



SUSTAINABILITY REPORT

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PRESIDENT'S STATEMENT

For more than 100 years, United Church Funds (UCF) has empowered congregations and ministries of the United Church of Christ to be responsive to God's call to ministry in new and creative ways — while prioritizing a high standard of financial integrity. This legacy has included a commitment to leading the faith-based institutional investment community in holding corporations accountable to their stakeholders for environmental, social and corporate governance (ESG) responsibility.

As one of the founding members of the Interfaith Center on Corporate Responsibility (ICCR), and in partnership with them for the last 44 years, we have advocated for increased sustainability reporting by corporations in which we invest. A sustainable company is one that seeks longevity through minimizing negative impacts on the environment, upholds human and workers' rights and practices good corporate governance. We believe sustainability reporting is an effective way to ensure transparency when a company reports candidly on their environmental, social and governance impacts to their stakeholders.

It is through this lens of sustainability that we now must focus on the operations and actions of our own organization. This report evaluates the strengths and challenges of becoming more sustainable ourselves and proposes ways for increasing our beneficial practices, while minimizing injurious ones.

In essence, this is a snapshot of UCF on its sustainability journey. Future periodic reports will highlight our successes and describe our continuing efforts to keep molding our operations in a sustainable way.

As we outline our own sustainability, we will also highlight work done to encourage the corporations we invest in to do likewise along the road to long-term health. We believe this will strengthen our portfolio performance as long-term investors, since healthy companies are good investments. This report demonstrates our commitment to seeking improvements both within UCF itself and in the companies in which we invest, on behalf of the United Church of Christ and other faith-based organizations.

We welcome your comments and suggestions.

Blessings,



Donald G. Hart
President

REPORT PARAMETERS

This is the second sustainability report prepared by United Church Funds. The period of the report is the fiscal years 2014-2015. It will be rereleased periodically as efforts to improve our environmental, social and governance (ESG) impacts change.

United Church Funds' Sustainability Report revolves around two central activities —

Improving internal UCF operations, including:

- reducing our carbon footprint and monitoring the overall impact on the environment — with a particular focus on mitigating the effects of climate change
- maintaining a high level of work-life balance for our staff and continuing to evaluate working conditions, improving where necessary
- maintaining best practices with regard to our own corporate governance

Using our role as an investor to:

- encourage the corporations in which we hold shares to make sustainability commitments
- evaluate their corporate social responsibility programs and discuss elements that are vague or inconsistent with their practices
- maintain a close relationship with ICCR, in alliance with other faith-based institutional investors to amplify our voice
- maximize our economic leverage through specially designed funds, such as the Beyond Fossil Fuels funds

The Office of Social Responsibility has prepared this report in cooperation with UCF staff, and will produce future updates. Inquiries should be directed to sri@ucfunds.org.

INTRODUCTION

The mission of United Church Funds is to strengthen the missions and ministries of the United Church of Christ and other faith-based organizations through responsible investing.

Assets entrusted to UCF are invested to achieve positive financial returns. But these assets are also used as catalysts for positive social change within the society at large. Combining the economic power of collective ownership with the guidance provided by General Synod resolutions and pronouncements, UCF's investment policy attempts to help the United Church of Christ "put its money where its mouth is" through social screening, issue advocacy and shareholder resolutions. Using these metrics to create socially responsible investment options, we also offer our services to other faith-based organizations whose missions and values are aligned with those of the United Church of Christ.

This report talks about the aspirations, victories, and challenges associated with these efforts. But it also talks about our own internal effort to become a sustainable organization. Our history of action in this area compels us to do ourselves what we have asked others to do. Thus, we have prepared this second edition for our stakeholders, on the sustainability of our own organization.

As investors in today's global economy, we have to frame this report on sustainability within a discussion of our operations and our efforts to improve the quality of our investments through social responsibility activity.

Thus, this sustainability report describes the improvements we can strive for in our operations, including:

- expanding our internal recycling, sourcing, and vendor relationships
- guiding our outside portfolio managers' socially responsible investing activities
- learning more about their interactions with the management of the companies they invest in

It also illustrates how we:

- lead among faith-based institutional investors in matters of Socially Responsible Investing (SRI)
- enhance our relationships with networks of socially responsible investors through memberships in organizations like ICCR, UNPRI, USSIF, and CDP
- strive for continual improvements and satisfaction of our leadership and employees

This sustainability report will be released periodically to update our stakeholders on the strides we've made in our efforts to improve our ESG impacts, both as an organization and as an investor.

ORGANIZATIONAL PROFILE



United Church Funds has its origin in the establishment of the Pilgrim Memorial Fund in 1909, a church-wide capital campaign undertaken to benefit retired Congregational pastors. Since then, UCF has developed into a comprehensive investment management service for the United Church of Christ and beyond, managing over \$800 million in assets (as of year-end 2015). Alongside the historic endowments of the UCC, additional assets entrusted to UCF include the permanent funds and endowments of local churches, associations, conferences and other denominational ministries.

