

# ucfocus

The Quarterly Newsletter of the United Church Foundation  
*an associated ministry of the United Church of Christ*

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## Daily valuation of accounts available beginning April 1

*Considering the needs of participants on a daily basis*

In our effort to provide better service to our participants, daily valuation of the Common Investment Funds will begin April 1, 2001. The result of this change is that any additions to or withdrawals from the funds can be effected on any business day, not only on the first day of a month. As you know, the current procedure, which remains in effect through March 31, is that all monies received go into a subscription account and buy units of participation on the first day of the following month. With our current procedures, we have been able to credit amounts received after month-end when we knew the amount had been mailed prior to month-end.

This was possible because it took us at least six business days to determine the unit value for the prior month. With

the change to daily valuation, back dating transactions will no longer be possible as all transactions (buying and selling of units) must be provided to our bank on a daily basis in order for them to calculate the daily unit value. Because of the need to report transactions daily to the bank, the following guidelines will be in place and must be followed:

■ All deposits received in our offices by Noon will buy units on the following day at the unit value at the end of the day of receipt. Any receipts after Noon will buy units two days later at the unit value of the day following receipt.

■ Wire transfers to the Foundation's custody account will buy units on the day following credit to the account at the unit value at the end of the day on the day of receipt.

■ All requests for withdrawal received by Noon will be processed on the day of receipt. Although every effort will be made to mail the check on the same day, checks will be mailed no later than the following day. Units will be liquidated at the unit value of the day the request was received. Any requests received after Noon will be processed the following day with mailing and unit valuation delayed one day. ■



## Socially Responsible Investing (SRI)



**Amy Muska O'Brien**  
Director of Corporate  
Social Responsibility

The promotion of superior Corporate Social Responsibility (CSR) performance by institutional investors such as the United Church Foundation is often realized through the economic power they possess as “owners” of corporations. In order to encourage positive social and environmental behavior, shareholders often apply the tools of Socially Responsible Investing (SRI) to their holdings. SRI describes the integration of personal, religious or organizational values and societal concerns with investment decisions.

SRI activity in the United States has experienced rapid growth in recent years. According to the Social Investment Forum, at the end of 1999 SRI surpassed the two trillion dollar level, meaning that one out of every eight dollars under professional management is part of a socially responsible portfolio today. Nearly half of this amount is under the control of investors who play an active role in shareholder advocacy strategies – most of it occurring at the institutional level (i.e. pension funds, mutual fund families, foundations, religious organizations and community development financial institutions).

The funds held by the United Church Foundation utilize several SRI strategies including screening and shareholder advocacy. Using tools such as limiting investments in specific business, dialoguing with corporate management, and voting/filing shareholder resolutions, the Foundation’s CSR activities are conducted on the premise that investors should seek the best investment opportunities based on financial criteria and then work from within to alter corporate practices that are at variance with the social concerns of the church.

Fortunately, there are also many resources available to the individual investor seeking to incorporate personal values with investment goals. ■

### SRI is achieved through one or more of the following strategies:

**Screening** is the practice of including or excluding securities from a portfolio based on social and/or environmental criteria. The most common social screens in the United States are tobacco, gambling, alcohol, weapons, and the environment. Concerning screening matters, the United Church Foundation’s Investment Policy states that “in its selection process, the investment manager should avoid securities of companies which derive a significant portion of their revenues from the manufacture, sale or distribution of alcohol, tobacco, gambling or military products or services.”

**Shareholder Advocacy** describes several actions that socially aware investors can take as “owners” of a corporation. Shareholders can influence corporate management directly through dialoguing with companies over specific areas of concern. Individuals or institutions can file a proxy resolution, calling on a company to improve its CSR performance in a particular issue area. Institutions like the United Church Foundation often possess formal policies embodying socially responsible goals that assist them in making their proxy voting decisions. Proxy voting guidelines need to be continuously revised as new shareholder concerns arise. Boycotting a company or divesting a company’s stock is normally carried out in extreme cases.

**Community-Based Investing** programs provide capital to people in low-income communities who have traditionally had difficulty obtaining it via conventional means or are underserved by mainstream lending institutions. Many opportunities exist to support community-based investing, either directly or indirectly.

