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an associated ministry of the United Church of Christ

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In this Issue

UNITED CHURCH FOUNDATION

Toll-free: 877-806-4989
Phone: 212-870-2582
Fax: 212-870-2366
e-mail: *info@ucfoundation.org*
website: *www.ucfoundation.org*

Taking Risks, Patiently

Nelson R. Murphy
Director of Education and Marketing

I am often asked: What is the risk of losing money invested in the United Church Foundation's (UCF) Common Investment Funds?

Like all investments, money invested with the UCF could decline in value. Each UCF option has a different relative risk, allowing investors with differing needs to incur different levels of risk. But no UCF product is risk-free.

Changes in the values of financial securities over time are caused by many factors: expected earnings, taxes, inflation, interest rates, etc. When these changes yield investment declines, investors feel the risk of investing. Conversely, when these factors yield investment gains, investors are rewarded. On this "risk/reward" continuum, the greater the risk, the greater the potential for financial reward.

The common investment funds offered by the UCF bear the same potential risks and rewards associated with stocks and bonds in general. The UCF seeks to mitigate that risk through diversification, class segmentation, asset allocation, and a long time horizon.

- **Diversification** spreads risk across many companies in many different industry groups, such as pharmaceuticals, utilities, airlines, etc. Global diversification spans multiple countries. Diversity reduces the impact of a decline in one country, asset class, industry or company.
- **Segmentation** keeps similar risks together, stocks with stocks, and bonds with bonds. Risk common to all securities of the same asset class is known as "market risk." Stock market risk is associated with investors' feelings about the prospects for profitability. Bond market risk is associated with changes in interest rates and the prospects for inflation. Market risk is not eliminated by diversification, and is usually greater for stocks than for bonds.
- **Asset allocation** mitigates risk by investing in both stocks and bonds. When stocks are down, bonds are often up. Periodic rebalancing forces the sale of higher priced assets to buy more lower priced assets. Target asset allocation ratios should be determined based on risk-tolerance and time-horizon.
- **A Long Time Horizon** turns short-term changes into long-term trends. The long-term trend for both stocks and bonds has been positive. Following a long-term "buy and hold" strategy is a time-tested way to prevail against investment risks.

UCF fund managers seek risk-adjusted returns, striving to outperform the market for each class of assets without exceeding that class's risk characteristics. This means that when markets go up or down, the UCF common investment funds will go up or down also, but in a manner comparable to the changes in the market averages. Out-performing or under-performing the index by more than a small amount is unlikely. The charts on page four show how performance has followed the market averages over time.

In summary, yes, there is a chance of losing money invested with the UCF, but that is true of all investments. The level of risk taken should match an investor's risk tolerance and time horizon. The UCF offers conservative but flexible risk management options that, over the long-term, have proven beneficial for most UCF investors. ■

Empowering ministry through proven asset management

The Church as Witness in the Global Marketplace

Amy Muska O'Brien
Director of Corporate Social Responsibility

Integrating faith values and societal concerns with investment decisions is called Socially Responsible Investing (SRI). For people of faith, SRI is more than just "the right thing to do." Being Christian disciples implies that the values of our faith must inform all aspects of our lives – including our investment choices.

As caretakers of God's wonderful creation, we are called to preserve it for future generations. As God's good stewards, we are called to couple fiduciary responsibility with neighborly concern for those whose lives are affected by our investments. As the commissioned ambassadors of the Prince of Peace, we are called to be tireless advocates for peace with justice.

Multinational corporations have an enormous impact on how peace and justice prevail in the global community. These corporations bring many positive benefits into people's lives everywhere, by:

- Providing essential products and services;
- Creating needed employment opportunities;
- Stimulating healthy economic development;
- Developing and educating indigenous leadership;
- Modeling multicultural and gender-role diversity;
- Cultivating good management practices;
- Enabling responsible global suppliers;
- Exerting influence on public policy; and
- Respecting indigenous/human rights.

As the global economy and multinational "corporate footprint" continues to expand, individual and institutional investors must bear witness to their faith-based commitments to protect those who are harmed by unethical corporate policies and practices. Church leaders recognized this opportunity over thirty years ago when they proclaimed that "social values and social justice ought to be given consideration together with security and yield in the investment of funds held by religious organizations (Sixth General Synod – 1967)." SRI provides the church with a unique opportunity to bear witness to gospel values and advocate for peace with justice.

