

4th Quarter 2018 PERFORMANCE WEBINAR

February 14, 2019



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Chief Investment Strategist

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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

- UCF helps UCC churches and congregants achieve their goals through a range of planned giving services and gift annuities. Please contact Milly Hernandez, Client Services Team Leader & Planned Giving Associate at plannedgiving@ucfunds.org to learn more.
- On the Social Responsible Investing front, UCF successfully negotiated with SunTrust Bank to explicitly state in a particular management committee charter that their risks are inclusive of humanitarian issues related to business practices.

Performance

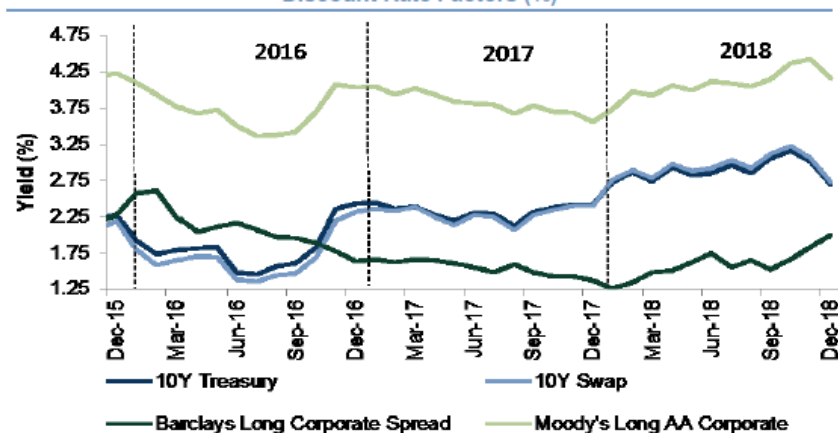
Investment Performance — Selected Index Returns

Public Markets Performance (TR, USD)

	YTD	2017	Past 3 Years	Since Mar-09 (Ann.)
MSCI World	-8.2%	23.1%	6.9%	12.7%
ACWI IMI	-8.9%	24.6%	7.2%	12.4%
S&P 500	-4.4%	21.8%	9.3%	15.7%
MSCI EAFE	-13.4%	25.6%	3.4%	9.3%
Russell 2000	-11.0%	14.6%	7.4%	15.0%
MSCI World ex-US Small Cap	-17.8%	31.5%	4.2%	12.4%
MSCI EM Equity	-14.2%	37.8%	9.7%	9.9%
Barclays Global Aggregate	-1.2%	7.4%	2.7%	3.1%
Barclays US Long Treasury	-1.8%	8.5%	2.6%	5.2%
Barclays US Long Corporate	-7.2%	12.1%	4.9%	8.4%
JPM EM Debt	-4.3%	10.3%	5.2%	8.3%
JPM EM Debt Local	-6.0%	15.2%	6.5%	4.5%
Barclays Global High Yield	-4.1%	10.4%	6.6%	11.0%
FTSE/NAREIT Global	-4.7%	11.4%	3.7%	14.4%
GSCI Commodities	-13.8%	5.8%	0.5%	-4.4%

As of 31-Dec-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 (%)

	Nov 2018	Δ 3 mth	Δ 1 yr	Δ 3 yr
Risk Free (Treasuries)				
2Y	2.49%	-0.33%	0.59%	1.42%
10Y	2.69%	-0.36%	0.28%	0.42%
30Y	3.02%	-0.18%	0.28%	0.01%
10Y Swap	2.72%	-0.39%	0.32%	0.53%
Barclays Long Corporate Spread	2.00%	0.47%	0.64%	-0.27%
Moody's Long AA Corporate	4.16%	0.02%	0.60%	-0.06%