For more information on screening, visit the following websites:

Crosswalk.com (<http://www.crosswalk.com>); the Council on Economic Priorities (<http://www.cepnyc.org>); SocialFunds.com (<http://www.socialfunds.com>); and Co-op America (<http://www.coopamerica.org>). Individual investors interested in shareholder activism should try the following: the Interfaith Center on Corporate Responsibility (<http://www.iccr.org>); the Shareholder Action Network (<http://www.shareholderaction.org>); and the Social Investment Forum (<http://www.socialinvest.org>).

# Annual Report from the Executive Vice President of the United Church Foundation



**Donald G. Hart**  
Executive Vice President

This past year has seen some significant changes for the United Church Foundation. We concluded the first complete year of a new initiative to provide education and marketing services for participants and non-participants of the Common Investment Funds. In 1999 we hired our first director, who set the framework for the education and marketing efforts of the Foundation. At the end of August she left to pursue a career opportunity with an agency related to the United Nations. We wish her the best in that endeavor and thank her for the tremendous base she established in this program. After several months of reviewing resumes and interviewing many well-qualified applicants, we selected Rev. Nelson R. Murphy as Director of Education and Marketing. He began his employment with the Foundation on January 1 and has already made a very positive impact on our work. You will want to meet him and talk to him when you call the Foundation for information about the Common Investment Funds. Nelson's biographical information can be found on page 7 of this edition of *UCFocus*. Following is a review and update on what is happening at the United Church Foundation.

## EDUCATION AND MARKETING PROGRAM

One of the important initiatives begun in 2000 was the publishing of this newsletter. We intend to provide important economic and investment information in this newsletter as well as performance information about the Common Investment Funds. We welcome suggestions from you about topics you would like covered in *UCFocus*. There is a question and answer section that provides a forum for your questions.

## NEW ADMINISTRATION SOFTWARE

As reported to you in the last issue of *UCFocus*, new software has been installed and is in the process of implementation. Barring any unforeseen problems, the statements for the first quarter of 2001 should be printed by the new system.

This new system will also enable other changes and improvements, among which are electronic funds transfers and online access to account information.

We know that participants would like these features to be available currently. However, both of these features require a high level of technology both with the Foundation systems and with the bank with which we do business. Since we depend on the technology staff of the Pension Boards, we are not able to always implement changes as rapidly as we might like. No changes will be implemented until we have all reasonable assurances that adequate security exists to ensure account privacy and integrity. As these developments and others are available, we will notify all participants.

## CHURCH-WIDE SURVEY

Last year we announced that a participant survey would be sent to you during 2000. After conversations with Conference Ministers, the focus of the survey was changed. As you should know, we conducted a church-wide survey to determine the needs of churches in the area of investments and knowledge about corporate social responsibility issues. There was a very good response to the survey and it provided us with very useful information. The next issue of *UCFocus* will provide you with an analysis of the results of the survey.

## FINANCIAL REVIEW

A copy of the audited financial statements of the Common Investment Funds is included with the mailing of this newsletter. Selected statistics from the financial statements are included on the following page.

The Foundation continues to offer its services at a very low cost to participants. The Foundation covers all of its costs by deducting from investment income a fixed percentage of the market value of every account at the end of each month. For 2000 the UCF Balanced Fund, UCF Fixed-Income Fund and UCF Equity Fund charged just 1/5 of 1% per annum (.20%), while the UCF Cash & Equivalent Fund charged only 1/10 of 1% per annum (.10%). In 2001 the charge for the UCF Balanced Fund, UCF Fixed-Income Fund and UCF Equity Fund will be 1/4 of 1% per annum (.25%).

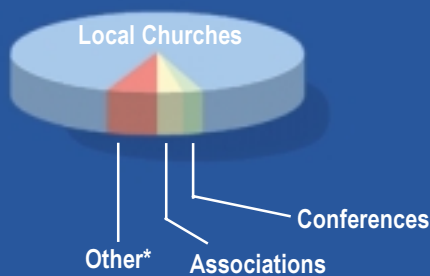
## CORPORATE SOCIAL RESPONSIBILITY

In addition to our screens for tobacco, alcohol, gambling and military products, the Foundation continues its participation in the joint Corporate Social Responsibility Program along with The Pension Boards-United Church of Christ and other Ministries of the United Church of Christ. During 2000 a new director of this program was employed and has already made a significant contribution to the work of the Foundation. You have al-

ready noticed an article in every issue of UCFocus by Amy O'Brien about Corporate Social Responsibility. This important area of our work will be highlighted in every issue.

