

# MARKET UPDATE TOWNHALL MEETING

## FIRST QUARTER 2022

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May 11, 2022



# 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.

# Poll Question

## Townhall Meeting Agenda

1. Welcome and Introductions Charles Buck, UCF President & CEO
2. UCF Organizational Updates Stacey Pettice, Executive, Institutional Relationships
3. Responsible Investing Updates Matthew Illian, Director of Responsible Investing
4. Market and Fund Updates Matt Wagner, VP, Institutional Relationships  
Stacey Pettice, Executive, Institutional Relationships  
UCF Investments Team
5. Q&A with Townhall Participants

# United Church Funds — Organizational Updates Q1 2022

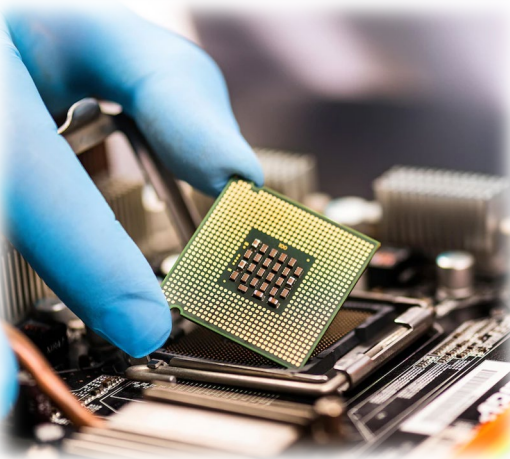
- 2021 UCF Annual Report Now Available
  - ▣ Newly published 2021 Annual Report can be viewed at [ucfunds.org/2021-annual-report/](https://ucfunds.org/2021-annual-report/)
- UCF Announces Helen & Richard Brown Scholars for 2022
  - ▣ \$174K awarded in scholarships to 31 students.
  - ▣ Scholarships range from \$3K-\$8K per student, representing 14 seminaries and 17 conferences
- UCF Leads Presentation on Sustainable Investing at CHHSM Annual Gathering
  - ▣ Workshop tying sustainable investing and operational priorities to U.N.'s Sustainability Development Goals can be viewed at <https://ucfunds.org/organizational-sustainability-unsdg/>
- New Resource for Updating Your Organization's Authorized Officers
  - ▣ Form and instructions available at [ucfunds.org/news/account-forms/](https://ucfunds.org/news/account-forms/)

# Responsible Investing

## Investment that Creates a Just World for All



# UCF's Commitment to a Just Peace



- UCF screens out 178 companies due to their ties to weapons manufacturing. Largest disqualifying category by far, representing 45% of total general screens.\*
- We engage with tech companies that manufacture products used in military surveillance and were part of a group that negotiated with NVIDIA chipmaker to create a human rights policy that:
  - ❑ Endorses internationally recognized human rights principles, e.g. United National Global Compact.
  - ❑ Commits company to protect data privacy and to procure required minerals for hardware from conflict-free sources.
  - ❑ Clarifies governance oversight of human rights abuses.

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\*Does not include BFF and BFF Balanced Funds, for which UCF screens an additional 134 companies.



# New S.E.C. Climate Disclosure Rules

## Important Steps in Addressing Climate Change:

- Moves corporate climate reporting from voluntary and inconsistent to reliable and consistent (in 10-k and similar filings).
- Requires Scope 1 & 2 GHG emission reporting with independent auditing. (Scope 3 reporting determined by material relevance.)
- Begins in 2024 for large employers\* – not until 2026 for smaller reporting companies.

## Opportunities to Improve:

- Sole attention on financial impact can obscure social impacts of climate change.
- Communities most impacted by the climate transition, including indigenous communities should be consulted as experts.
- Scope 3 Emissions – “Safe Harbor” allows much of the emissions in supply chain to avoid accountability.

\*The roughly 2,500 largest publicly traded companies (which includes the entire S&P 500), all of which have a public float over \$700 million.