Three-Year Return Review – December 31, 2018

- All Balanced Funds were slightly behind their benchmarks, trailing between 0.6% to 0.9%. All Balanced Funds have outperformed the median universe manager, ranking in line with the 2nd quartile, except the Alternatives Balanced Fund, which ranked in the 3rd quartile.
- The Total Equity Fund generated strong absolute performance returning 6.1%, although it slightly trailed its benchmark by 0.4%, net of all fees.
 - Asset allocation contributed to performance. An overweight to International Equity contributed to performance, while an underweight to U.S. Large Cap Equity detracted from performance.
 - Manager alpha detracted from performance. Fiduciary (U.S. Large Cap) and LSV (International) were the largest alpha contributors. Ballie Gifford (International) was the largest alpha detractor, followed by DFA Small Cap Value.
- The Fixed Income Fund returned 1.96%, trailing the benchmark by 0.7%, net of all fees.
 - Asset allocation detracted marginally, driven broadly by an underweight to Core Fixed Income.
 - Manager alpha detracted from performance. Community Capital Management (Impact), Lazard EMD Blend, and UCF Core Fixed-Income had negative alpha contributions.
- The Alternatives Fund returned 1.45%, trailing the benchmark, net of all fees.
 - All Alternative managers modestly outperformed their respective benchmarks, except Abbey Capital, which underperformed the index by 2.0%

