

3rd Quarter 2018 PERFORMANCE WEBINAR

November 14, 2018



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UCF's Vision and Mission



Vision

Investment that creates a just world for all.

Mission

United Church Funds supports our clients' missions and generates outstanding values-aligned investment performance.

United Church Funds — Our Mission

Investing with a Mission: Performance Beyond the Numbers

- **Experience** – For over 100 years, UCF has been investing wisely to help our investors achieve their financial goals for their ministries.
- **Expertise** – UCF partners with investors to provide a range of resources and services to strengthen their portfolios, their endowment management, and the ministries they value.
- **Values-Aligned** – UCF provides socially responsible investment options, aligning to the values of the UCC on a variety of environmental, social and governance (ESG) issues.
- **Non-Profit Structure** – UCF offers professional investment management services exclusively for churches and faith-based ministries in a not-for-profit structure, reducing costs and providing more money for the ministries of our investors.

UCF's Updates

- Recently produced a webinar series on the essential building blocks for a successful planned giving program. The webinars and the PDF presentations are available on www.ucfunds.org.
- The Q3 2018 Fund Fact Sheets are available on our website at www.ucfunds.org/fund-fact-sheets

Performance

Investment Performance — Selected Index Returns

Public Markets Performance (TR, USD)

	YTD	2017	Past 3 Years	Since Mar-09 (Ann.)
MSCI World	5.3%	23.1%	12.6%	14.8%
ACWI IMI	3.8%	24.6%	12.5%	14.4%
S&P 500	9.9%	21.8%	16.1%	18.0%
MSCI EAFE	-1.9%	25.6%	7.6%	11.0%
Russell 2000	14.3%	14.6%	16.1%	18.7%
MSCI World ex-US Small Cap	-1.3%	31.5%	11.6%	15.1%
MSCI EM Equity	-6.9%	37.8%	11.8%	11.2%
Barclays Global Aggregate	-1.5%	7.4%	2.4%	3.2%
Barclays US Long Treasury	-2.9%	8.5%	2.3%	5.3%
Barclays US Long Corporate	-5.0%	12.1%	5.7%	9.0%
JPM EM Debt	-4.5%	10.3%	5.1%	8.6%
JPM EM Debt Local	-10.7%	15.2%	3.4%	4.1%
Barclays Global High Yield	-1.9%	10.4%	6.3%	11.7%
FTSE/NAREIT Global	2.8%	11.4%	8.3%	15.8%
GSCI Commodities	7.6%	5.8%	-0.3%	-2.3%

As of 30-Sep-2018. Source: GPS, Plot Tool. Plot tool is a proprietary analytical tool and database representing developed and emerging markets including the US, Europe, Asia, and Latin America for their respective Fixed Income, Equity, Foreign Exchange, Commodities, and Credit Markets covering thousands of cash, forward, futures, options, and swap instruments. Plot tool houses over 20 years of economic data. Indices are unhedged. Past performance does not guarantee future results, which may vary.

Discount Rate Factors (%)



Changes in Yields and Spreads by Maturity (%)

	Aug 2018	Δ 3 mth	Δ 1 yr	Δ 3 yr
Risk Free (Treasuries)				
2Y	2.63%	0.22%	1.30%	1.89%
10Y	2.85%	0.03%	0.73%	0.65%
30Y	3.01%	0.02%	0.28%	0.08%
10Y Swap	2.92%	0.05%	0.85%	0.67%
Barclays Long Corporate Spread	1.65%	0.02%	0.04%	-0.58%
Moody's Long AA Corporate	4.04%	0.05%	0.37%	-0.18%

