

*Empowering
Ministry Through
Proven Asset
Management*

ucfocus

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

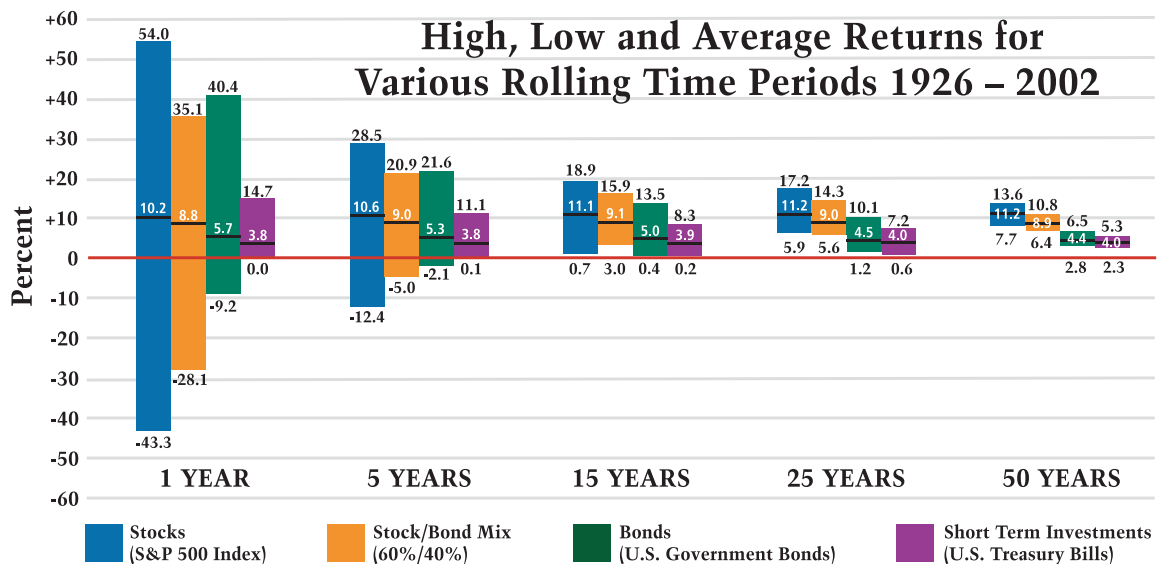
THE DIFFERENCE LONG-TERM INVESTING MAKES

by Rev. Nelson R. Murphy, Director of Education and Marketing

Even though long-term investors in stocks and bonds have achieved outstanding long-term results, it is widely believed among church folks that investing their congregation's endowment funds in the stock market is way too risky. Those who hold this view fail to appreciate how long-term investing allows the law of averages to mitigate that risk.

The bar chart to the right shows high, low and average returns obtained between 1926 and 2002, for the five rolling time periods indicated. Each bar shows the returns obtained from each type of security held for that length of time. It illustrates how the range of investment returns narrows as the length of the investment periods grow longer, always trending toward the average return.

For example, when stocks were held for



five-year rolling time periods, they returned 10.6% on average. Some of those periods were big winners with up to 28.5% in gains and some were big losers with as much as 12.4% in losses. But thanks to the law of averages, none of the five-year periods rose as high or fell as low as the comparable values shown for one-year returns. This represents a substantial reduction in the level of risk for investments held for at least five-years.

The fifteen-year results fell within an even narrower range of highs and lows, as did the 25-year and the 50-year results. All three of these longer time periods overcame their losses altogether, and none of the 50-year results were less than 7.7% or more than 13.6%, even though at least one of the one-year losses was a crippling -43% decline and one of the one-year gains was a whopping 54% gain. The

longer the period of time the investments were held, the lower the level of risk that was incurred.

Fortunately, a church's endowment funds have an investment time horizon that is virtually unlimited. Since long-term investment results tend to approach the long-term averages, a church's endowment fund can make good use of that long time horizon and greatly reduce the risks associated with owning stocks and bonds.

Of course, past performance is no guarantee of future returns, but the power of the law of averages is perhaps one of the most reliable of all the laws of nature. Consequently, we contend that a church's long-term endowment funds can be prudently invested in both stocks and bonds, in spite of the short-term risks involved. ➤

Inside This Issue:

2 Are We Out Of The Woods Yet?

2 Q&A: Stocks and Bonds

3 Shareholder Voices Heard at Annual Meetings

4 Investment Performance

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**UNITED CHURCH
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ARE WE OUT OF THE WOODS YET?

by George Doty, UCF Chief Investment Officer



From the beginning of this year through June 30th, the stock market measured by the S&P 500 Index increased by 11.8%. After suffering through

one of the worst periods in U.S. stock market history, investors are wondering if the bear market that began over three years ago is finally over. Are we out of the woods yet?

