

# MARKET UPDATE TOWNHALL MEETING

## THIRD QUARTER 2023

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November 2, 2023



# 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, *President & CEO*
2. UCF Organizational Updates      Stacey Pettice, *Institutional Relationships Executive*
3. Responsible Investing Updates      Matthew Illian, *Director of Responsible Investing*
4. Market and Fund Updates      Matt Wagner, *Institutional Relationships VP*  
Stacey Pettice, *Institutional Relationships Executive*
5. Q& A with Townhall Participants

# United Church Funds — Board Member Updates

## UCF Welcomes New Board Chair and Members!

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Rev. Penny Lowes  
*Board Chair*



Rev. Dr. Karen Georgia Thompson  
*Board Member ex Officio*



Bill Lee  
*Investment Committee*



David Misemer  
*Board Member*



Julia Gaughan  
*Board Member ex*

# United Church Funds — UCF Speaking Out



Charles Buck and Matthew Illian  
PRI in Person Conference – Tokyo, Japan

- PRI In-Person Conference (Tokyo) – October 3-5.
- ICCR Event: Living Wage Week – *Corporate Pay Practices and the Need for Investor Support for a Living Wage* – November 7.
- UCC Event: *From Greenwashing to Environmental Justice* – November 8.
- Responsible Investor Conference: RI USA 2023 – November 15-16.



# Responsible Investing

## Investment that Creates a Just World for All



# Responsible Investing – Investing in Peace

## UCF Exclusionary Screens:

- Weapons Production/Military Contracting
  - ❑ We restrict corporations (170 excluded) that:
    - Derive more than 10% of revenues from the sale of conventional weapons, weapons systems, components and support systems and service or nuclear weapons.
- Human Rights
  - ❑ We restrict corporations (40 excluded) that:
    - Cause or contribute to labor and human rights harms and have not taken meaningful efforts to prevent or mitigate these harms.



For a complete list of UCF's exclusionary screens, click [here](#).



## Ongoing Shareholder Engagements:



Calling for third-party audit of human rights due diligence after components found in Russian weapons.



Calling for broad review of human rights policies in surveillance, AI applications and weapons.



Calling for human rights review over allegations of forced labor in supply chain (Uyghur Region in China) and ongoing retail operations in Russia.

## UCF Lauds Dollar Tree Settlement with OSHA

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- \$1.35 million agreement follows years of stakeholder activism.
- Company agreed to make multiple changes to business practices related to unsafe working conditions.
- Dollar Tree will have to pay \$100,000 per day, up to \$500,000, for any future violations of agreement reported by workers and not corrected within 48 hours.
- Agreement only covers workers in 27 U.S. states that participate in the federal OSHA program.



# Responsible Investing – Social and Green Bonds

## **SOCIAL:** Japan International Cooperation Agency (JICA) Peace Building Bonds

- UCF Principal Amount: \$1,750,000.
  - Loan assistance projects related to peace, stability and reconstruction in countries and regions that were or are affected by conflicts.



## **GREEN:** World Bank Emission Reduction-Linked Bonds

- UCF Principal Amount: \$250,000
  - Used to help manufacture water purifiers and make clean water available to around 2 million children in Vietnam.



# Poll Question

# Investment Performance – Themes

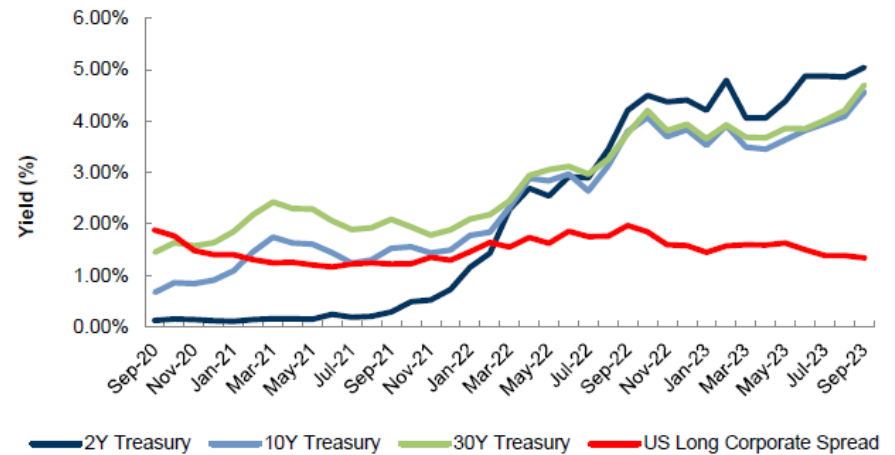
- **Uncertainty Remains for Global Markets:** Global equities enjoyed a strong rally in the first seven months of 2023 but stalled when rates resumed rising. The rising rates in response to the large deficit financing has led to more uncertainties in financial markets.
- **Uneven Global Economic Recovery:** While inflation had started to come down in most countries in the first half of 2023, economic recovery and growth is uneven. Geopolitical risks, regional conflicts and impacts of weather have caused more dispersion globally, leading again to dollar strength.
- **Attractive Returns in Fixed Income Markets:** Fixed income markets pulled back in Q3 2023 as rates resumed rising but continue to provide an attractive return potential, especially if interest rates stabilize and decline.
- **Dynamic Allocations, Long-Term Strategy:** In times of uncertainty, we continue to be vigilant about market risks and potential opportunities. We reduced equity exposure in July and opportunistically added to fixed income. Our long-term commitments to ESG, Impact and DEI are not swayed by market fluctuations.