Investment Performance – December 31, 2018

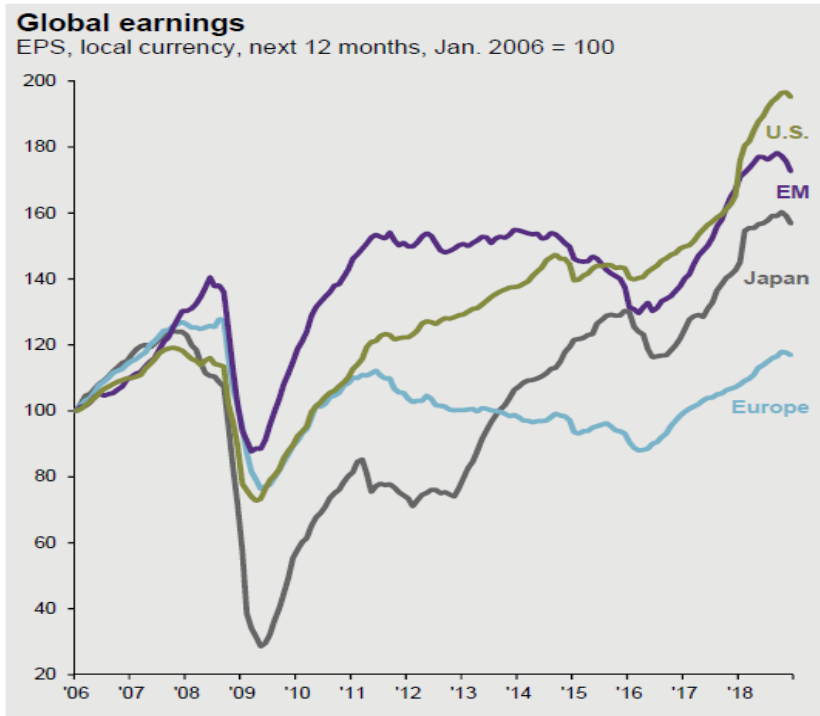
TOTAL RATES OF RETURN AS OF 12/31/18										
<i>Returns on UCF's funds are presented net of fees</i>		<i>Inception Date</i>	<i>Quarter</i>	<i>Year To Date</i>	<i>One Year</i>	<i>Three Years</i>	<i>Five Years</i>	<i>Ten Years</i>	<i>Current Yield</i>	
MANAGED FUNDS	Fixed Income Fund	10/1/1994	0.15%	-1.60%	-1.60%	1.96%	1.54%	3.47%	3.98%	
	Fixed Income Policy Index 85% Barclays US Gov't/Credit Aggregate, 5% JPM GBI-EM Global Diversified, 10% S&P LSTA Performing Loan			0.91%	-0.55%	-0.55%	2.69%	2.47%	3.44%	
	Domestic Core Equity Fund	10/1/2005	-13.25%	-5.12%	-5.12%	8.79%	7.97%	12.48%	2.19%	
	S&P 500 Index			-13.52%	-4.38%	-4.38%	9.26%	8.49%	13.12%	
	Beyond Fossil Fuels Fund	11/3/2014	-14.40%	-13.27%	-13.27%	5.95%	N/A	N/A	3.12%	
	S&P 500/MSCI ACWI IMI net, linked			-13.28%	-10.08%	-10.08%	6.46%			
	Small Cap Equity Fund	10/1/2005	-19.10%	-11.89%	-11.89%	5.48%	3.26%	9.35%	1.20%	
	Russell 2000 Index			-20.20%	-11.01%	-11.01%	7.36%	4.41%	11.97%	
	International Equity Fund	10/1/2005	-12.69%	-16.57%	-16.57%	4.14%	0.14%	6.77%	2.98%	
	MSCI ACWI ex US net/Custom Index, linked			-11.46%	-14.20%	-14.20%	4.48%	0.91%	6.53%	
Alternatives Fund	7/1/2010	-2.98%	-0.01%	-0.01%	1.45%	3.81%	N/A	N/A		
Custom Index 70% HFRI Funds of Funds Composite Index, 30% NCREIF Fund Index			-3.10%	-0.56%	-0.56%	3.32%	4.04%			
FUNDS OF FUNDS	Total Equity Fund	10/1/1994	-13.60%	-11.81%	-11.81%	6.06%	3.63%	9.08%	2.46%	
	44% Domestic Core Equity, 10% Small Cap Equity and 46% International Equity									
	MSCI ACWI IMI net/Policy Index, linked			-13.28%	-10.08%	-10.08%	6.49%	4.21%	9.82%	
	Conservative Balanced Fund	1/1/2006	-5.37%	-5.53%	-5.53%	3.36%	2.20%	5.62%	3.26%	
	37% Equity, 59% Fixed Income and 4% C&E									
	Current Policy Index 35% MSCI ACWI IMI net, 65% Fixed Income Policy Index			-4.16%	-3.78%	-3.78%	4.15%	3.22%	5.89%	
	Moderate Balanced Fund	<i>circa 1958</i>	-8.46%	-7.77%	-7.77%	4.47%	2.79%	6.98%	2.81%	
	60% Equity, 34% Fixed Income and 6% C&E									
	Current Policy Index 60% MSCI ACWI IMI net, 40% Fixed Income Policy Index			-7.71%	-6.16%	-6.16%	5.11%	3.66%	7.50%	
	Aggressive Balanced Fund	1/1/2006	-10.54%	-9.36%	-9.36%	5.11%	3.11%	7.80%	2.58%	
75% Equity, 19% Fixed Income and 6% C&E										
Current Policy Index 75% MSCI ACWI IMI net, 25% Fixed Income Policy Index			-9.82%	-7.61%	-7.61%	5.65%	3.89%	8.41%		
Beyond Fossil Fuels Balanced Fund	11/3/2014	-8.69%	-8.54%	-8.54%	4.27%	N/A	N/A	2.98%		
59% BFF, 34% Fixed Income and 7% C&E										
Current Policy Index 60% MSCI ACWI IMI net, 40% Fixed Income Policy Index			-7.71%	-6.16%	-6.16%	5.11%				
Alternatives Balanced Fund	7/1/2010	-8.32%	-7.07%	-7.07%	3.97%	3.06%	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			-7.08%	-5.23%	-5.23%	4.84%	3.80%			