Investment Performance Review

➤ Executive Summary: Quarter-to-Date

- Over the quarter, all of the Balanced Funds slightly underperformed their benchmarks
- The Conservative, Beyond Fossil Fuels, and Alternatives Balanced Fund ranked between median and 75th percentile, while the Moderate and Aggressive funds ranked below the 75th percentile
- Asset allocation contributed positively to flat performance for all Balanced Funds over the quarter
- Q3 performance was driven by the following components:
 - **The Total Equity Fund generated fair Q3 performance, returning 3.0% but underperforming its benchmark by 0.8%**
 - Asset allocation was slightly negative, while market drift contributed positively to performance:
 - The fund's overweight to US Small Cap Growth contributed to asset allocation
 - The overweight to Emerging Markets and underweight to US Large Cap detracted from performance
 - Manager alpha also slightly detracted from performance over the quarter
 - Fiduciary US LC (ER -3.6%) and Baillie Gifford International (ER -2.5%) were the largest underperformers
 - Positive manager alpha from RBC EME and Westfield US SC mitigated some of this with outperformance
 - **The Total Fixed Income Fund achieved 0.1% in Q3, underperforming its benchmark by 0.2%**
 - Asset allocation contributed to performance driven by the fund's overweight to Leveraged Loans
 - However, manager alpha detracted from performance as the UCF Core Fixed Income gave back some positive alpha generated in prior months
 - **The Alternatives Fund was up 0.6% in Q3, outperforming its benchmark by 0.3%, with Heitman Real Estate being the largest contributor to absolute performance**

Investment Performance Review

➤ Executive Summary: Year-to-Date (as of September 30, 2018)

- On a YTD basis, all Balanced Funds are currently lagging their benchmarks
- YTD, the Alternatives Balanced Fund ranks between median and 75th percentile relative to peers, while the other Balanced Funds have performed below the 75th percentile
- Asset allocation contributed positively to roughly flat performance across all Balanced Funds with the exception of the Aggressive Balanced Fund
- YTD performance has been driven by the following components:
 - **The Total Equity Fund generated modest YTD performance, returning 2.1% and underperforming its benchmark by 1.6%**
 - Asset allocation detracted slightly, offset by positive market drift:
 - The fund's overweight to US Small Cap, particularly US Small Cap Growth, contributed to performance
 - The overweight to Emerging Markets Equity was the main detractor from an asset allocation perspective
 - Manager alpha detracted from performance at the total fund level:
 - Fiduciary US Small Cap (ER -7.2%) and Fiduciary US Large Cap (ER -4.2%) are the largest negative alpha outliers
 - Positive alpha from other managers, notably Westfield US Small Cap (ER 1.3%) and Baillie Gifford International (ER 0.8%), have helped offset some of this detraction
 - **The Total Fixed Income Fund returned -1.8% YTD, underperforming its benchmark by 0.3%**
 - Asset allocation and market drift were both roughly flat over the time period
 - Manager alpha has detracted slightly from performance, driven almost entirely by negative alpha from Lazard EM Debt Blend (ER -1.3%)
 - To the upside, both Core Fixed Income managers, UCF Core FI and Community Capital, have generated positive alpha

Investment Performance Review

➤ Executive Summary: 3 Year (as of September 30, 2018)

- On a 3 Yr basis, all Balanced Funds are slightly lagging their benchmarks
- Over a 3 Yr horizon, the performance of all Balanced Funds ranked between 25th percentile and median relative to peers
- Asset allocation contributed positively to all Balanced Funds on a 3 Yr basis
- 3 Yr performance has been driven by the following components:
 - **The Total Equity Fund generated strong 3 Yr performance, returning 13.2% but underperforming its benchmark by 0.3%**
 - Asset allocation contributed positively to performance:
 - The fund's underweight to US Large Cap Equity and overweight to Emerging Market Equity detracted from an asset allocation perspective
 - The fund's overweight to small cap equity was a positive
 - Manager alpha also contributed to performance at the total fund level:
 - Baillie Gifford International (ER 1.4%) and LSV International (ER 0.7%) were the largest alpha contributors
 - Fiduciary US Large Cap (ER -2.9%) and Fiduciary US Small Cap (ER -3.6%) were key alpha detractors
 - **The Total Fixed Income Fund returned 1.7% on a 3Yr horizon, underperforming its benchmark by 0.4%**
 - Asset allocation contributed positively to performance driven by overweights to Leveraged Loans and Emerging Markets Debt
 - Manager alpha detracted modestly over the period
 - **The Alternatives Fund returned 2.8% on a 3Yr horizon, underperforming its benchmark by 2.0%**
 - Abbey Capital was the key alpha detractor (ER -1.7%). Positive alpha from Heitman Real Estate offset some of this deduction (ER 0.4%)