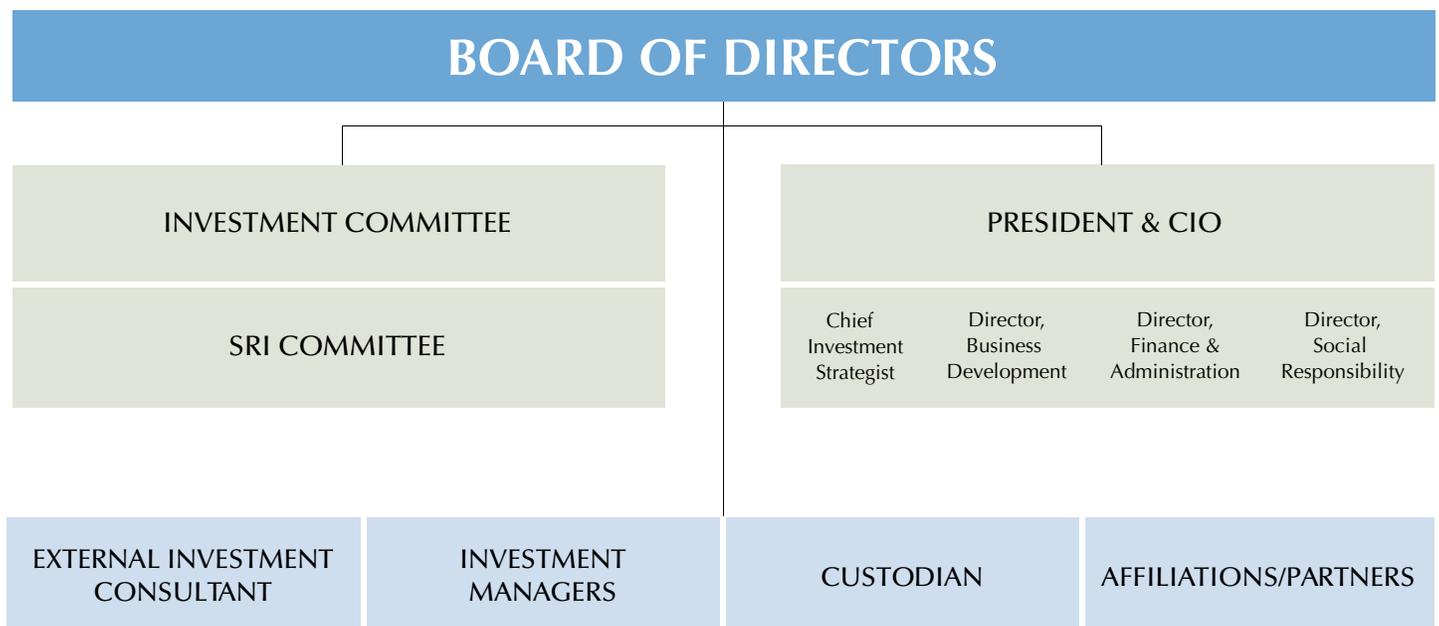
United Church Funds manages assets belonging to over 897 local UCC churches, 26 conferences, 26 associations, 29 health and welfare institutions, four colleges and seminaries, the four Covenanted Ministries, the Pension Boards, the United Church of Christ Board, 32 other UCC-related entities and two non-UCC faith-based organizations.

These organizations benefit from having their assets invested in a manner that is consistent with the values of the Church. The funds offered by UCF are invested in a well-diversified, sound, and sustainable manner.

UCF's clients may customize their holdings to create a portfolio that is appropriate for their investment time horizon and risk tolerance.

Professional asset management services are obtained from a number of qualified outside investment managers, each one carefully selected in consultation with a professional investment management consulting firm — with strategic oversight from UCF's Investment Committee. Each manager's actual performance is regularly evaluated relative to an appropriate industry benchmark index and relative to their peers by the consulting firm, staff and this committee.

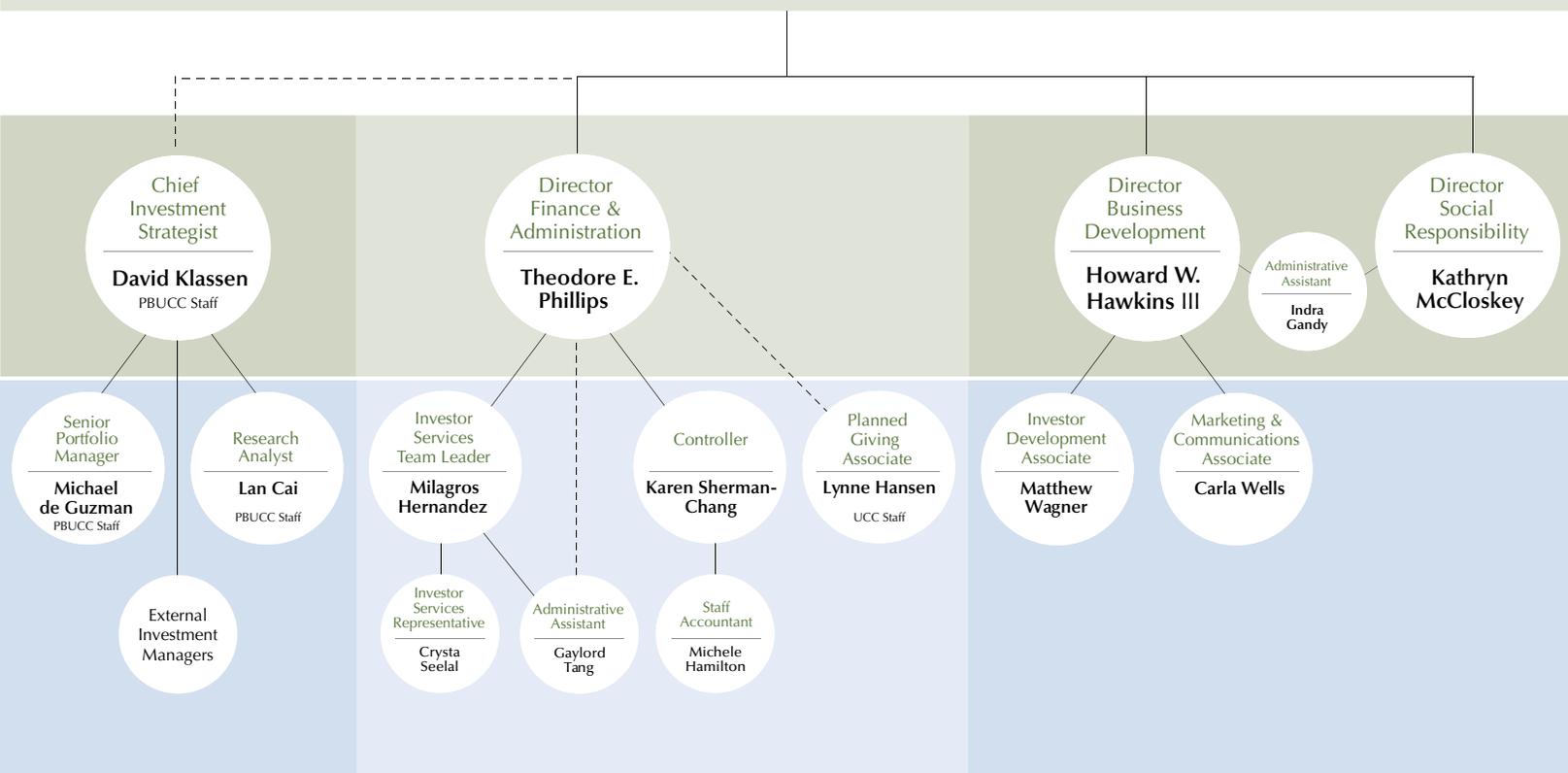
The structure of United Church Funds promotes strong oversight and collaboration.