Strategy & Positioning

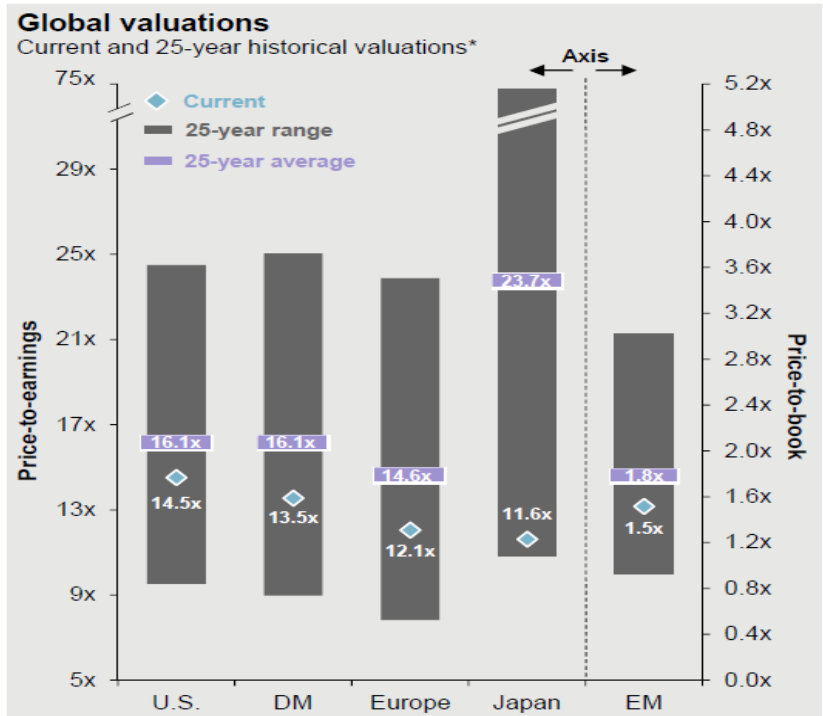
Strategy and Positioning - Themes

- **Economic Expansion:** U.S. expansion outpaced that of international markets for most of 2018 but is now set to moderate. UCF now expects a deceleration in U.S. but not a recession.
- **Equity Valuations:** Equities have become relatively inexpensive versus historical metrics (particularly non-US equities) and continue to be our preferred asset class. Despite a moderation in growth, earnings are likely to grow. This should support equities broadly, understanding that volatility will continue.
- **Emerging Markets:** While the setback for EM equities has been substantial in 2018, UCF remains committed to a longer-term upward march for EM. EM markets will continue to be volatile near-term due to China trade policy and economic growth, but valuations are attractive. A weakening dollar could also benefit emerging and other international markets.
- **Fixed Income:** UCF is less bearish on bonds in the medium term, as the impact of lower global growth and lower inflation has stabilized bond prices for now.
- **Dynamic Allocations:** With continued volatility comes the ability to dynamically tilt our funds both by investment style, regional exposure and allocation (equities, fixed income and cash).

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, but Europe is now slowing and we are underweight.
- The MSCI EM Index, which represents emerging market equities, is below its historical average valuation, and earnings may outpace U.S. earnings in 2019, and we are overweight.