Our goal in the Foundation is to provide each participant with quality investment management and prompt service at as low a cost as possible. We look forward to a continued relationship with each participant and would welcome the opportunity to talk with those who are not.

### Selected Statistical and Financial Information at a Glance



\*Other includes but not limited to the following:

- National Ministries
- Health & Welfare Institutions
- Colleges / Universities
- United Church of Christ (Executive Council)
- United Church Foundation (as trustee)

	12/31/00	12/31/99
Number of Participants	929	875
Number of Accounts	1,746	1,611

	12/31/00	12/31/99
<b>Net Assets</b>	<b>\$314,093,685</b>	<b>\$309,950,245</b>
<b>Income earned on investments</b>	<b>11,762,716</b>	<b>10,317,269</b>
<b>Operating expenses</b>	<b>916,548</b>	<b>704,835</b>
<b>Distributions to participants</b>	<b>11,095,379</b>	<b>9,586,239</b>
<b>Net increase in participation</b>	<b>17,738,195</b>	<b>20,013,226</b>
<b>Net (losses) gains on investments</b>	<b>(12,807,073)</b>	<b>22,519,260</b>

### Corporate Members and Board of Directors

William P. Epke, Chair	Meredith A. Hutchison
Sandra Smith Hulse, Vice Chair	Neal P. Miller
Helen Barnhill	Michael J. Readinger
John A. Blackwell	Stella A. Shoen
Barbara A. Everett	Harold C. Smith
Robert V. Gabon	Serilda J. Thompson
Robert M. Goodchild	William F. Treiber
Richard A. Hopkins	

### Investment Officers:

George E. Doty	Lorraine Webster-Sharper
Stephen E. Ham	Philip Pagliaro
David L. Kniffin	David M. Schiffman
Andree Prindiville	

### Other officers and affiliated personnel

- Joan Brannick, Corporate Secretary
- Doreen Forrest, Corporate Assistant Secretary and Executive Secretary
- John Linzey, Executive Associate
- Michele Hamilton, Accountant
- Patrick Jourdain, Assistant to the Director of Education and Marketing

## Annual Report from the Chief Investment Officer of the United Church Foundation



**George E. Doty**  
Chief Investment Officer

During the second half of the 1990's, growth in aggregate demand exceeded the growth of our economy's non-inflationary potential to produce. As a result, our labor markets tightened significantly, our current account balance on international trade and services deteriorated sharply and domestic cost price increases accelerated. In response to these developing problems, the Federal Reserve adopted a tighter monetary stance early in 1999.

By the third quarter of 2000 the Federal Reserve's tighter stance, transmitted largely through rising interest rates and declining stock prices, began to reduce our economy's rate of growth. Between the second and third quarters of 2000, growth in real GDP declined from an annual rate of 5.5% to an annual rate of 2.2%, and growth in the fourth quarter declined even further to 1.4%. These were much sharper rates of deceleration than virtually anyone anticipated, and this sudden dramatic change in the economic environment led the Federal Reserve to shift gears quickly and decisively early in 2001. On January 3rd, the Federal Open Market Committee voted to cut the interest rate at which banks borrow from each other by ½ of one percentage point, and a further cut of the same magnitude was voted on January 31st.

Financial analysts and others are spending a great deal of time trying to decide whether the current economic slowdown will be a mild one, or whether it will turn into an outright recession in 2001. The answer to this question is, of course, important for a number of reasons, but as long-term investors we must maintain a focus that goes well beyond next year. What can we as stewards of endowment and other denominational funds realistically expect from the financial markets during the first decade or two of the 21<sup>st</sup> century?

From the bond market, the answer is probably a rate of return of between 6% and 7% per year. That's a far cry from the returns of 10% to 12% per year that we saw during the 1980's and 1990's, but let's do the arithmetic.

