of the Private Wealth Management Team. Indra joined the team as Administrative Assistant and will split her time between Business Development and Social Responsibility. Indra has extensive experience working with financial services firms including Deutsche Bank and Brookfield Asset Management. We believe these three individuals will enable UCF to expand its investor roster and improve the investor service experience.

In June, UCF had a presence at the United Church of Christ's Thirtieth General Synod in Cleveland, where we met with investors, prospects and other interested parties. In Kathryn McCloskey's letter, you will learn more about our Socially Responsible Investing initiatives which include authorship of a General Synod resolution.

The Chief Investment Strategist, Dave Klassen, will review UCF fund performance including the stellar results provided by the UCF Alternatives Fund, which celebrated its five-year anniversary in July 2015. Dave will also highlight some of the events that impacted equity and fixed-income markets.

In April 2015, UCF held its Northeast Regional Endowment Conference in Salem, MA followed in November by the Midwest Regional Endowment Conference at Chicago Theological Seminary. Clients traveled from as far away as Davenport, IA, and Sheboygan, WI to attend the Midwest conference. The day-long forum provided plenaries on several topics including global investing, endowment policies, UCF funds, socially responsible investing and planned giving. The Rev. John Dorhauer, General Minister & President, offered closing theological reflections.

Last year, UCF continued to explore how societal trends and current events impact the U.S. economy. This resulted in UCF hosting a panel discussion at the Midwest Regional Endowment Conference, "What Do #BlackLivesMatter and #Occupy Mean about the Economy and our Country?" You can view videos from the plenaries and panel discussion at our website www.ucfunds.org: go to *News & Updates* and click on the Midwest Regional Endowment Conference.

We hope you enjoy this simplified version of our annual report, which includes elements of our year-end (unaudited) financial statements. Once the audit is completed, we will separately upload the audited financial statements to our website 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.

Sincerely,

Donald G. Hart

Donald G. Hart,
President

REPORT of the CHIEF INVESTMENT STRATEGIST

Does Asset Allocation Work? — A Look Back at 2015

David A. Klassen, CFA

You might be stunned by the title, especially coming from us, but you also might have already come to that conclusion yourself, after 2015. Asset allocation indeed did not work; the chart below shows that 2015 was the worst year for allocation since 1990. Not that the OVERALL returns were especially bad, but that the BEST asset class only returned 1.82%. In practice, this means many investment programs fell short of expectations.

