Empowering Ministry Through Proven Asset Management

ucfocus

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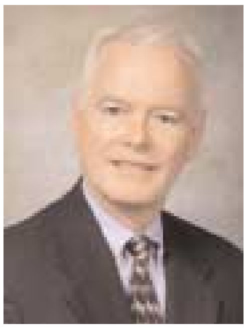
The Quarterly Newsletter of the United Church Foundation —An associated ministry of the United Church of Christ

Hart Becomes Fulltime Executive VP



For the past 11 years, Donald G. Hart has been both the Executive Vice President of the United Church Foundation (UCF), and the Treasurer of The Pension Boards - of the United Church of Christ. Over the years, this arrangement has worked well for both organizations. But on January 1, 2003, everything changes when Don begins working for the UCF exclusively.

Both the Foundation and the Pension Boards have experienced tremendous growth recently, and the workload has also grown dramatically. The need to separate these two positions has been evident for some time, as both organizations are poised for even more growth in the years ahead. Recognizing the potential, the Foundation's Board of Directors voted in late April to make the position of Executive Vice President (EVP) a fulltime position, a change from the previously shared role of one person.

Rev. Sandra Hulse, Chair of the Board of Directors, stated that after deciding to make the EVP position fulltime, we enthusiastically voted to ask Don Hart to continue in that role. "The Board was clear that he is the right person to lead the Foundation and we could not adequately express in a formal motion the excitement we felt in asking him to accept the position fulltime," said Rev. Hulse.

Don accepted their call to lead the Foundation on a fulltime basis and has resigned as Treasurer of the Pension Boards effective December 31, 2002. When the 2002 audits for both the Pension Boards and United Church Foundation are completed in late February of next year, Don will dedicate fulltime to the responsibilities of the Foundation.

This change in work roles for Don will mean significant change for both the Foundation and the Pension Boards. Don will assist the Pension Boards in the transition to a new Treasurer as soon as one has been named. "It was very difficult for me to choose between these two positions because my commitment to both organizations is absolute and I love the work I do for both.... Although I am challenged by and love the work of the Treasurer of the Pension Boards, I also have great excitement about the opportunities to lead the Foundation into the future," Hart stated in his letter of resignation to Michael A. Downs, the recently elected Executive Vice President of the Pension Boards.

Inside This Issue:

Policy Guides Endowment Funds

By Nelson R. Murphy (Rev.), UCF Director of Education and Marketing

The ministry of a church with a substantial endowment fund can be richly blessed by it. But these same assets also have the power to become a curse upon the giving patterns of a congregation. The difference is often attributable to the church's endowment fund policy.

Every church has such a policy, even if only tacitly. By putting it in writing with full congregational approval, church leaders help their fellow members gain a common vision of the endowment and thus avoid the erroneous conclusion that the church has so much money, it doesn't need more.

A good endowment fund policy helps keep congregational giving strong by providing a clearly stated purpose for these assets. It describes how they are to be invested, both in the sense of how the corpus is to be invested in the financial marketplace (In the UCF, of course!), as well as how the total return is to be invested to further the mission and ministry of the congregation. It also calls for complete annual reports that lift up the good work still being accomplished by the capital gifts of other (usually deceased) members.

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UNITED CHURCH FOUNDATION

Shareholder Action Update:

Tricon & Unocal Resolutions Withdrawn; Coca-Cola & ExxonMobil Pursued

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

Shareholder proposals filed this year at Tricon Global Restaurants and the Unocal Corporation have been withdrawn after company officials met with and agreed to certain demands set forth by representatives of the coalitions in which the United Church of Christ Office of Corporate Social Responsibility (CSR) participates. Proposals filed with the Coca-Cola Company and ExxonMobil will remain on their company's proxy statements this spring, and will be voted on at the company's annual meeting.

One objective of filing a shareholder proposal is the initiation of constructive dialogue with management decision-makers who can bring about desired CSR improvements. Accordingly, if proponents determine that sufficient progress has been made with a company (even though the ultimate CSR goal has not yet been reached), the proposal may be withdrawn before it reaches the company's annual meeting. Although two of the four proposals were withdrawn, CSR activists will continue to monitor company commitments over the next year, before determining whether re-filing is necessary.

The proposal filed at Tricon was withdrawn because the company committed in writing to seek improvements in several areas. Tricon/Taco Bell representatives agreed to communicate directly with the president of the Six L's Packing Company, encouraging the grower to resolve its differences with its employees. They also pledged to ongoing dialogue with the Tricon Working Group (of which the UCC's Office of CSR is an active member) to improve Tricon's code of conduct for its suppliers. The content and implementation of this code of conduct will be the focus of continued dialogue in 2002.

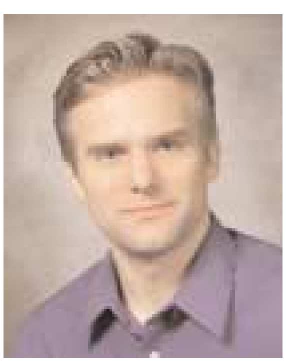
The shareholder proposal at Unocal was also withdrawn. During a meeting in February 2002, Unocal shared information on corporate objectives to establish greenhouse gas measurement systems for its operations, and provided examples of successful reduction efforts among its business units. Activists decided to withdraw because the company exhibited a willingness to continue the dialogue, specifically concerning greenhouse gas reduction goals, aimed at bridging current differences between themselves and the filers.