Performance — All Funds

TOTAL RATES OF RETURN AS OF 9/30/18		Inception Date	Quarter	Year To Date	One Year	Three Years	Five Years	Ten Years	Current Yield
<i>Returns on UCF's funds are presented net of all fees</i>									
MANAGED FUNDS	Fixed Income Fund	10/1/1994	0.08%	-1.75%	-1.13%	1.68%	1.57%	3.78%	3.82%
	Fixed Income Policy Index 85% Barclays US Gov't/Credit Aggregate, 5% JPM GBI-EM Global Diversified, 10% S&P LSTA Performing Loan		0.25%	-1.45%	-0.89%	2.10%	2.30%	3.99%	
	Domestic Core Equity Fund	10/1/2005	6.78%	9.38%	16.83%	16.31%	13.32%	11.25%	1.85%
	S&P 500 Index		7.71%	10.56%	17.91%	17.31%	13.95%	11.97%	
	Beyond Fossil Fuels Fund	11/3/2014	3.18%	1.31%	6.15%	13.83%	N/A	N/A	2.58%
	S&P 500/MSCI ACWI IMI net, linked		3.88%	3.69%	9.63%	14.20%			
	Small Cap Equity Fund	10/1/2005	4.15%	8.91%	13.55%	14.27%	9.90%	8.17%	0.97%
	Russell 2000 Index		3.58%	11.51%	15.24%	17.12%	11.07%	11.11%	
	International Equity Fund	10/1/2005	-0.23%	-4.45%	-0.31%	10.69%	3.85%	5.45%	2.64%
	MSCI ACWI ex US net/Custom Index, linked		0.71%	-3.09%	1.76%	10.13%	4.32%	5.26%	
FUNDS OF FUNDS	Alternatives Fund	7/1/2010	0.64%	3.06%	6.63%	2.78%	5.22%	N/A	N/A
	Custom Index 70% HFRI Funds of Funds Composite Index, 30% NCREIF Fund Index		0.31%	2.12%	4.23%	4.77%	5.32%		
	Total Equity Fund	10/1/1994	3.04%	2.08%	7.41%	13.23%	8.28%	7.81%	2.11%
	44% Domestic Core Equity, 11% Small Cap Equity and 45% International Equity								
	MSCI ACWI IMI net/Policy Index, linked		3.88%	3.69%	9.63%	13.47%	8.69%	8.49%	
	Conservative Balanced Fund	1/1/2006	1.26%	-0.16%	2.13%	5.82%	3.98%	5.52%	2.98%
	40% Equity, 56% Fixed Income and 4% C&E								
	Current Policy Index 35% MSCI ACWI IMI net, 65% Fixed Income Policy Index		1.51%	0.39%	2.76%	6.08%	4.63%	5.88%	
	Moderate Balanced Fund	<i>circa 1958</i>	1.93%	0.75%	4.21%	8.66%	5.64%	6.52%	2.51%
	63% Equity, 31% Fixed Income and 6% C&E								
	Current Policy Index 60% MSCI ACWI IMI net, 40% Fixed Income Policy Index		2.42%	1.68%	5.39%	8.94%	6.25%	7.05%	
	Aggressive Balanced Fund	1/1/2006	2.38%	1.31%	5.50%	10.51%	6.69%	7.08%	2.27%
	78% Equity, 17% Fixed Income and 5% C&E								
	Current Policy Index 75% MSCI ACWI IMI net, 25% Fixed Income Policy Index		2.97%	2.45%	6.97%	10.67%	7.20%	7.67%	
	Beyond Fossil Fuels Balanced Fund	11/3/2014	1.98%	0.16%	3.32%	8.62%	N/A	N/A	2.55%
	64% BFF, 31% Fixed Income and 5% C&E								
	Current Policy Index 60% MSCI ACWI IMI net, 40% Fixed Income Policy Index		2.42%	1.68%	5.39%	8.94%			
	Alternatives Balanced Fund	7/1/2010	1.99%	1.36%	5.35%	8.05%	5.92%	N/A	N/A
	55% Equity, 22% Fixed Income, 23% Alternatives								
	Current Policy Index 50% MSCI ACWI IMI net, 30% Fixed Income Policy and 20% Alternatives Policy		2.07%	1.88%	5.37%	8.34%	6.21%		

