

# MARKET UPDATE TOWNHALL MEETING

## SECOND QUARTER 2021

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August 10, 2021



# United Church Funds — Welcome!

## Townhall Meeting Agenda

- Welcome and Introductions — Charles Buck, President & CEO
- UCF Organizational Updates — Stacey Pettice, Institutional Relationships Executive
- Responsible Investing Overview —Matthew Illian, Director of Responsible Investing
- Market and Fund Updates — Matt Wagner, VP Institutional Relationships
- Investment Strategy: Looking Ahead — David Klassen, UCF Chief Investment Strategist
- Q&A with Townhall Participants

# Poll Question

# UCF – An Experienced Team of Partners

## Management Team

Charles Buck	<i>President &amp; CEO</i>
Matthew W. Wagner	<i>Vice President, Institutional Relationships</i>
Karen Sherman-Chang	<i>Director, Finance &amp; Administration</i>
Matthew Illian	<i>Director, Responsible Investing</i>

## Institutional Relationships & Marketing/Communications Team

Stacey L. Pettice	<i>Executive, Institutional Relationships</i>
Debbie Wibowo	<i>Associate, Marketing &amp; Communications</i>
Adam Sank	<i>Associate, Communications &amp; Administration</i>

## Client Services Team

Milagros Hernandez	<i>Client Services Team Leader &amp; Planned Giving Associate</i>
Crysta Seelal	<i>Client Services Representative</i>
Gaylord Tang	<i>Administrative Assistant</i>

## Finance & Administration Team

Deborah Cho	<i>Senior Accountant</i>
Michele Hamilton	<i>Staff Accountant</i>

## Investment Team (Shared with the UCC Pension Boards)

David A. Klassen	<i>Chief Investment Strategist</i>
Lan Cai	<i>Senior Portfolio Manager and Strategist</i>
Minoti Dhanaraj	<i>Analyst - External Investments</i>
Azim Ahmed	<i>Junior Analyst</i>

*Biographical information on UCF's Staff Members is available at [www.ucfunds.org](http://www.ucfunds.org).*



# Board of Directors & Investment Committee

## Board of Directors

Ms. Edith Guffey, *Chair*  
Rev. Cameron Barr, *ex officio*  
Rev. Dr. Lynn L. Bujnak  
Mr. Jiakai Chen  
Rev. Dr. John C. Dorhauer, *ex officio*  
Ms. Lisa Hinds  
The Honorable Brian F. Holeman  
Ms. Connie Lindsey  
Rev. Penny L. Lowes  
Ms. Doni Mooberry Slough  
Mr. William Morgan  
Rev. Stephen R. Silver  
Ms. Darlene Y. Sowell  
Mr. Noah Tabor  
Mr. Bryan A. Thomas  
Rev. Dr. Bernard R. Wilson  
Mr. Wade Zick

## Investment Committee

Ms. Lisa Hinds\*, *Chair*  
Rev. Dr. Charles Buck, *ex officio*  
Mr. Dennis Bushe  
Dr. Jiakai Chen\*  
Ms. Fran M. Coopersmith  
Ms. Edith Guffey, *ex officio*\*  
Mr. Douglas S. Hatfield  
Mr. Stephen Silver  
Ms. Doni Mooberry Slough\*  
Mr. Bryan A. Thomas\*

\* Member of the Board of Directors

*Biographical information on UCF's Board Members and Investment Committee Members is available at [www.ucfunds.org](http://www.ucfunds.org).*

# United Church Funds — Our Mission

## Investing with a Mission: Performance Beyond the Numbers

- **Experience** – For over 100 years, UCF has invested wisely to help our clients achieve their financial goals for their ministries.
- **Expertise** – UCF partners with clients to provide a range of resources and services to strengthen their portfolios, their endowment management structures, and ultimately, the ministries they value.
- **Values-Aligned** – UCF provides responsible investment options that align portfolios to progressive Christian values regarding environmental, social and governance (ESG) factors.
- **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 clients.

# United Church Funds — Organizational Updates for Q2 2021

- UCF Makes its Mark at General Synod 33
  - Gold-Level Sponsor, in collaboration with other UCC Financial Ministries
  - Hosted workshop on Sustainable Investing and implementation for organizations
  - Partnered with MESA (Ministerial Excellence, Support & Authorization) team to host educational and engagement event for Members in Discernment
- UCC Financial Ministries Launch Updated Joint Website
  - Provides introductory information on all five UCC Financial Ministries – **[www.UCCFinMin.org](http://www.UCCFinMin.org)**
- UCF Holds Climate Symposium August 5
  - Provided historical lookback and forward-looking vision for ways in which investments support climate justice
  - Live session for UCF and PB Investment Committee members; we will be sharing links to recorded sessions soon.
- UCF to Announce Balanced Fund Consolidation, Re-Naming
  - Will Merge Aggressive Balanced and Conservative Balanced Funds with Moderate Balanced Fund to create flagship **UCF Balanced Fund**
  - Re-Name Alternatives Balanced Fund to more accurately reflect fund's asset allocation strategy.