Faith-based investors are also in a position to transform the mainstream financial community's definition of the "bottom line." By promoting the concept of a "triple bottom line," (the term used to capture the whole set of values, issues and processes companies must address in order to minimize any harm resulting from their activities and to create economic, social and environmental value), faith-based investors are a unique witness in the marketplace. By expecting companies to bear in mind the needs of all of its stakeholders – its customers, employees, shareholders, business partners, governments, local communities and the general public – we give witness to our belief that life is about more than just making a fast buck.

As we approach and plan for the 2002 shareholder activism season, we believe stock ownership in multinational corporations provides us with a powerful opportunity for effecting change. Since 1971 the Office of Corporate Social Responsibility has followed the principle that "investors should seek the best investment opportunities on financial grounds and then work from within to alter corporate practices that are at variance with social concerns of the church (Committee on Financial Investments – 1970)." Through dialog with companies whose shares we hold, through filing shareholder resolutions and voting our proxy statements, the United Church Foundation and its faith-based partners will continue to combine the expression of Christian values with the practice of sound investment management principles. ■

What is all that wealth going to buy?

Experts say that an enormous transfer of wealth will take place in the next 20 years. In fact, over $10 trillion is expected to pass from the oldest generation of Americans to their heirs and designees. Much of this wealth is now held in the form of real property or other highly appreciated assets. Much of it is held in tax deferred retirement accounts. However held, tax-wise planned gifts to your church, its educational and its mission agencies should be considered. Because, if not donated, these resources will all be heavily taxed.

Even a small portion of this wealth — were it to be given to one of our UCC churches, colleges, seminaries, and/or other mission agencies — would have an enormously beneficial impact on their long-term prospects. It would greatly expand their ability to maintain excellent programming and other services essential for continued growth and faithfulness. Every congregation has a tremendous opportunity to help members make planned gifts from their estates that demonstrate their commitment to the church's future.

Stewardship education needs to encourage estate planning beyond merely asking: "Have you remembered your church in your will?" Using examples that demonstrate the benefits of gift annuities and charitable trusts, churches need to ask members to give significant portions of their estates to support both local ministry and denominationally related programs. Many say they do not give because they have never been asked to do so. May that never be said about your church!

As your asset management partner, the United Church Foundation encourages you to continue challenging

your congregation to respond to God's call to become faithful stewards, that we might equip the church to follow Christ in mission to a lost and broken world. For more information, contact the Financial Development Ministry of the Office of General Ministries; Mr. Donaldson Hill, Minister and Team Leader; United Church of Christ, 700 Prospect Ave., Cleveland, OH 44115. Phone 216-736-2166, or by email: dhill@ucc.org. ■

UCF Equity Program

George E. Doty
Chief Investment Officer

The objective of the United Church Foundation's equity program is to achieve a rate of return over a long period of time at least equal to the rate of return of the Standard & Poor's 500 Common Stock Index. Achieving this objective has been no mean feat in recent years, though we have substantially achieved this goal over the past five years, the time period typically used for measuring performance. Our equities over the last five years averaged 9.8% per year on a compound basis, while the rate of return on the S & P 500 averaged 10.2% per year.

To manage our equity portfolio, we have an in-house investment staff concentrating largely on stocks of companies domiciled within the U.S., and we retain one outside investment manager at the present time concentrating primarily on stocks domiciled outside the United States. This approach assures us of broad diversification within the portfolio, and gives us access to the ideas, skills and experience of an outside independent group of investment professionals. Our manager works within a defined set of guidelines, and is measured against specific performance objectives. The outside manager also avoids purchase of stocks in companies considered objectionable from an ethical or moral point of view.

At the present time, over 90% of the equity portfolio is managed by our in-house group, while less than 10% is managed by our outside manager. Our in-house group manages what we would call a core portfolio, while our international manager would be characterized primarily as a growth stock manager. A core portfolio is one that is broadly diversified by industry group, and it consists of both large and small stocks, and both growth and value stocks. Growth stocks are typically defined as stocks of companies whose sales and/or earnings are relatively stable and tend to grow at well above average rates over long periods of time. Value stocks are typically characterized as stocks of companies whose sales and/or earnings tend to be somewhat cyclical in nature, expanding very rapidly at times, but expanding less rapidly or even declining at other times.

Overseeing our equity program is the UCF Investment Committee which is composed of a very dedicated group of individuals with broad investment experience. Among other things, the Committee is responsible for monitoring the performance of our portfolios and retaining and dismissing managers. ■

What is the difference between a stock and a bond?

Q&A

A share of stock is essentially evidence of partial ownership of a company. The benefits (and risks) of owning stock derive from that company's prospects for profits (or losses). The stock market is basically a daily referendum on the value of each company that trades there, and its prospects for future profitability, as affected by the events of the day. The value of a share of stock rises when the prospect for profits is promising, and it declines when the prospect for profits disappoints. The result is frequent changes in the price of any given company's stock. The UCF Equity Fund holds only stocks.

