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ucfocus

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

STUDY FINDS INVESTORS BENEFIT FROM CSR

Many shareholders agree that investing in a socially responsible manner can lead to constructive changes in the way that companies do business. It also keeps our investing principles in line with the values of our faith. But does Corporate Social Responsibility (CSR) cost investors by dragging down investment performance?

People entrusted with the church's money have a fiduciary responsibility to invest it wisely with the anticipation that it will grow. One wonders if corporate social responsibility cuts into potential profits, representing a less than prudent investment.

A recent groundbreaking analysis of 52 studies looked at the link between corporate social responsibility and financial performance, and reports that corporate social responsibility is a financial benefit for investors.

The study "Corporate Social and Financial Performance: A Meta-Analysis," by Marc Orlitzky, Frank Schmidt and Sara Rynes concludes "there is a positive association between corporate social performance and financial performance across industries and

across study contexts." The study also found that corporate social performance was a better predictor of financial performance using accounting measures than market-based ones.

"This analysis provides strong evidence of what many people have suspected all along – that corporate social responsibility does indeed have a measurable impact on the financial bottom line," said Social Investment Forum President Tim Smith. "That a survey of so many studies by so many respected individuals supports this view is a major finding that validates the core thinking of socially responsible investing."

The study does an unusually thorough job of analyzing possible confounding issues. For example, some analysts have expressed concern about availability bias – that is that studies failing to show a positive relationship between social responsibility and financial performance are unlikely to be published. To address this bias, the study authors conducted a "file drawer" analysis demonstrating that the number of such studies would have to be very high (as many as 1,000) to change their overall conclusions.

Lloyd Kurtz, portfolio manager at Nelson Capital Management, added: "This study is an important review of the literature of corporate social responsibility...and deserves the attention of managers, investment practitioners and academics." 🍀

Portions of this article are reprinted with the consent of the Social Investment Forum. More information can be found online at www.socialinvest.org/areas/news/102504release.htm

TACO BELL AGREES TO IMPROVE WAGES FOR FARM WORKERS

Over a four-year struggle, hundreds of organizations worked together to encourage Taco Bell to address the wages and working conditions of farm workers in the Florida tomato industry. These workers have the lowest standard of living in the state, live in substandard housing and receive little medical care.

Yum! Brands announced on March 9, 2005 that its Taco Bell subsidiary agreed to pay 1 cent more for each pound of tomatoes that workers pick. The move affects about 1,000 Florida workers and means workers, who now make 40-45 cents for each 32-pound bucket they harvest, will now earn at least 72 cents

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Correction

The end-of-year performance data for the UCF Balanced Fund as reported in the winter 2005 issue of UCFocus has been corrected. This only affects the UCF Balanced Fund. The restated investment performance as of 12/31/2004 is:

One year	8.4%
Three years	4.7%
Five years	1.5%
Ten years	9.7%

The Unit Value of the UCF Balanced Fund as of 12/31/2004 was \$7.4110

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CSR SPOTLIGHTS VIDEO GAME VIOLENCE

by Heidi Velasquez, CSR Program Associate

During the March meeting of the UCF's CSR Committee, members strongly supported a shareholder initiative asking retailers to prevent minors from purchasing violent video games.

Research has found that exposure to violent video games increases aggressive thoughts, feelings, and behaviors and decreases helping behavior. A study from the National Institute on Media and the Family concluded that adolescents exposed to greater amounts of video game violence were increasingly hostile, more likely to be involved in physical fights, and performed more poorly in school. The Institute also found that 87 percent of pre-teen and teenage boys play games rated "M" for Mature by the Entertainment Software Ratings Board. M-rated games often contain realistic depictions of human injury and death, mutilation of body parts, rape, sex, profanity, and drug, alcohol and tobacco consumption.

The industry's Entertainment Software Rating Board (ESRB) developed a rating system to determine what games are appropriate for what ages, and M-rated games are only recommended for ages 17 and above. However, the ESRB operates without legislative control or regulatory guidelines and has no authority to enforce ratings at the retail level. In 2003, the Federal Trade Commission found that 69 percent of teenagers under 17 were able to purchase M-rated video games.

John M. Gregory-Davis, a member of the UCF's CSR Committee, expressed his concern during the meeting, stating that "with mature video games being all too easily available

and frighteningly popular with children as young as nine years old...this is a significant public health issue that we ignore at the peril of us all."