The shareholder proposals filed at Coca-Cola and ExxonMobil were not withdrawn and will be presented for a vote at annual meetings this spring.

In the case of Coca-Cola, filers were initially encouraged by the company's willingness to engage in good faith dialogue and its clearly stated desire to be an industry leader in global human rights issues. However, the substance of Coca-Cola's revised code of conduct fell short in several key areas and important suggestions for improvement were not incorporated before the document was released to employees earlier this year.

Regarding ExxonMobil, the shareholder proposal filed by 45 shareholder groups remains on the proxy statement. Significant differences remain between ExxonMobil and the proponents, particularly concerning the future role of renewable energy sources and corporate involvement in shaping federal energy-related policies.

Shareholder proposals must receive a certain percentage of votes in order to be eligible for resubmission in 2003. A proposal appearing on the company's proxy statement for the first time must receive at least 3 percent of the votes. In the second year it must receive 6 percent of the vote, and in the third year, 10 percent. Since many investors do not vote their proxy ballots at all, these thresholds are significant hurdles for activists to overcome. The next issue of UCFocus will contain the number of votes received supporting the shareholder proposals at Coca-Cola and ExxonMobil.



Employee Focus

Kiel Klaphake, Account Manager

Many of our readers may have spoken to Kiel Klaphake, the UCF's Account Manager, when calling the Foundation's toll-free line. A professional musician by training, Kiel set a high standard for customer support services. Immediately before joining the UCF, he spent two years in Hamburg, Germany with a leading role in the musical, The Phantom of the Opera. Before that, Kiel lived in Boston and worked as the front office supervisor for the Sheraton Hotel and Towers and as the supervisor for visitor services at the Boston Museum of Fine Arts. Regrettably, we must wish Kiel farewell soon as he will be moving on to a new venture in Phoenix, AZ, this coming summer.

Setting Realistic Expectations

George E. Doty, Chief Investment Officer

Investors have come through a very challenging time recently. From an economic perspective, the longest peacetime expansion in our nation's history has ended. After reaching a peak in the first quarter of last year, our economy declined through the second and third quarters before apparently stabilizing in the fourth quarter and first quarter of this year.

By year end, the first recession since 1990 – exacerbated by the events of September 11 – had thrown 1.8 million people out of work and the unemployment rate had risen from 3.9% to 5.8% of the work force. Corporate profits of companies included in the Standard & Poor's 500 Common Stock Index declined by almost 50% last year and stock prices measured by the same Index declined by 13.1%. From the stock market peak in March 2000 to what we believe will prove to be the trough last September, the Standard & Poor's 500 Common Stock Index declined by 36.8%. From peak to trough, the Nasdaq Composite Index fell by 71.9%.

We are optimistic that the worst is behind us. With respect to the economy, we look for a resumption of growth with very low inflation in 2002 – a combination which bodes well for participants in the Common Investment Funds of the United Church Foundation (UCF). With respect to the stock and bond markets, positive returns are anticipated this year, though we have cautioned many times in the past that the phenomenal returns of the 1980s and 1990s are not likely to be repeated during the first decade of the 21st Century.

Two decades ago, inflation was very high, both in the U.S. and around the world. Stock prices were very low by almost any standard and bond yields were extraordinarily high. The stage was set for one of the greatest bull markets in history and that is precisely what developed. During the last two decades of the 20th Century, bonds returned an average of 10-12% per year, while stocks provided investors with an average return of 18-20% per year.

Today, conditions are very different from those of the late 1970s and early 1980s. Inflation is almost nonexistent, stocks are extremely expensive by almost any measure and bond yields are very low. Under these conditions, we should probably expect a decade or so of below-average returns from financial instruments. As a point of reference, the average return on stocks over the last 75 years was about 11% per year, while the average return on bonds was about 5.5% per year.

Under these conditions, we recommend that UCF investors:

- Set realistic goals and use realistic investment return assumptions when developing financial plans based on their holdings.
- Remain well diversified. Twenty years of almost uninterrupted economic growth have masked many potential difficulties and have fostered the development of many unsound practices and types of behavior throughout business and industry. A return to more normal growth will inevitably expose many problems, and the undiversified investor may suffer disproportionately. For successful long-term investing, broad diversification is an essential and proven strategy.
- Avoid excessive risk. The likelihood of making mistakes in a lower-average return environment is greater than it is in an environment of above-average returns, and opportunities to recover from mistakes are not as plentiful.
- Be patient with your investments. Changes in investment strategy should be made with great care and thoughtfulness, not out of a lack of patience or a belief that one can outsmart the markets.

Q&A

What is an "Option?"