UCF is an Associated Ministry of the United Church of Christ located in New York City. There are 11 full-time employees and two part-time employees, with seasonal hourly workers brought on as necessary. UCF also contracts with the Pension Boards for several services including investment oversight, Information Technology assistance, and other services. This structure is one of the ways UCF keeps clients' costs manageable.

In 2015, the Business Development department was created and three full-time employees were hired for to work within it, including a Director, Sales Executive and Administrative Assistant. This department will serve current clients' and prospective clients' needs.

President & Chief Investment Officer - Donald G. Hart



STRATEGIC VISION



Vision Statement

United Church Funds strives to be a trusted partner in transformation.

Transforming generosity — investing our clients' funds wisely to build money for ministry.

Transforming capitalism — using shareholder engagement and activism to improve the way business is done.

Transforming our environment — evolving as individuals and an organization to better serve our investors and our world.

Transforming the future — helping accomplish God's work on the planet for generations to come.

Our core values help us guide and measure our plans and our actions — as individuals related to United Church Funds and as the organization itself:

EXCELLENCE	We seek to operate at the highest level — accurate, high-performing, professional, reliable, sustainable — leading in our industry and delivering wow!
INNOVATION	Never content with the status quo, we encourage creativity and reward initiative — continually seeking what's next.
INTEGRITY	In every action and interaction, we seek to perform accountably, ethically, transparently — stewarding our relationships, our financial resources and our human assets.
JOY	Responding to the call of our faith to a spirit of abundance and joy, we seek to create a climate of gladness in our interactions, our practices and our organization's life.
MINISTRY	While we serve in a commercial environment, we found our work in service to the faith-based community — guided by our mutual goal to accomplish God's work in the world.
RESPECT	In the tradition of our faith, we meet clients, colleagues and all others where they are and engage them with respect — honoring their gifts and grounding our interactions in a spirit of welcome.

SOCIAL RESPONSIBILITY



Commitment from the Top

The Social Responsibility (SR) program is a vital part of our operation and is embraced by the Board of Directors and management. There is a standing SR committee appointed by the Board of Directors. The SR committee has representatives from the UCC Board. This committee also includes institutional investment professionals and clergy members.

UCF's President has an active interest in socially responsible investing (SRI) and stays current on movements and trends by attending SRI workshops and conferences, as well as directly liaising with the SR officer.

UCF's annual budget provides funding for the support of the SR director's office and for distribution of information about SR activities to clients via print, electronic and online resources. As part of its Strategic Plan, UCF seeks to enhance its visibility and build its reputation as a trusted partner by broadening and deepening the impact of our social responsibility message, and focusing on the larger story of transformation through corporate shareholder engagement and activism. UCF has established an internal sustainability liaison to be responsible for periodic audits of environmental, social, and governance (ESG) policies and procedures.

How Social Responsibility Works

When selecting investment managers, UCF carefully assesses a manager's ability to implement UCF's investment policy, which includes its policy on socially responsible investing and exclusionary screening. Our active shareholder approach is executed by using the securities that our investment managers trade on our

behalf. The SR office leverages UCF's securities for its work. In concert with other concerned investors, SR encourages corporations to make ESG changes through the shareholder resolution process.

Coalition Power

United Church Funds uses networks of active shareowners to accomplish its SR goals. The Interfaith Center on Corporate Responsibility (ICCR) is a 44-year old institution that organizes faith-based groups to utilize shareholder resolutions and corporate dialogues to create a more sustainable world. The United Church of Christ is recognized as a founding member of ICCR and continues to be a strong partner with the organization's work.

UCF is also a member organization of the Forum for Sustainable and Responsible Investment (USSIF),

which brings together socially responsible investors to make corporate improvements. This group includes many faith-based investors but also includes non-faith-based groups.

UCF is also a founding member of The Ecumenical Action Group for a Just Peace in Israel-Palestine (EAG), a group that examines how corporations can limit their detrimental impacts on Palestinians and Israelis.

As a signatory to the United Nations Principles for Responsible Investment (UNPRI), UCF tracks its socially responsible investing efficacy and reports its efforts annually. UCF became a signatory to CDP, an international not-for-profit organization that provides a system for companies and cities to measure, disclose, manage and share vital environmental information. UCF can now access this climate data to enhance its engagements.

In 2015, the UCC passed a resolution at its General Synod, urging all settings of the Church to investigate SRI and employ its principles. This will potentially lead to more investors partaking in SRI and partnering with UCF — in turn increasing our economic leverage.

Corporate Engagement

The engagement techniques of shareholder resolutions are the mainstays of active shareowners. A dialogue is an ongoing discussion with a corporation where investors make recommendations to a company about how to make positive changes or provide more transparency. If the company takes those recommendations, advocates will help the company through the implementation phase by providing best-practice information learned through the process at other companies, or by creating a bridge between the activist groups and researchers calling for particular changes and those companies that have an interest in implementing those changes.

A shareholder resolution is a recommendation in the form of an item on the ballot of the annual meeting of a corporation. It is a great way to educate investors on issues of environmental impacts, social

impacts or governance deficiencies that are going on in a company.

A growing number of investors are arguing that shareholder engagement efforts are more effective than disinvestment strategies, given that the ability to bring a resolution to a company is precluded when that company has been screened out.

There are several research studies that indicate that corporate engagement by interested stakeholders such as institutional investors leads to improved governance and improved performance in companies.

