

ucfocus

The Quarterly Newsletter of the United Church Foundation

an associated ministry of the United Church of Christ

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Net Assets of UCF Common Investment Funds Increase

Ministries working together in meeting a common goal

An historic event occurred on April 1 of this year. The majority of the investment portfolios of the Covenanted Ministries (\$253 million) was transferred to the Common Investment Funds of the United Church Foundation, thus nearly doubling the assets managed by the Foundation.

In the former structure of the United Church of Christ, each of the recognized instrumentalities maintained separate investment portfolios and each of these instrumentalities had contracted the services of the investment department of The Pension Boards – United Church of Christ to provide investment management for these portfolios. Under this kind of arrangement each agency had a custodial relationship with a bank and incurred separate custody and investment management fees.

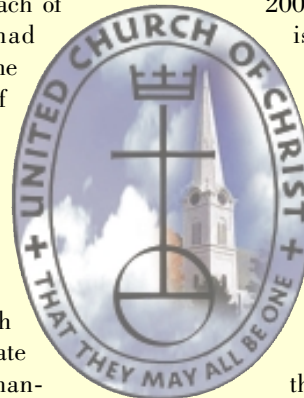
As the United Church of Christ in the national setting moved into the new structure last July, the Covenanted Ministries began to look at their investments and the management of them. Representatives of the Foundation and Pension Boards met with representatives of each of the Covenanted Ministries last November to discuss various alternatives for investment management. Following the previous method of each entity maintaining separate portfolios meant higher costs to the Covenanted Ministries in total over what the two former recognized instrumentalities had incurred.

Utilizing the Common Investment Funds of the Foundation was suggested

but there were certain problems with this alternative, the major one being the investments screened out of the investment portfolios because of social concerns. Although each of the ministries had similar screens to those of the Foundation, the implementation of those screens was different among all of the ministries.

As discussed in the article by Amy Muska O'Brien on page 2, on March 5, 2001, all of the Covenanted Ministries, the Executive Council, and the Foundation had representatives meet to discuss the possibility of common screens and uniform implementation of those screens. Along with representatives of the Pension Boards, those present at the meeting also discussed how all the ministries in the national setting of the UCC could work together in the area of Corporate Social Responsibility. As a result of the adoption of these recommendations, the transfer on April 1 was possible.

This kind of cooperation by the national setting of the UCC is an example of how the new structure of the United Church of Christ can benefit the entire Church. The result of this increase in assets of the Common Investment Funds means there will be a reduction in the expenses charged by the Foundation to the participants. Therefore, the Covenanted Ministries will incur lower charges than they would by maintaining separate investment portfolios and all other participants of the Common Investment Funds will incur lower charges than those charged prior to this increase in assets. ■



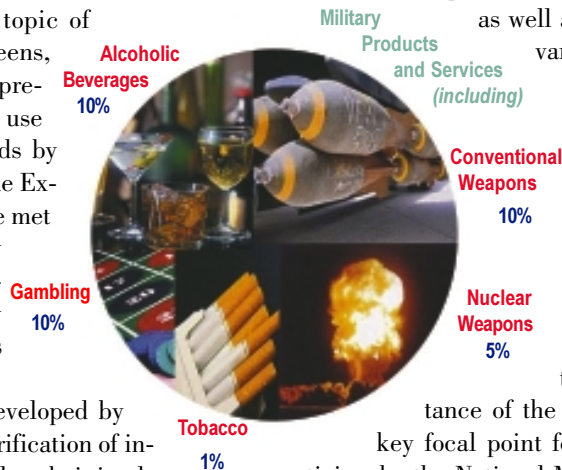
Putting into practice what we preach



Amy Muska O'Brien
Director of Corporate
Social Responsibility

late last year, an Ad Hoc Corporate Social Responsibility (CSR) Committee, comprised of representatives of the four Covenanted Ministries, the Executive Council, the United Church Foundation, and the Office of CSR was formed to explore the topic of investment screens, one important prerequisite for the use of the Common Investment Funds by the Covenanted Ministries and the Executive Council. The Committee met on March 5, 2001, and jointly produced a series of CSR recommendations for consideration by the multiple National Ministries involved.

Several recommendations developed by the Committee addressed the clarification of investment screening policy, as well as their implementation. Essentially, it was proposed that companies deriving revenues from activity over an approximate percentage (based on a three-year average annual revenue)



be excluded, according to the following criteria. (See chart)

Another recommendation was drafted in response to the growing interest in CSR among a number of United Church of Christ constituency groups, and proposed the creation of a “Joint CSR Table.” The objective of the Table would be to pursue common CSR policies and activities, as well as provide a forum for expressing various perspectives and becoming mutually informed on emerging issues.