Investing with a Mission:  
Performance Beyond the Numbers



# Poll Question

# Responsible Investing – 2021 Shareholder Meetings Review



Matthew Illian  
Director, Responsible Investing

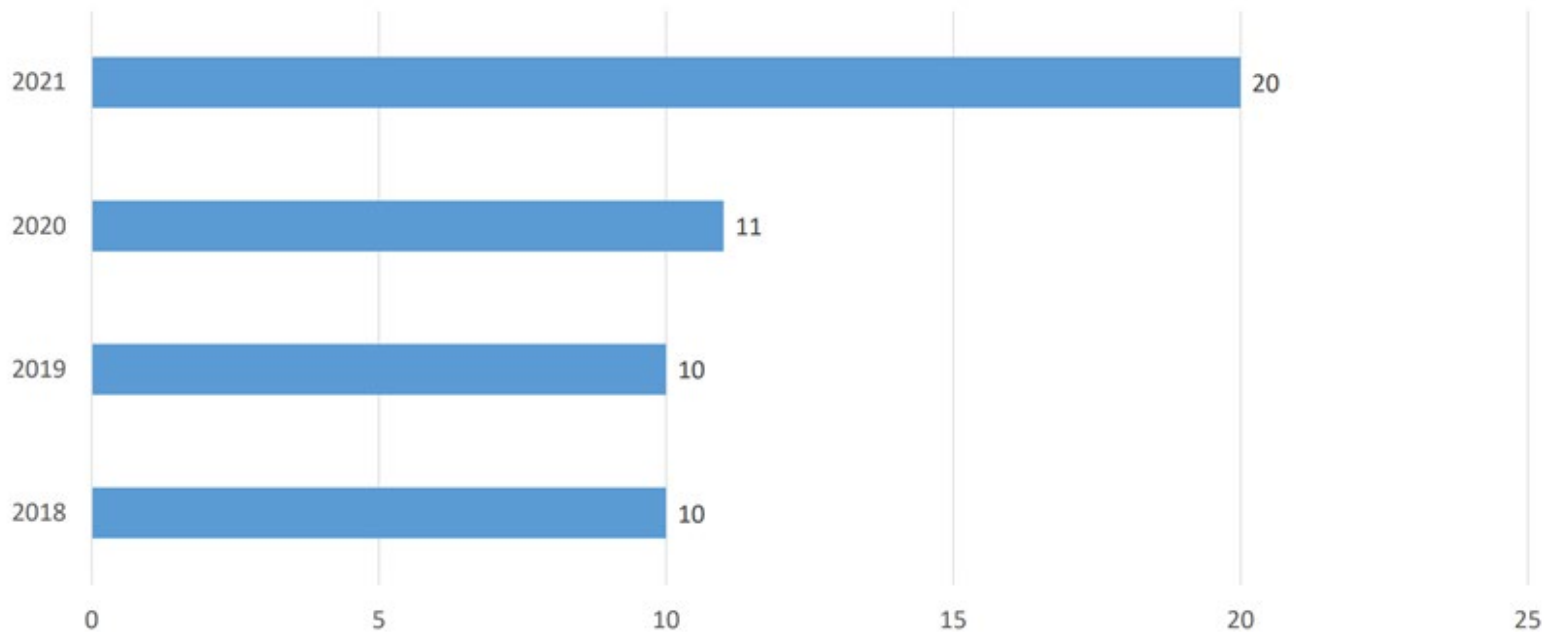
- I. Big Upset at Exxon
- II. ESG Votes Increasing
- III. Climate Lobbying Heats Up
- IV. Executive Pay Votes



- 3 of 4 Shareholder-Nominated Board Members Elected
- New Directors: Low Carbon/Energy Transition Experts
- “David can, in fact, bring down Goliath.” –*Governance Expert*

# Shareholder Voting: Strong Support for ESG

## ICCR Shareholder Resolutions – Majority Wins



## Climate Lobbying Champions



- Interfaith Center on Corporate Responsibility (ICCR)



- Climate Action 100+



- Ceres

# Responsible Investing – Climate Lobbying Resolutions

## Shareholder Support:

 Sempra Energy <sup>3</sup>	63.0%
 DELTA	63.0%
 ExxonMobil	63.8%
	62.5%
 UNITED AIRLINES	65.0%

## Norfolk Southern's Lobbying: 76.1%

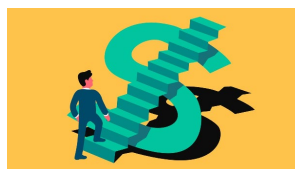
- American Power (formerly American Coalition for Clean Coal Electricity)
- Association of American Railroads
- National Association of Manufacturers



# Responsible Investing – Say on Pay

## Investors Voting Against Excessive Executive Pay

- More Voters Reject Executive Compensation (Say on Pay)
  - 2020: 2.2%
  - 2021: 3.6%
- UCF Votes Against Executive Compensation 11.6% of the Time (2021)
- Starbucks CEO Kevin Johnson Ranks No. 43 on list of most overpaid CEOs\*
  - 52.9% voted AGAINST Starbucks Executive Compensation Package
  - Johnson's total compensation: \$42M (salary is \$1.5M – the rest is incentives including "Special Cash Awards")
  - CEO-to-Employee median pay is 1,211 to 1