Bond returns consist of interest income and price appreciation or depreciation. With interest rates at 14% to 15% in the early 1980's and 5% to 7% in recent years, we can certainly understand how interest income plus price appreciation equaled 10% to 12% over the last two decades.

Looking ahead, let's look at two extremes. First, if interest rates were to decline from today's level of 5% to

7% to the unlikely level of 3%, interest income plus price appreciation over the next ten years would approximate 8% per year. On the other hand, were interest rates to increase to say 9%, again a very unlikely level, the total return on bonds would average about 5% per year. Under either alternative, bond returns over the next ten years clearly will not match the returns of the last two decades.

From the stock market, we can probably expect annual returns on the order of 5% to 10% over the first decade or two of the 21<sup>st</sup> century. Again, let's do the arithmetic.

Returns on common stock are the result of the dividend yield, the rate of growth in corporate earnings and the price investors are willing to pay per dollar of earnings. Looking back over the last two decades and using data on the Standard & Poor's 500 Common Stock Index as our guide, dividend yields began the period between 5% and 6%. Corporate earnings grew at an average annual rate of 7% over the period from the early 1980's through 1999, and they now stand at a record level as a percent of our economy. The price paid per dollar of earnings went from roughly \$7 to \$33 over this same period, a four or five-fold increase, and a new record level in 1999.

Looking ahead a decade or two, we begin with a dividend yield of 1% to 2%; corporate earnings growth in line with the growth of our economy is probably the best we can anticipate, and that might be something on the order of 6%; and a price per dollar of earnings somewhat below 1999's record level should probably be expected. These three factors taken together suggest an average annual return on stocks of somewhere between 5% and 10% in the years ahead, a far cry from the 18% to 20% returns of the last two decades of the 20<sup>th</sup> century.

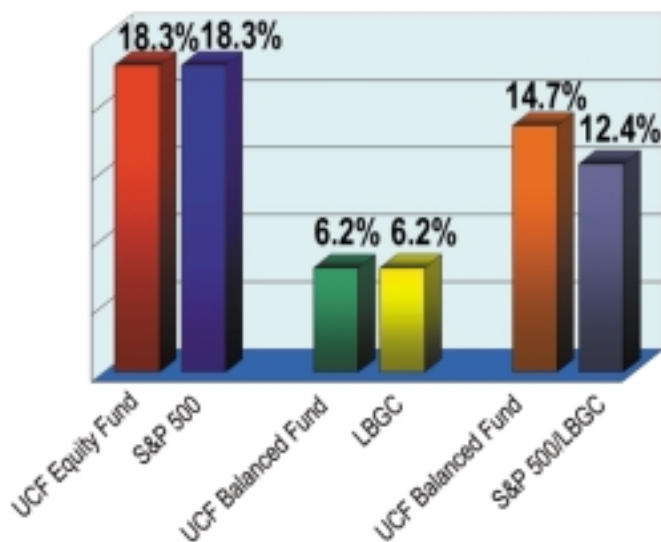
What do these expected lower rates of return suggest to us as stewards of endowment and other denominational funds? First, we must recognize that we might have to scale back somewhat on our plans for mission and other activities. Second, we may have to lower the investment return assumptions we use in projecting

## UCF Fund Performance

The United Church Foundation maintains a set of common investment funds, each with different return/risk characteristics. At the present time the set consists of the UCF Cash and Equivalent Fund, the UCF Short-Term Bond Fund, the UCF Fixed-Income Fund, the UCF Equity Fund and the UCF Balanced Fund.

The Balanced Fund has been in existence for many years, while the other four funds were made available to participants on July 1, 1996. Due to a low level of interest thus far in the Short-Term Bond Fund, the Fund is inactive at this time.

**Average Return for the Five Years Ending 12/31/00**



### UCF CASH AND EQUIVALENT FUND

A constant unit value is maintained on the UCF Cash and Equivalent Fund. During 2000, the yield on this Fund averaged 6.1%. The yield on the Lipper Money Market Fund Index averaged 6.0% during the year.