# Investment Performance – Markets as of September 30, 2023

## Public Markets Performance (USD)

	Q3	YTD	3 Yr	5 Yr	10 Yr
MSCI World	-3.5%	11.1%	8.1%	7.3%	8.3%
MSCI World ESG Leaders	-3.1%	12.1%	8.3%	7.9%	8.3%
ACWI IMI	-3.4%	9.4%	6.9%	6.1%	7.4%
S&P 500	-3.3%	13.1%	10.2%	9.9%	11.9%
Russell 1000	-3.1%	13.0%	9.5%	9.6%	11.6%
MSCI EAFE	-4.1%	7.1%	5.7%	3.2%	3.8%
Russell 2000	-5.2%	2.2%	6.8%	2.0%	6.2%
MSCI EM Equity	-2.9%	1.8%	-1.7%	0.6%	2.1%
Barclays US Govt/Credit	-3.0%	-0.9%	-5.3%	0.4%	1.3%
Barclays Global Aggregate	-3.6%	-2.2%	-6.9%	-1.6%	-0.5%
Barclays US Long Treasury	-11.8%	-8.5%	-15.7%	-2.8%	0.8%
Barclays US Long Corporate	-7.2%	-2.7%	-9.0%	-0.2%	2.7%
JPM EM Debt	-2.2%	1.8%	-4.6%	-0.4%	2.5%
JPM EM Debt Local	-3.3%	4.3%	-2.7%	0.0%	-0.8%
Barclays Global High Yield	-0.2%	5.1%	-0.1%	1.5%	3.2%
FTSE/NAREIT Global	-5.8%	-4.7%	0.8%	-1.1%	2.2%
GSCI Commodities	16.0%	7.2%	29.5%	5.6%	-2.5%