\*Source: As You Sow

# Poll Question



# Investment Performance — Themes

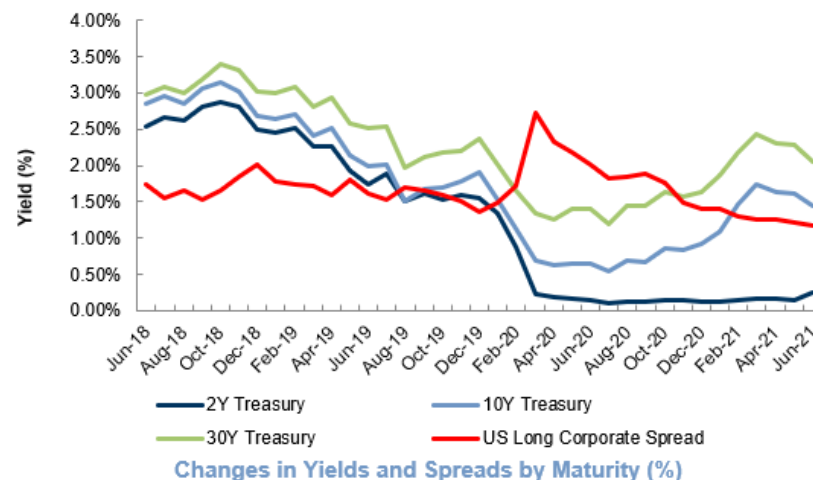
- **Markets Strong with Rapid Economic Recovery:** Global equity markets continued to rally in the second quarter, led by the U.S. but with a shift back to larger company stocks and growth stocks. Fixed income returns were also positive, benefitting from rates decreasing despite rising inflation measures.
- **Economic Growth:** The economy continues to accelerate due to two engines – the world's largest economies re-opening and significant government stimulus. The increase in vaccinations, economic recovery and unprecedented fiscal and monetary stimulus packages around the globe have kept markets elevated.
- **Dynamic Allocations:** We continue to be vigilant about increased risks and potential opportunities from market volatility. We maintain an overweight to equities but continue to be nimble.
- **Long-Term Strategy:** We continue to focus on long-term investment results, balancing the need for liquidity and returns through asset allocation decisions and manager selection.

# Investment Performance — Selected Index Returns

Public Markets Performance (USD)

	Q2	YTD	3 Yr	5 Yr	10 Yr
MSCI World	7.7%	13.0%	15.0%	14.8%	10.7%
ACWI IMI	7.2%	12.7%	14.2%	14.5%	9.9%
S&P 500	8.5%	15.3%	18.7%	17.7%	14.8%
MSCI EAFE	5.2%	8.8%	8.3%	10.3%	5.9%
Russell 2000	4.3%	17.5%	13.5%	16.5%	12.3%
MSCI World ex-US Small Cap	4.8%	9.9%	8.9%	11.9%	7.7%
MSCI EM Equity	5.0%	7.4%	11.3%	13.0%	4.3%
Barclays Global Aggregate	1.3%	-3.2%	4.2%	2.3%	2.0%
Barclays US Long Treasury	6.5%	-7.9%	8.0%	3.1%	6.7%
Barclays US Long Corporate	6.6%	-2.4%	11.1%	6.9%	7.7%
JPM EM Debt	4.1%	-0.7%	6.7%	4.9%	5.7%
JPM EM Debt Local	3.5%	-3.4%	4.1%	3.2%	0.5%
Barclays Global High Yield	3.1%	2.1%	6.6%	6.5%	6.1%
FTSE/NAREIT Global	9.2%	15.7%	6.6%	5.2%	6.5%
GSCI Commodities	15.7%	31.4%	-2.7%	1.7%	-6.5%

Discount Rate Factors (%)



	Jun 2021	Δ 1 mth	Δ 3 mth	Δ 1 yr
<b>Risk Free</b>				
2Y Treasury	0.25	0.11	0.09	0.10
10Y Treasury	1.44	(0.15)	(0.30)	0.79
30Y Treasury	2.07	(0.20)	(0.36)	0.65
<b>US Long Corporate Spread</b>	1.17	(0.04)	(0.08)	(0.85)
<b>Moody's Long AA Corporate Yield</b>	2.80	(0.22)	(0.41)	0.20

As of 30-June-2021. Source: MAS, 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.

# Investment Performance — Managed Funds as of June 30, 2021

TOTAL RATES OF RETURN AS OF 6/30/21									
ANNUALIZED									
Returns on UCF's funds are presented net of fees		Inception Date	Quarter	Year To Date	One Year	Three Years	Five Years	Ten Years	Current Yield
MANAGED FUNDS	<b>Fixed Income Fund</b>	10/1/1994	2.15%	-1.21%	0.95%	4.84%	2.85%	3.03%	2.48%
	Fixed Income Policy Index 85% Barclays US Gov't/Credit Aggregate, 5% JPM GBI-EM Global Diversified, 10% S&P LSTA Performing Loan		2.40%	-1.45%	1.13%	5.83%	3.57%	3.69%	
	Lipper Core Plus Fixed Income		2.15%	-0.88%	2.63%	5.99%	3.87%	3.89%	
	<b>Domestic Core Equity Fund</b>	10/1/2005	8.29%	15.96%	39.97%	16.31%	16.26%	13.82%	1.35%
	S&P 500 Index		8.55%	15.25%	40.79%	18.67%	17.65%	14.84%	
	Lipper Large Cap Core		8.13%	14.86%	39.77%	17.61%	16.61%	13.44%	
	<b>Beyond Fossil Fuels Fund</b>	11/3/2014	6.50%	14.97%	40.87%	12.80%	13.80%	N/A	2.27%
	S&P 500/MSCI ACWI IMI net, linked		7.18%	12.68%	40.94%	14.24%	14.55%		
	Lipper Global Equity		6.14%	12.02%	38.35%	12.31%	12.99%		
	<b>Small Cap Equity Fund</b>	10/1/2005	3.08%	13.72%	55.73%	16.47%	16.89%	11.63%	0.80%
	Russell 2000 Index		4.29%	17.54%	62.03%	13.52%	16.47%	12.34%	
	Lipper Small Cap Core		4.23%	20.22%	60.81%	11.03%	13.36%	10.92%	
	<b>International Equity Fund</b>	10/1/2005	5.16%	9.15%	39.92%	11.43%	12.63%	5.82%	1.99%
	MSCI ACWI ex US net/Custom Index, linked		5.48%	9.16%	35.72%	9.38%	11.08%	5.57%	
	Lipper International Equity		5.20%	9.45%	33.48%	8.01%	9.82%	5.58%	
	<b>Alternatives Fund</b>	7/1/2010	8.82%	7.46%	16.70%	6.72%	5.55%	5.41%	N/A
	Custom Index 70% HFRI Funds of Funds Composite Index, 30% NCREIF Fund Index		1.87%	3.97%	13.70%	5.70%	6.04%	5.47%	