### UCF EQUITY FUND

The UCF Equity Fund, formerly the equity segment of the Balanced Fund, was down 7.1% on a total return basis in 2000, while the Standard & Poor's 500 Common Stock Index was down 9.1%. The portfolio of our international manager (about 6.8% of the total Equity Fund at year-end) performed worse than the S & P 500, while the

portfolio of our domestic manager did better than the Index. Over the last five years the compound rate of return on the UCF Equity Fund was 18.3% per year, while the compound rate of return on Standard & Poor's 500 Common Stock Index also was 18.3% per year.

### UCF FIXED-INCOME FUND

The UCF Fixed-Income Fund, formerly the fixed-income segment of the Balanced Fund, was up 10.3% on a total return basis in 2000, while the Lehman Brothers Government/Credit Bond Index was up 11.8%. Over the last five years the compound rate of return on the UCF Fixed-Income Fund was 6.2%, while the compound rate of return on the Lehman Brothers Government/Credit Bond Index also was 6.2% per year.

### UCF BALANCED FUND

The UCF Balanced Fund was down .2% on a total return basis in 2000, while an index comprised of the Lehman Brothers and the Standard & Poor's Indexes, each with a 50% weighting, was up 1.2%. An average of about 58.8% of the UCF Balanced Fund was allocated to equities during the year. Over the last five years the compound rate of return on the UCF Balanced Fund was 14.7% per year, while the compound rate of return on the 50% Lehman Brothers/50% Standard & Poor's Index was 12.4% per year.

## Q & A What does “Asset Allocation” mean?

Asset Allocation is a technique used to manage the risks associated with the greater financial rewards that can come from a portfolio of investment securities. Typically, the greater the potential return of a security, the greater its potential risk.

By allocating different proportions of the total invested in different types of investments, a manager tries to position a portfolio at the point along the “return/risk” continuum that is appropriate for the owner’s time horizon and tolerance for risk.

There are basically three types of investment securities:

- stable value investments, like money market funds, which offer current income and try to maintain a stable share price. (The **UCF Cash & Equivalent Fund** is a stable value investment.)
- debt-based investments, like government and corporate bonds, which offer current income and more price stability than stocks. (The **UCF Fixed-Income Fund** is a debt-based investment.)
- equity (or ownership) investments, like common stocks, which offer the greatest potential for higher returns over time, but also have greater potential risk due to price fluctuations. (The **UCF Equity Fund** is an equity investment.)

The anticipated future value of stable value investments is generally very predictable, but the real value of such investments over time may not keep up with inflation. Conversely, the anticipated future value of an equity investment is highly uncertain due to changes in prices, but over time, they have generally outpaced inflation. Bonds tend to fall in between the other two. Bond prices move up and down as prevailing interest rates change, and often move in the opposite direction of stocks, tending to offset each other.

Asset allocation attempts to manage levels of risk by investing funds in each of the three types of investment securities. The asset allocation of the **UCF Balanced Fund** as of 12/31/2000 was 59.2% equity; 36.3% fixed-income; 4.5% cash and equivalent. ■

## Murphy to direct UCF Education and Marketing program



**Nelson R. Murphy**  
Director of Education  
and Marketing

The United Church Foundation recently hired Rev. Nelson R. Murphy as its new Director of Education and Marketing. He follows Rev. Cheri Lovell in the position.

Rev. Murphy came from the National Council of the Churches of Christ in the USA, where he worked as the Director of Information Technology for nine years. Before that, he held a similar position at the denominational headquarters of the Reformed Church in America in New York City for over ten years.

Ordained by the Southeast Wisconsin Association in 1973, Rev. Murphy served as the pastor of three UCC churches, two in Wisconsin (in Milwaukee and Sussex), and one in New Mexico (in Rio Rancho, near Albuquerque). Before attending McCormick Theological Seminary, Rev. Murphy was a licensed securities broker/dealer with the Hamilton Management Corporation in Philadelphia.

“The amazing thing about the United Church Foundation’s products,” Rev. Murphy said, “is their extremely low cost. In the arena of investment management, low cost contributes significantly to portfolio performance, and especially so over the long-term. The expense-ratio of the UCF portfolios is as low as that typically associated with passively managed index funds. When you consider that these portfolios are actively managed instead, and that the denomination’s corporate social responsibility (CSR) screens are applied in the investment selection process – these funds are a terrific value!