Proxy Voting

The Social Responsibility office exercises the “power of the proxy.” UCF votes the ballots of companies in which we have holdings in accordance with our Proxy Voting Guidelines. We have designed these guidelines to promote board diversity, equitable pay structures within companies, global and human rights, and highlight many other issues. This work is

done in the interest of safeguarding a company’s financial performance and enhancing the long-term sustainability of its operations. Our Proxy Voting Guidelines is a “living” document; we adapt and amend the guidelines as new information on best practices becomes available.

Next Step

The positive support we received for the Beyond Fossil Fuels Fund has encouraged us to continue tailoring funds that respond to burgeoning social and political challenges. We feel that as a faith-based financial institution, we must mitigate some of the ills exacerbated by unchecked capitalism and globalization. As such, we are currently designing an Impact Investment Fund that we hope to open in 2017, with a capital commitment of \$10 million.

What is impact investing?

Impact Investing is another term for “inclusive finance”, whereby capital is provided to people and places that have been typically un- or under-served by banks and other dominant economic structures. Some of the strategies employed by impact investing practitioners seek to remedy:

- Global lack of access to credit for individuals
- Global lack of capital to small- and medium-sized enterprises
- Lack of quality affordable housing and community facilities
- Decreased public funding of community-sustaining programs
- Decreased resources for infrastructure and public works improvement
- Funding misalignments for clean-tech ventures and energy efficiency solutions

Through the Impact Investing Fund, we will contribute to levelling the playing field for economies that have traditionally been excluded from mainstream markets, enabling participation that is beneficial to their local community, and facilitating engagement on an international scale.



A LOOK BACK ON 2014 & 2015



UCF created tailored investment products as an expression of action consistent with General Synod resolutions calling for a more just and environmentally sound world.

An Urgent Response to Climate

In 2013, the United Church of Christ's General Synod adopted a resolution calling on the denomination's members and ministries to take action to mitigate the effects of climate change. United Church Funds accepted the challenge of addressing our investors' concerns, creating two new funds free of companies that explore for and produce fossil fuels. The first of their kind — and part of a family of 13 investment options — the Beyond Fossil Fuels funds offer investors a new opportunity to invest their long-term assets to align with their values.

The resolution, *Urging Divestment — Along with Other Strategies — From Fossil Fuel Companies*, was itself a landmark work of cooperation and collaboration, calling on each individual, each church, each ministry and each community to do their part to address climate change by:

- reducing demand for fossil fuels
- fighting for legislation to reverse climate change
- adopting the tools of social action
- prioritizing shareholder engagements on carbon reserve accounting, fossil fuel company lobbying and emissions targets
- creating a “best-in-class” metric to identify fossil fuel companies striving to become part of the solution and, therefore, remaining investable

The resolution also called on United Church Funds to develop the climate friendly funds within 18 months. On November 1, 2014, UCF announced the opening of the Beyond Fossil Fuels Fund — a domestic core equity fund free of investments in US companies exploring for or producing fossil fuels. Alongside its partner balanced fund, the Beyond Fossil Fuels Fund, opened with just over \$21 million from 11 founding investors. The funds also feature their own website, bff.ucfunds.org, which aims to educate investors around climate change and the urgency around the fossil fuel industry's reform.

As with all separately managed portfolios at United Church Funds, this pair of funds remains free of investments in companies producing tobacco, alcohol, gambling services and military weapons.

In addition to creating the Beyond Fossil Fuels funds, United Church Funds continues to explore opportunities to invest in energy technology and renewable energy platforms — investments that will join the green bonds already part of United Church Funds' fixed income portfolio.

To complement the fossil-fuel-free fund, we have expanded our commitment to climate by engaging fossil fuel companies in other UCF funds, urging them to improve their impacts on the environment. The following are samples of engagements that have seen positive responses:

Climate Change Risk

In an unusual move, the boards of BP and Shell requested that investors make them more accountable around their climate policies by supporting a resolution submitted by a global coalition of their shareholders, which included UCF. Titled *Strategic Resilience for 2035 and Beyond*, it calls for additional reporting on strategies that will advance low carbon initiatives and foster greater resilience in the face of climate change. The resolution specifically asks that companies disclose their efforts and plans for the following:

- Ongoing operational emissions management
- Asset portfolio resilience to post-2035 legislative and climate scenarios
- Low carbon energy R&D and investment strategies
- Strategic KPIs and executive incentives
- Public policy interventions

Based on management support of the shareholder resolution, the BP resolution received 98.2% support by shareholders, and at Shell, the resolution received 98.6% of the vote. These are unprecedented levels of support for environmental resolutions. Both UK-based companies were also part of a global consortium of oil and gas companies that supported and continue to support:

- The call for an effective climate change agreement at COP21
- The strengthening of actions and investments to contribute to reducing the greenhouse gas intensity of the global energy mix
- The implementation of clear stable policy frame works consistent with a 2°C future (that will in-turn help our companies make informed decisions, as well as effective and sustainable contributions to addressing climate change)
- Collaboration in a number of areas such as efficiency, natural gas, R&D and carbon capture and storage
- The consistent and regular reporting of progress

Oxy and Shell Leave ALEC

UCF filed resolutions to urge several fossil fuel companies to renounce their membership in the American Legislative Exchange Council (ALEC), based on the group's detrimental anti-climate lobbying practices. Both Occidental Petroleum (Oxy) and Shell responded favorably by relinquishing their respective memberships.

Chevron: Hydraulic Fracturing Risk Disclosure

UCF is part of an ongoing investor dialog with Chevron on hydraulic fracturing risks. In the reporting period, we engaged the company to improve disclosure of the efforts around the following risk categories:

- Community impacts
- Chemical contaminants
- Water quantity and quality
- Managing air emissions
- Transparency/violations
- Overseeing contractor performance
- Public health

The company's acquisition of Atlas Energy made Chevron a major player in the Marcellus Shale in Pennsylvania, and so the conversation has focused on that geographical area.