# UCF – 2022 Shareholder Resolutions: Meeting Updates



Independent Chair  
**May 4, 2022**

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Climate Lobbying  
Disclosure **May 5, 2022**

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J.P.Morgan

End Fossil Fuel  
Financing  
**May 17, 2022**



Lobbying Disclosure  
**May 25, 2022**

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Wages, Benefits and  
Employee Safety  
**June 2022**



Climate Lobbying  
Disclosure  
**September 2022**

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Lobbying Disclosure  
**Shareholder Resolution  
Withdrawn.**

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**NVIDIA**  
Human Rights Policy  
**Shareholder Resolution  
Withdrawn.**

# UCF – 2022 Shareholder Resolutions: Meeting Updates



## **Independent Chair:**

40.3% support is strong, but more is needed for majority.



## **Wages, Benefits and Employee Safety:**

SEC rules resolution can be omitted.  
Dialogue continues.



## **Human Rights Policy:**

Resolution withdrawn due to substantial implementation by company

# Poll Question

# Investment Performance — Themes

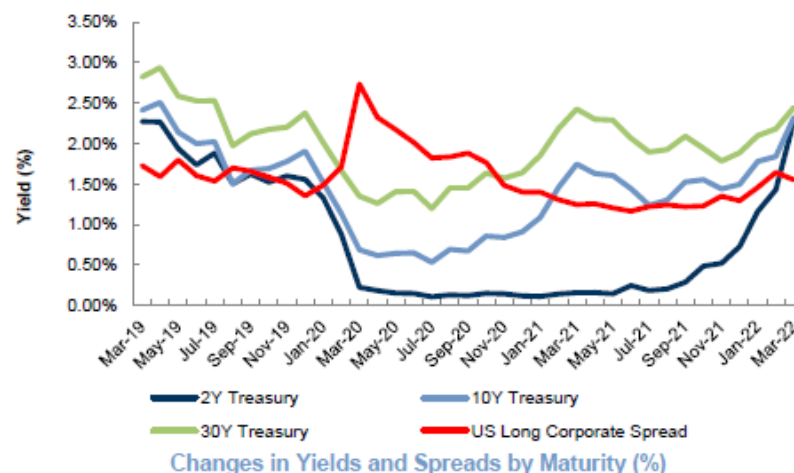
- **Global Markets Turn Negative After A Strong 2021:** Global equity markets sold off in the first quarter, reflecting concerns over rising inflation and Russia's military aggression, among other factors. Fixed income returns had their poorest showing since 1982.
- **Economy Growth Slowing:** The economy accelerated in 2021 due to two engines – the world's largest economies re-opening and significant monetary and fiscal stimulus. Inflation will be a headwind going forward. That said, wage and employment growth will create demand to keep the economy growing, albeit more slowly.
- **Significant Macro Risks:** Russia's invasion of Ukraine has created significant macro instability, especially for Europe. Other risks include the emergence of a new covid variant, supply chain disruptions, inflation and growing income inequality.
- **Dynamic Allocations, Long-Term Strategy:** UCF continues to be vigilant about increased risks and potential opportunities from market volatility. In Balanced Funds, UCF reduced equity exposure to neutral after a strong rebound in March and are underweight to fixed income, in addition to holding cash to deploy at a future opportunity. As a long-term investment manager, balancing asset allocation decisions and manager selections remains an important part of a longer-term view of markets.

# Investment Performance — Markets

Public Markets Performance (USD)

	Q1	2021	3 Yr	5 Yr	10 Yr
MSCI World	-5.2%	21.8%	15.0%	12.4%	10.9%
ACWI IMI	-5.5%	18.2%	13.5%	11.4%	9.9%
S&P 500	-4.6%	28.7%	18.9%	16.0%	14.6%
MSCI EAFE	-5.9%	11.3%	7.8%	6.7%	6.3%
Russell 2000	-7.6%	14.5%	11.3%	9.3%	10.6%
MSCI World ex-US Small Cap	-7.2%	11.1%	9.5%	7.8%	7.8%
MSCI EM Equity	-7.0%	-2.5%	4.9%	6.0%	3.4%
Barclays Global Aggregate	-6.2%	-4.7%	0.7%	1.7%	1.0%
Barclays US Long Treasury	-10.6%	-4.7%	3.3%	3.9%	4.0%
Barclays US Long Corporate	-11.4%	-1.1%	4.6%	4.9%	5.2%
JPM EM Debt	-10.0%	-1.8%	0.0%	1.7%	3.7%
JPM EM Debt Local	-6.5%	-8.7%	-1.1%	0.2%	-0.7%
Barclays Global High Yield	-5.7%	1.0%	2.6%	3.3%	4.9%
FTSE/NAREIT Global	-3.9%	26.4%	5.6%	6.7%	7.1%
GSCI Commodities	33.1%	40.4%	13.4%	10.0%	-3.3%