2015 - FAR AND AWAY THE WORST YEAR EVER SINCE 1990

	US EQUITIES		US BONDS		US CREDIT		WORLD STOCKS		WORLD BONDS		
Year	Large Cap S&P 500	Small Cap RTY	30-Year Bond	Barclays Agg	High Yield	Invest. Grade	EM MSCI	Dev. EAFE	EM JP EMBI+	Dev. Ex-US	Best
1990	-3.10%	-19.48%	4.39%	**8.96%**	-4.36%	7.37%	-13.76%	-24.71%			8.96%
1991	30%	46.04%	17.32%	16.00%	39.17%	18.24%	**55.97%**	10.91%			55.97%
1992	7.62%	**18.41%**	6.71%	7.40%	17.44%	9.12%	9.05%	-13.89%			18.41%
1993	10.08%	18.88%	20.01%	9.75%	16.69%	12.43%	**71.26%**	30.49%			71.26%
1994	1.32%	-1.82%	-11.99%	-2.92%	-1.06%	-3.36%	-8.67%	**6.24%**	-18.35%	-4.72%	6.24%
1995	**37.58%**	28.45%	34.14%	18.47%	20.44%	21.53%	-6.95%	9.42%	26.38%	18.54%	37.58%
1996	22.96%	16.49%	-4.32%	3.63%	11.32%	3.43%	3.91%	4.40%	**35.24%**	12.20%	35.24%
1997	**33.36%**	22.36%	15.03%	9.65%	13.27%	10.39%	-13.41%	0.24%	11.95%	11.33%	33.36%
1998	**28.58%**	-2.55%	17.06%	8.69%	2.95%	8.72%	-27.52%	18.23%	-11.55%	12.14%	28.58%
1999	21.04%	21.26%	-14.78%	-0.82%	2.51%	-1.89%	**63.70%**	25.27%	24.18%	2.43%	63.70%
2000	-9.10%	-3.02%	**20.22%**	11.63%	-5.17%	9.09%	-31.80%	-15.21%	14.41%	9.46%	20.22%
2001	-11.89%	2.49%	4.21%	8.47%	4.54%	**10.74%**	-4.91%	-22.61%	1.36%	6.04%	10.74%
2002	-22.20%	-20.48%	**16.17%**	10.25%	-1.89%	10.17%	-7.97%	-17.52%	13.11%	7.01%	16.17%
2003	28.68%	47.25%	0.77%	4.10%	28.15%	8.31%	**51.59%**	35.28%	25.66%	1.98%	51.59%
2004	10.88%	18.33%	8.86%	4.34%	10.87%	5.41%	**22.45%**	17.59%	11.73%	5.21%	22.45%
2005	4.91%	4.55%	9.31%	2.43%	2.72%	1.96%	**30.31%**	10.86%	10.73%	5.60%	30.31%
2006	15.79%	18.37%	-1.16%	4.33%	11.74%	4.36%	**29.18%**	23.47%	9.88%	3.10%	29.18%
2007	5.49%	-1.57%	10.71%	6.97%	2.24%	4.67%	**38.48%**	8.62%	6.28%	5.06%	36.48%
2008	-37.00%	-33.79%	**41.85%**	5.24%	-26.39%	-6.82%	-54.48%	-45.09%	-10.91%	7.98%	41.85%
2009	26.46%	27.17%	-25.91%	5.93%	57.51%	19.76%	**74.50%**	27.75%	28.17%	2.26%	74.50%
2010	15.06%	**26.85%**	9.15%	6.54%	15.19%	9.52%	16.36%	4.90%	12.04%	3.44%	25.85%
2011	2.11%	-4.18%	**35.31%**	7.88%	4.38%	7.51%	-20.41%	-14.82%	8.46%	4.47%	35.31%
2012	16.00%	16.35%	2.69%	4.22%	15.59%	10.37%	15.15%	13.55%	**18.54%**	5.26%	18.54%
2013	32.39%	**38.82%**	-1.51%	-2.02%	7.42%	-1.46%	-4.98%	19.43%	-6.58%	1.39%	38.82%
2014	13.69%	4.89%	**29.57%**	5.97%	2.50%	7.51%	-4.63%	-7.35%	5.53%	9.90%	29.57%
2015	1.38%	-4.41%	-3.17%	0.55%	-4.64%	-0.04%	-14.92%	-0.81%	**1.82%**	-4.84%	1.82%

In 2015, if you had invested all of your money in U.S. large companies, as represented by the Standard & Poor's (S&P) 500 stock index, you would have had a positive total return of 1.38%, before fees. Smaller companies returned far less, down 4.41% for the year. Emerging market equities (MSCI EM) were down a disappointing 14.92% for 2015. The international developed equity markets index (EAFE) registered a total return of -0.81%. Although local stock markets, especially in Germany and Japan, were generally positive, U.S. investors experienced negative returns due to the impact of translating returns in the euro back into the strong U.S. dollar.

In the fixed-income world, the U.S. Bonds as measured by Barclays Aggregate Index eked out a tiny 0.55% return for 2015. Although the bond market benefitted from the still-weak global economic growth, very low inflation, and large-scale asset purchases by European and Japanese central banks, a sharp drop in energy and commodity prices caused repricing in the lower quality spectrum and particularly in the energy, material and mining sectors. The Barclays High Yield Index had its first negative year since 2008, with a return of -4.64%.

The United Church Funds (UCF) Total Equity and Balanced Funds have meaningful equity allocations to the U.S., and the managers we hire on your behalf had varied results, with 5 out of 9 managers ahead of benchmarks. In general, managers exposed to faster growing companies were rewarded as growth was of scarcity and was given a premium. Managers who owned more value stocks, which tend to be exposed to global manufacturing, suffered in 2015. We are diversified globally, and the newly selected international manager Baillie Gifford (representing almost 25% of UCF equity assets) outperformed its benchmark by over 8% in 2015. However, slowing growth in the emerging markets and concerns about excessive debt growth in some regions has contributed negatively, and our one dedicated emerging markets manager, Oaktree Capital (representing 5% of equity assets) underperformed its benchmark by over 5%. On balance, diversification did not help in 2015, and active managers had varied results.

As for the Fixed Income Fund, which is also part of the UCF's Balanced Funds, our core fixed-income manager had been positioning our U.S.-oriented fixed-income portfolios to protect against an eventual rise in interest rates at the start of the year. Towards the end of the year, when global growth began to slow, the manager increased positioning (interest rate duration) to benefit from the possibility of lower rates. This manager ended the year with slightly positive returns, in-line with benchmark returns. However, a diversification strategy into the areas of bank loans and emerging market debt held back performance. Although UCF Funds own no high yield debt and prefer senior secured bank loans, our bank loan manager, Western Asset Management, had a tough year with their portfolio down 3% versus an index which was even.