## Yields & Spreads (%)



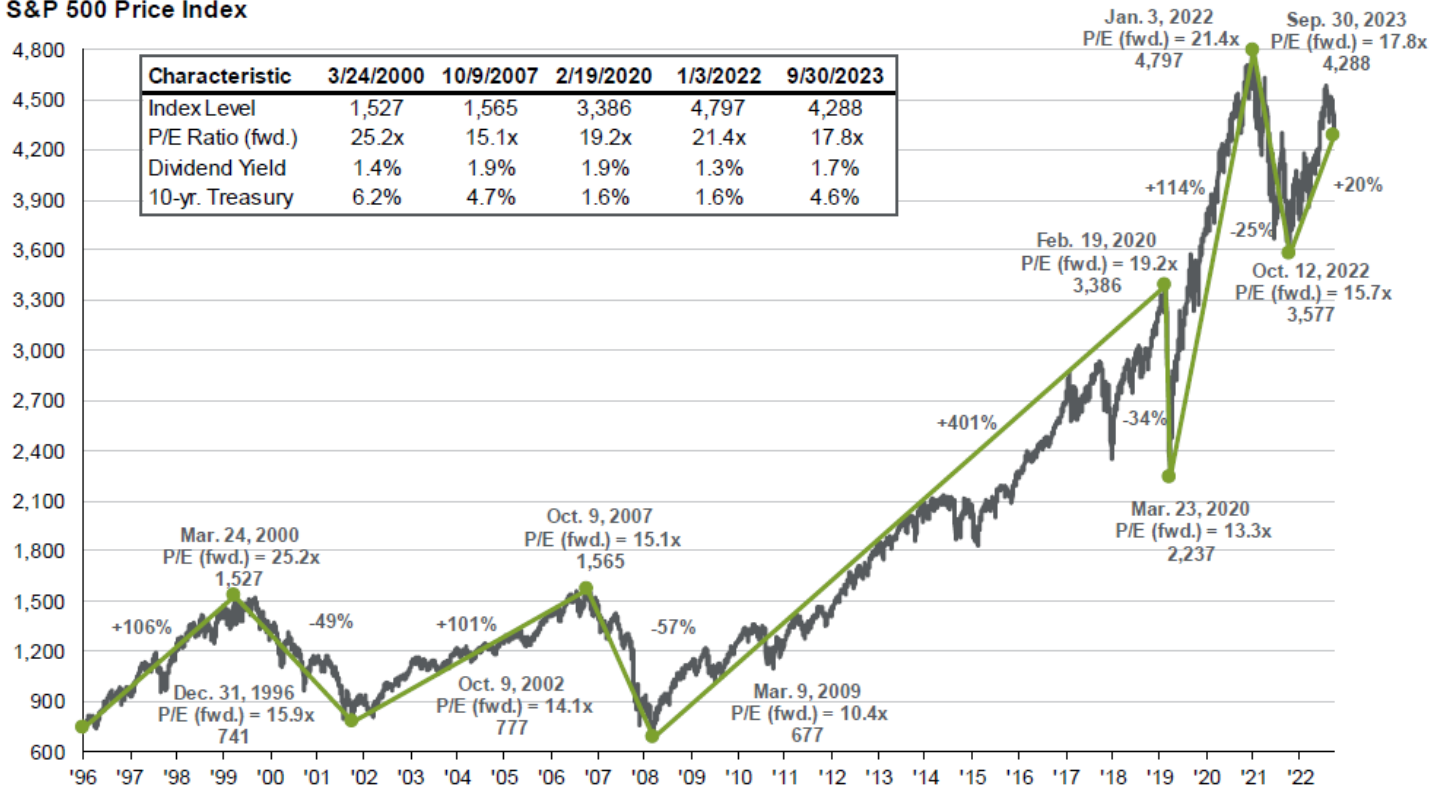
## Changes in Yields and Spreads by Maturity (%)

	30 Sep 2023 (%)	Δ MTD (%)	Δ QTD (%)	Δ YTD (%)
<b>Risk Free</b>				
2Y Treasury	5.05	0.19	0.17	0.64
10Y Treasury	4.57	0.48	0.75	0.73
30Y Treasury	4.71	0.51	0.85	0.77
<b>US Long Corporate Spread</b>	1.34	(0.05)	(0.16)	(0.24)
<b>Moody's Long AA Corporate Yield</b>	5.72	0.45	0.70	0.68



# Strategy and Positioning — S&P 500 at Inflection Points

S&P 500 Price Index

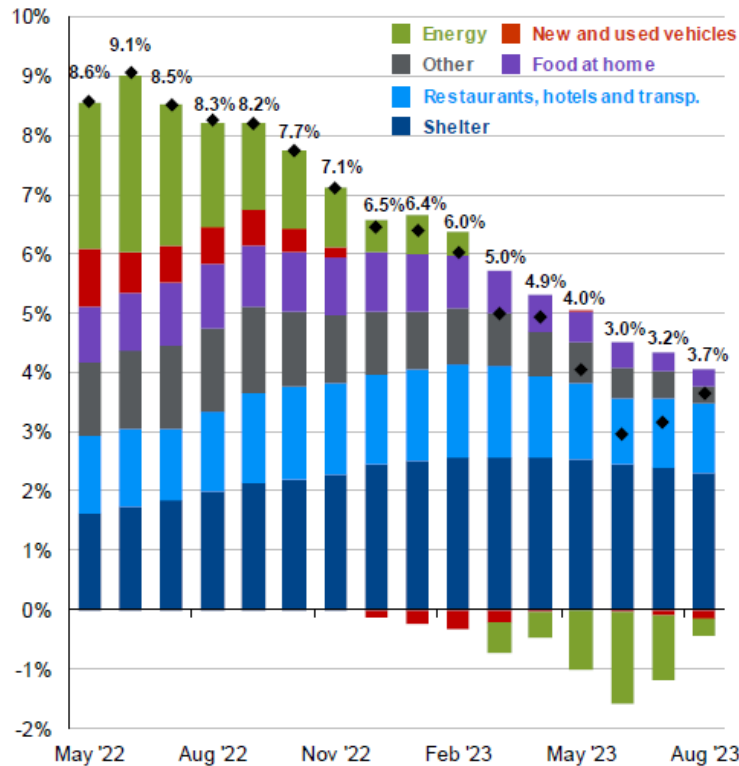


- S&P 500 pulled back third quarter of 2023, driven by macro-economic uncertainty and expectations that interest rates will remain higher for longer.
- Although valuations are close to the historical median, uncertainty across multiple variables are impacting stock market volatility.