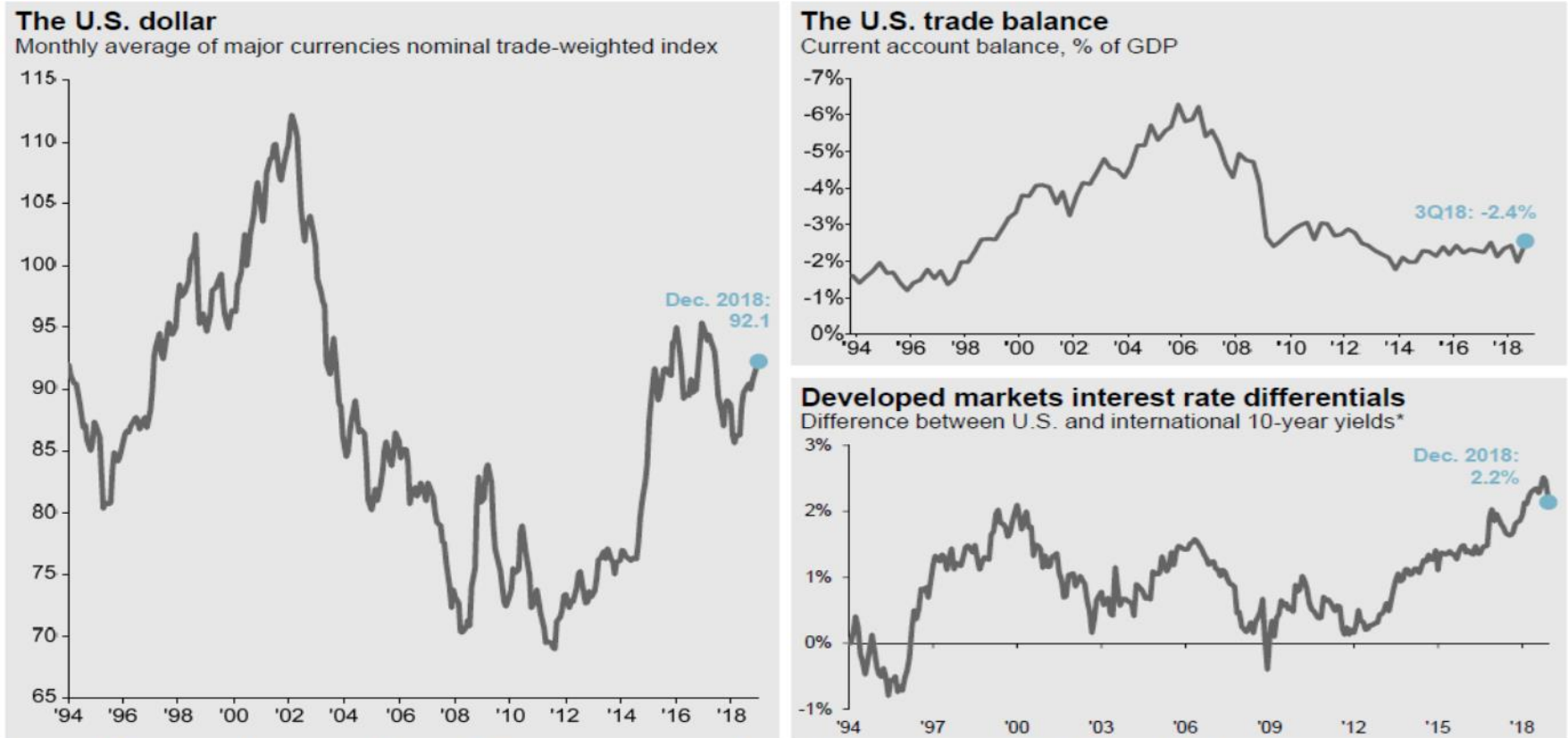
Strategy and Positioning – Earnings and Valuations

	US equities	European equities	EM equities	High yield	Investment grade
	S&P 500	Stoxx 600	MSCI EM	US HY	US IG
	Fwd P/E	Fwd P/E	Fwd P/E	Spreads (bps)	Spreads (bps)
Peak 2018 level	18.5	15.1	13.2	305	108
Percentile vs history	86%	91%	59%	89%	89%
Current level	14.3	12.0	10.3	534	182
Percentile vs history	42%	34%	18%	35%	35%
Start date	1/31/1985	1/31/2006	1/29/1988	1/30/1987	1/3/2000

Source: Bloomberg, J.P. Morgan Global Index Research, Datastream, JPMAM. December 26, 2018.