Two new funds had their first full year in 2015: Beyond Fossil Fuels Fund and Beyond Fossil Fuels Balanced Fund. Both benefitted from lower exposure to energy equities than the market. Interest is continually growing in environmental and impact investing.

For 2016, investors are likely to have concerns about the global economy, a China slow down in particular, central bank diverging policies and, of course, the U.S. election. Slow but steady economic improvement is the most likely scenario here in the U.S. In Europe, more accommodative policy appears to be offsetting the lack of growth and potential deflation. China and concerns about its economy have asserted themselves as major stories, especially in regards to commodities. Large imbalances in oil supply and demand and the elevated inventory levels have continued weighing down oil prices and energy-related businesses. The election should not be a major driver of returns but markets and investors have an affinity for certainty, so the race for the White House will be closely monitored. With all of these unknowns in early 2016, one thing is certain: the abnormally low volatility of prior years is gone, and a return to normal volatility is here. It is our hope and expectation that active managers can help to weather that by selecting outperforming companies. At the same time, we are also believers in low-cost indexing in asset classes that are more efficient.

Over the long term, our priorities remain to scrutinize and select relationships with talented managers who are experienced at navigating these volatile markets and to allocate to attractive asset classes, for your benefit. Diversification will work again and your portfolios will benefit.

We look forward to working hard again on your behalf in 2016 and thank you for your continued confidence in us.