Discount Rate Factors (%)



	Mar 2022	Δ 1 mth	Δ 3 mth	Δ 1 yr
<b>Risk Free</b>				
2Y Treasury	2.28	0.85	1.55	2.12
10Y Treasury	2.32	0.48	0.83	0.58
30Y Treasury	2.45	0.27	0.56	0.02
<b>US Long Corporate Spread</b>	1.55	(0.09)	0.26	0.30
<b>Moody's Long AA Corporate Yield</b>	3.54	0.08	0.72	0.33

As of 31-March-2022. 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 March 31, 2022

TOTAL RATES OF RETURN AS OF 3/31/22		ANNUALIZED							
MANAGED FUNDS	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
	<b>Fixed Income Fund</b>	10/1/1994	-5.38%	-5.38%	-3.89%	1.49%	1.80%	1.88%	2.76%
	Fixed Income Policy Index 85% Barclays US Gov't/Credit Aggregate, 5% JPM GBI-EM Global Diversified, 10% S&P Lipper Core Plus Fixed Income		-5.81%	-5.81%	-3.35%	2.26%	2.58%	2.49%	
	<b>Domestic Core Equity Fund</b>	10/1/2005	-4.37%	-4.37%	15.39%	17.15%	14.61%	13.68%	1.35%
	S&P 500 Index		-4.60%	-4.60%	15.65%	18.93%	15.99%	14.64%	
	Lipper Large Cap Core		-5.62%	-5.62%	12.91%	17.68%	14.97%	13.53%	
	<b>Beyond Fossil Fuels Fund</b>	11/3/2014	-5.63%	-5.63%	7.28%	13.33%	10.53%	N/A	2.66%
	S&P 500/MSCI ACWI IMI net, linked		-5.47%	-5.47%	6.30%	13.49%	11.37%		
	Lipper Global Equity		-7.17%	-7.17%	3.91%	11.45%	10.00%		
	<b>Small Cap Equity Fund</b>	10/1/2005	-7.35%	-7.35%	-4.11%	14.19%	11.23%	11.47%	1.08%
	Russell 2000 Index		-7.53%	-7.53%	-5.79%	11.74%	9.74%	11.04%	
	Lipper Small Cap Core		-5.39%	-5.39%	2.05%	12.50%	9.20%	10.61%	
	<b>International Equity Fund</b>	10/1/2005	-10.86%	-10.86%	-9.28%	7.29%	6.21%	5.14%	2.83%
	MSCI ACWI ex US net/Custom Index, linked		-5.44%	-5.44%	-1.48%	7.51%	6.76%	5.63%	
	Lipper International Equity		-6.43%	-6.43%	-0.48%	7.24%	6.02%	5.70%	
	<b>Alternatives Fund</b>	7/1/2010	2.31%	2.31%	14.77%	8.98%	6.49%	5.99%	N/A
	Custom Index 70% HFRI Funds of Funds Composite Index, 30% NCREIF Fund Index		-1.89%	-1.89%	6.59%	6.82%	5.81%	5.82%	