# Strategy and Positioning — Inflationary Dynamics

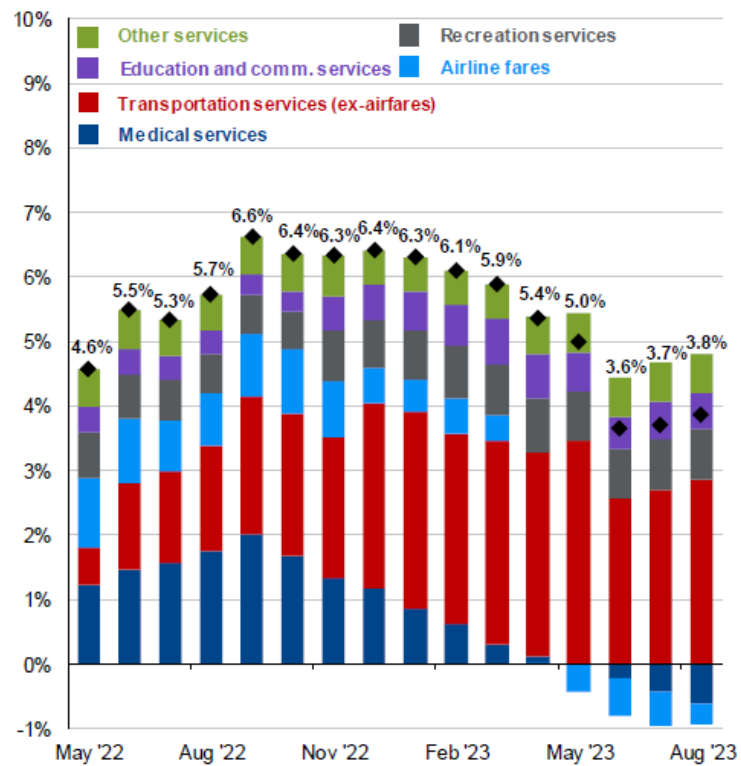
## Contributors to headline CPI inflation

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



## Contributors to core services ex-shelter CPI inflation\*

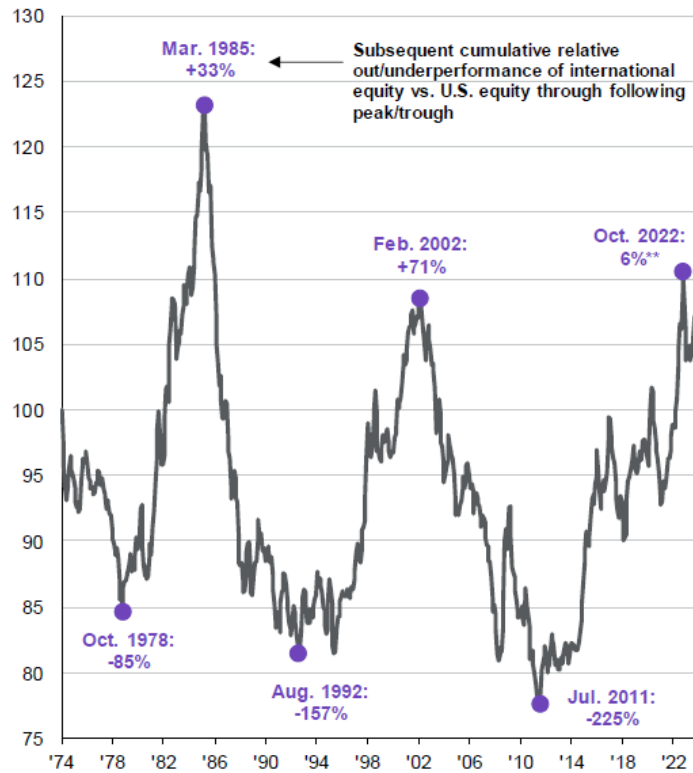
Contribution to y/y % change in custom CPI index, non-seasonally adj.