- After the selloff, risk assets are more attractive
- On a valuation basis, EM equities are cheapest relative to history but IG corporates the most expensive

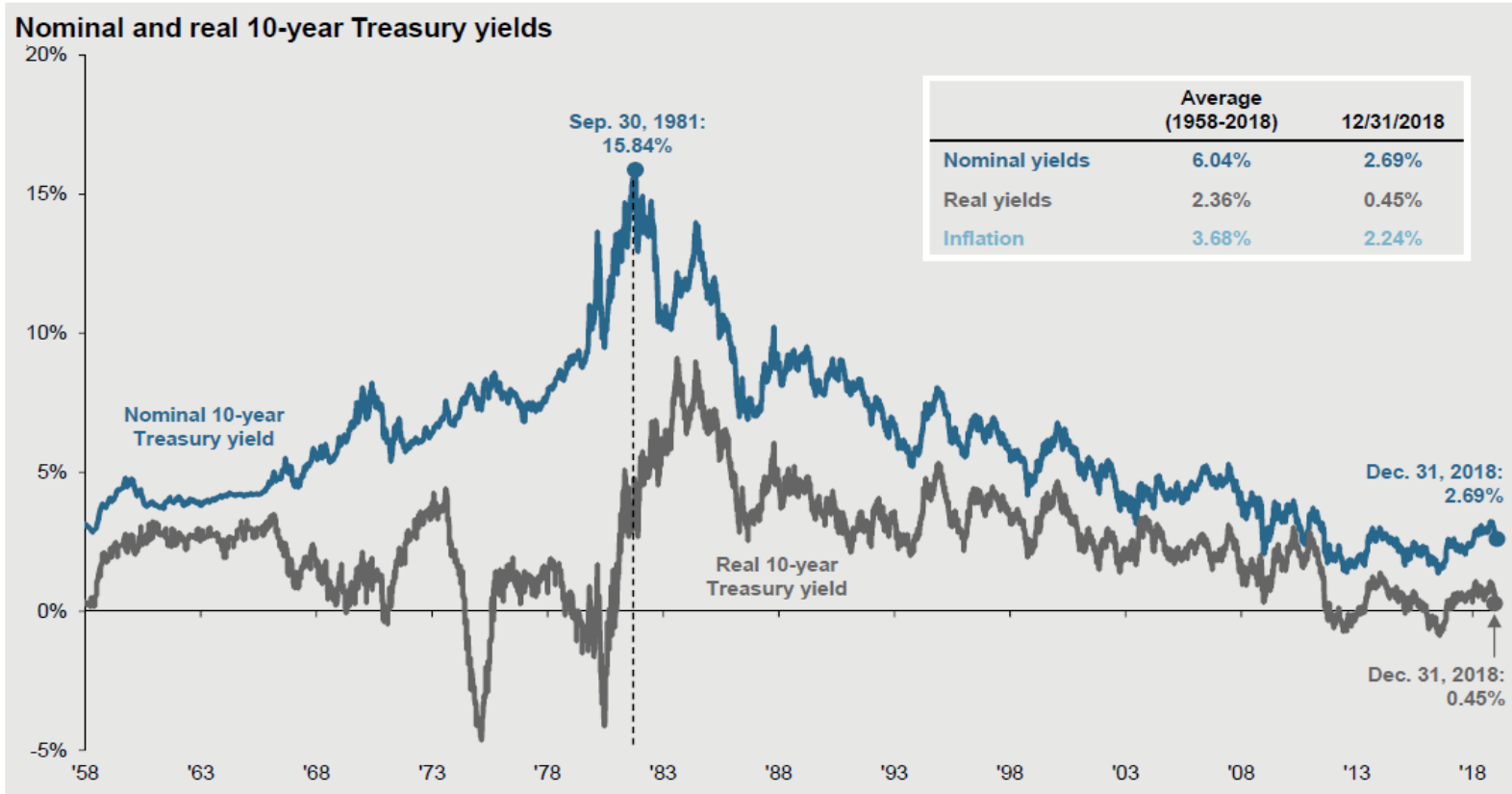
Strategy and Positioning – Impact of Rising Dollar



Source: J.P. Morgan Asset Management; (Left) FactSet, Federal Reserve; (Top right) Bureau of Economic Analysis, FactSet; (Bottom right) Tullett