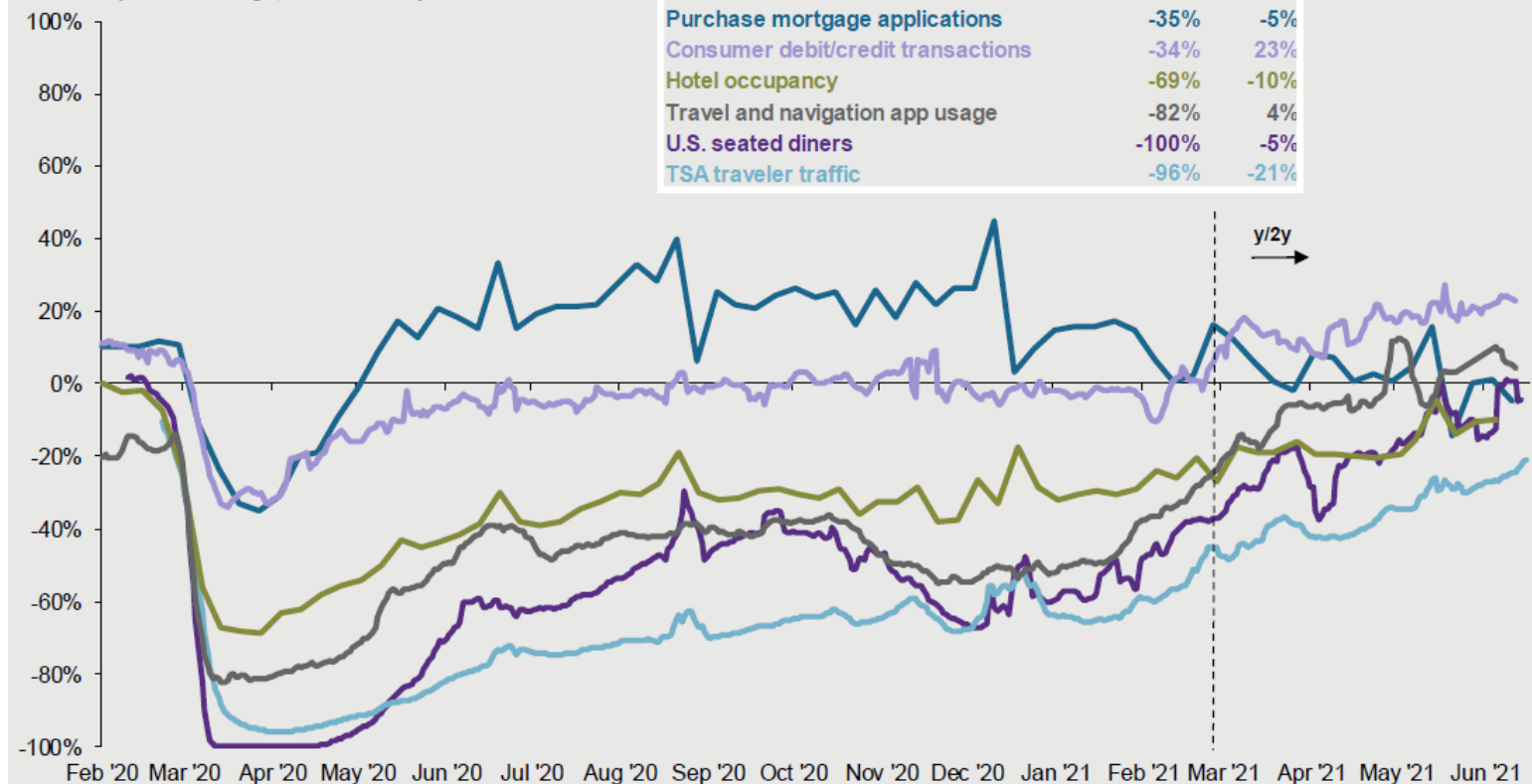
# Investment Performance — Funds of Funds as of June 30, 2021