Social Shareholder Action

Private Prisons – Political Lobbying and Human Rights

Over the last five years, investors working on human rights issues have met with Corrections Corporation of America (CCA) representatives to learn about how the company views its human rights obligations. The conversation focused on CCA's training for staff members with prisoner oversight responsibilities. Investors continue to be concerned that training lacks several elements to ensure the upholding of human rights. The company does not yet have a human rights statement. Investors impressed on the company the importance of tying human rights statements to internationally accepted norms.

United Church Funds was the co-leader on an engagement with CCA on issues of political lobbying, following disturbing reports of the company's involvement in drafting socially injurious immigration laws in Arizona that ensured more and prolonged detention of immigrants. After several discussions, the company agreed to disclose:

1. Company policy and procedures governing lobbying, both direct and indirect, and grassroots lobbying communications

2. Payments by CCA used for (a) direct or indirect lobbying or (b) grassroots lobbying communications, in each case including the amount of the payment and the recipient
3. CCA's membership in and payments to any tax-exempt organization that writes and endorses model legislation
4. A description of the decision-making process and oversight by management and the Board for making payments described in section two above

Cocoa – Child Labor and Supply Chain Responsibility

As part of an international group of investors, United Church Funds had a dialogue regarding child labor in West African cocoa farms with food company Mondelez (Cadbury, Nabisco). The company has recently appointed a human rights consultant to assess Mondelez' cocoa initiatives in Ghana, Ivory Coast and Indonesia. This consultant will analyze the effectiveness of Mondelez' actions. We will be back in touch with the company to review these assessments in the future.

Governance of Healthy Companies

Banks – Responsible Lending

The investor group working on responsible lending met with Wells Fargo on its "bank payday lending" product. The Direct Deposit Advance program targeted cash-strapped customers in need of quick credit solutions. And in a similar fashion to payday loans, Wells Fargo's Direct Deposit Advance carried hefty fees. As advances and fees are repaid automatically, in full, when the customer's account next receives a direct deposit, these loans carry a great risk of trapping borrowers in cycles of long-term debt.

Investors have been in dialogue with Wells Fargo since 2009, urging the bank to provide affordable and sustainable credit products for financially insecure customers. As a result of this engagement, the company adopted anti-predatory lending guidelines for its subprime mortgage business. But Wells Fargo continued to offer the cash advance product and was one of only a few major banks to do so, until the company issued a statement recently announcing that it would discontinue the product.

Investors Raise their Voices

Celebrating an Engagement Success

When the Hershey Company announced its plan to source 100% certified cocoa for all of its chocolate products by 2020, there was a cheer of celebration from socially responsible investors.

The commitment came after concerned investors, including UCF, spent years of engagement with the company, in an effort to improve the working conditions of farmers in Ghana and the Ivory Coast.

Shortly after making this commitment in 2012, Hershey's released its first 100% certified product,

Bliss chocolates, containing cocoa sourced from Rainforest Alliance Certified Farms. As of 2015, Hershey's was purchasing 10% certified cocoa, with the aim of increasing it to 40-50% by the end of 2016, and 100% by 2020. Hershey's is complementing this commitment by training farmers in West Africa in sustainable farming and providing education around practical and ethical issues, such as appropriate ages for children to work.

These social initiatives reflect well on Hershey's as a company; UCF celebrates their response to ongoing engagements that began in 2007.



Striving for Peace in the Middle East

An interview with UCF's Director of Social Responsibility Katie McCloskey.

United Church Funds is fortunate to be able to live out much of its SRI mandate “behind the scenes” and keep its carbon footprint to a minimum. But when engagements, proxy voting and screens are not enough, we take it one step further. Sometimes that step takes us into the backyards of the people we are fighting for.

During a trip to the Middle East in 2015, UCF's Director of Social Responsibility Katie McCloskey witnessed firsthand some of the suffering occurring in the Occupied Palestinian Territories (OPT). Having spent a decade discussing these issues with companies operating in and profiting from the region, she's well-versed in the philosophical reasons to end the Occupation. But just a glimpse into the lives of the Palestinians, made it seem all the more urgent.

Many Palestinians “have too much time on their hands,” Katie explained. “The conditions on the ground prevent the creation of a meaningful job

market and they don't have the right to travel freely to find work or new opportunities.” This sentiment is juxtaposed by the hours “lucky” Palestinians spend in line going through checkpoints, in order to travel to their place of employment. “While most of us complain when the alarm goes off at 7am, many Palestinians have to wake in the middle of the night, just to get to work on time and not jeopardize their work permits.”

Katie's involvement in bringing about peace in the Middle East began in 2006 when UCF co-founded a taskforce, the Ecumenical Action Group for a Just Peace in Israel-Palestine (EAG). The group comprises representatives from mainline Protestant denominations, a number of Roman Catholic orders, and other faith-based groups sharing an interest in the issue. Since then, members have visited the region, participated in shareholder engagements, and co-sponsored resolutions at corporate annual meetings. Action has primarily centered on Caterpillar, Motorola (through various corporate restructures), Hewlett-Packard, Citibank, and Microsoft. And while UCF was able to maintain shares in the companies for a decade, the time came to increase the pressure.

Katie gets to know the locals in Hebron, a city in the West Bank.



While some of the companies the EAG engaged with made improvements to their human rights policies, these changes didn't decrease their contributions to human rights violations in the region. After being given a decade to make significant improvements, the United Church of Christ (UCC) decided engagement was not enough; and at its General Synod in 2015, the UCC passed the resolution, *A Call for the United Church of Christ to Take Actions Toward a Just Peace in the Israeli-Palestinian Conflict*. The resolution called for divestment from a named, though not exclusive, set of companies doing business in the OPT.

"For a decade, UCF has met with corporate executives to seek development of human rights policies governing the occupied territories that respect and reference international standards," Katie said. "While we will continue to engage management of companies with significant business interests in the region, we have adopted a policy to exclude investment in corporations whose business involvement in the OPT directly contributes to violations of human rights."

While UCF is still hopeful for significant corporate changes in the region, Katie explained there is little these companies can do while they are still operating there. "According to Human Rights Watch (HRW), a non-profit with a long history of global human rights monitoring, any company operating in settlements (Israeli constructed neighborhoods and cities in Palestinian areas) are, by definition, violating human rights laws. This presents significant risks to investors. HRW recommends that corporations remedy this by not doing business in the settlements."