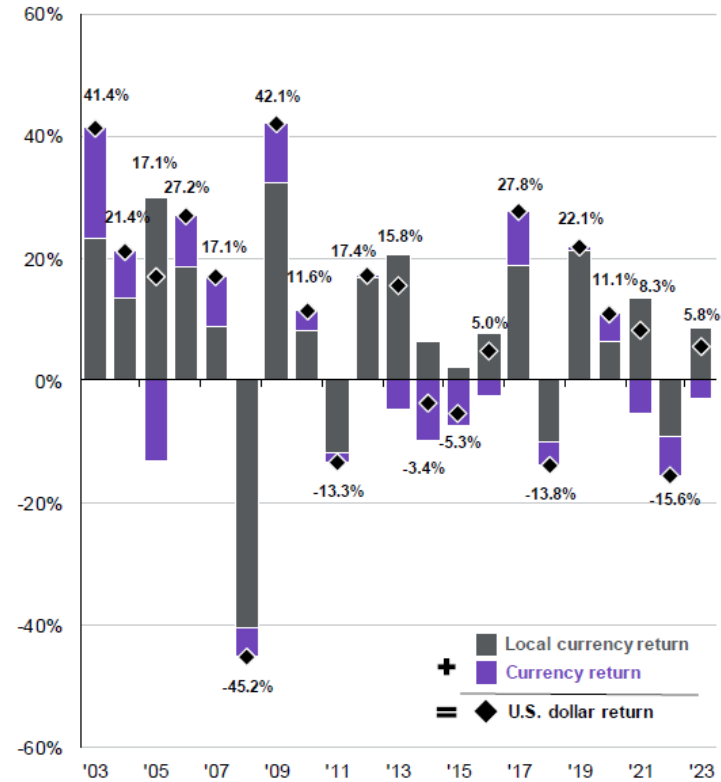
- Headline CPI inflation has declined, led by energy and food prices, since the peak in June 2022.
- Certain components of core inflation, especially transportation services, remain sticky, which could be further impacted by recent UAW strikes.

# Strategy and Positioning — The Dollar Impact

**U.S. dollar and relative international equity returns**  
Real broad effective exchange rate, MSCI World ex-U.S. vs. S&P 500\*



**Currency impact on international returns**  
MSCI All Country World ex-U.S. Index, total return



- The U.S. dollar strengthened during the quarter, which tends to have a negative impact on the international market returns.
- Over the longer term, we expect the dollar to weaken, but we will monitor the currency movements closely.

# Strategy and Positioning — U.S. Large Cap vs EAFE



- On a cumulative basis, U.S. Large Cap equity has materially outperformed both International Developed Large Cap and EM equity since inception.
- This, however, does not mean U.S. Large Cap has consistently outperformed in different market environments underlying that since inception period.

# Strategy and Positioning — U.S. Large Cap vs EAFE

	US LC	EAFE	Difference (US LC - EAFE)		US LC	EM	Difference (US LC - EM)
1996	23.0%	6.4%	16.6%	1996	23.0%	6.0%	16.9%
1997	33.4%	2.1%	31.3%	1997	33.4%	-11.6%	44.9%
1998	28.6%	20.3%	8.3%	1998	28.6%	-25.3%	53.9%
1999	21.0%	27.4%	-6.3%	1999	21.0%	66.4%	-45.4%
2000	-9.1%	-14.0%	4.8%	2000	-9.1%	-30.6%	21.5%
2001	-11.9%	-21.2%	9.3%	2001	-11.9%	-2.4%	-9.5%
2002	-22.1%	-15.7%	-6.4%	2002	-22.1%	-6.0%	-16.1%
2003	28.7%	39.2%	-10.5%	2003	28.7%	56.3%	-27.6%
2004	10.9%	20.7%	-9.8%	2004	10.9%	26.0%	-15.1%
2005	4.9%	14.0%	-9.1%	2005	4.9%	34.5%	-29.6%
2006	15.8%	26.9%	-11.1%	2006	15.8%	32.6%	-16.8%
2007	5.5%	11.6%	-6.1%	2007	5.5%	39.8%	-34.3%
2008	-37.0%	-43.1%	6.1%	2008	-37.0%	-53.2%	16.2%
2009	26.5%	32.5%	-6.0%	2009	26.5%	79.0%	-52.6%
2010	15.1%	8.2%	6.9%	2010	15.1%	19.2%	-4.1%
2011	2.1%	-11.7%	13.8%	2011	2.1%	-18.2%	20.3%
2012	16.0%	17.9%	-1.9%	2012	16.0%	18.6%	-2.6%
2013	32.4%	23.3%	9.1%	2013	32.4%	-2.3%	34.7%
2014	13.7%	-4.5%	18.2%	2014	13.7%	-1.8%	15.5%
2015	1.4%	-0.4%	1.8%	2015	1.4%	-14.6%	16.0%
2016	12.0%	1.5%	10.4%	2016	12.0%	11.6%	0.4%
2017	21.8%	25.6%	-3.8%	2017	21.8%	37.8%	-15.9%
2018	-4.4%	-13.4%	9.0%	2018	-4.4%	-14.2%	9.9%
2019	31.5%	22.7%	8.8%	2019	31.5%	18.9%	12.6%
2020	18.4%	8.3%	10.1%	2020	18.4%	18.7%	-0.3%
2021	28.7%	11.8%	16.9%	2021	28.7%	-2.2%	30.9%
2022	-18.1%	-14.0%	-4.1%	2022	-18.1%	-19.7%	1.6%
YTD 2023	13.1%	7.6%	5.5%	YTD 2023	13.1%	2.2%	10.9%

