

Open Communication Enhances an Endowment Fund's Effectiveness

A Clearly Stated Endowment Fund Policy Can Help

Endowments have the potential to enhance vital, exciting ministries in our churches and organizations. Investment returns from endowments can be used to pay for new buildings, to hire additional ministerial staff, or to develop innovative programs. They can underwrite scholarship support for seminarians and mission trips for youth groups. In short, endowments can have a beneficial impact on the life and ministry of the church.

Endowments also bring potential pitfalls for ministry. They can undermine good stewardship, create dependency on the giving of past generations and lead to complacency about keeping mission and service programs functioning effectively.

Through effective management based upon a well-defined Endowment Fund Policy, endowments can last in perpetuity, consistently and continually empowering ministry for the benefit of all God's people. Developing such a policy is vital to the long-term well being of any endowment fund.

Establishing an endowment fund policy and making sure that it is followed is the key to ensuring good stewardship of the endowment. This also avoids undermining the congregation's responsibility of maintaining the ongoing life and ministry of the church and reduces the potential hazards associated with endowments.

An endowment fund policy should begin with the endowment's purpose and its time-frame. Most endowments last in perpetuity, but this is not necessarily the case. The policy should include guidelines for accepting and acknowledging gifts, as well as a spending rule which states how much of the fund's investment returns will be spent each year.

Specific investment guidelines should outline responsibility for overseeing and implementing all investment decisions. These should name the individual or organization responsible for determining investments as well as the frequency that investment decisions and performance will be reviewed. Many endowment policies state an asset allocation

range to ensure that the fund is invested according to its time-frame and risk tolerance.

Often endowment fund policies include a statement providing socially responsible investment guidelines for the types of companies in which the endowment fund will or will not invest. Some endowments choose not to invest their funds in businesses which derive a significant portion of their income from alcohol, tobacco, gambling or weapons.

Written accounting and audit procedures should be stated and followed to ensure that the endowment is managed properly.

Good communication is at the heart of an effective endowment fund policy. Creating an environment of transparency and openness minimizes mistrust. The written policy should be approved by the congregation and the congregation should be updated at least annually about the progress and work of the endowment. This would include the total amount of the fund, its rate of return and, most significantly, the level of giving from the fund to the ministries that benefit from the endowment.

Titling Endowment Fund Benefits

Many UCC churches teach and encourage their members to give proportionally. Tithing the income received from an endowment fund is an inspiring way to encourage this practice. Giving the first 10% of your church's endowment income to support denominational programs beyond your parish models the concept of tithing, and illustrates the spirit of generosity expected from faithful disciples of Christ.

Upon request, the United Church Foundation will gladly facilitate the automatic transfer of your congregation's tithe from endowment fund income to Our Church's Wider Mission (OCWM), the Still Speaking Initiative, the Brown Endowment for Pastoral Scholarships, or any other denominational program you wish to support. Full attribution and credit for such tithes will given to your church.

Tithing a church's endowment income is a good way to practice what we preach. To begin doing so, simply send written instructions, or contact the United Church Foundation for additional instructions.

Members of the Interfaith Center on Corporate Responsibility (ICCR), of which the United Church Foundation participates, have outlined recommended guidelines for U.S. retailers to keep "Mature" (M)-rated video games out of the hands of youths. The new guidelines arrive among continuing concerns that retailers have not done enough to prevent sales to minors of video games containing graphic violence,

from these policies into one cohesive set of guidelines, and now call for their strict implementation. Shareholders challenge retailers, who have not yet done so, to create strong and effective policies.

Cathy Rowan, co-chair of the ICCR Violence and Militarization of Society Working Group and representative of ICCR member Trinity Health said, "While we've seen improvement

The newly recommended guidelines address in-store and online violent video game sales and call on retailers to:

- Post video game sales policies prominently in stores and online
- Display signs and brochures to raise awareness among parents and others
- Restrict advertising of M-rated games in

about age rules

- Conduct "mystery shopper" programs and other internal audits, and
- Separate M-Rated video games from youth-oriented video games.

For the full text of the ICCR guidelines, go to www.iccr.org on the Web.



ICCR Issues Guidelines Regarding Violent Video Game Sales

strong sexual content and racist themes.

After working effectively with major retailers that have policies and programs in place, including Best Buy, Target, Wal-Mart, and Circuit City, ICCR shareholders pulled together the "best practices"

among retailers on this issue, much more work needs to be done. We are urging all video game retailers to create and enforce video game sales policies that reflect the best practices in the industry to ensure that M-rated video games for audiences ages 17 and older are not sold to minors."

- youth-oriented media
- Establish an online method of checking the age of buyers
- Train employees on the video games sales policy
- Program cash registers to remind cashiers



UCF Management Fees Stay Low in 2006

Providing professional investment management at a low cost is the primary commitment of the United Church Foundation. It is also good stewardship.

The beneficial impact of low management fees on long-term portfolio growth cannot be underestimated. Every dollar retained in a portfolio leads to greater long-term return. This allows a portfolio to grow faster and, in turn, provides more money for ministry.