While one cannot give a definitive answer to this question, there are certainly signs that the worst may be over from a relatively short-term or cyclical point of view. Both monetary

and fiscal policy are highly stimulative, and some of the economic developments that we typically see at or near the end of a bear markets are occurring once again. Increases in the money supply have been accelerating, for example, interest rates are near new lows for the current cycle, and new housing starts have once again turned upward.

The evidence of the beginning of a new bull market, however, is by no means clear, and we would add a word of caution. Stock market rallies, though powerful, can be quite short, they can end without warning, and new market declines can begin quickly. Investors should not become overly optimistic and lose sight of their well-conceived long-term asset allocation strategies. Finance and investment committees

should perhaps consider setting aside part of any increase in portfolio values as a hedge against future declines, rather than automatically withdrawing funds from their endowments up to the limit permitted by their spending rules.

We are delighted, as you are, with increased Fund values at the end of June. This is a welcome development after some very difficult financial times, and we do believe that better years lie ahead. That said, however, we would repeat what we have often said. Returns in the coming years are not likely to match the returns of the 1980's and 1990's, and we will likely see more years in which returns decline than we saw during the last two decades of the 20th Century. 🍀

Q&A

What's the difference between owning stocks and bonds?

Stocks and Bonds are financial instruments used to raise money for business operations, but there is a big difference.

Generally, bonds are unsecured notes issued to investors in return for a loan at a fixed rate of interest that a borrower promises to repay. Hence, bonds are often called "fixed-income" securities.

But when an enterprise sells shares of its stock, it raises money that never has to be repaid. Instead, investors obtain a proportionate and equitable ownership interest in the company's assets. Hence, stocks are often called "equities."

Instead of receiving the regular interest payments paid to bondholders, stockholders share in a company's profits by receiving quarterly dividends when they are declared, or through changes in the market value of their shares.

If a company becomes very profitable, its shareholders usually benefit handsomely from increases in the market value of its shares, whereas bondholders receive only the benefit of knowing their "loan" is now more likely to be repaid. On the other hand, if a company goes bankrupt, its assets are liquidated and the bondholders get what is owed them before stockholders divide up the leftovers. 🍀

EMPLOYEE FOCUS

David M. Schiffman Becomes UCF's Chief Fixed-Income Officer



Mr. David M. Schiffman has been promoted to become the next Chief Fixed-Income Officer, and will now head the UCF's Fixed-Income Team. Mr. Schiffman has been the Senior Fixed-Income Portfolio Manager for the last three years, and has more than 14 years of experience in the industry. He holds an M.B.A. in Finance from the State University of New York, Binghamton. He replaces Ms. Andrée Prindiville, who resigned last spring for personal reasons.

In making the announcement, Mr. George E. Doty, the UCF's Chief Investment Officer, explained that a thorough nationwide search was undertaken, and David Schiffman clearly emerged as the best-qualified candidate. "Dave consistently demonstrates sound investment judgment," Mr. Doty explained, "and he will serve the participants in our Common Investment Funds well." 🍀

SHAREHOLDER VOICES HEARD AT ANNUAL MEETINGS

by Amy Muska-O'Brien, Director UCC Corporate Social Responsibility Ministry



The United Church Foundation played an integral role in this year's record-setting shareholder activism season. From April through June, over 1,000 shareholder proposals were filed seeking to change corporate policy and management behavior. Many proposals addressed ongoing concerns about corporate governance. Approximately 300 dealt with social and environmental issues.

The United Church Foundation supported shareholder proposals at the following companies: "YUM! Brands" (parent of Taco Bell), ExxonMobil, Southern Company, Ford Motor Company, and General Motors. These proposals involved human/labor rights or global warming/climate change issues. Typically, the texts of these proposals were included in the proxy statements sent to each shareholder. In most cases, the issues went to a vote at the annual meetings of each company.

The UCF's leadership in the human/labor rights campaign at YUM! Brands, the parent company of Taco Bell, resulted in a whopping 39% support for our proposal. To date, only three other social issue shareholder proposals have received a higher vote in 2003. We are hopeful that this dramatic positive result will finally motivate company leaders to enter into substantive dialogue about the exploitation of farm workers by its suppliers.

The ExxonMobil shareholder proposal concerned how the company is responding to rising regulatory, competitive and public

pressure to develop renewable energy sources. The 21% vote achieved there was up slightly from last year.

Our shareholder proposal at Southern Company achieved 23% of the vote and was conducted as part of a larger electric power company campaign in which average support levels attained record-setting numbers in 2003. These numbers demonstrate growing concern among investors about the business risks and vulnerabilities facing "carbon-intensive" companies.

