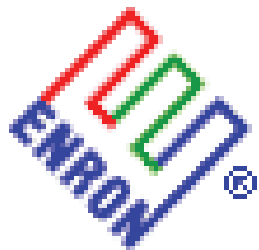


*Empowering
Ministry Through
Proven Asset
Management*

ucfocus

The Quarterly Newsletter of the United Church Foundation — An associated ministry of the United Church of Christ

THE IMPACT OF ENRON'S COLLAPSE ON THE UCF



The United Church Foundation has received a number of questions about Enron, the energy conglomerate

that recently filed for protection under Chapter 11 of the Federal Bankruptcy Code. We would like to take this opportunity first to respond to any concerns our participants may have about Enron, specifically as they might apply to our Funds. In addition, however, we would like to go on to briefly address the broader issue that is raised by the Enron debacle.

With respect to our Funds, participants can be assured that the events at Enron will not cause any serious problems. At no time during the past year was more than .4% of the Equity Fund or 1.9% of the Fixed Income Fund or .9% of the Balanced Fund invested in Enron stocks or bonds.

The Foundation intentionally keeps investments in individual companies small in relation to our total portfolios so that problems that might develop at any one company will not seriously impact our

participants' accounts. This is done simply as a matter of prudent investment policy, and the Board of Directors through its Investment Committee regularly reviews our stock and bond portfolios to ensure that we are operating within established guidelines.

With respect to the broader issue raised by the Enron debacle, the basic question is, are the alleged abuses at Enron the exception or are they the rule throughout American industry. The question is important because our economic system and the health of our financial markets are based ultimately on trust. Without trust, our economy would cease to function and our markets would collapse.

The answer to the question, in our judgment, is that while the alleged abuses at Enron likely exist in other companies to varying degrees, they are not so pervasive in American industry as to cause a real

crisis of confidence. To be sure, after two decades of almost uninterrupted economic growth, abuses have crept into the system. Some company managements have lost sight of their basic responsibilities. Many financial analysts, accountants, lawyers and boards of directors may face potential conflicts of interest in certain situations as they exercise their fiduciary responsibilities. About these things there is probably little doubt.

We must never lose sight, however, of the tremendous strength and resilience of our basic culture. When problems surface they are addressed, and we move on. This problem will be no exception. Reforms will be instituted, change will occur, behavior will be altered and our economic system will become stronger as a result. After a relatively short period of uncertainty, our financial markets will stabilize and move forward once again.

EXCERPTS FROM THE UCF INVESTMENT POLICY GUIDELINES

"The Investment Committee ... has established ... guidelines to ensure ... that appropriate diversification within each Fund is maintained. ..."

UCF Fixed-Income Fund

- "At least 90% of [the] portfolio, measured at current market value, should have an investment grade rating from at least two [rating agencies]."
- "No single issuer's securities should exceed 5% of [the] portfolio at current market value. Securities issued or guaranteed by the U.S. Government or its agencies or instrumentalities are exempt from this guideline."
- "[The] portfolio should be appropriately diversified. ..."

UCF Equity Fund

- "[M]anagers should invest no more than 10% of the market value ... in the equities of companies headquartered outside the U.S. ..."

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3 Q&A

4 Investment Performance

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**UNITED CHURCH
FOUNDATION**

UCF FILES FOUR SHAREHOLDER PROPOSALS


by Amy Muska O'Brien, Director of Corporate Social Responsibility (CSR)

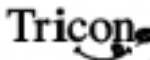



As described in the last issue of UCFocus, stock ownership in multinational corporations provides faith-based investors with a powerful way to effect social change. Through shareholder proposals, stockholders recommend or request that a company and/or its Board of Directors take a particular action relevant to company policy.

In the United States, securities laws govern the process by which a shareholder or group of shareholders may introduce formal shareholder proposals, have such proposals circulated to all of the company's shareholders, let each shareholder freely vote on each resolution, and present it in person at company annual meetings. Recently, the United Church Foundation has joined with other faith-based partners in filing four (4) such shareholder proposals.

Based on the feedback received at the Fall 2001 Joint CSR Table meeting, an analysis of the UCF's investment issues survey, and an assessment of CSR-related General Synod Resolutions from 1999 and 2001, the following companies were selected as priorities:

 **The Coca-Cola Company** – asking the company to implement a code of conduct and comprehensive global standards for its suppliers;

 **TRICON Global Restaurants** (parent company of Taco Bell) – asking the company to issue a report outlining the steps that it will take to draft and implement a code of conduct for the company's tomato suppliers that addresses basic standards of worker rights;

 **Unocal Corporation** – asking the company to report on its greenhouse gas emissions and estimate the feasibility of substantially reducing these emissions; and,

 **ExxonMobil Corporation** – asking the company to report on the promotion of renewable energy sources and the development of more non-polluting energy sources.