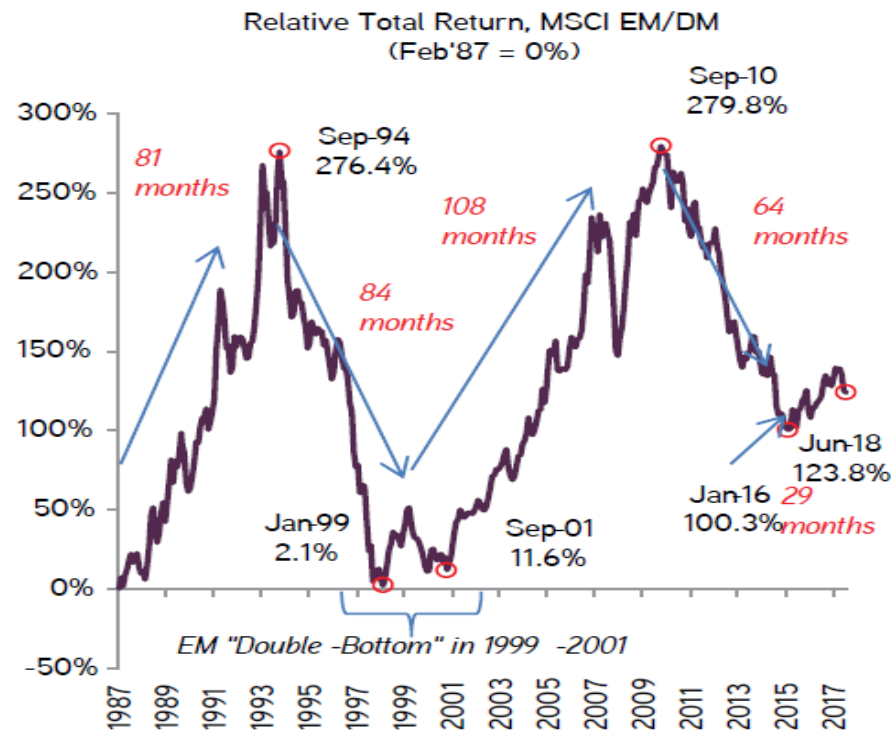
Strategy & Positioning

Strategy and Positioning - Themes

- **Economic Expansion:** U.S. expansion has outpaced those of international markets. UCF expects trend to moderate, with more stabilized economic expansion in the Euro area. EM Asian markets will continue to benefit from economic policies.
- **Equity Valuations:** Equities remain relatively cheap versus historical metrics and continue to be our preferred asset class. Continued expansion and related earnings growth should support equities broadly, with understanding that volatility will continue.
- **Emerging Markets:** While the setback for EM equities has been substantial in 2018 and cut into our 2017 gains, UCF remains committed to a longer-term upward march for EM.
- **Fixed Income:** UCF is less positive on bonds in the medium term, as the impact of a rising interest rate environment continues to put downward pressure on bond prices.
- **Dynamic Allocations:** With continued volatility comes the ability to dynamically tilt our funds through allocation (equities vs. fixed income).