“I want to share that fact with every entity in the denomination that has been entrusted with significant investment assets for supporting its ministry.”

Rev. Murphy is available to talk with you about your church’s investment program. He can be reached at 877-806-4989, extension 2585 or by email at: [murphyn@ucfoundation.org](mailto:murphyn@ucfoundation.org). ■

# Performance

Returns as of December 31, 2000

*UCF returns are presented net of fees*

	Annualized Averages				Current Yield*	Unit Value	Market Value
	One Year	Three Years	Five Years	Ten Years			
<b>UCF Equity Fund</b> (includes 6.8% international equity) <i>S&amp;P 500 Index</i>	-7.1% -9.1%	13.0% 12.3%	18.3% 18.3%	18.0% 17.5%	1.2%	\$10.66396	\$177.1M
<b>UCF Fixed-Income Fund</b> <i>Lehman Brothers Government/Credit Index (LBGC)</i>	10.3% 11.8%	5.4% 6.2%	6.6% 6.2%	8.6% 8.0%	6.7%	\$ 4.21065	\$ 122.8M
<b>UCF Balanced Fund</b> (59.6% Equity, 40.4% Fixed-Income) <i>Composite Index: S&amp;P 500 (50%)/LBGC (50%)</i>	-0.2% 1.2%	10.0% 9.5%	14.7% 12.4%	13.4% 12.8%	3.4%	\$ 7.65731	\$ 265.0M
<b>UCF Cash &amp; Equivalent Fund</b> (annualized) <i>Lipper Money Market Funds Index (annualized)</i>	6.1% 6.0%	5.4% 5.2%	N/A —	N/A —	6.9%	\$ 1.00000	\$ 3.5M
<i>Consumer Price Index (annualized)</i> also known as Inflation	3.4%	2.6%	2.6%	2.7%			

\*Yield represents income only

## Sector Analysis

US Equity Portfolio				Fixed-Income Portfolio			
Sector	Sector Distribution % of Portfolio			Sector	Sector Distribution % of Portfolio		
	UCF 12/31/00	S&P 500 12/31/00	UCF 6/30/00		UCF 12/31/00	LBGC* 12/31/00	UCF 6/30/00
Consumer Non-Durables	7.4	7.0	7.8	Treasury	27.3	43.2	24.2
Consumer Health Care	15.1	14.2	12.7	Agency	7.5	17.2	9.4
Media & Services	4.5	4.3	5.7	Mortgage-Backed	3.4	0.0	1.1
Retail Stores	6.3	6.1	5.8	Asset-Backed	0.9	0.0	0.4
Consumer Durables	0.9	1.3	0.8	Industrials	16.2	18.2	14.2
Technology	21.0	21.5	27.5	Electric/Gas	4.7	2.8	5.5
Capital Equipment	6.6	9.2	6.5	Telephone	0.0	0.0	2.1
Financial	17.8	17.5	12.8	Finance	16.2	13.4	17.6
Energy	6.5	6.4	6.6	International	7.5	4.6	5.3
Resources	2.1	2.3	1.8	Taxable Municipal	1.8	0.0	1.9
Transportation	0.7	0.7	0.6	Cash	13.6	0.0	17.5
Communications	6.8	5.5	7.4	Other	0.9	0.0	0.8
Utility	4.0	3.7	3.4				
Miscellaneous	0.2	0.3	0.6				

\*Lehman Brothers Government/Credit Index (LBGC)

## Correction in September Performance Information

An error was discovered in the unit values for the UCF Equity and Balanced Funds for September 30, 2000. Below is a corrected performance chart for those two funds as of that date.

	YTD (9 mos.)	Last 12 months	Three Years	Five Years	Ten Years	Unit Value	Market Value
<b>UCF Equity Fund</b>	-1.0%	12.6%	16.5%	21.0%	19.8%	\$11.23505	\$180.5M
<b>UCF Balanced Fund</b>	2.0%	10.1%	11.9%	15.4%	14.3%	\$ 7.82873	\$ 275.3M