For each of these company campaigns, the Office of CSR is working in collaboration with other Protestant denominations, Catholic Orders, "secular" socially responsible investment firms, and state pension funds. It is important to stress that constructive dialogue with the company, along with the corporate change we all seek, is the objective of filing a shareholder resolution. The goal of a shareholder proposal is to win access to and commitment from key corporate decision-makers who can produce the desired CSR improvements. Accordingly, if we believe that sufficient progress has been achieved with a company, the proposal may be withdrawn before it reaches the company annual meeting this spring.

The Coca-Cola Company has been the most responsive company to date and a dialogue has already commenced. In mid-December representatives from the company met with filers over concerns raised in the shareholder proposal. Shareholders have been given the opportunity to provide initial input into the company's policies and code of conduct.

Alternately, instead of fully addressing shareholder concerns, Tricon is seeking to have the proposal excluded citing a variety of technical and legalistic reasons.

Future articles will provide additional updates on the status of the dialogue with each company, as well as information concerning how the shareholder proposal fared at the company's annual meeting in the event the resolution is included in the company's proxy statement. ➔

UCF INVESTMENT POLICY GUIDELINES (CONTINUED)

- "With respect to at least 75% of the ... portfolio, the maximum position in a single issuer's securities should not exceed 5% of total assets at current market value. ... [M]ore concentrated positions in the remaining 25% of the portfolio [are permitted], but should not allow any one position to exceed 8% of the portfolio.
- "No more than 20% of [the] portfolio, at market value, should be invested in companies with a market capitalization of \$100 million or less.
- "[The] portfolio should be appropriately diversified by sector, by industry and by individual company"

UCF Balanced Fund

- "Because the assets of the UCF Balanced Fund consist of units of the UCF Fixed-Income Fund and the UCF Equity Fund, broad diversification within each asset class is assured by the guidelines pertaining to those two Funds. ..."

The entire Investment Policy is available on our website at: <http://www.ucfoundation.org/Investment.pdf>.

EMPLOYEE FOCUS



Patrick Jourdain is the Executive Secretary in the Education and Marketing office, working closely with the director. Before coming to the Foundation 18 months ago, Patrick worked for The Pension Boards-UCC.

THE UCF BALANCED FUND

George E. Doty, Chief Investment Officer



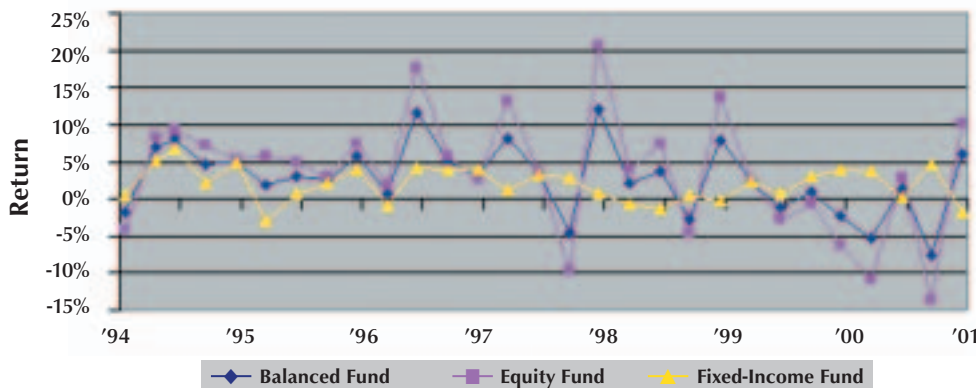
In the last two issues of UCFocus, we discussed our Equity Fund and our Fixed-Income Fund. Over long periods of time the performance of the Equity Fund will typically exceed the performance of the Fixed-Income Fund, but over relatively short periods of time declines in the Equity Fund could be a good deal more severe than declines in the Fixed-Income Fund.

To “smooth out” the bumps in the road that inevitably occur when one puts all their eggs in one basket, in this case the equity basket, most investors will diversify their investments and own both stocks and bonds. Participants in the Foundation’s Funds can accomplish this portfolio diversification in two ways. They can own units of both the Equity Fund and the Fixed-Income Fund, or they can own units of the Balanced Fund.

By owning units of both the Equity and the Fixed-Income Funds, the investor makes his or her own asset allocation decision. That is, the investor decides what percentage of the funds for which he or she is responsible should be invested in equities and what percentage should be invested in fixed-income securities. By owning units of the Balanced Fund, the investor leaves the asset allocation decision to the investment professionals managing the Foundation’s Funds.

To reflect the historical superiority of equity returns relative to fixed-income returns over long periods of time, the Foundation’s managers typically have more than half of the Balanced Fund’s assets in equities and less than half in bonds. Over short periods of time, this bias in favor of equities could be very small, however, and at times the managers could over-weight bonds relative to stocks. Under the Foundation’s investment guidelines, the managers cannot invest more than 70% or less than 40% of the Balanced Fund’s assets in equities without the specific approval of the Investment Committee of the Board of Directors.

Quarterly Performance 10/1/94 – 12/31/01



Which is the best approach? Is it better to own units of the Equity Fund and the Fixed-Income Fund, or is it better to own units of the Balanced Fund? Is some combination of the two approaches the best way to go? The answer, of course, depends on the investor.