Strategy and Positioning – Emerging Markets (EM) Cycles

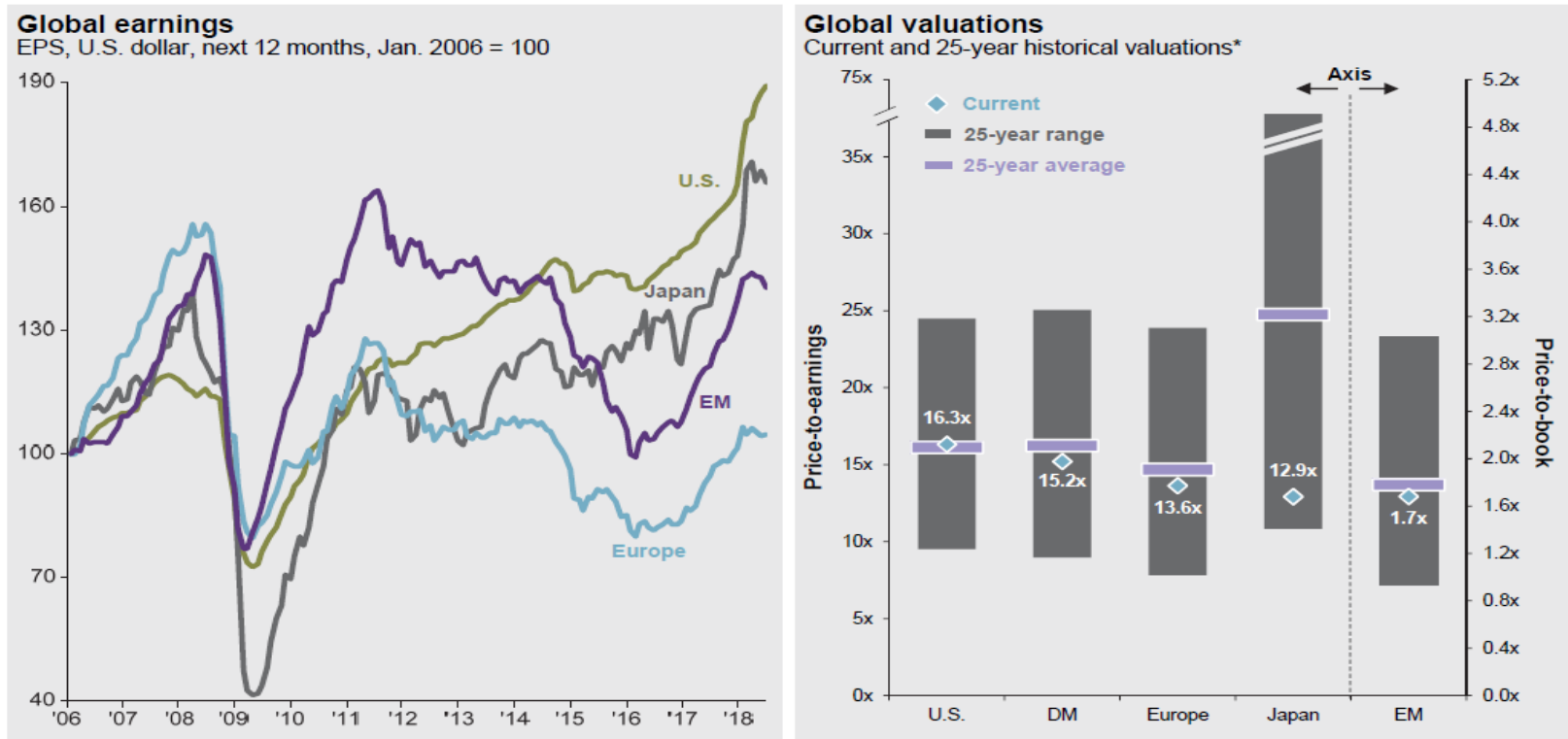
Some Risk that EM Experiences a “Double Bottom” Similar to What Happened in 1999 - 2001



Data as at June 12, 2018. Source: MSCI, Bloomberg, Factset, KKR Global Macro & Asset Allocation analysis.

- The MSCI Emerging Markets Equity Index had underperformed developed markets for 75 months as of December 2016. Despite the recent weakness in EM, we believe emerging markets are only experiencing a mid-cycle correction.

Strategy and Positioning – Earnings and Valuations



Source: FactSet, MSCI, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.

- The MSCI EAFE Index, which represents developed international equity markets like Germany and Japan, is at or below its historical average valuation.
- The MSCI EM Index, which represents emerging market equities, is below its historical average valuation, and earnings have been rising.