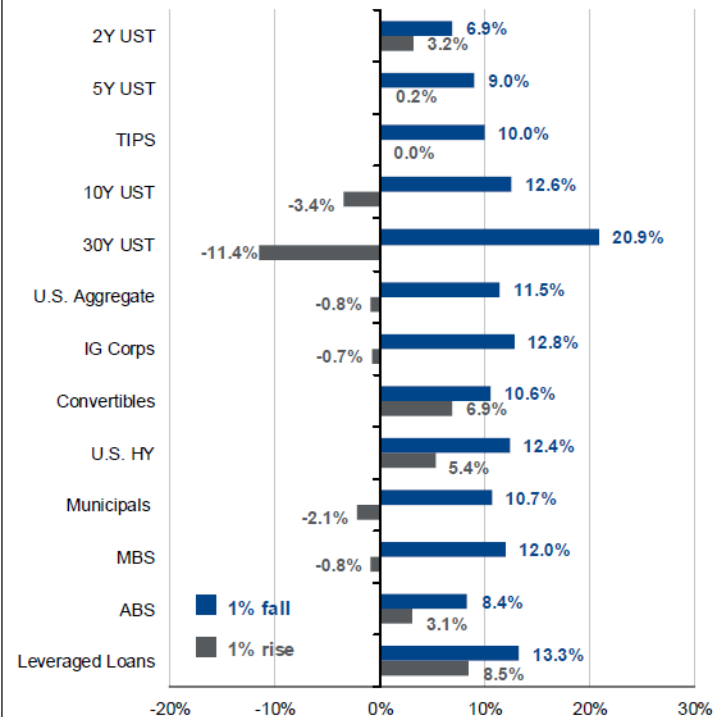
- Dissecting the period into distinct calendar year periods, the MSCI EAFE index outperformed the S&P 500 in 11 out of 28 periods (~39% of periods), while the MSCI EM index outperformed the S&P 500 index in 13 out of 28 periods (~46% of periods).

# Strategy and Positioning — Fixed Income Valuations

U.S. Treasuries	Yield		Return			
	9/30/2023	12/31/2022	2023 YTD	Avg. Maturity	Correlation to 10-year	Correlation to S&P 500
2-Year	5.03%	4.41%	1.14%	2 years	0.74	-0.12
5-Year	4.60%	3.99%	-0.56%	5	0.93	-0.11
TIPS	5.02%	4.38%	-0.78%	7.1	0.62	0.37
10-Year	4.59%	3.88%	-3.43%	10	1.00	-0.12
30-Year	4.73%	3.97%	-9.68%	30	0.93	-0.15
<b>Sector</b>						
U.S. Aggregate	5.39%	4.68%	-1.21%	8.5	0.86	0.22
IG Corps	6.04%	5.42%	0.02%	10.6	0.58	0.46
Convertibles	8.37%	7.58%	6.48%	-	-0.13	0.87
U.S. HY	8.88%	8.96%	5.86%	5.0	-0.09	0.73
Municipals	4.32%	3.55%	-1.38%	13.0	0.57	0.20
MBS	5.57%	4.71%	-2.26%	8.4	0.78	0.17
ABS	6.36%	5.89%	4.03%	3.3	0.08	-0.02
Leveraged Loans	10.91%	11.41%	10.09%	2.4	-0.34	0.58