	TOTAL RATES OF RETURN AS OF 6/30/21					ANNUALIZED				
	Returns on UCF's funds are presented net of fees	Inception Date	Quarter	Year To Date	One Year	Three Years	Five Years	Ten Years	Current Yield	
FUNDS OF FUNDS	<b>Total Equity Fund</b>	10/1/1994	6.31%	12.55%	41.08%	13.89%	14.46%	9.73%	1.56%	
	46.10% Domestic Core Equity, 11.90% Small Cap Equity and 42.00% International E									
	MSCI ACWI IMI net/Policy Index, linked									
	Lipper Global Equity		7.18%	12.68%	40.94%	14.24%	14.55%	10.21%		
			6.14%	12.02%	38.35%	12.31%	12.99%	9.23%		
	<b>Conservative Balanced Fund</b>	1/1/2006	3.64%	3.86%	14.26%	7.91%	6.84%	5.44%	2.00%	
	39.60% Equity, 55.70% Fixed Income and 4.70% C&E									
	Current Policy Index 35% MSCI ACWI IMI net, 65% Fixed Income Policy Index									
	Lipper Mixed Asset Target Allocation Conservative		3.35%	4.25%	14.23%	7.44%	6.31%	5.57%		
	<b>Moderate Balanced Fund</b>	circa 1958	4.63%	7.27%	24.05%	10.36%	9.83%	7.15%	1.75%	
	64.70% Equity, 30.00% Fixed Income and 5.30% C&E									
	Current Policy Index 60% MSCI ACWI IMI net, 40% Fixed Income Policy Index									
	Lipper Mixed Asset Target Allocation Moderate		4.52%	7.62%	22.57%	9.79%	8.92%	7.36%		
	<b>Aggressive Balanced Fund</b>	1/1/2006	5.25%	9.32%	30.43%	11.67%	11.59%	8.11%	1.63%	
	78.40% Equity, 16.40% Fixed Income and 5.20% C&E									
	Current Policy Index 75% MSCI ACWI IMI net, 25% Fixed Income Policy Index									
	Lipper Mixed Asset Target Allocation Aggressive		5.66%	9.74%	29.70%	12.03%	11.42%	9.05%		
	<b>Beyond Fossil Fuels Balanced Fund</b>	11/3/2014	4.85%	8.68%	24.23%	10.59%	10.06%	N/A	2.06%	
	65.50% BFF, 29.20% Fixed Income and 5.30% C&E									
	Current Policy Index 60% MSCI ACWI IMI net, 40% Fixed Income Policy Index									
Lipper Mixed Asset Target Allocation Moderate		4.52%	7.62%	22.57%	9.79%	8.92%				
<b>Alternatives Balanced Fund</b>	7/1/2010	5.99%	7.96%	24.95%	9.92%	9.46%	7.01%	N/A		
54.8% Equity, 17.0% Fixed Income, 25.8% Alternatives, 2.4% C&E										
Current Policy Index 50% MSCI ACWI IMI net, 30% Fixed Income Policy and 20% Alternatives Policy										
		4.67%	6.56%	22.54%	10.31%	9.69%	7.57%			

# Strategy and Positioning — Markets Versus The Economy

## High-frequency data

Year-over-year % change; Year-over-2 year after 3/15/21\*

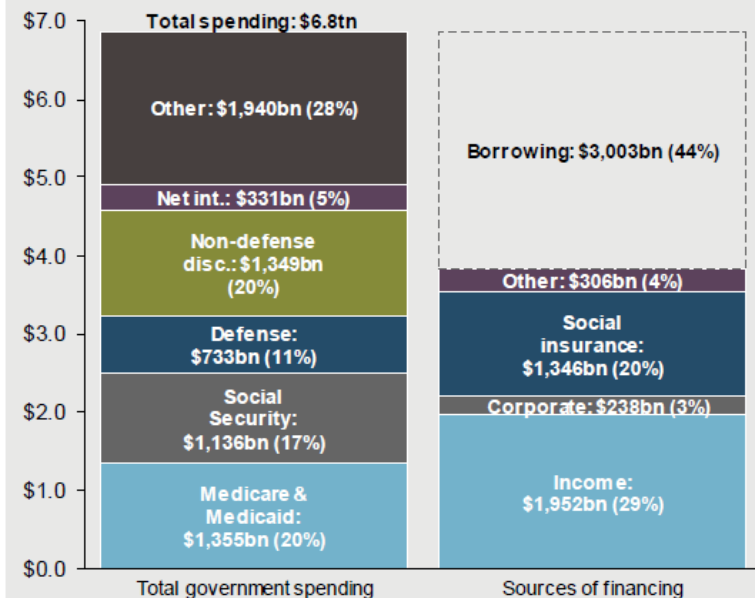


- The world's largest economies have reopened, leading to an acceleration in leisure and travel activity.
- U.S. unemployment has now reached 5.9%, with nearly the same number of available jobs to officially unemployed persons.

# Strategy and Positioning — Economic Recovery

## The 2021 federal budget

CBO Baseline forecast, USD trillions

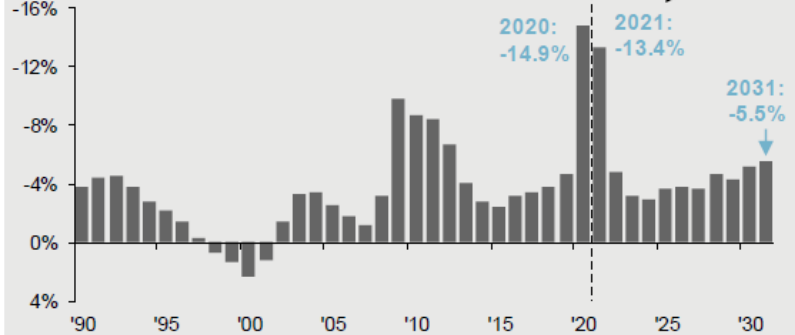


### CBO's Baseline economic assumptions

	2021	'22-'23	'24-'25	'26-'31
Real GDP growth	4.2%	4.0%	1.1%	1.6%
10-year Treasury	1.4%	1.9%	2.4%	3.1%
Headline inflation (CPI)	2.7%	2.5%	2.4%	2.4%
Unemployment	6.0%	3.9%	4.0%	4.4%