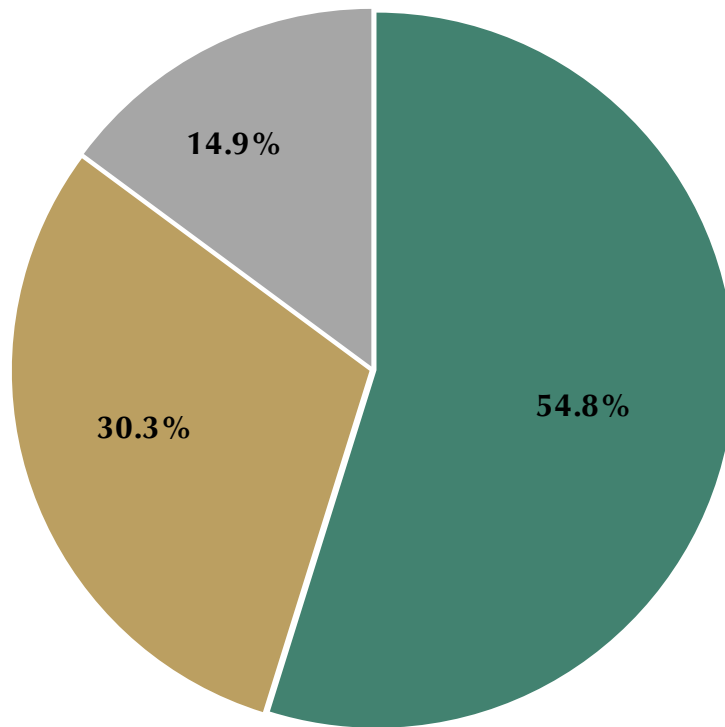
Strategy and Positioning – Traditional Asset Allocation

																	2003 - 2017	
2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	YTD	Ann.	Vol.	
EM Equity 56.3%	REITs 31.6%	EM Equity 34.5%	REITs 35.1%	EM Equity 39.8%	Fixed Income 5.2%	EM Equity 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	Small Cap 21.3%	EM Equity 37.8%	Small Cap 7.7%	EM Equity 12.7%	EM Equity 23.0%	
Small Cap 47.3%	EM Equity 26.0%	Comdty. 21.4%	EM Equity 32.6%	Comdty. 16.2%	Cash 1.8%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 25.6%	Large Cap 2.6%	Small Cap 11.2%	REITs 22.3%	
DM Equity 39.2%	DM Equity 20.7%	DM Equity 14.0%	DM Equity 26.9%	DM Equity 11.6%	Asset Alloc. 25.4%	DM Equity 32.5%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 21.8%	REITs 1.3%	REITs 11.1%	Small Cap 18.8%	
REITs 37.1%	Small Cap 18.3%	REITs 12.2%	Small Cap 18.4%	Asset Alloc. 7.1%	High Yield -26.9%	REITs 28.0%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	Comdty. 11.8%	Small Cap 14.6%	Cash 0.8%	Large Cap 9.9%	Comdty. 18.8%	
High Yield 32.4%	High Yield 13.2%	Asset Alloc. 8.1%	Large Cap 15.8%	Fixed Income 7.0%	Small Cap -33.8%	Small Cap 27.2%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.6%	Asset Alloc. 14.6%	Asset Alloc. 0.3%	High Yield 9.6%	DM Equity 18.4%	
Large Cap 28.7%	Asset Alloc. 12.8%	Large Cap 4.9%	Asset Alloc. 15.3%	Large Cap 5.5%	Comdty. -35.6%	Large Cap 16.5%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	REITs 8.6%	High Yield 10.4%	Comdty. 0.0%	DM Equity 8.6%	Large Cap 14.5%	
Asset Alloc. 26.3%	Large Cap 10.9%	Small Cap 4.6%	High Yield 13.7%	Cash 4.8%	Large Cap -37.0%	Asset Alloc. 25.0%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Alloc. 8.3%	REITs 8.7%	Fixed Income -1.6%	Asset Alloc. 8.3%	High Yield 11.3%	
Comdty. 23.9%	Comdty. 9.1%	High Yield 3.6%	Cash 4.8%	High Yield 3.2%	REITs -37.7%	Comdty. 18.9%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.5%	DM Equity -2.4%	Fixed Income 4.1%	Asset Alloc. 11.0%	
Fixed Income 4.1%	Fixed Income 4.3%	Cash 3.0%	Fixed Income 4.3%	Small Cap -1.6%	DM Equity -43.1%	Fixed Income 5.9%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	DM Equity 1.5%	Comdty. 1.7%	High Yield -2.5%	Cash 1.2%	Fixed Income 3.3%	
Cash 1.0%	Cash 1.2%	Fixed Income 2.4%	Comdty. 2.1%	REITs -15.7%	EM Equity -53.2%	Cash 0.1%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Cash 0.3%	Cash 0.8%	EM Equity -6.5%	Comdty. -0.3%	Cash 0.8%	

- Traditional U.S. asset allocations have fared well recently, but may not produce sufficient future returns based on where equities and bonds are currently valued.