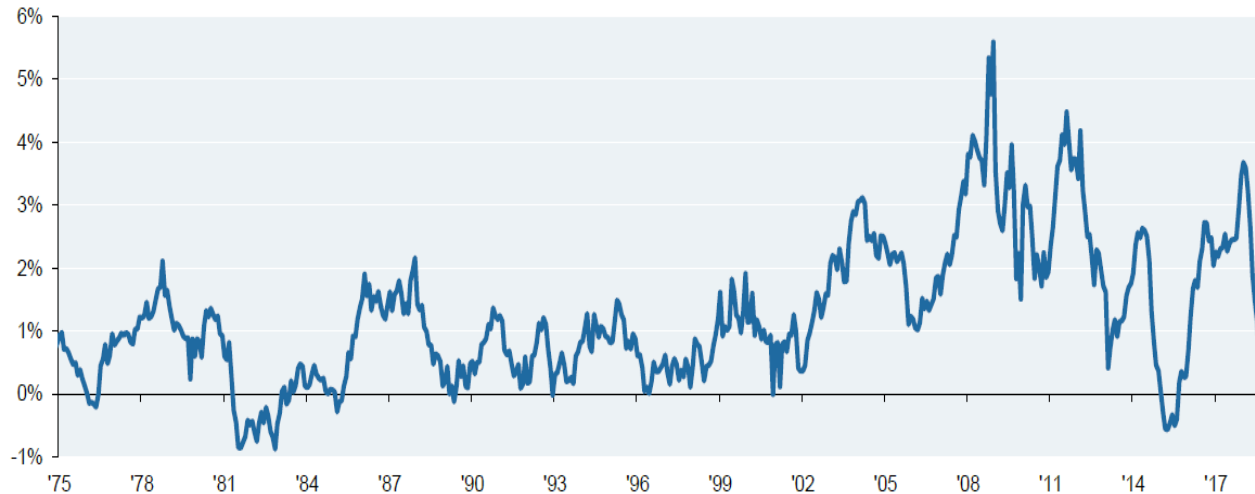
- The strengthening of the US dollar led to diverging returns between the U.S. and international markets in 2018, but fundamentals indicate that may change.

Strategy and Positioning – Rate Rise Interrupted Again



Strategy and Positioning – Central Banks

The Decline of Western Centralization: a 20 year period of central bank intervention comes to an end
Developed economy and emerging economy central bank net purchases of G4 financial assets, % of world GDP, rolling 12m

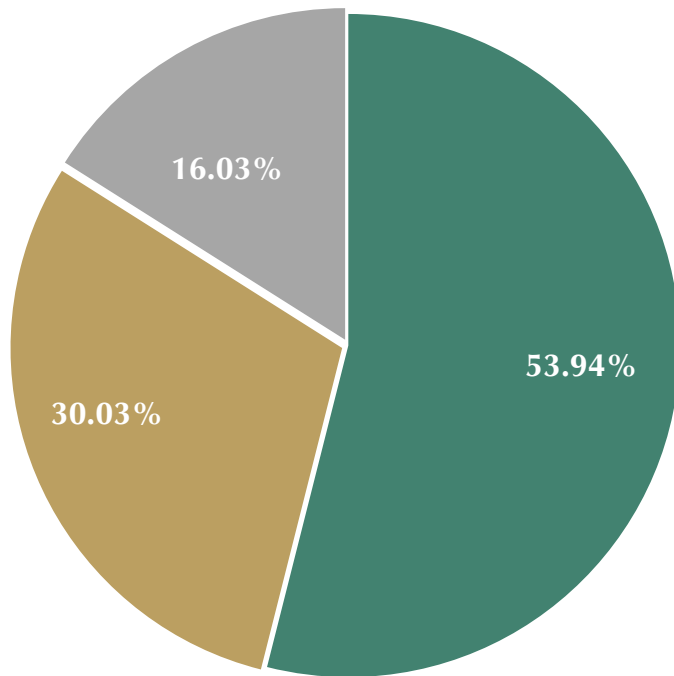


Note: The G4 is normally comprised of the US, the Eurozone, the UK and Japan; we also include Switzerland. In the chart, we include G4 central bank purchases by looking at changes in their own balance sheets, and include purchases of G4 assets by emerging economy central banks and by non-G4 developed country central banks by looking at changes in their foreign exchange reserves ex-gold. Sources include individual central bank disclosures, the IMF's International Financial Statistics database, a 2014 analysis from Niall Ferguson and Moritz Schularick and J.P. Morgan Asset Management. 2018.