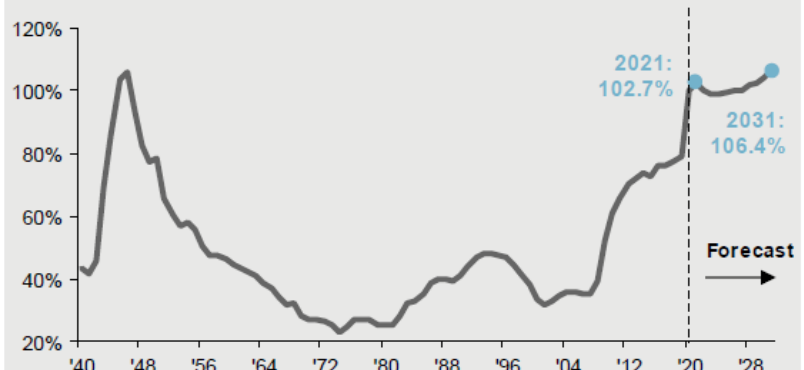
## Federal budget surplus/deficit

% of GDP, 1990 – 2031, CBO Baseline Forecast



## Federal net debt (accumulated deficits)

% of GDP, 1940 – 2031, CBO Baseline Forecast, end of fiscal year

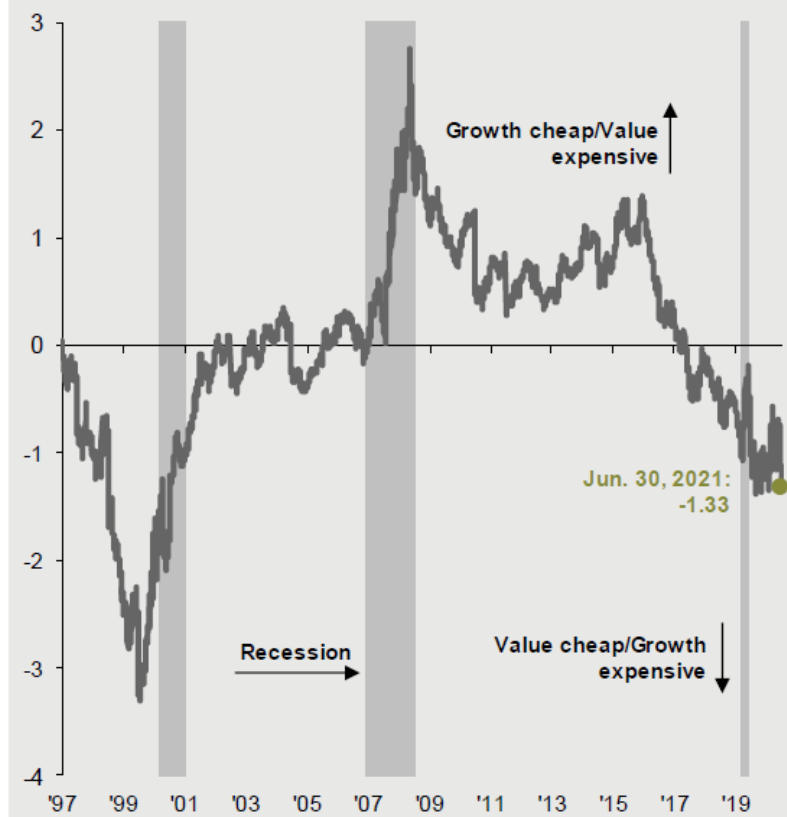


- The unprecedented fiscal and monetary stimulus packages around the globe have kept markets elevated.
- Concerns are surfacing about whether higher inflation is transitory or more structural.

# Strategy and Positioning — Dynamic Allocations (Value vs. Growth)

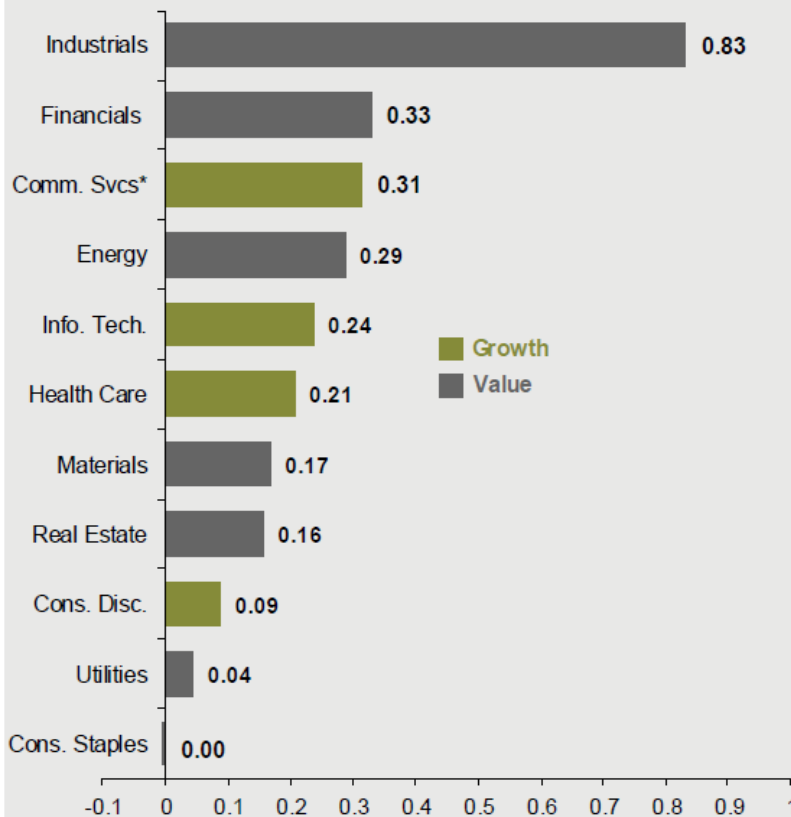
## Value vs. Growth relative valuations

Rel. fwd. P/E ratio of Value vs. Growth, z-score, Dec. 1997 - present



## S&P 500 sector earnings correlation to real GDP

1Q 2009 - 4Q 2020



- Growth has outperformed value over the past decade. Value has the potential to outpace growth as the economy recovers and interest rates rise.