## Impact of a 1% rise or fall in interest rates

Total return, assumes a parallel shift in the yield curve



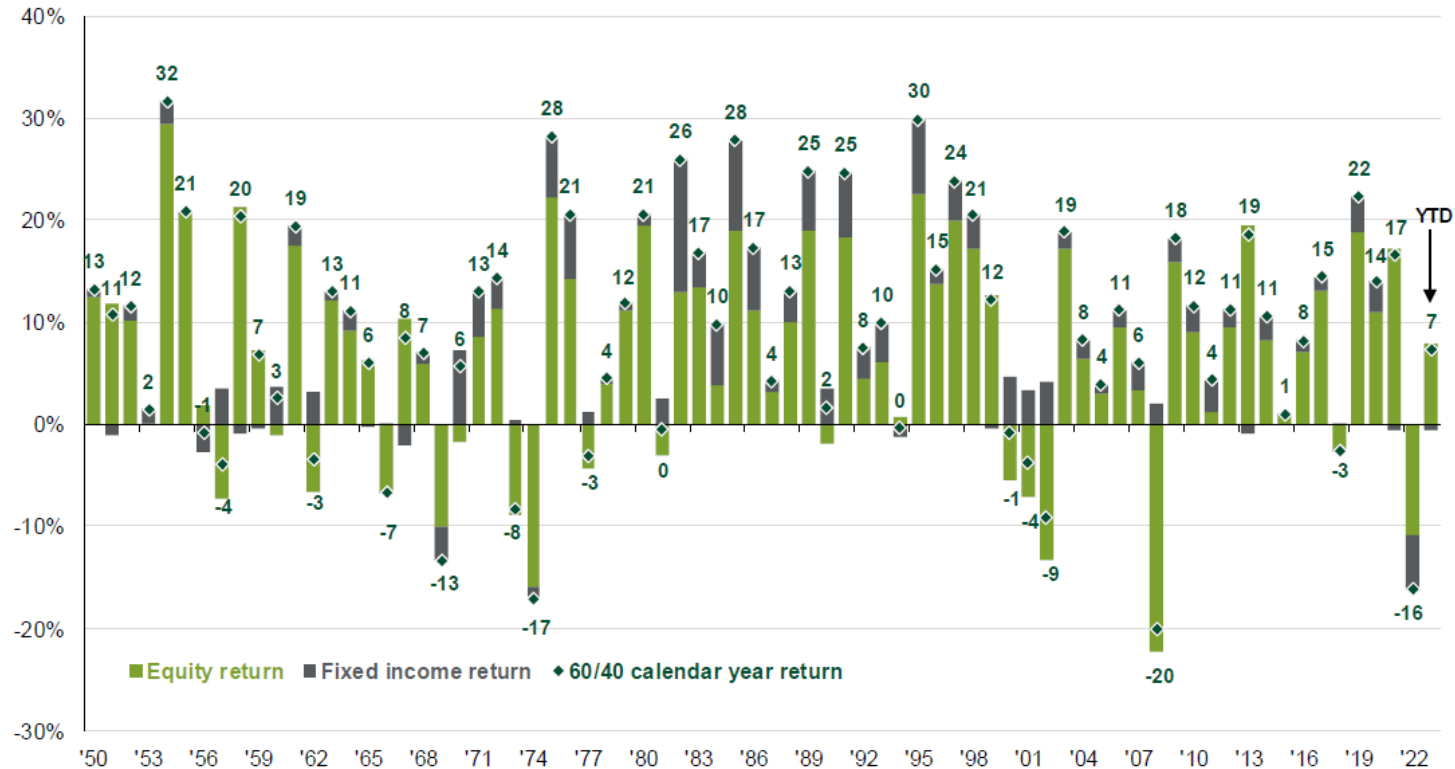
- Fixed income yields are at their highest levels in multiple decades, but credit spreads in corporate and high-yield bonds are significantly tighter than their historical average.
- More is to be gained in interest rates than lost with further increases in interest rates per unit of change, because of increased “carry,” or starting yield.



# Strategy and Positioning — Comeback of a 60/40 Portfolio

## 60/40 annual return decomposition

Total returns, 1950 – present



- After a tough year for a 60/40 portfolio in 2022, where the diversification across equities and fixed income did not provide any benefits, the 60/40 portfolio has so far returned positive absolute returns in 2023.
- Our continued over-weight positioning within equities has been beneficial, but we have been adding to bonds.