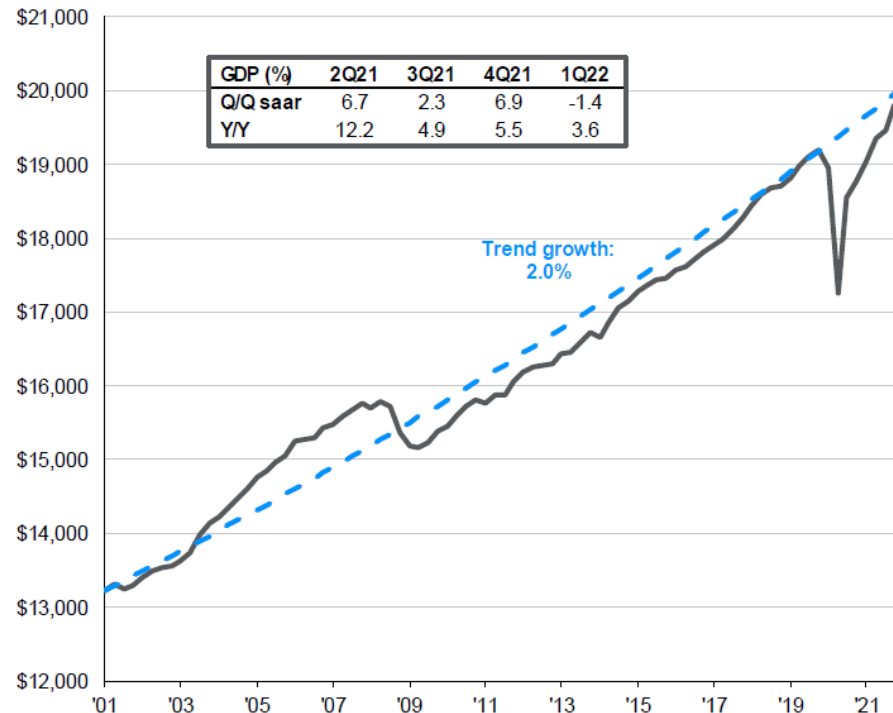
# Investment Performance — Funds of Funds as of March 31, 2022

TOTAL RATES OF RETURN AS OF 3/31/22		ANNUALIZED							
<i>Returns on UCF's funds are presented net of fees</i>		<i>Inception Date</i>	Quarter	Year To Date	One Year	Three Years	Five Years	Ten Years	Current Yield
FUNDS OF FUNDS	<b>Total Equity Fund</b>								
	49.40% Domestic Core Equity, 12.10% Small Cap Equity and 38.50% International Equity	10/1/1994	-7.33%	-7.33%	2.36%	12.48%	10.35%	9.39%	1.89%
	MSCI ACWI IMI net/Policy Index, linked		-5.47%	-5.47%	6.30%	13.49%	11.37%	10.06%	
	Lipper Global Equity		-7.17%	-7.17%	3.91%	11.45%	10.00%	9.19%	
	<b>UCF Balanced Fund</b>	<i>circa 1958</i>	-6.34%	-6.34%	0.24%	8.41%	7.09%	6.49%	2.07%
	62.60% Equity, 32.30% Fixed Income and 5.10% C&E								
	Current Policy Index 60% MSCI ACWI IMI net, 40% Fixed Income Policy Index		-5.57%	-5.57%	2.46%	9.22%	8.05%	7.19%	
	Lipper Mixed Asset Target Allocation UCF Balanced		-5.13%	-5.13%	2.51%	8.44%	7.19%	6.74%	
	<b>Beyond Fossil Fuels Balanced Fund</b>	11/3/2014	-5.36%	-5.36%	3.53%	9.76%	7.76%	N/A	2.33%
	62.50% BFF, 32.30% Fixed Income and 5.20% C&E								
	Current Policy Index 60% MSCI ACWI IMI net, 40% Fixed Income Policy Index		-5.57%	-5.57%	2.46%	9.22%	8.05%		
	Lipper Mixed Asset Target Allocation UCF Balanced		-5.13%	-5.13%	2.51%	8.44%	7.19%		
	<b>Alternatives Balanced Fund</b>	7/1/2010	-4.34%	-4.34%	4.32%	9.19%	7.47%	6.76%	N/A
	53.3% Equity, 16.2% Fixed Income, 29.0% Alternatives, 1.5% C&E								
	Current Policy Index 50% MSCI ACWI IMI net, 30% Fixed Income Policy and 20% Alternatives Policy		-4.83%	-4.83%	3.50%	9.01%	7.81%	7.14%	