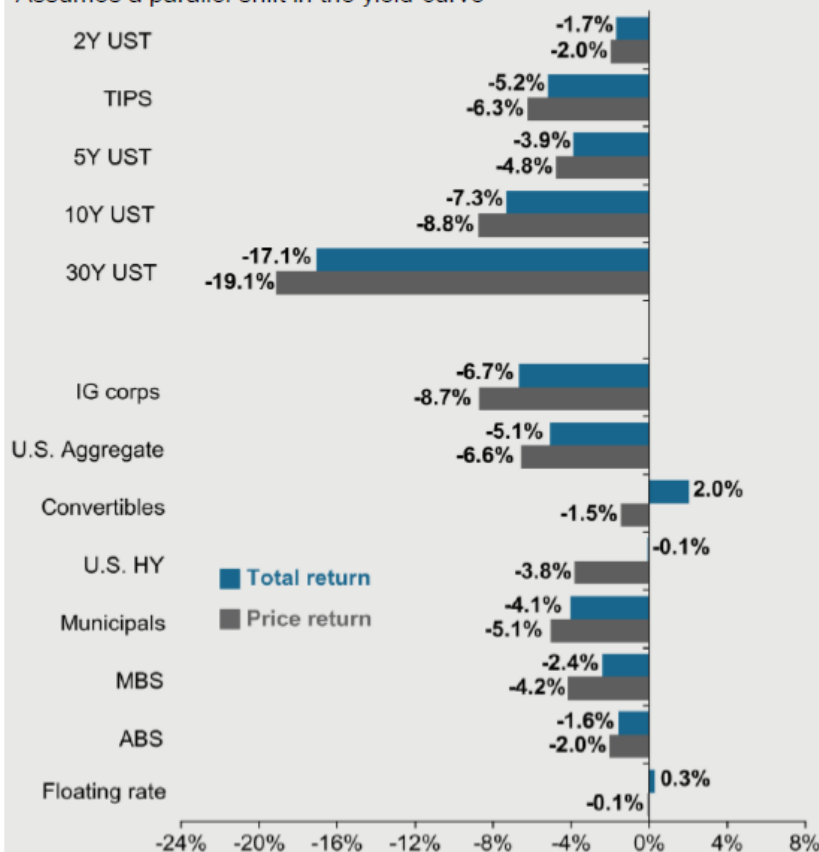


# Strategy and Positioning — Dynamic Allocations (Fixed Income)

U.S. Treasuries	Yield		Return		Avg. Maturity	Correlation to 10-year	Correlation to S&P 500
	6/30/2021	12/31/2020	2021 YTD				
2-Year	0.25%	0.13%	-0.13%	2 years	0.67	-0.40	
5-Year	0.87%	0.36%	-1.78%	5	0.92	-0.36	
TIPS	-0.87%	-1.06%	1.73%	10	0.57	0.19	
10-Year	1.45%	0.93%	-4.17%	10	1.00	-0.33	
30-Year	2.06%	1.65%	-9.25%	30	0.93	-0.32	
Sector							
IG corps	2.04%	1.74%	-1.27%	12.2	0.42	0.39	
U.S. Aggregate	1.50%	1.12%	-1.60%	8.5	0.85	0.02	
Convertibles	4.44%	4.91%	7.16%	-	-0.28	0.88	
U.S. HY	3.75%	4.18%	3.62%	6.6	-0.25	0.73	
Municipals	1.00%	1.07%	1.06%	13.0	0.37	0.10	
MBS	1.77%	1.25%	-0.77%	5.5	0.81	-0.15	
ABS	1.88%	2.87%	1.18%	2.1	-0.08	0.08	
Floating rate	0.35%	0.54%	0.45%	2.0	-0.21	0.44	

