United Church Funds

Q3-2020 Client Town Hall Meeting

Summary of Participants Questions and UCF Responses

Q: I have heard rumors that should Biden win the Presidential election, the market maybe seriously impacted. Is this true?

A: While no investor has a crystal ball, we can look to statistics from previous election cycles, which show us that markets tend to do well regardless of political control of the White House and Congress. A report from JP Morgan notes that post-WWII, the GOP has had unified control of the White House and Congress 11% of the time, while the Democrats have enjoyed unified controlled of the Executive and Legislative branches 27% of the time. This leaves 62% of the time with divided government. In all three cases the average annualized return of the S&P 500 index is positive – 12.9% under GOP control, 9.8% under Democratic control, and 7.8% under divided government. Similarly, the real year-over-year GDP growth has also been positive – 2.8% under GOP control, 4.0% under Democratic control and 2.8% under divided government.

Q: It seems that the financial mismanagement and lack of additional stimulus measures from Congress will lead to a large downturn in the U.S. economy and therefore would negatively impact the stock market. Now that eviction stays and PPP have expired or are being phased out, people who are out of work because of the pandemic risk being evicted from their homes and apartments, have their homes, furniture and cars repossessed and becoming homeless. Do you see this happening, and if so, how will this affect the new recession?

A: We understand the impact and human toll of the pandemic, and as your trusted investment partner, we continue to be very aware of the longer-term implications that extended unemployment and economic recession may have on corporate earnings. As we discussed in the Q&A with UCF's Investment Team, UCF has more recently taken profits from portfolio gains experienced during the summer bounce-back due in part to some of this economic unknown. Right now, the fiscal and monetary stimulus is having a positive impact on markets, and the Federal Reserve has noted that they will continue to be supportive as the economy recovers. Lastly, UCF clients in our balanced funds benefit from a globally diversified equity portfolio and exposure to fixed income (bonds) asset classes, which should be additive to returns in slower economic times.

Q: The Moderate Balanced Fund has trailed its benchmark over the 5- and 10-year periods. Can you explain why this underperformance has occurred since you use outside portfolio managers and focus on long-term strategy?

A: As an actively managed fund, the Moderate Balanced Fund's performance may either under- or over-perform against an unmanaged and no-fee benchmark for a variety of reasons – manager decisions, asset allocation strategies and fees being the primary factors.

Because a benchmark has no fees and is completely unmanaged, we also use an additional performance index for each of our funds from Lipper, a well-known fund ranking service. Lipper creates an index by using actual performance data from a pool of actively managed mutual funds that have similar allocation mandates based on median performance of the pool of funds, net of all fees. In the case of the Moderate Balanced Fund, we use the Lipper Mixed Target Allocation Moderate index, which includes roughly 600 similar funds. Against this metric, Moderate Balanced Fund is in the top 28% of its type over the past 1-year (ending 09-30-20) and ranks in the Top 1/3 in annualized performance over the past five years.

Q: As You Sow (an organization that is helping institutional investors hold corporations accountable for diversity on corporate Boards and in leadership) is great! Would you speak specifically to your fossil fuel-free strategies? Are you requiring other SRI screens/parameters in addition to FFF?

A: At UCF, we believe that it's integral to our mission to offer our clients an opportunity to invest in alignment with their values – and core to that is a responsibility to environmental justice. We have two fossil-fuel free strategies – a global equity fund called the Beyond Fossil Fuels Fund, and a 60/40 target allocation balanced option called the Beyond Fossil Fuels Balanced Fund. Launched in November 2014, after the UCC became the first mainline denomination to call for climate justice and accountability at the 2013 General Synod, in just six years, these funds now account for approximately 15% of all assets invested with UCF. The funds include all of our traditional screens and then go a step further to eliminate from the portfolio virtually all companies who explore for or produce fossil fuels. From a performance standpoint, the Beyond Fossil Fuels Fund has beaten its Lipper Global Equity Index over QTD, YTD, 1-yr, 3-yr and 5-yr time horizons. The Beyond Fossil Fuels Balanced Fund has also significantly beaten its Lipper Mixed Asset Target Allocation Moderate index over those time periods.

In addition to the Beyond Fossil Fuels funds, all of our funds avoid investment in companies with the worst environmental track record, which includes carbon emissions. As Matthew Illian mentioned during his portion of the presentation, we are working with our partners at ICCR and Climate Action 100+ towards even bolder action across all our portfolio holdings.

Q: You talked about managers like Nuveen and BlackRock; are you using separately managed accounts with them or mutual funds?

A: UCF contracts with approximately 20 outside investment managers, each selected for their specific and demonstrated expertise in managing institutional funds in a particular asset class or strategy. For example, UCF's Moderate Balanced Fund uses approximately 12 managers – some in U.S. equity, others in International or Emerging Markets, while still others in managed bond asset classes. UCF's Investment Team has a two-fold mandate: to actively allocate balanced fund portfolios among the various asset classes to achieve optimal return; and to allocate assets to those managers they believe will be best suited to market conditions at any given time. This level of diversification is important to delivering consistent and competitive returns over the long term. In order to keep fees low, whenever possible we use a "separately managed account" (SMA) relationship with each manager to avoid additional fees related to fund costs.