An option is an agreement made between two parties to buy or sell a given security for a certain price within a certain period of time. Buying an options contract gives the "holder" or "owner" the right to "exercise" the buy or sell deal at the agreed upon "strike price" before the "expiration date." The seller (or "writer") of the option contract must complete the transaction if the buyer requests it, regardless of changes in the market value of the security during that period of time.

Because options derive their value from changes in the market value of a security over time, they are often called "derivatives." Market speculators use options in many ways, for example to protect against the downside risk of a decline in the value of a security, but their cost diminishes the upside gain that might otherwise have been realized.

Policy Guides Endowment Funds (continued from page 1)

Written endowment policies remove the shroud of mystery that often surrounds issues associated with a church's accumulated wealth. Doubtful questions about who is managing it, and what is being done with it simply go away. The endowment fund clearly becomes just one more resource available for the congregation's use in its ongoing ministry of witness and service.

Every church needs a written endowment policy to guide the use of its assets, one that emphasizes how the endowment resources the outreach ministry and mission of the congregation. Along with clear and complete annual reporting that shows how the policy has been upheld, a good endowment policy becomes the bedrock upon which the receipt of additional bequests depends, enabling the growth of the endowment fund itself.

The United Church of Christ strongly recommends that churches develop and implement well considered endowment fund policies that are approved by the whole congregation. Samples from several congregations have been collected and are available upon request from the Financial Development Ministry of the Office of General Ministries in Cleveland (800-846-6822).

INVESTMENT PERFORMANCE

MARCH 31, 2002

AVERAGE TOTAL RATES OF RETURNS	ANNUALIZED							
Returns on UCF funds are presented net of fees[1]	Year to Date	1 Year	3 Years	5 Years	10 Years	Current Yield	Unit Value	Market Value
UCF Equity Fund – includes 5.01% international equity	**1.0%**	**-1.4%**	**-1.6%**	**10.2%**	**13.1%**	**1.4%**	**$9.21420**	**$333M**
S&P 500 Index	*0.3%*	*0.2%*	*-2.5%*	*10.2%*	*13.3%*			
UCF Fixed-Income Fund[2]	**-0.4%**	**2.6%**	**5.1%**	**7.0%**	**7.4%**	**5.9%**	**$4.13310**	**$163M**
Lehman Brothers Government/Credit Bond Index (LBGC)	*-0.5%*	*4.6%*	*6.2%*	*7.5%*	*7.4%*			
UCF Balanced Fund – (68.0% Equity, 32.0% Fixed Income)	**0.6%**	**-0.1%**	**1.0%**	**8.8%**	**10.4%**	**2.8%**	**$6.96590**	**$216M**
Composite Index: S&P 500/LBGC (55/45)[3]	*0.0%*	*2.7%*	*1.9%*	*9.1%*	*10.5%*			
UCF Cash & Equivalent Fund (annualized)	**1.5%**	**2.1%**	**4.5%**	**N/A**	**N/A**	**1.7%**	**$1.00000**	**$5.6M**
Lipper Money Market Funds Index (annualized)	*1.8%*	*2.8%*	*4.6%*	—	—			
Consumer Price Index (Inflation) (annualized)	*3.0%*	*1.3%*	*2.7%*	*2.3%*	*2.5%*			

NOTES:

(1) Actual fees since 10/1/94. Estimated fees prior to that date.

(2) Prior to 10/1/94, these funds were respectively the equity and fixed-income segments of the UCF Balanced Fund.

(3) Until 3/31/01, the Policy Index was 50% S&P 500/50% LBGC and after that date it is 55%/45% respectively.

SECTOR DISTRIBUTION ANALYSIS

UCF Equity Fund

	Sector Distribution (% of Portfolio)		
Sector	**UCF 3/31/02**	**S&P 3/31/02**	**UCF 12/31/01**
Consumer Non-Durables	8.0	6.4	7.6
Consumer Health Care	14.1	14.2	13.7
Media & Services	5.4	5.5	5.3
Retail Stores	7.7	7.7	7.5
Consumer Durables	1.0	1.7	0.9
Information Technology	16.0	16.9	17.7
Industrials	11.2	8.5	10.9
Financials	18.0	18.5	17.3
Energy	6.6	6.9	6.1
Materials	2.7	2.9	2.5
Transportation	0.9	0.8	0.9
Telecommunications Services	5.4	4.6	6.3
Utilities	3.0	3.2	3.0
Miscellaneous	0.0	2.2	0.4

UCF Fixed-Income Fund

	Sector Distribution (% of Portfolio)		
Sector	**UCF 3/31/02**	**LBGC* 3/31/02**	**UCF 12/31/01**
Treasury	31.6	37.8	32.3
Agency	11.6	17.9	13.3
Mtge-Backed	4.3	0.0	2.4
Asset-Backed	2.6	0.0	2.6
Industrials	16.9	21.1	13.4
Electric/Gas	4.3	3.6	5.7
Telephone	0.0	0.0	0.0
Finance	15.6	14.1	12.8
International	5.9	5.5	7.5
Taxable Munis	1.6	0.0	1.5
Cash	5.6	0.0	8.5
Other	0.0	0.0	0.0

**Lehman Brothers Government/Credit Bond Index*

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