# Strategy and Positioning — Slowing Economic Growth Trend

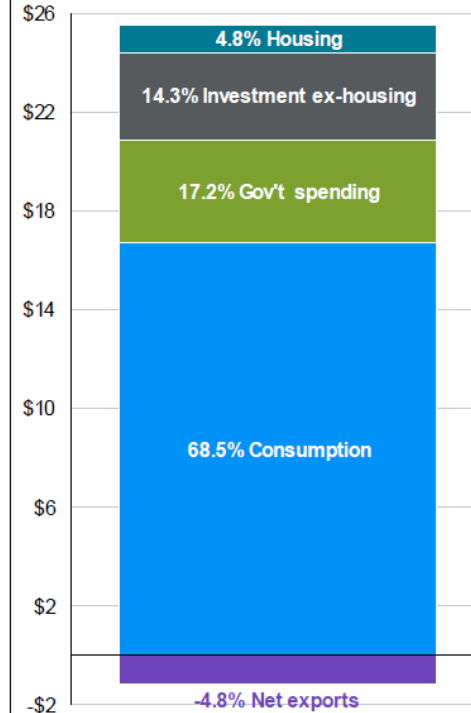
## Real GDP

Billions of chained (2012) dollars, seasonally adjusted at annual rates



## Components of GDP

1Q22 nominal GDP, USD trillions



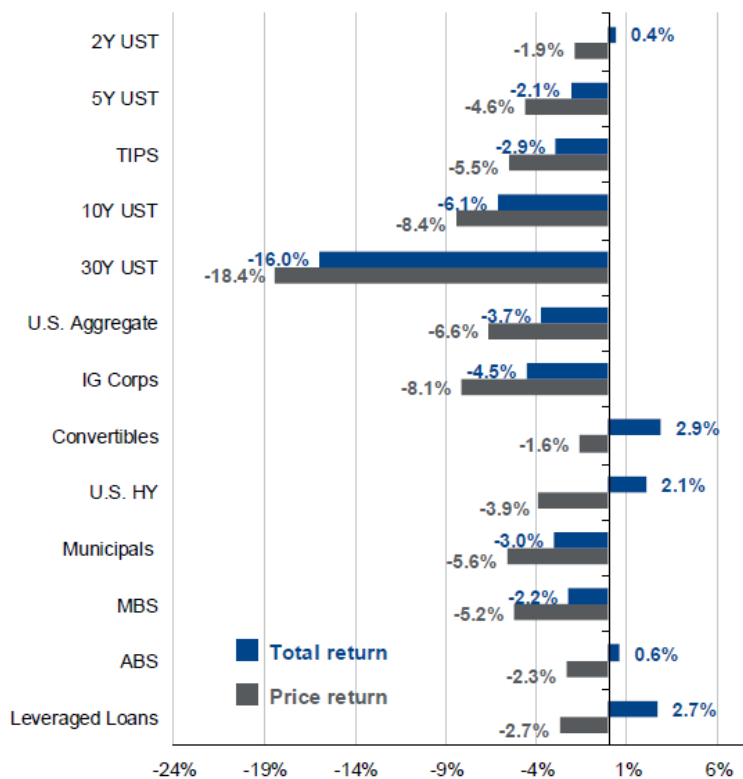
- Economic growth slowed in Q1 2022 after significant improvements back to the trendline in 2021.
- Slowdown is due to rising trade imbalances, a decrease in defense spending, Russia's invasion of Ukraine and inflationary pressures.
- U.S. unemployment has now reached 3.6% as labor markets remain tight.

# Strategy and Positioning — Fixed Income

U.S. Treasuries	Yield		Return			
	03/31/2022	12/31/2021	2022 YTD	Avg. Maturity	Correlation to 10-year	Correlation to S&P 500
2-Year	2.28%	0.73%	-2.54%	2 years	0.68	-0.37
5-Year	2.42%	1.26%	-5.16%	5	0.92	-0.34
TIPS	-0.52%	-1.04%	-3.02%	10	0.58	0.21
10-Year	2.32%	1.52%	-6.86%	10	1.00	-0.31
30-Year	2.44%	1.90%	-11.41%	30	0.93	-0.30
Sector						
U.S. Aggregate	2.92%	1.75%	-5.93%	8.8	0.85	0.04
IG Corps	3.60%	2.33%	-7.69%	11.9	0.44	0.39
Convertibles	4.44%	3.66%	-5.42%	-	-0.26	0.87
U.S. HY	6.01%	4.21%	-4.84%	6.2	-0.23	0.73
Municipals	2.60%	1.11%	-6.23%	12.9	0.40	0.10
MBS	2.99%	1.98%	-4.97%	7.1	0.81	-0.13
ABS	3.45%	1.96%	-2.11%	2.4	-0.42	0.62
Leveraged Loans	5.41%	4.60%	-0.01%	2.7	0.16	0.13