Over the course of the spring, all recommendations were subsequently approved by each Covenanted Ministry, the Executive Council, and the United Church Foundation.

It is important to note that the transfer of assets raises the importance of the United Church Foundation as a key focal point for the expression of shareholder activism by the National Ministries. By nearly doubling in size, the Foundation has enhanced CSR leverage for achieving greater harmony between the financial and social goals of the church. ■

Turbulent markets teach time-honored truths

focus on investment

The recent volatility of the financial markets has been a sobering experience for many people, and it has reinforced the wisdom of certain facts about managing financial investments. Those responsible for building and maintaining their church’s endowment funds will want to keep these time-honored truths in mind.

- Change is inevitable. Predicting the future accurately and consistently is difficult in any endeavor, and nearly impossible in the financial marketplace. Markets go up and markets go down. Some people anticipate these changes correctly, and sometimes these same people miss them by a mile. Nobody can say with certainty what is or is not going to happen next. So don’t bet the church’s endowment on forecasts that are at best only educated guesses. Develop an investment plan that is appropriate for your church or agency, and then stick to it, regardless of market changes.
- Diversify, diversify, diversify. Mitigate the effects of the changes in the marketplace that lie ahead by spreading risk across all three asset classes: equity, fixed-income, and cash. Determining the appropriate allocation of your church’s assets within each of these three asset classes is probably the most important decision an investment committee must make. The UCF Balanced Fund provides a good long-term allocation strategy for those who feel ill-equipped to make this decision. But, your asset allocation ratio should reflect your tolerance for market risk and the purposes for which your funds are being held. If the mixture in the UCF Balanced Fund is not right for you, create your own ratio using shares in the three other UCF funds.
- Stick with a long-term view. Church endowment funds are “permanent investments,” with a very long “time horizon,” virtually infinite. Think of these investments as having a 50-year, 100-year or even a 200-year lifespan. Don’t be tempted to chase after this quarter’s star performer, whether it be an asset class, a market sector, or some other high-flyer that is out-performing dramatically. Put the law of averages to work for you. The performance of actively managed funds tends to regress to the mean over time. Obtaining an average rate of return over the long-haul from socially responsible investments is a significant accomplishment. ■

Maintain your long-term perspective



George E. Doty
Chief Investment
Officer

The trend is your friend

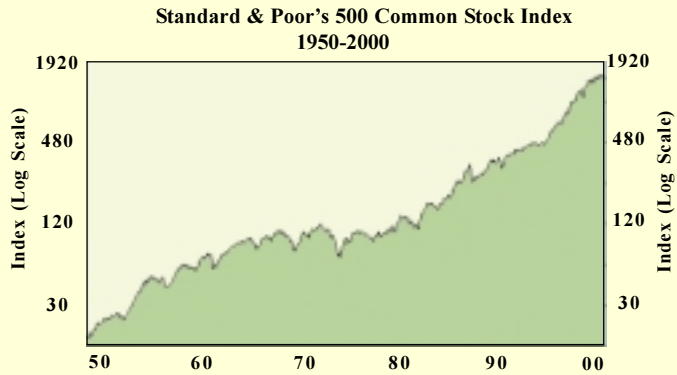
You have all heard on the evening news and elsewhere that stock markets around the world are suffering their worst declines in years. While the UCF Equity Fund is not immune to these developments, we do want to assure you that your investments are safe and that we are doing everything we can to limit

the damage.

We also want to encourage you to maintain your long-term view when making investment decisions. It is too easy to focus on the headlines that tell you that certain stocks are down by 70% or 80% or 90%, or that the NASDAQ Index is down by 67%, or that the Standard & Poor's 500 Common Stock Index is down by 28% or that the Dow Jones Industrial Average is down by 20%. More important to understand is the fact that in spite of these large declines in stock market indexes, they have fallen back only to their levels of late 1998 or early 1999. No one likes to lose what they have gained over the last 2 to 2½ years, but we must keep these losses in perspective and look at them within the context of the gains we have enjoyed over many years.

Look at the chart above. It shows an index of U.S. common stock prices over the second half of the 20th Century. One could focus on all the short-term ups and downs over the last 50 years, or one could concentrate on the *basic long-term trend* in stock prices shown in the chart.