While concerns about Ford Motor Co. still abound, shareholders withdrew their global warming proposals this year based on a commitment by management to address the contribution of its product fleet to greenhouse gas emissions. Ford also agreed to help frame new policy alternatives to promote greater fuel efficiency. In an unprecedented move, Ford published our shareholder proposal and their response in its proxy statement, and provided time at its 2003 annual meeting for proponents to voice their concerns.

At General Motors, however, ongoing concerns about that company's policies and practices resulted in leaving our proposal on the company's proxy statement, to be voted on at GM's annual meeting. The UCF played a key role. I traveled with the lead co-filer to speak at the 2003 annual meeting. Our role was to introduce the shareholder proposal to the company CEO, Board of Directors, and other meetings attendees. Our resulting 6% vote met the threshold for reintroducing the shareholder proposal again next year.

In these ways, participants in the UCF's Common Investment Funds use the power of their investment holdings to constructively engage corporate leaders in dialog about issues of moral concern to church people. ➤

ANALYSIS

SECTOR DISTRIBUTION ANALYSIS

UCF Equity Fund				UCF Fixed-Income Fund			
Sector	Sector Distribution (% of Portfolio)			Sector	Sector Distribution (% of Portfolio)		
	UCF 6/30/03	S&P 6/30/03	UCF 12/31/02		UCF 6/30/03	LBGC* 6/30/03	Difference
Consumer Staples	6.9	6.5	7.0	Treasury	27.0	35.5	-8.5
Consumer Health Care	15.4	14.8	14.9	Agency	15.9	20.3	-4.4
Media	5.1	4.2	4.1	Mtge-Backed	3.2	0.0	3.2
Services	1.5	1.6	1.4	Total Government	46.1	55.8	-9.7
Retail Stores	7.8	7.7	7.5	Asset-Backed	2.2	19.4	-17.2
Consumer Durables	1.1	1.5	1.6	Industrials	17.1	3.6	13.5
Information Technology	17.1	15.7	14.8	Electric/Gas	5.0	15.4	-10.4
Industrials	7.8	7.8	7.8	Finance	15.5	5.8	9.7
Financials	20.6	20.4	20.5	International	8.0	0.0	8.0
Energy	5.5	5.8	6.0	Taxable Munis	1.2	0.0	1.2
Materials	2.7	2.7	2.8	Cash	4.9	0.0	4.9
Transportation	1.6	1.6	1.7	Total Credit	53.9	44.2	9.7
Telecommunications Services	3.8	3.9	4.2	Total Portfolio	100.0	100.0	
Utilities	3.2	3.0	2.9				
Miscellaneous	0.0	2.7	2.8				

*Lehman Brothers U.S. Government/Credit Bond Index

PERFORMANCE

INVESTMENT PERFORMANCE

JUNE 30, 2003

For more information on the Common Investment Funds offered by United Church Foundation, call toll-free (877) 806-4989 or visit our website at www.ucfoundation.org

AVERAGE TOTAL RATES OF RETURN	ANNUALIZED					Current Yield	Unit Value	Market Value
<i>Returns on UCF funds are presented net of fees</i>	Year to Date	1 Year	3 Years	5 Years	10 Years			
UCF Equity Fund – includes 9.0% international equity <i>S&P 500 Index</i>	11.6% 11.8%	-1.1% 0.2%	-8.8% -11.2%	-1.2% - 1.6%	9.1% 10.0%	1.7%	\$7.8435	\$341M
UCF Fixed-Income Fund <i>Lehman Brothers Government/Credit Bond Index (LBGC)</i>	4.7% 5.2%	12.4% 13.1%	10.1% 10.8%	6.9% 7.8%	7.0% 7.4%	4.9%	\$4.5617	\$190M
UCF Balanced Fund – (61.7% Equity, 38.3% Fixed Income) <i>Strategy Index (See Note)</i>	8.6% 9.2%	2.8% 4.6%	-3.4% -3.5%	1.5% 1.8%	7.4% 8.4%	2.9%	\$6.4542	\$270M
UCF Cash & Equivalent Fund (annualized) <i>Lipper Money Market Funds Index (annualized)</i>	1.0% 0.7%	1.2% 1.0%	2.8% 2.9%	N/A —	N/A —	0.9%	\$1.0000	\$4.3M
<i>Consumer Price Index (Inflation) (annualized)</i>	2.2%	2.2%	2.1%	2.4%	2.4%			

NOTE: The Strategy Index represents the actual allocation to Fixed-Income and Equity in the Balanced Fund applied to the LBGC and S&P 500.

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