- The effects of global tightening had begun in earnest.
- However, the pace is unclear, and backtracking, especially by the Fed, may occur if economies slow

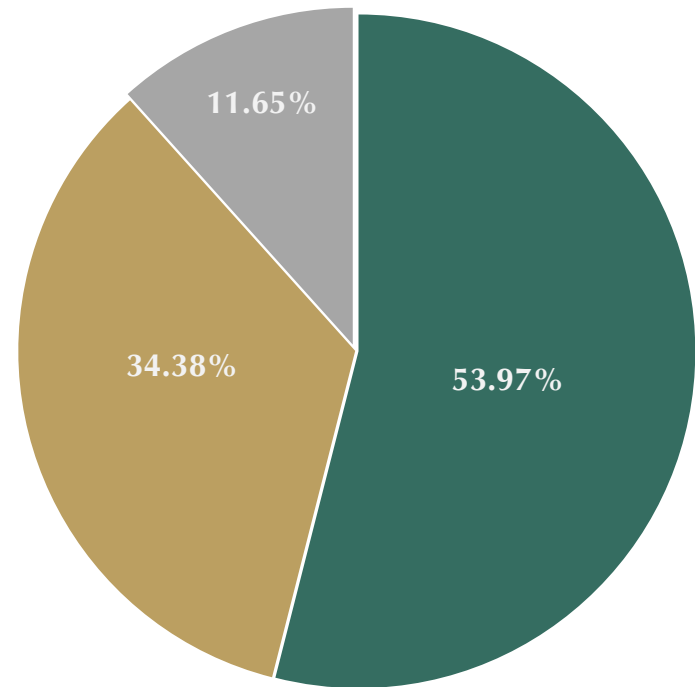
Strategy & Positioning—World Market Capitalization

Equity Fund Allocation
as of 12/31/2018



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

MSCI All Country World Index (ACWI) IMI
Allocation as of 12/31/2018



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

Strategy and Positioning – Fixed Income Characteristics

Selected Characteristics as of December 31, 2018

Average Characteristics	Fixed Income Fund Total	Core Fixed	Impact	Emerging Markets Debt	Bank Loans	Barclays Govt/Credit Index
Positioning	100%	66.6%	11.5%	8.5%	13.4%	100%
Moody's Rating	A1	Aa3/A1	Aa	Ba2	B2	Aa2/Aa3
S&P Rating	A+	AA-/A+	AA	BB	B	AA/AA-
Average Maturity (Years)	8.5	9.3	5.9	10.6	5.6	8.7
Effective Duration (Years)	5.3	6.7	4.7	6.0	0.1	6.4
Yield-To-Worst (%)	4.6%	3.6%	3.5%	8.9%	8.0%	3.2%

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

- **Diversifying** UCF's equity allocation strategies, with a commitment to a globally diversified portfolio and a positive view on international equities, particularly emerging market equities.
- **Maintaining** a best practice investment strategy, understanding that our diversification and portfolio flexibility in the balanced funds allows us to both lower risk and stay the course through short-term volatility.
- **Adapting** to challenges in fixed income caused by a rising interest rate environment. UCF has adjusted asset allocation (in balanced funds) and duration (rate sensitivity; in fixed income strategies) through the year, and diversified using emerging market debt and bank loans.
- **Building** continued capacity with UCF's consultant, Goldman Sachs Asset Management, with a focus on asset allocation, manager selection and values integration.
- **Supporting** UCF's and UCC's mission with the creation of an Impact Investment Fund in 2019.

Investing with a Mission: Performance Beyond the Numbers

Q & A