## Impact of a 1% rise in interest rates

Assumes a parallel shift in the yield curve

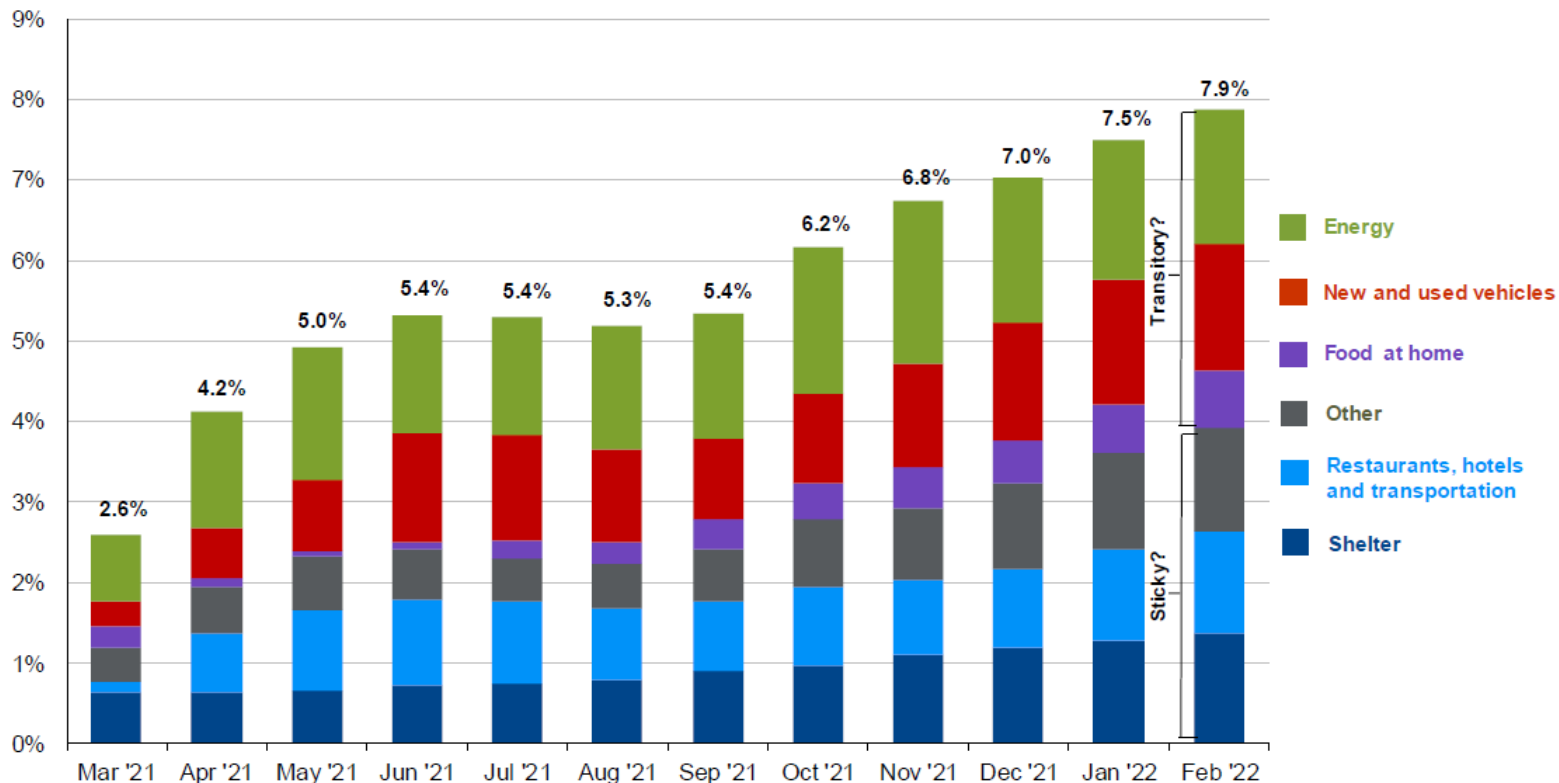


- Fixed income looks less compelling given rising rates.
- Real estate and infrastructure can help provide income with little equity correlation.