## Impact of a 1% rise in interest rates

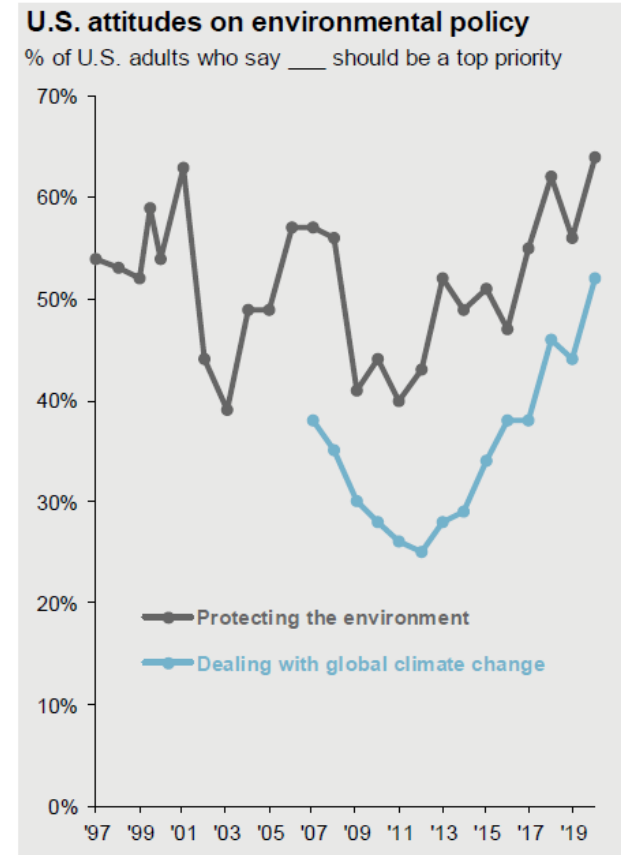
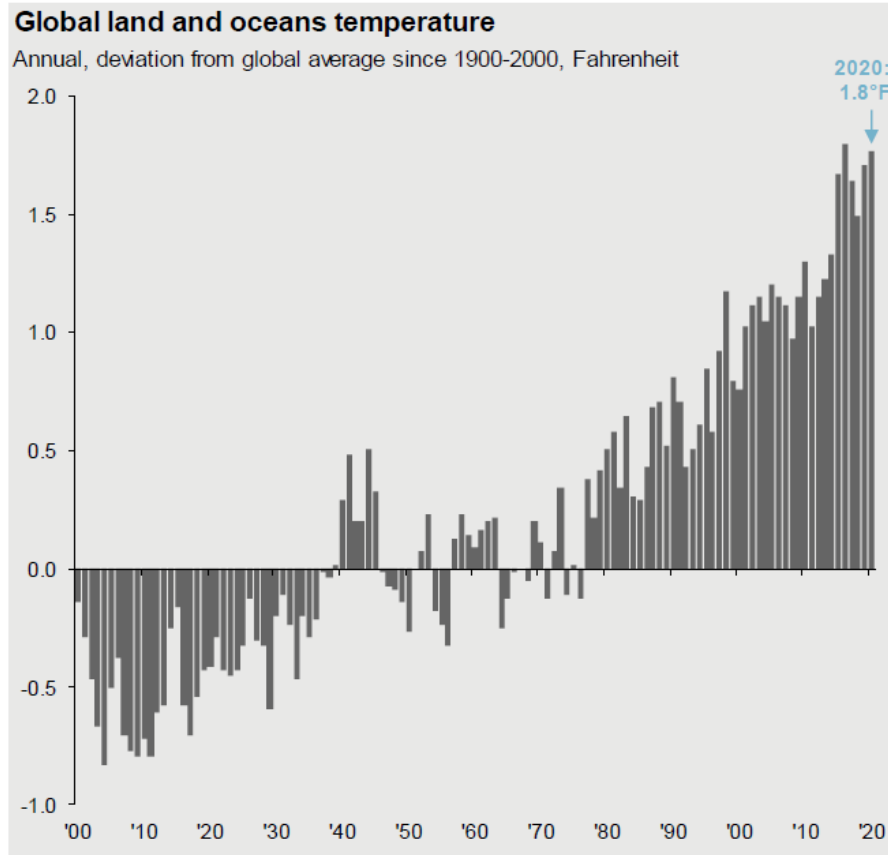
Assumes a parallel shift in the yield curve



- Core fixed income looks less compelling, given low rates and a tight spread environment.



# Strategy and Positioning — Macro Risk (Climate Change)



- Beyond the concerns around COVID-19 variants, inflation, U.S.-China trade tensions and social and political unrest, climate change has increasingly become a top priority. Although individuals, corporations, and countries are moving to act, we will have to see the speed of those actions and the measures taken.

# Strategy and Positioning — Factor Performance

																2006 - 2020	
2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	YTD	Ann.	Vol.
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%	Cash 1.8%	Large Cap 31.5%	Small Cap 20.0%	REITs 21.3%	Large Cap 9.9%	EM Equity 23.3%
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%	Fixed Income 0.0%	REITs 28.7%	EM Equity 18.7%	Comdty. 21.1%	Small Cap 8.9%	REITs 23.1%
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 -4.0%	Small Cap 25.5%	Large Cap 18.4%	Small Cap 17.5%	High Yield 7.5%	Small Cap 22.6%
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%	High Yield -4.1%	DM Equity 22.7%	Asset Alloc. 10.6%	Large Cap 15.3%	REITs 7.1%	DM Equity 19.1%
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%	Large Cap -4.4%	Asset Alloc. 19.5%	DM Equity 8.3%	DM Equity 9.2%	EM Equity 6.9%	Comdty. 18.8%
Asset Alloc. 15.8%	Large Cap 5.5%	Comdty. -35.6%	Large Cap 21.5%	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%	Asset Alloc. -5.8%	EM Equity 18.9%	Fixed Income 7.5%	Asset Alloc. 9.2%	Asset Alloc. 6.7%	Large Cap 16.7%
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%	Small Cap -11.0%	High Yield 12.6%	High Yield 7.0%	EM Equity 7.6%	DM Equity 5.0%	High Yield 12.2%
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%	Comdty. -11.2%	Fixed Income 8.7%	Cash 0.5%	High Yield 2.1%	Fixed Income 4.5%	Asset Alloc. 11.8%
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%	DM Equity -13.4%	Comdty. 7.7%	Comdty. -3.1%	Cash 0.0%	Cash 1.2%	Fixed Income 3.2%
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 -14.2%	Cash 2.2%	REITs -5.1%	Fixed Income -1.6%	Comdty. -4.0%	Cash 0.8%

- Active investment managers will tilt allocations within a diversified portfolio to take advantage of or avoid certain asset classes or strategies. Staying diversified is key to long-term returns.

# Thank you!

United Church Funds appreciates the opportunity to share in and support the mission of your ministry.



*Investing involves risk. Consider the funds' investment objectives, risks and other factors, which are discussed in the Funds Description Statement. Past performance is no guarantee of future results.*