With memories from the trip still fresh in her mind, Katie thinks the resolution couldn't have come at a better time. A few months before it passed, she was standing in the primary school, Rawdat al Zuhur (Garden of Flowers), listening to Palestinian children describe their arduous journey to school each day. They too have to stand in line for hours and pass through checkpoints, just to get to class. The children invited her to sing with them, *We Shall Overcome*. She hopes this new policy will help speed up the process.



United Nations Principles for Responsible Investment

UCF is a signatory to the United Nations Principles for Responsible Investment (UNPRI). These aspirational principles bring together international investors and form a focus for interaction with corporations. The principles to which UCF has committed are:

PRINCIPLE 1:	We will incorporate ESG issues into investment analysis and decision-making processes.
PRINCIPLE 2:	We will be active owners and incorporate ESG issues into our ownership policies and practices.
PRINCIPLE 3:	We will seek appropriate disclosure on ESG issues by the entities in which we invest.
PRINCIPLE 4:	We will promote acceptance and implementation of the principles within the investment industry.
PRINCIPLE 5:	We will work together to enhance our effectiveness in implementing the principles.
PRINCIPLE 6:	We will each report on our activities and progress towards implementing the principles.

UCF Receives an A+

Each year, the UNPRI releases a Principles for Responsible Investing (PRI) report which compares institutional investors to their peers and assesses how effectively they embed ESG factors into their investment processes and ownership practices.

In UCF's 2015 PRI assessment report, we received an A+ for our overarching approach to responsible investing. According to the report, the Overarching Approach to Responsible Investing Module encompasses the "organization's overall approach to responsible investment, including governance, responsible investment policy, objectives and targets, the resources allocated to responsible investment and the approach to collaboration on responsible investment and public policy-related issues."

In 2014, UCF received a B for this same module, indicating we have worked to improve our practices over time.

At UCF we believe that being reviewed against our peers by a highly respected and credible organization increases our accountability and transparency — and keeps us motivated to ensure our sustainability practices meet industry standards. You can view our progress report on the UNPRI website: unpri.org.

OPERATIONS

Governance



United Church Funds' Board of Directors comprises members from the United Church of Christ with skillsets and interests that strengthen the organization's policymaking and assists in its administration and operations.

Standing committees of the Board of Directors include the:

- Executive Committee
- Investment Committee
- Audit Committee
- Governance Committee
- Personnel Committee
- Social Responsibility Committee
- Business Development Committee
- Brown Endowment Committee

The United Church of Christ Board (UCCB) determines who shall be members of the Board of Directors after receiving recommendations from UCF's Governance Committee. Fifteen elected members are nominated and selected by the UCCB for terms of six years, one-third of which are selected each biennium and serve until their respective successors are selected and qualified.

UCF has a classified Board for two crucial reasons. All members of the Board serve voluntarily, without remuneration. A classified structure also helps the volunteer Board attract and retain women and minority directors. UCF is very intentional about fostering board diversity. We are proud to have a group of leaders with many backgrounds and perspectives to guide the organization, comprising over 50% women and over 50% minority races.

In addition to the elected members of the Board of Directors, the General Minister and President of the United Church of Christ and the chair of the UCCB are ex-officio members.

The Chair of the Board of Directors is not an executive officer of UCF. Having the oversight of a separate chair provides the leadership of the organization a way to protect the interest of UCF's investors by ensuring that management of UCF is aligned with those interests.

UCF's Board of Directors includes a very extensive Audit Committee charter and diligent committee members to ensure adherence to best practice standards.

The Board of Directors is asked to annually sign a conflicts of interest policy.

The Board of Directors has been intimately involved in creating UCF's aspirational statements, including the Strategic Plan 2010-2015. This document is a roadmap for all employees and departments and includes a Vision Statement, as expressed in the previous chapter.

UCF's Board of Directors engages in periodic self-evaluations and maintains its focus on excellence in governance. This is considered an important step for demonstrating consistent leadership over all aspects of UCF's operations and stewardship.

The Strategic Plan identified the Social Responsibility Officer as the internal sustainability liaison who will be responsible for periodic audits of UCF's environmental, social, and governance policies and procedures. The Social Responsibility committee of the Board of Directors acts in an oversight capacity for this task.

Determining Governance in Our Investments

United Church Funds has a robust system for analyzing the corporate governance strengths in the companies in which we invest. Weak governance in corporations, through a less than optimal board structure, overly generous compensation packages or faulty audit processes, could be telltales of problematic management and a risk to our investments.

Board diversity is a priority for UCF. Companies are realizing that in the face of changing demographics and the rapid globalization of business, greater diversity on their boards of directors is a critical business strategy for both growing shareholder value and managing corporate reputation. An emphasis on board diversity can also be a measure of a company's organizational commitment to diversity. Although their representation on corporate boards has been increasing slowly over the last 15 years, women and minorities continue to account for only a small percentage of the total number of corporate directors. We will withhold votes from board nominees if the board, together with the slate,

does not include minorities and women.

We support proposals asking companies to increase board inclusiveness and report on their progress towards this goal, including how the board or its nomination committee ensures that women and minority candidates are routinely sought as part of every board search the company undertakes.

The Board of Directors calls on the expertise of both the Investment Committee and the Social Responsibility Committee when determining guidelines for voting our proxy ballots. We take advantage of research services that provide in-depth analyses of governance practices. We are aligned with several organizations that call for the strengthening of governance practices, including USSIF.

As a clear signal of our commitment to corporate governance improvement goals, our Corporate Governance Proxy Voting Guidelines are maintained with oversight from UCF's Investment Committee.

“We will withhold votes from board nominees if the board, together with the slate, does not include minorities and women.”



OPERATIONS

Employees



United Church Funds operates with a small, dedicated staff that accomplishes all of its work, ensuring the timeliness and accuracy of transactions, and is dedicated to the growth of the organization. Recognizing this, management has engaged in efforts to assess the levels of satisfaction and develop the skill-sets of UCF employees.