# Strategy and Positioning — Inflation: Permanent vs Transitory

## Contributors to headline inflation

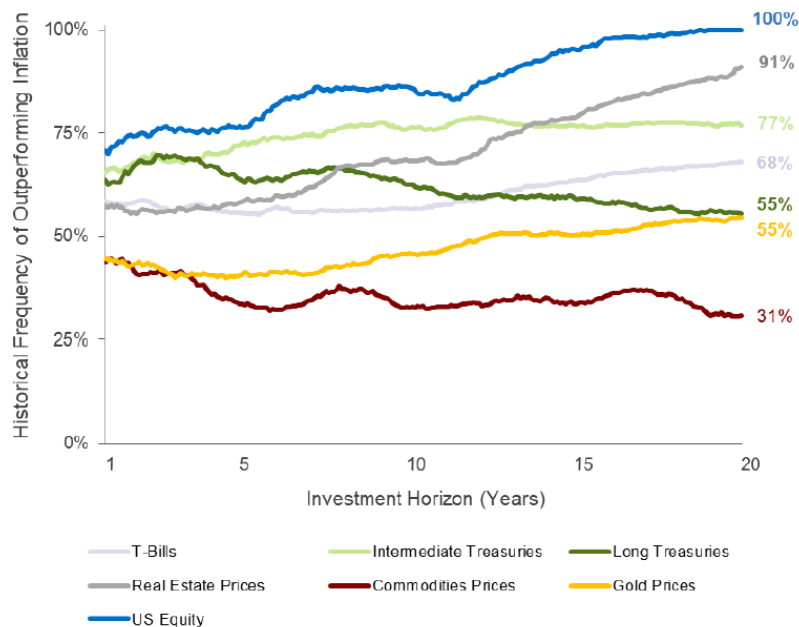
Contribution to y/y % change in CPI, non seasonally adjusted



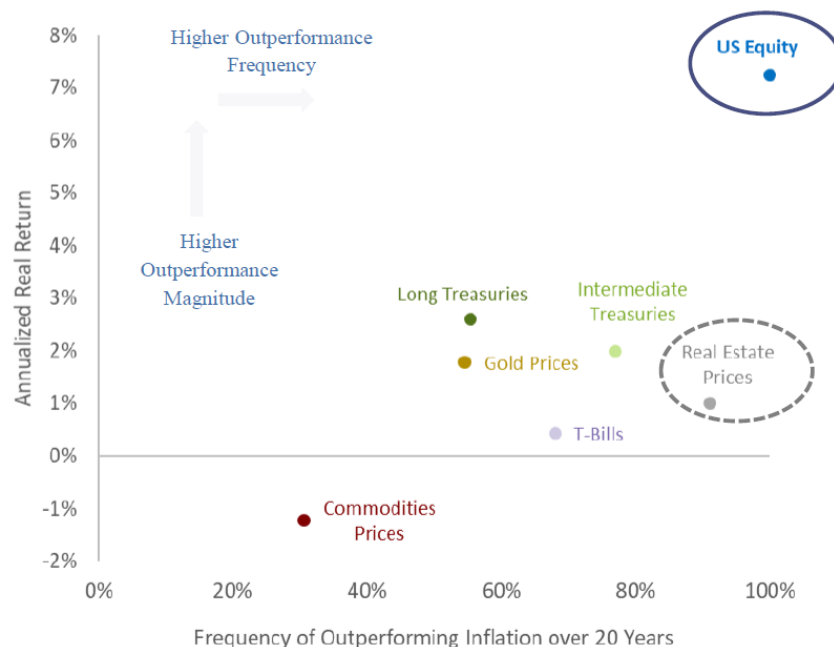
- Energy, new and used vehicles and food prices are likely to be transitory, while stickier parts are likely shelter, restaurants and hotels as the economy continues to open up.