A bond, on the other hand, is essentially a loan made for the prospect of earning interest. The benefits (and risks) of owning bonds derive primarily from prevailing interest rates (and changes in those rates). The bond market is basically a referendum on the rates of return that investors are willing to accept for different qualities of debt, as affected by the events of the day. Government borrowers issue bonds to finance public works and deficit spending. Private companies issue bonds to finance their operations. Any credit worthy entity can obtain capital from the public by issuing bonds. Bonds pay a fixed income in the form of periodic interest payments until the bond matures. When redeemed, the loan implied by a bond is repaid. The UCF Fixed Income Fund holds only bonds. ■

Employee Focus

Doreen A. Forest

Since 1995, Doreen has provided administrative support and assistance to Donald G. Hart, the Executive Vice-President of United Church Foundation and the Treasurer of the Pension Boards-UCC. No stranger in the UCC circles, she worked for over twenty years in the former Office of Evangelism of the UCBHM before it was moved to Cleveland. Doreen is the individual that handles the documents necessary when opening a new account at the United Church Foundation.

Performance

Returns as of September 30, 2001
UCF returns are presented net of fees

	Year to Date	One Year	Annualized Averages: Three Years	Five Years	Ten Years	Current Yield*	Unit Value	Market Value
UCF Equity Fund (includes 5.9% international equity)	**-21.0%**	**-25.9%**	**2.4%**	**9.8%**	**12.2%**	**1.5%**	**$8.3450**	**$354.9M**
S&P 500 Index	-20.4%	-26.6%	2.0%	10.2%	12.7%			
UCF Fixed-Income Fund	**8.7%**	**13.0%**	**5.8%**	**8.1%**	**8.2%**	**6.2%**	**$4.3543**	**$194.4M**
Lehman Brothers Government/Credit Index (LBGC)	8.4%	13.2%	5.9%	8.0%	7.8%			
UCF Balanced Fund (64.5% Equity, 35.5% Fixed-Income)	**-11.3%**	**-13.2%**	**3.3%**	**8.7%**	**10.0%**	**3.2%**	**$6.6291**	**$270.0M**
Composite Index: S&P 500 (55%)/LBGC (45%)	-8.1%	-10.2%	4.2%	9.7%	10.7%			
UCF Cash & Equivalent Fund *(annualized)*	**4.4%**	**5.0%**	**5.3%**	N/A	N/A	**3.5%**	**$1.0000**	**$ 3.9M**
Lipper Money Market Funds Index (annualized)	4.3%	4.8%	5.1%	—	—			
Consumer Price Index (annualized) also known as Inflation	2.7%	2.6%	2.9%	2.5%	2.7%			

**Yield represents income only*

Sector Analysis

US Equity Portfolio

Sector Distribution *% of Portfolio*

Sector	UCF 9/30/01	S&P 500 9/30/01	UCF 6/30/01
Consumer Non-Durables	8.8	6.5	7.3
Consumer Health Care	14.5	15.6	12.0
Media & Services	5.1	5.5	6.1
Retail Stores	6.9	6.8	6.8
Consumer Durables	0.9	1.4	1.1
Technology	15.4	15.0	18.8
Capital Equipment	9.8	8.9	10.4
Financial	17.4	18.2	17.3
Energy	6.7	6.8	6.6
Resources	2.5	2.7	2.5
Transportation	0.8	0.7	0.8
Communications	7.5	6.8	6.6
Utility	3.3	3.6	3.5
Miscellaneous	0.4	1.7	0.4

Fixed-Income Portfolio

Sector Distribution *% of Portfolio*

Sector	UCF 9/30/01	LBGC* 9/30/01	UCF 6/30/01
Treasury	29.7	38.4	24.8
Agency	10.9	18.2	8.9
Mortgage-Backed	2.9	0.0	3.7
Asset-Backed	1.9	0.0	2.3
Industrials	17.5	20.4	19.0
Electric/Gas	6.2	3.5	6.1
Telephone	0.0	0.0	0.0
Finance	14.0	14.4	14.7
International	7.3	5.1	8.4
Taxable Municipal	1.8	0.0	1.7
Cash	7.8	0.0	10.4
Other	0.0	0.0	0.0

**Lehman Brothers Government/Credit Index (LBGC)*

UNITED CHURCH FOUNDATION
475 Riverside Drive, Suite 1020
New York, NY 10115

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