Demography

UCF staff consists of either hourly or salaried employees. All but one employee lives in the metro-New York area. Employees are represented in the 20-30, 30-40, 40-50, 50-60, and 60-70 age-range.

In 2015, historically underrepresented populations, comprising Asians, African Americans and Hispanics, made up over 50% of UCF's staff.

2015 STAFF DIVERSITY	
MANAGEMENT	STAFF
3 WHITE MALES	3 AFRICAN-AMERICAN FEMALES
1 WHITE FEMALE	1 HISPANIC FEMALE
1 AFRICAN-AMERICAN MALE	1 ASIAN MALE
1 MIXED RACE FEMALE	2 WHITE FEMALES

Ensuring a Safe and Fulfilling Workplace

Employees understand the expectations of conduct and policy. Staff is asked every year to review its personnel manual. Special attention is paid to the Code of Ethics and Business Conduct within the manual so that staff is reminded that discretion regarding investors' accounts is of the utmost importance.

Staff is also asked to review harassment prevention literature yearly to promote a healthy working environment.

At any time, staff can reference the employee manual to learn more about many workplace issues including:

- Standards of Conduct
- The Whistleblower Policy
- Grievance Procedures
- Employee Benefits
- Office Policies
- Email Policies
- Equal Employment Opportunity Policies

In keeping consistent with our goals of a safe workplace, staff regularly takes part in emergency preparedness drills that establish evacuation routes and a meeting place in the event of a disaster.



Skills Development

United Church Funds' staff is invited to partake in ongoing skills training for both vocational and personal development on a regular basis.

The *Getting Things Done (GTD)* program, designed by David Allen, was utilized to improve time management. Through a range of workshops and reading materials, staff was encouraged to apply the GTD principles to its workspace, through the use of GTD recommended project management software, in order to optimize personal performance.

In 2014, members of UCF's staff were given the

opportunity to complete the Claritas certificate, giving them a deeper understanding of the investment world and a credential from the CFA Institute, upon successful completion. By the end of 2015, four staff members had successfully completed the certificate.

One staff member also attained the Accredited Investment Fiduciary (AIF) designation from fi360. Through instruction covering pertinent legislation and best practices, the AIF training and designation helps mitigate liability that investment fiduciaries are often exposed to.

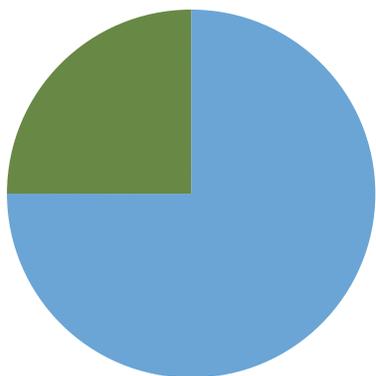
Employee Satisfaction Survey

Staff was asked in 2014 to respond to a wide-reaching satisfaction survey. This survey attempted to gauge levels of fulfillment with UCF's strategy, management, benefits, and communication strategies. We intend for this information to inform improvements to work environments and relationships over the long-term. All staff members obliged the request and completed the survey.

There were several positive results of the survey. Some illustrative examples follow:

Employees are treated fairly here regardless of race, gender, age, religious or sexual orientation

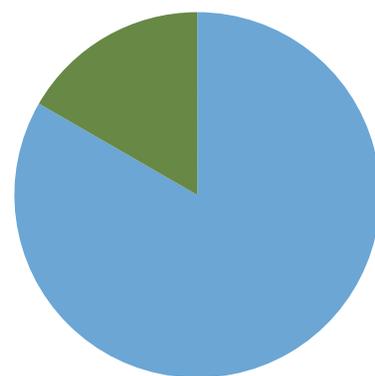
Agree somewhat 25%



Agree strongly 75%

I am able to maintain a reasonable balance between work and my personal life

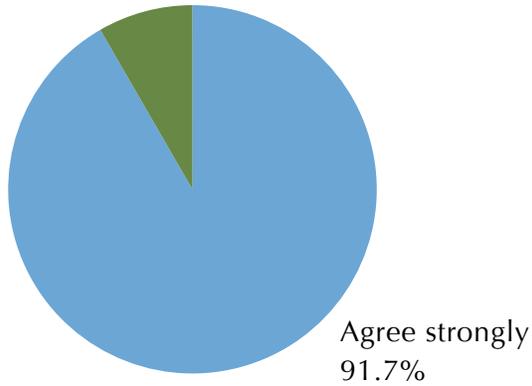
Agree somewhat 16.7%



Agree strongly 83.3%

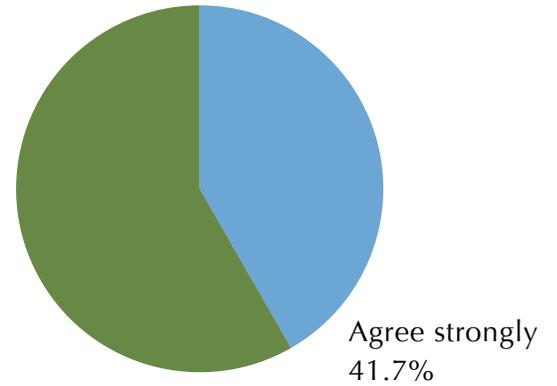
Overall, I'm satisfied with UCF's benefits package

Agree somewhat 8.3%



I feel like there is a spirit of cooperation within UCF

Agree somewhat 58.3%

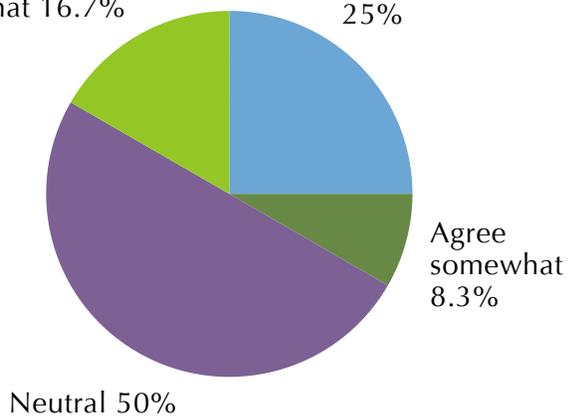


Areas of improvement were also identified. A few examples included:

UCF provides training or experiences to help me explore other possible opportunities within the organization

Disagree somewhat 16.7%

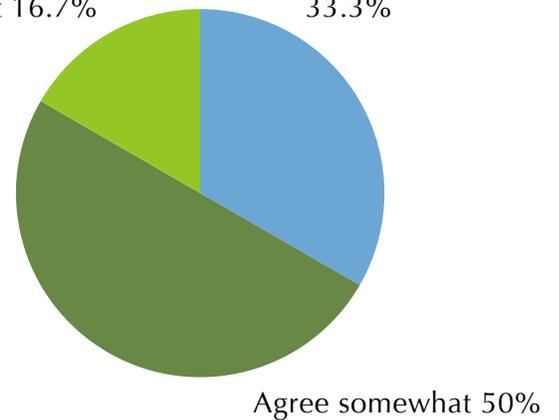
Agree strongly 25%



UCF's internal communications are detailed enough

Disagree somewhat 16.7%

Agree strongly 33.3%



Benefits

Employees enjoy a wide range of benefits to support them through their work and their lives. These include:

- Annuity Fund contributions not dependent on contributions by the employee
- A generous vacation and sick leave policy
- Medical coverage
- Dental coverage

- Opportunity to use flexible spending accounts for qualified expenses
- Life insurance
- Disability plan

Determining Best Employee Relations Practice in Our Investments

UCF mirrors the care and consideration we have for our own employees in our investments through carefully crafted proxy voting guidelines that promote worker rights and diversity. Our proxy voting guidelines help us demonstrate to our invested companies the importance of a strong, well-treated workforce.

We support proactive companies that have expanded their approaches to diversity and are embracing diversity as a strategy to remain competitive in the face of changing demographics and the rapid globalization of business.

While federal law prohibits discrimination in the workplace based on race or gender, no federal legislation protects gay and lesbian workers in private employment from discrimination, based on their sexual orientation. While more than 88% of *Fortune 500* companies have voluntarily barred discrimination based on sexual orientation within their nondiscrimination policies, many gay

and lesbian adults still face hostility or harassment on the job. The Equality Principles on Sexual Orientation is a voluntary code of corporate conduct designed to prevent discrimination against gays and lesbians in the workplace and in corporate advertising and sales policy. We support adoption of this code.

We support proposals asking companies to adopt a comprehensive human rights policy based on existing international standards. Such standards would include the UN Guiding Principles on Business and Human Rights, the 1948 UN Universal Declaration of Human Rights and the International Labor Organization's (ILO) core labor conventions.

OPERATIONS

Environmental Impact



While United Church Funds' operations do not impact the environment in as direct a way as do a manufacturing company's operations, we recognize that our environmental performance is a vitally important aspect of our success.

Rising to the Challenge of Climate Change

Following the passing of General Synod 2013's resolution, *Urging Divestment – Along with Other Strategies – from Fossil Fuel Companies*, UCF made a commitment to be at the forefront of all actions combatting climate change. This led to dedicating a website, bff.ucfunds.org, to educating UCC

members and the wider public on climate change related issues, and inspiring action around fossil fuels alternatives. The Beyond Fossil Fuels website also provides steps on how people can reduce their carbon footprints.

Our Environs

UCF's office is located within the Interchurch Center in New York City. The Interchurch Center participates in the US Green Building Council's Leadership

in Energy and Environmental Design (LEED) program. The Interchurch Center received a large rebate for its recent energy-efficiency initiatives.

Our Printed Materials

United Church Funds ensures its communication to stakeholders has minimal negative impacts on the environment, by using electronic methods where possible and reducing the need for hard copies.

We have moved many of our publications to web-

based notifications, and all of our paper products — letterhead, newsletter paper, business cards, and miscellaneous materials — have some recycled paper content. We have committed to finding more ways to use paper in a responsible way in the future.

How to Grow

We do not currently benchmark certain impacts we have on our environment. Using a carbon tracker, staff recently committed to evaluating their carbon- and water-footprints, transportation impacts, and

materials waste, and committed to making lifestyle changes to reduce their carbon footprints. The next sustainability report will detail progress against these goals.

LOOKING FORWARD

The lens of sustainability we applied to our operations and practices during this reporting period will provide United Church Funds with the basis for reflection, implementation and improvement.

Our Investments

Several strategies influencing how we accomplish and report our sustainability in the future were identified in the 2013 Strategic Planning Process, undertaken by UCF's management, staff and Board of Directors. These strategies include:

- Expanding UCF's active shareowner approach with portfolio companies, for social and corporate governance issues of highest priority to UCF stakeholders
- Providing UCF's stakeholders with more frequent updates on corporate dialogues, filed shareholder

resolutions, and other activities in which UCF engages

- Developing relevant SR-related resources for clergy and local church leaders for use in the UCF's overall financial education function
- Leveraging SR activities into increased resources for UCF

Bettering the corporate social responsibility commitments and practices of our investments is a vital aspect of United Church Funds' work, and a distinctive attribute to how we operate on behalf of our participants.

Our Governance, Operations and Impacts

UCF's Board of Directors is committed to the principles of sustainability. The Social Responsibility Committee of the Board meets regularly to examine the work that is being done on behalf of our investments.

UCF employees will follow up the employee survey with an evaluation of the improvements in management techniques and efforts at providing more transparency in operations and decision making to employees. Employees will have clarity

about how to maintain an ideal work environment through the statement of employee interaction guidelines.

The environmental impacts of our operations can be mitigated through more intentional purchasing policies. We will examine sustainable alternatives to the purchases we make around the office, according to the recommendations of the United Church of Christ.

Follow-Up Report

United Church Funds will periodically update this report to provide transparency into our sustainability efforts.

To learn more about UCF and how our operations and investments are contributing to a more just, peaceful and vibrant world, please visit ucfunds.org.



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