# Strategy and Positioning — Equities Can Combat Inflation

## 1. Frequency of Outperforming Inflation Over a Given Horizon



## 2. Real Returns of Different Asset Classes (1926-2021)

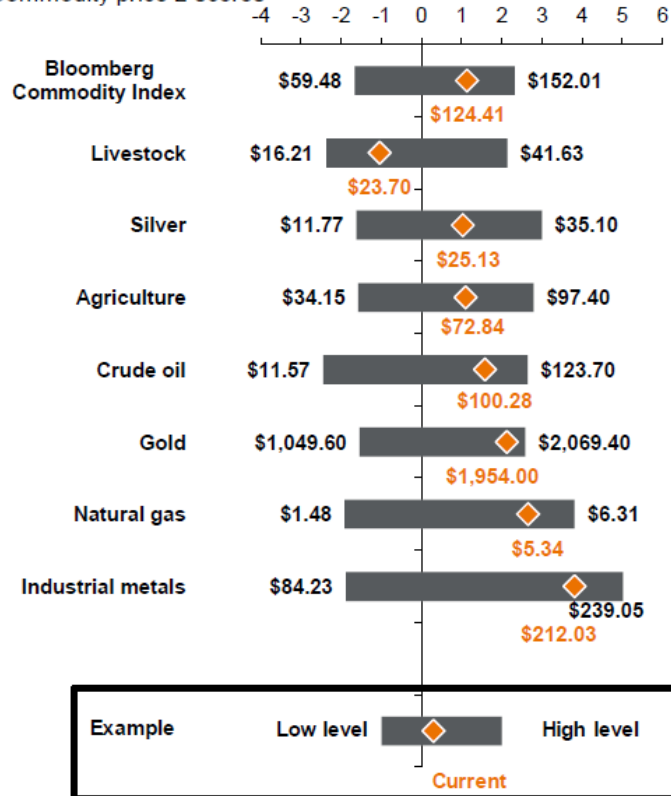


- Equities are most consistent asset class in outperforming inflation, with positive real returns of over 100% of rolling 20-year windows since 1926.
- Equities have delivered annualized total real return of 7.4% since 1926, compared to 0.8 annualized real return for real estate.

# Strategy and Positioning — Macro Risk (Russia)

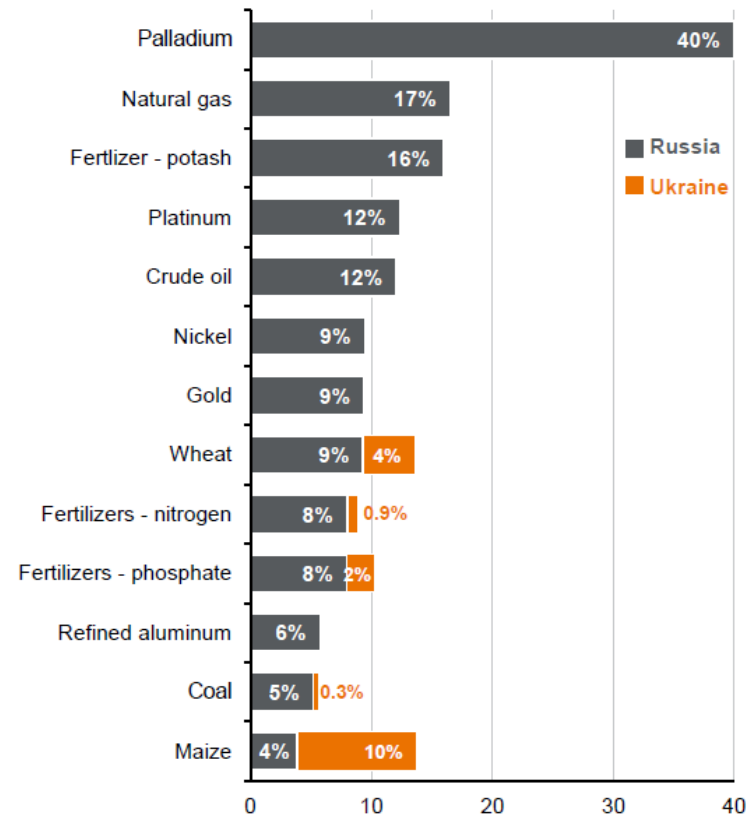
## Commodity prices

Commodity price z-scores



## Contribution to global production of commodities

% of global production, latest



- Many economies are being impacted by the reliance on Russia for commodities. The most significant of these is the EU, which imports 20% of its gas and 25% of its oil from Russia.



Thank you!

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



**Q & A**

*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.*