Successful investors follow the latter course of action. Rather than getting caught up in the vagaries of



emotion which inevitably accompany short-term market fluctuations, they concentrate on reaping the rewards of sharing in the long-term growth of our extraordinarily competitive and productive economy.

Beyond 2001

What can you expect going forward? The answer, in our judgment, is better things than you have seen in 2000 and thus far in 2001, but not a replay of the unprecedented returns from both stocks and bonds that we saw during the last two decades of the 20th Century.

Our economy remains fundamentally strong. It is the most competitive and productive economy in the world. Once the correction in our financial markets is complete, we should expect returns more in line with historic norms. For bonds this means something on the order of 6% to 7% per year. For stocks the returns should be a few percentage points higher, but the fluctuation from year to year in stock returns will be greater than for bond returns as it has been both last year and this. ■



Should a church planning to build or make other capital improvements, spend down its endowment funds (if it has them) or should it borrow the money needed for the project?

Traditional wisdom would say to spend the funds already in hand. Why pay interest on a loan when there is already money available to pay for a building project?

But given recent market trends, do you really want to liquidate those investments right now? Using a low-interest building loan instead would leave those funds invested, and in a position to benefit from potential market returns in the future. Periodic withdrawals from the fund could then be used to help make the loan payments if other funds were not available.

Once spent, endowment funds are hard to replace. It is much easier to raise money to payoff a building loan than it is to raise money to build up an endowment fund.

The advantages and the drawbacks of *Using Endowment Funds For Capital Improvements* are presented clearly in a free brochure by that name available from the UCC's Cornerstone Fund. For additional information about financing a church's building project using a low-interest construction loan, contact the Cornerstone Fund in Cleveland, OH, at: 888/822-3863. ■



Performance

Returns as of March 31, 2001

UCF returns are presented net of fees

			Annualized Averages			Current Yield*	Unit Value	Market Value
	Year to Date	One Year	Three Years	Five Years	Ten Years			
UCF Equity Fund (includes 6.7% international equity) <i>S&P 500 Index</i>	-10.8% -11.9%	-19.1% -21.8%	4.3% 3.1%	14.3% 14.2%	14.6% 14.4%	1.4%	\$9.48107	\$161.8M
UCF Fixed-Income Fund <i>Lehman Brothers Government/Credit Index (LBGC)</i>	3.6% 3.2%	11.7% 12.4%	6.2% 6.8%	7.6% 7.4%	8.7% 8.1%	6.4%	\$4.29340	\$123.5M
UCF Balanced Fund (57.4% Equity, 42.6% Fixed-Income) <i>Composite Index: S&P 500 (50%)/LBGC (50%)</i>	-2.4% -4.4%	-7.7% -5.9%	5.2% 5.2%	12.9% 11.0%	11.7% 11.4%	4.3%	\$7.19389	\$251.1M
UCF Cash & Equivalent Fund (annualized) <i>Lipper Money Market Funds Index(annualized)</i>	5.7% 5.3%	6.1% 5.9%	5.4% 5.3%	N/A —	N/A —	5.1%	\$1.00000	\$ 4.7M
<i>Consumer Price Index (annualized)</i> also known as Inflation	3.9%	2.9%	2.9%	2.5%	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 3/31/01	S&P 500 3/31/01	UCF 12/31/00		UCF 3/31/01	LBGC* 3/31/01	UCF 12/31/00
Consumer Non-Durables	7.0	5.5	7.8	Treasury	23.0	42.4	27.3
Consumer Health Care	12.1	13.8	12.7	Agency	9.7	17.1	7.5
Media & Services	5.0	5.9	5.7	Mortgage-Backed	3.3	0.0	3.4
Retail Stores	6.4	6.8	5.8	Asset-Backed	1.2	0.0	0.9
Consumer Durables	1.0	1.6	0.8	Industrials	17.5	18.5	16.2
Technology	16.2	17.9	27.5	Electric/Gas	5.1	3.0	4.7
Capital Equipment	6.7	9.0	6.5	Telephone	0.0	0.0	0.0
Financial	16.6	17.6	12.8	Finance	16.7	14.3	16.2
Energy	6.4	6.9	6.6	International	7.8	4.7	7.5
Resources	2.1	2.5	1.8	Taxable Municipal	1.8	0.0	1.8
Transportation	0.8	0.8	0.6	Cash	13.1	0.0	13.6
Communications	6.7	6.1	7.4	Other	0.8	0.0	0.9
Utility	4.2	4.2	3.4				
Miscellaneous	0.4	1.5	0.6				

*Lehman Brothers Government/Credit Index (LBGC)



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