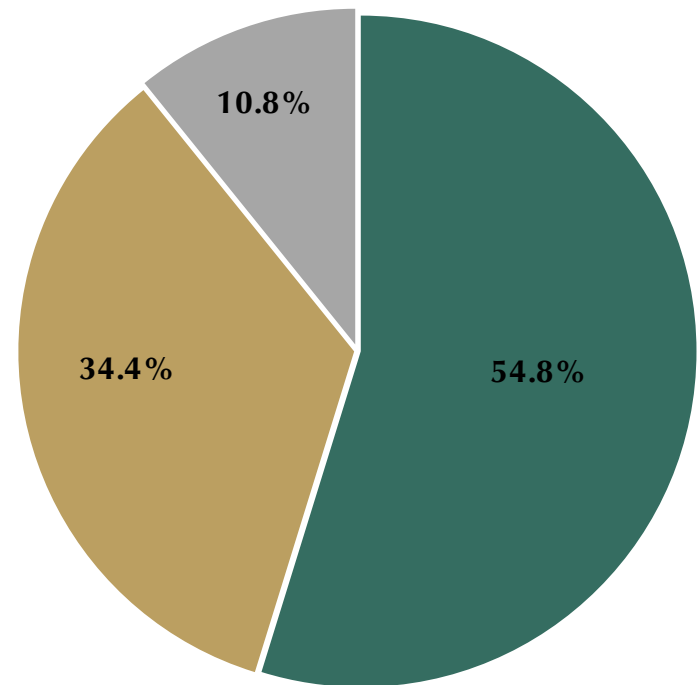
Strategy & Positioning—World Market Capitalization

Equity Fund Allocation
as of 9/30/2018



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

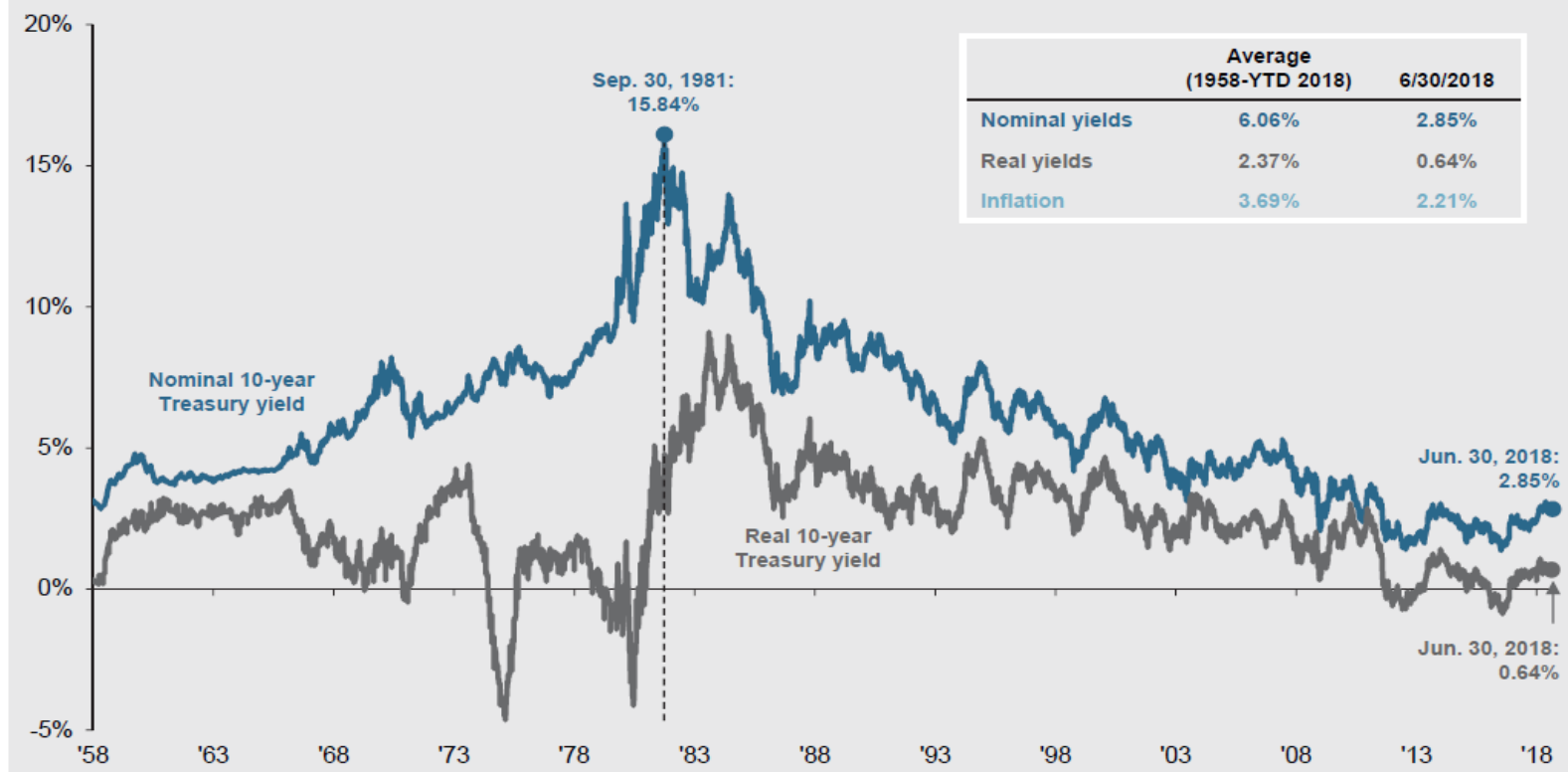
MSCI All Country World Index (ACWI) IMI
Allocation as of 9/30/2018