INVESTMENT PERFORMANCE AS OF DECEMBER 31, 2015

	AVERAGE TOTAL RATES OF RETURN				ANNUALIZED						
	Returns on UCF's funds are presented net of fees	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**	**-0.70%**	**-1.52%**	**-1.52%**	**0.91%**	**-0.05%**	**2.52%**	**4.14%**	**2.55%**	**$ 4.6665**	**$203.5M**
	Custom Index *85% Barclays Capital Gov't/Credit Bond, 5% JPM GBI-EM Global Diversified, 10% S&P* LSTA Performing Loan	-0.83%	-0.64%	-0.64%	2.14%	0.59%	3.05%	4.29%			
	Barclays Capital Gov't Credit Bond Index (BCGC)	-0.74%	0.15%	0.15%	3.04%	1.21%	3.39%	4.47%			
	Domestic Core Equity Fund[1]	**6.01%**	**0.01%**	**0.01%**	**6.76%**	**14.57%**	**12.18%**	**6.77%**	**2.20%**	**$16.6605**	**$182.5M**
	S&P 500 Index	7.04%	1.38%	1.38%	7.36%	15.13%	12.57%	7.31%			
	Beyond Fossil Fuels Fund[4]	**6.14%**	**0.92%**	**0.92%**	**N/A**	**N/A**	**N/A**	**N/A**	**2.37%**	**$10.2105**	**$26.7M**
	S&P 500 Index	7.04%	1.38%	1.38%							
	Small Cap Equity Fund[1]	**2.85%**	**-5.20%**	**-5.20%**	**0.02%**	**11.65%**	**7.37%**	**3.83%**	**1.02%**	**$14.8922**	**$ 36.2M**
	Russell 2000 Index	3.59%	-4.41%	-4.41%	0.13%	11.65%	9.19%	6.80%			
	International Equity Fund[1]	**4.83%**	**-5.14%**	**-5.14%**	**-5.59%**	**0.06%**	**0.62%**	**2.31%**	**2.55%**	**$11.2209**	**$209.7M**
	Custom Index *75% EAFE net, 25% MSCI EM net*	3.69%	-4.43%	-4.43%	-4.22%	1.69%	1.38%	2.49%			
	Cash & Equivalent Fund	**0.01%**	**0.01%**	**0.01%**	**0.01%**	**0.01%**	**0.01%**	**N/A**	**0.00%**	**$1.0000**	**$42.7M**
	Lipper Money Market Funds Index (annualized)	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%				
	Alternatives Fund[3]	**0.90%**	**4.14%**	**4.14%**	**7.44%**	**7.58%**	**5.58%**	**N/A**	**N/A**	**$13.7594**	**$ 56.9M**
	Custom Index *70% HFRI Funds of Funds Composite, 30% NCREIF Fund Index*	0.44%	3.07%	3.07%	4.56%	6.50%	5.17%				
FUNDS OF FUNDS	**Total Equity Fund** *42.2% Domestic Core Equity, 8.2% Small Cap Equity and 49.6% International Equity*	**5.12%**	**-3.00%**	**-3.00%**	**0.07%**	**7.07%**	**6.19%**	**4.00%**	**2.28%**	**$13.4898**	**$369.1M**
	Current Policy Index *42.5% S&P 500, 7.5% Russell 2000, 37.5% EAFE,12.5% MSCI Emerging Markets Net*	5.11%	-1.90%	-1.90%	0.89%	8.05%	6.92%	4.93%			
	Conservative Balanced Fund[2] *35.3% Equity, 55.8% Fixed Income and 8.9% C&E*	**1.54%**	**-2.15%**	**-2.15%**	**0.48%**	**2.50%**	**3.97%**	**N/A**	**2.23%**	**$11.8238**	**$ 12.7M**
	Current Policy Index *35% Equity Policy, 65% Fixed Income Policy Index*	1.27%	-0.88%	-0.88%	1.84%	3.27%	4.60%				
	Moderate Balanced Fund *60.0% Equity, 31.0% Fixed Income and 9.0% C&E*	**3.02%**	**-2.46%**	**-2.46%**	**0.31%**	**4.27%**	**4.88%**	**4.39%**	**2.16%**	**$9.5013**	**$306.4M**
	Current Policy Index *60% Equity Policy, 40% Fixed Income Policy Index*	2.76%	-1.18%	-1.18%	1.54%	5.14%	5.58%	5.03%			
	Aggressive Balanced Fund[2] *75.48% Equity, 15.41% Fixed Income and 9.11% C&E*	**3.98%**	**-2.70%**	**-2.70%**	**0.18%**	**5.36%**	**5.34%**	**N/A**	**2.11%**	**$12.7538**	**$ 25.4M**
	Current Policy Index *75% Equity Policy, 25% Fixed Income Policy Index*	3.65%	-1.42%	-1.42%	1.32%	6.25%	6.12%				
	Beyond Fossil Fuels Balanced Fund[4] *32.04% BFF,28.61% International,6.33%Small Cap,30.43% Fixed Income and 2.59% C&E*	**3.22%**	**-2.09%**	**-2.09%**	**N/A**	**N/A**	**N/A**	**N/A**	**2.33%**	**$9.6406**	**$ 66.1M**
	Current Policy Index 60% Equity Policy, 40% Fixed Income Policy Index	2.76%	-1.18%	-1.18%							
	Alternatives Balanced Fund[3] *55.3% Equity, 20.5% Fixed Income, 24.2% Alternatives*	**2.91%**	**-1.21%**	**-1.21%**	**1.72%**	**5.31%**	**4.95%**	**N/A**	**N/A**	**$13.2446**	**$228.0M**
	Current Policy Index *50% Equity Policy, 30% Fixed Income Policy and 20% Alternatives Policy*	2.43%	-0.33%	-0.33%	2.14%	5.65%	5.71%				

[1]Inception: October 1, 2005 [2]Inception: January 1, 2006 [3]Inception: July 1, 2010 [4]Inception: November 1, 2014

REPORT of the DIRECTOR, SOCIAL RESPONSIBILITY

Kathryn O'Neill McCloskey

For United Church Funds, 2015 was a year of honoring commitments. Significant changes to your portfolios occurred simultaneously to create deeper alignments with the values of the United Church of Christ and enhance UCF's offerings of socially responsible funds:

- In deed as in word, in 2015 UCF examined all of its funds' impacts on climate change and determined that investing in coal production and extraction, and oil production and extraction from tar sands was inconsistent with our goals. As a continuation of the promises we made following the 2013 United Church of Christ General Synod's resolution regarding divestment from fossil fuels companies, we no longer invest in companies whose carbon emissions significantly derive from the extraction or production of coal or oil from tar sands. UCF informed clients of these changes before implementation.

- UCF implemented a policy not to invest in companies with direct human rights abuses in the Occupied Palestinian Territories. This policy follows a 2015 United Church of Christ General Synod resolution encouraging economic actions to bring a Just Peace to Palestine and Israel. UCF based its decision on extensive research, including several trips, consisting of board members and staff, to the region. UCF informed clients of these changes before implementation.

We have much to be proud of in 2015. For the first time, UCF had an authorship role in creating a General Synod resolution. The resolution, *Urging Socially Responsible Investing* (SRI) *Practices*, called on all within the United Church of Christ to examine their current investing practices and determine whether there were options for using these investments in a socially responsible manner. UCF clients can rest assured we continually analyze and evaluate investments for SRI-appropriateness.