Some investors will want to allocate more than 60% or 70% of their assets to equities in their pursuit of very high investment returns, while others will be uncomfortable with the level of volatility that is inherent in having even half of their assets invested in equities. For both of these groups, investment in Equity and Fixed-Income Fund units for all or a part of their asset, and in Balanced Fund units for a small portion or no part of their assets is probably the way to go.

On the other hand, for the investor who is looking for a fund that will take equity and fixed-income positions in between these two extremes, the Foundation’s Balanced Fund is probably a good choice. In addition to having a fund that strikes a good balance between the potential for high long-term investment returns and the avoidance of large short-term loses, investors in this Fund can feel comfortable in the knowledge that the allocation of assets in this Fund is being carefully and continuously monitored by the Foundation’s investment managers. 🍀

Q&A

Why do bond prices rise when their yield drops, and vice-versa?

In general, when interest rates rise, bond prices fall, and when interest rates fall, bond prices rise. This inverse relationship is easy to understand if you put yourself in the shoes of a typical bondholder.

Let’s say you bought a bond one year ago with a coupon (interest) rate of 5%, the going rate for comparable bonds when you bought it. But since then, let’s assume that the prevailing interest rates have dropped, so that today, bonds of comparable quality and maturity to yours are now only offering a 3% coupon. Which would you rather have: your older bond that is still paying 5% or a new bond that will only pay you 3%?

Clearly, because your older bond yields more now than similar bonds currently available, you’d rather have your old one – and so would other people. In fact, you could sell your older bond now for more than you paid last year, thereby causing the price of bonds like yours to rise.

On the other hand, if prevailing interest rates had gone up to say 7% during the last year, the higher yielding bonds available now that are comparable to yours would make your older bond worth less, and you would have to lower the price below what you paid for it if you wanted to sell it today. That’s the reason bond prices move in the opposite direction of their yield. 🍀

PERFORMANCE & ANALYSIS

INVESTMENT PERFORMANCE

DECEMBER 31, 2001

AVERAGE TOTAL RATES OF RETURNS	ANNUALIZED								
<i>Returns on UCF funds are presented net of fees</i>	Year to Date	1 Year	3 Years	5 Years	10 Years	Current Yield	Unit Value	Market Value	
UCF Equity Fund – includes 5.0% international equity <i>S&P 500 Index</i>	-13% -11.9%	-13% -11.9%	-0.7% -1.1%	10.4% 10.7%	12.6% 12.9%	1.4%	\$9.16950	\$352M	
UCF Fixed-Income Fund <i>Lehman Brothers Government/Credit Bond Index (LBGC)</i>	6.7% 8.5%	6.7% 8.5%	5.0% 5.9%	6.9% 7.4%	7.4% 7.3%	6.0%	\$4.21040	\$182M	
UCF Balanced Fund – (66.8% Equity, 33.2% Fixed Income) <i>Composite Index: S&P 500/LBGC (55/45)</i>	-5.9% -2.7%	-5.9% -2.7%	1.5% 2.4%	8.8% 9.6%	10.1% 10.6%	3.0%	\$6.98306	\$295M	
UCF Cash & Equivalent Fund (annualized) <i>Lipper Money Market funds Index (annualized)</i> <i>Consumer Price Index (Inflation) (annualized)</i>	2.0% 3.8% 1.5%	2.0% 3.8% 1.5%	4.7% 4.8% 2.5%	N/A — 2.2%	N/A — 2.5%	2.0%	\$1.00000	\$3.6M	

SECTOR DISTRIBUTION ANALYSIS

UCF Equity Fund				UCF Fixed-Income Fund			
Sector	Sector Distribution (% of Portfolio)			Sector	Sector Distribution (% of Portfolio)		
	UCF 12/31/01	S&P 12/31/01	UCF 9/30/01		UCF 12/31/01	LBGC* 12/31/01	UCF 9/30/01
Consumer Non-Durables	7.6	6.0	8.8	Treasury	32.3	38.2	29.7
Consumer Health Care	13.7	14.3	14.5	Agency	13.3	17.8	10.9
Media & Services	5.3	5.6	5.1	Mtge-Backed	2.4	0.0	2.9
Retail Stores	7.5	7.5	6.9	Asset-Backed	2.6	0.0	1.9
Consumer Durables	0.9	1.5	0.9	Industrials	13.4	21.2	17.5
Technology	17.7	18.3	15.4	Electric/Gas	5.7	9.5	6.2
Capital Equipment	10.9	9.3	9.8	Telephone	0.0	0.0	0.0
Financial	17.3	17.6	17.4	Finance	12.8	13.9	14.0
Energy	6.1	6.3	6.7	International	7.5	5.4	7.3
Resources	2.5	2.7	2.5	Taxable Munis	1.5	0.0	1.8
Transportation	0.9	0.8	0.8	Cash	8.5	0.0	7.8
Communications	6.3	5.5	7.5	Other	0.0	0.0	0.0
Utility	3.0	3.1	3.3				
Miscellaneous	0.4	1.7	0.4				

**Lehman Brothers Government/Credit Bond Index*



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