For the past two years, members of the Interfaith Center on Corporate Responsibility (ICCR) have written letters to the largest video game retailers, as well as video game producers and licensors, asking them to assume greater responsibility to ensure that violent video and computer games are not accessible to children and teens.

For the 2005 proxy season, ICCR investors filed resolutions asking retailers to report on the implementation of policies regarding the sale of Mature-rated video games to children and teens. These policies include separating M-rated games from other games, enlarging the size of the M rating symbol in advertisements and providing educational material for parents.

For more information:

- Mothers Against Violence in America: Campaign for a Game Smart America www.mavia.org/about.html
- The National Institute on Media and the Family www.mediafamily.org
- To sign Governor Blagojevich's petition to ban minors from buying violent or sexually explicit video games, visit www.safegamesillinois.org

Taco Bell Agrees to Improve Wages for Farm Workers *continued from page 1*

for that quantity — an increase of 60 to 80 percent.

Over the past 2 years the United Church Foundation co-filed shareholder resolutions asking YUM! Brands to produce a "sustainability report," including disclosure on the social, environmental, and economic aspects of the company. The Dow Jones Sustainability Group defines sustainability as "encouraging long lasting social well being in communities where they operate, interacting with different stakeholders (e.g. clients, suppliers, employees, government, local communities and non-governmental organizations) and responding to their specific and evolving needs thereby securing a long term 'license to operate,' superior customer and employee loyalty and ultimately superior financial returns." That resolution achieved 39 percent of the vote in 2003 and 33 percent in 2004, placing it among the top social issue shareholder resolution vote getters for each of those years.

These shareholder resolutions added to the momentum of

the general boycott of Taco Bell restaurants. The Taco Bell boycott had picked up considerable support in the last two years, especially among students and church leaders.

Students at 21 colleges had removed or blocked the restaurant chain from their campuses, and "Boot the Bell" campaigns were active in at least 300 colleges and universities, and in more than 50 high schools. Religious organizations actively supporting the boycott included the National Council of the Churches of Christ in the USA. Former president Jimmy Carter, among the workers' most prominent supporters, helped negotiate the resolution reached through the Carter Center.

"This is a clear case of a shareholder activism approach complementing political pressure from consumers in order to reach a more just resolution for farm workers," said Amy Muska O'Brien, Director of Corporate Social Responsibility for the United Church Foundation. "Shareholders can make a difference for good."

WILL A WEAKENING DOLLAR DERAIL THE FINANCIAL MARKETS?

The US Dollar began a downward slide in 2002 that has resulted in more than a 30% decline against the dollar index, a measure of comparison between the dollar and six major world currencies. Currency experts have cited the twin budget and trade deficits as contributing to its sharp depreciation. Imports exceeded exports by a record \$59.3 billion in November 2004, and the budget deficit in fiscal 2004 reached a record \$412.3 billion.

Although financial markets have performed well during most of the dollar's fall, recent months have seen investors concerned that the value of the dollar may continue in a downward spiral, spawning inflation fears and putting the financial markets in a tailspin.

On the positive side, the declining dollar has made exports more attractive and should help narrow the trade gap. Indeed, news in December showed the deficit declined to \$56.4 billion. It is still too early to tell whether the trade balance has turned since the price of oil has a large impact on the results. On the other hand, a weaker dollar raises the price of what we buy abroad. In the early stages of the dollar's decline, overseas producers were reluctant to raise prices in order to preserve U.S. market share. However, import prices increased 6.9% (3.8% excluding oil) in 2004.

Another potential problem is the United States' dependency on foreign investors to finance our deficits. Central banks

abroad hold about 60% of their foreign reserves in U.S. currency, making the dollar vulnerable to shifts in other currencies. With so much attention on the budget deficit, the dollar began to strengthen this year as the government focused on closing the gap. However, the dollar plunged in late February when South Korea's central bank, the fourth largest holder of foreign reserves, announced its plans to diversify. This caused interest rates to rise and equities to tumble.

Whether a weak dollar will derail the U.S. financial markets depends mostly on its effect on inflation expectations and on domestic interest rates. If a falling dollar results in higher inflation expectations, the Federal Reserve may respond more aggressively with higher interest rates than currently anticipated. If foreign central banks curb dollar investments significantly or dump their dollar reserves, interest rates could be driven higher and lead to even lower valuations for stocks and bonds.