Other highlights include:

- UCF was recognized as a constituent of the Low Carbon Investment Registry, a clearing house for investors searching for options to invest in a climate friendly way. The recognition acknowledges UCF's introduction of the Beyond Fossil Fuels Fund and Beyond Fossil Fuels Balanced Fund.

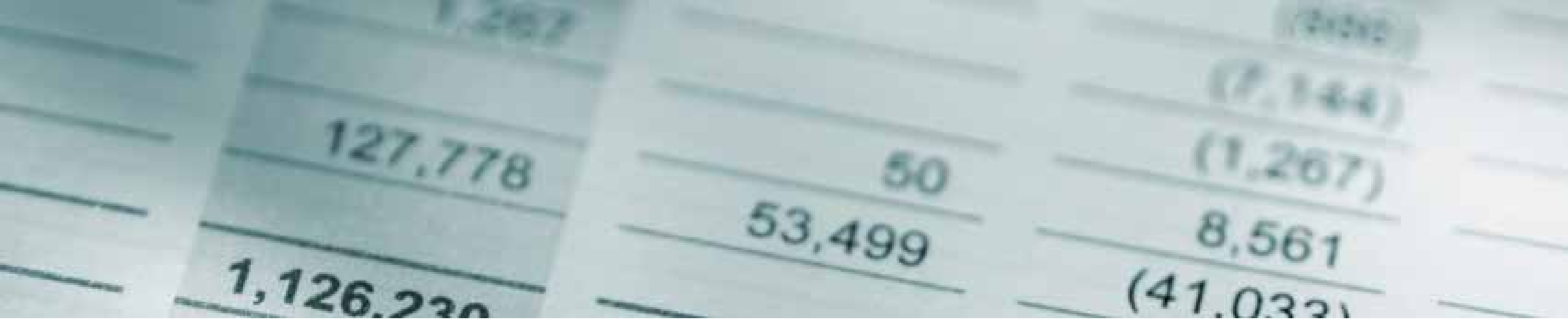
- UCF committed to the Paris Pledge, welcoming the "adoption of a new, universal climate agreement at COP 21 in Paris, which is a critical step on the path to solving climate change. We pledge[d] our support to ensuring that the level of ambition set by the agree ment is met or exceeded."

- At its Midwestern Regional Endowment Conference, UCF conducted a panel exploring how investors should view current social movements including Black Lives Matter and Occupy Wall Street. As a socially responsible investor acting on behalf of economic justice oriented clients, UCF must continue to monitor and assess how to uphold and promote equality in all aspects of its operations.

- UCF is one of 20 global institutional investors joining forces to call on some of the world's largest companies to commit to using 100% renewable power, an initiative known as RE100 (a collaborative, global initiative committed to 100% renewable electricity, working to massively increase corporate demand for renewable energy).

- In this year's United Nations Principles for Responsible Investment (PRI) assessment of UCF's responsible investing practices, we received an A+ on our overarching approach. UCF has long been a signatory to the PRI as an expression of its belief that environmental, social and governance impacts of investing are material to long-term performance.

Our accomplishments in 2015 are in support of your roles as faith fiduciaries. We continue to be energized by you to use our investor power to create a better world.



United Church Funds
Selected Financial Information
Years Ended 12/31/2015 and 2014

FINANCIAL POSITION	2015 (Unaudited)	2014
Assets		
Investments	$ 761,217,000	$ 791,598,000
Other Assets	4,482,000	4,148,000
Total Assets	765,699,000	795,746,000
Funds Held for Others		
Common Investment Funds	684,894,000	709,864,000
Split-Interest Agreements	71,555,000	76,448,000
Total Liabilities	756,449,000	786,312,000
Net Assets	$ 9,250,000	$ 9,434,000
ACTIVITIES		
Revenues		
Fees earned on Managed Funds	$ 6,440,000	$ 6,263,000
Change in Unrealized Appreciation on Investments	(137,000)	(1,579,000)
Other revenues	263,000	2,013,000
Total Revenues	6,566,000	6,697,000
Expenses and Grants		
Investment Related Expenses	3,057,000	2,492,000
Common Funds Administration	2,293,000	1,986,000
Marketing Expenses	758,000	1,000,000
Grants Paid	420,000	324,000
Other expenses	222,000	185,000
Total Expenses and Grants	6,750,000	5,987,000
(Decrease) Increase in Net Assets	$ (184,000)	$ 710,000

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