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

Strategy and Positioning – End of Low Rates?

Nominal and real 10-year Treasury yields



Source: BLS, FactSet, Federal Reserve, J.P. Morgan Asset Management.

- Fixed income assets have enjoyed a long bull cycle since 1981; a 37 year downtrend in yields has been broken. Interest rates may not rise dramatically, but the trend is up.

Strategy and Positioning – Fixed Income Characteristics

Selected Characteristics as of September 30, 2018

Average Characteristics	Fixed Income Fund Total	Core Fixed	Impact	Emerging Markets Debt	Bank Loans	Barclays Govt/Credit Index
Positioning	100%	66.4%	11.3%	8.5%	13.8%	100%
Moody's Rating	A1/A	Aa2/Aa3	Aa/Aa2	Ba1	B2	Aa2/Aa3
S&P Rating	A+/A	AA/AA-	AA	BB+	B	AA/AA-
Average Maturity (Years)	8.2	8.8	5.7	11.4	5.6	8.7
Effective Duration (Years)	5.2	6.3	4.5	6.0	0.1	6.3
Yield-To-Worst (%)	4.2%	3.4%	3.8%	8.6%	5.8%	3.4%

Source: UCF, Community Capital, Lazard, Voya, Barclays. Community Capital is not monitored by GSAM. 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). Voya's effective duration shown above is the weighted average days to reset, which is the closest proxy to duration that bank loan managers can provide.

Strategy & Positioning — Wrap Up

- **Adapting** to likelihood of higher interest rates, but we have adjusted asset allocation (in balanced funds) and duration (rate sensitivity; in fixed income strategies) through the year.
- **Diversifying** because valuation ultimately matters; those benefits, seen most vividly in 2017, have recently disappeared (but will return).
- **Maintaining** positive performance momentum through asset allocation, but some managers have had a tougher time in the short-run. Based on our assessment of people, process, and performance, we are making two manager changes; one in emerging markets, and one in small cap.
- **Engaged** with top-tier consultant; our focus is asset allocation, manager selection and values integration.
- **Supporting** UCF's and UCC's mission.
 - Beyond Fossil Fuels Fund, evolved screening methodologies, Green Bond focus, and creation on a new fixed-income Impact Fund.

Investing with a Mission: Performance Beyond the Numbers

Q & A