We are cautiously optimistic that these scenarios will not unfold. The U.S. remains an engine of growth for the global economy, and the dollar is considered the reserve currency of choice. A speedy depreciation of the dollar would not be welcomed by the Federal Reserve, foreign central banks or investors. 🌱

EMPLOYEE FOCUS

Heidi Velasquez

As the CSR Ministry Program Associate, Heidi Velasquez is passionate about her work and the difference that it makes. Much of her time is spent researching corporate practices and providing information that supports the UCF's shareholder advocacy activities. "It is exciting for me to be a part of a faith-based coalition who can meet with top corporate executives and ask them to develop more just human rights and workplace policies."



Heidi holds a BA from Fordham University in International Political Economy and is currently pursuing a master's degree in International Relations from Columbia's School of International and Public Affairs. In her spare time, she enjoys reading, spending time with her family and jogging. 🌱

Q&A

How does the UCF maintain a diversified portfolio while screening out stocks due to the CSR policy?

The universe of potential investments is very large. The managers of the UCF Common Investment Funds choose to invest in quality companies that will allow them to meet or exceed their target benchmarks. The UCF Equity Fund holds over 250 securities, so avoiding a handful of companies does not make a significant difference in overall portfolio diversification. When companies are screened out of a portfolio, other companies from the same economic sector or from a closely related sector replace them. This maintains the diversity and breadth of securities in the portfolio.

Equity Portfolio Manager Steven Ham notes, "As analysts, it is our job to follow companies and to choose the best investments for a portfolio. We can do this without investing in certain companies by investing in other stocks which perform well." 🌱

PERFORMANCE & ANALYSIS

INVESTMENT PERFORMANCE

MARCH 31, 2005

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							
Returns on UCF funds are presented net of fees	Year to Date	1 Year	3 Years	5 Years	10 Years	Current Yield	Unit Value	Market Value
UCF Equity Fund – (72.78% large cap, 16.31% small cap, 10.90% int'l equity) <i>S&P 500 Index</i>	-1.8% -2.2%	6.7% 6.7%	3.2% 2.7%	-2.3% -3.2%	10.7% 10.8%	1.5%	\$9.6867	\$384.2M
UCF Fixed-Income Fund <i>Lehman Brothers Government/Credit Bond Index (LBGC)</i>	-0.4% -0.7%	0.2% 0.4%	6.4% 6.5%	6.6% 7.3%	7.1% 7.2%	4.6%	\$4.3694	\$232.9M
UCF Balanced Fund – (63.1% Equity, 36.9% Fixed Income) <i>Strategy Index (See Note)</i>	-1.3% -1.6%	4.3% 4.5%	4.0% 4.0%	0.7% 0.7%	8.8% 9.0%	2.7%	\$7.2771	\$373.5M
UCF Cash & Equivalent Fund (annualized) <i>Lipper Money Market Fund Index (annualized)</i>	2.2% 2.2%	1.5% 1.6%	1.2% 1.3%	NA	NA	2.6%	\$1.0000	\$2.4M
<i>Consumer Price Index (Inflation) (annualized)</i>	1.1%	3.1%	2.6%	2.4%	2.5%			

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

SECTOR DISTRIBUTION ANALYSIS

UCF EQUITY FUND				UCF FIXED-INCOME FUND			
Sector	Sector Distribution (% of Portfolio)			Sector	Sector Distribution (% of Portfolio)		
	UCF 3/31/05	S&P 3/31/05	UCF 12/31/04		UCF 3/31/05	LBGC* 3/31/05	Difference
Financials	17.3	19.8	18.0	Treasury	24.6	42.1	-17.5
Information Technology	10.5	15.1	12.1	Agency	15.8	20.1	-4.3
Health Care	8.8	13.0	8.9	Mtge-Backed	5.0	0.0	5.0
Industrials	12.0	11.9	11.8	Total Government	45.4	62.2	-16.8
Consumer Discretionary	7.3	11.5	7.6	Asset-Backed	7.3	0.0	7.3
Consumer Staples	12.5	10.3	12.3	Commercial Mtge-Backed	2.1	0.0	2.1
Energy	7.7	8.8	6.4	Industrials	17.5	18.7	-1.2
Materials	7.5	3.6	6.8	Utilities	2.3	2.5	-0.2
Utilities	2.3	3.2	2.0	Financials	15.7	13.2	2.5
Telecommunications Services	3.3	3.1	3.5	International	1.6	3.3	-1.7
International Equity	10.8	-	10.6	Cash	8.2	0.0	8.2
				Total Credit	54.7	37.7	17.0
				Total Portfolio	100.1	100.0	

*Lehman Brothers U.S. Government/Credit Bond Index
NOTE: The percentage values may not equal 100% due to rounding.

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