# Poll Question

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.*

# Investment Performance — Managed Funds as of September 30, 2023

TOTAL RATES OF RETURN AS OF 9/30/23		ANNUALIZED								
<i>Returns on UCF's funds are presented net of fees</i>		<i>Inception Date</i>	Quarter	Year To Date	One Year	Two Years	Three Years	Five Years	Ten Years	Current Yield
<b>MANAGED FUNDS</b>	<b>Fixed Income Fund</b>	10/1/1994	-3.08%	-0.72%	0.89%	-7.18%	-4.93%	-0.22%	0.67%	3.65%
	Fixed Income Policy Index 85% Barclays US Gov't/Credit Aggregate, 5% JPM GBI-EM Global Diversified, 10% S&P LSTA Performing		-2.64%	0.11%	2.31%	-6.28%	-4.22%	0.77%	1.53%	
	Lipper Core Plus Fixed Income		-3.03%	-0.63%	1.28%	0.00%	-4.87%	0.28%	1.25%	
	<b>Domestic Core Equity Fund</b>	10/1/2005	-3.12%	13.70%	21.60%	1.20%	10.08%	8.69%	10.98%	1.57%
	S&P 500 Index		-3.27%	13.07%	21.62%	1.39%	10.15%	9.92%	11.91%	
	Lipper Large Cap Core		-3.17%	11.72%	20.94%	0.00%	8.93%	9.00%	10.85%	
	<b>Beyond Fossil Fuels Fund</b>	11/3/2014	-2.10%	11.85%	23.07%	-1.02%	8.32%	6.30%	N/A	2.59%
	S&P 500/MSCI ACWI IMI net, linked		-3.40%	9.39%	20.16%	-2.68%	6.88%	6.09%		
	Lipper Global Equity		-4.03%	5.53%	18.01%	0.00%	5.81%	5.01%		
	<b>Small Cap Equity Fund</b>	10/1/2005	-5.04%	4.61%	11.76%	-7.21%	6.90%	4.80%	7.32%	1.31%
	Russell 2000 Index		-5.13%	2.54%	8.93%	-8.71%	7.16%	2.40%	6.65%	
	Lipper Small Cap Core		-3.94%	2.79%	12.52%	0.00%	12.10%	3.82%	6.85%	
	<b>International Equity Fund</b>	10/1/2005	-4.99%	4.11%	20.98%	-9.20%	0.76%	1.96%	2.90%	3.26%
	MSCI ACWI ex US net/Custom Index, linked		-3.77%	5.34%	20.39%	-5.08%	3.74%	2.58%	3.44%	
	Lipper International Equity		-4.23%	6.03%	24.01%	0.00%	5.04%	2.75%	3.52%	
	<b>Alternatives Fund</b>	7/1/2010	1.64%	2.71%	0.32%	4.08%	7.46%	5.97%	5.60%	N/A
	Custom Index 70% HFRI Funds of Funds Composite Index, 30% NCREIF Fund Index		0.36%	0.19%	-0.11%	0.66%	5.08%	4.28%	4.85%	

# Investment Performance — Funds of Funds as of September 30, 2023

TOTAL RATES OF RETURN AS OF 9/30/23		ANNUALIZED								
<i>Returns on UCF's funds are presented net of fees</i>		<i>Inception Date</i>	Quarter	Year To Date	One Year	Two Years	Three Years	Five Years	Ten Years	Current Yield
<b>FUNDS OF FUNDS</b>	<b>Total Equity Fund</b> 46.40% Domestic Core Equity, 12.90% Small Cap Equity and 40.70% International Equity	10/1/1994	-4.13%	8.48%	19.88%	-4.15%	5.62%	5.31%	6.78%	2.22%
	MSCI ACWI IMI net/Policy Index, linked		-3.40%	9.39%	20.16%	-2.68%	6.88%	6.09%	7.42%	
	Lipper Global Equity		-4.03%	5.53%	18.01%	0.00%	5.81%	5.01%	6.52%	
	<b>UCF Balanced Fund</b> 62.40% Equity, 34.80% Fixed Income and 2.80% C&E	<i>circa 1958</i>	-3.60%	4.89%	11.99%	-4.84%	1.82%	3.37%	4.49%	2.66%
	Current Policy Index 60% MSCI ACWI IMI net, 40% Fixed Income Policy Index		-3.07%	5.67%	12.87%	-3.93%	2.52%	4.26%	5.25%	
	Lipper Mixed Asset Target Allocation UCF Balanced		-3.12%	3.33%	10.00%	0.00%	2.46%	3.59%	4.72%	
	<b>Beyond Fossil Fuels Balanced Fund</b> 62.70% BFF, 34.10% Fixed Income and 3.20% C&E	11/3/2014	-2.32%	7.05%	14.03%	-2.85%	3.49%	4.53%	N/A	2.79%
	Current Policy Index 60% MSCI ACWI IMI net, 40% Fixed Income Policy Index		-3.07%	5.67%	12.87%	-3.93%	2.52%	4.26%		
	Lipper Mixed Asset Target Allocation UCF Balanced		-3.12%	3.33%	10.00%	0.00%	2.46%	3.59%		
	<b>Alternatives Balanced Fund</b> 49.2% Equity, 15.0% Fixed Income, 34.0% Alternatives, 1.8% C&E	7/1/2010	-1.86%	4.71%	9.68%	-2.23%	4.10%	4.39%	5.15%	N/A
	Current Policy Index 50% MSCI ACWI IMI net, 30% Fixed Income Policy and 20% Alternatives Policy		-2.40%	4.79%	10.60%	-2.85%	3.35%	4.45%	5.34%	