Some for-profit management companies charge as much as 2.5% of the total portfolio on an annual basis in order to pay fund managers, transaction costs, sales and marketing fees, legal expenses, and to deliver profits to their own shareholders. Typically, the amount of the fee varies depending upon whether the fund is actively or passively managed as well as the type and range of investments held by the fund. According to Lipper, Inc. the average large blend mutual fund expense ratio for 2004 was 1.35%.

Over time, large fees eat away at overall returns. If an endowment fund has \$5 million in assets and invests half its principal in a fund with the industry's average expense ratio of 1.35% and the other half in a fund with only a .55% fee and both funds reinvest the same 8% annual return, the value of the two funds would be dramatically different after 20 years. The fund with the 1.35% fee

would be worth approximately \$17.8 million while the one invested fund with the lower fee would be worth \$20.9 million. That's a difference of over \$3 million.

UCF funds are actively managed and conform to socially responsible investment guidelines. Yet, all our fees are well below the industry average and relate directly to the cost of operating the fund. This translates into increased overall returns for UCF participants.

2006 UCF Common Investment Funds Expense Ratios

UCF Equity Fund	.65%
UCF Domestic Core Equity Fund	.45%
UCF Small Cap Equity Fund	1.10%
UCF International Equity Fund	1.10%
UCF Fixed Income Fund	.35%
UCF Aggressive Balanced Fund	.575%
UCF Moderate Balanced Fund	.55%
UCF Conservative Balanced Fund	.45%
UCF Cash and Equivalent Fund	.10%

The Financial Markets in 2005

by Catherine Waterworth, Chief Investment Officer, Pension Boards-UCC

A retrospective of any year yields a number of records, milestones and surprises in many arenas. In 2005, a barrel of oil hit an all-time high of \$70.85. The Atlantic hurricane season set several records—27 named storms with an unprecedented 14 hurricanes of which 7 were major category 3 or above storms. In Iraq, a constitution was adopted and parliamentary elections were held.

For the financial markets, 2005 will be remembered as a mediocre year for the U.S. markets and a good one for international markets. The U.S. stock market was mired in a fairly narrow trading range for most of the year because of uncertainties over the economic effects of high oil prices and the devastating hurricanes as well as the fear of rising inflationary expectations and the need for the Fed to be more aggressive in reigning in these fears. The S&P 500 returned 4.92% for the year, finally shaking off some of the uncertainties in the last two quarters of the year. The energy and utility sectors were strong performers while telecommunications and consumer discretionary were the laggards. Within the U.S. market, midcap stocks

dominated large and small stock returns while value stocks continued to edge out growth stocks for the fifth year.

Bond returns were below average as the Fed continued to raise interest rates by 0.25% at all eight FOMC meetings in 2005, bringing the Fed Funds rate to 4.25% by year end. The Lehman Brothers Government/Credit Index returned 2.36% in this inhospitable environment. Higher quality assets and longer-dated securities outperformed. The narrow credit spreads of 2004 began to widen with the high profile bankruptcies of Delta Airlines and Delphi Corp. and the downgrades of General Motors and Ford Motor to non-investment grade status. The yield curve flattened with shorter dated securities rising more in yield than longer dated issues.

The dollar rose against the Euro by 14.47% and the Japanese yen by 14.77% contrary to the expectations of currency market experts. The dollar was expected to decline because of the twin deficits in trade and current account and the U.S.'s large budget deficit. Despite the

gain in the dollar, the non-U.S. markets performed well. The MSCI EAFE Index returned 13.54% in dollar terms as European markets were sparked by higher than expected earnings while structural reform in Japan as well as stimulus from trade with the fast growing economies of China and India were greeted optimistically by investors.

As a new year begins, we are somewhat optimistic for the markets in 2006. We believe the Federal Reserve is nearing the end of its tightening cycle. We believe the U.S. economy will continue to expand, albeit at a slower pace than in 2005. Earnings will slow in line with economic growth. The equity market does not look overvalued and earnings multiples have the opportunity to expand somewhat in 2006. We believe bond returns in 2006 will be higher than those attained in 2005. This optimistic view has its risks. The bond market is flirting with an inversion, which has signaled the last four recessions. Despite this, we believe growth will slow to a 2.25% – 3.0% pace next year and that core inflation will trend downward. This environment will be supportive of financial returns in 2006.



Fiona Chin

Consultant Focus:

Fiona Chin's artistic talent enabled the United Church Foundation to redesign the look of UCFocus. With a bachelor's degree in Communication Design from the New York City College of Technology and certificate courses in web design at the Fashion Institute of Technology, Fiona constantly sharpens her skills as a graphic designer for both print and web media.

Fiona has worked for The Pension Boards-UCC since 2003 and previously designed campaigns for Cypress Advertising. A native of Malaysia, she has lived in the United States since the age of 15. She enjoys traveling as a means of boosting her creativity, and is also an avid runner.

INVESTMENT PERFORMANCE

DECEMBER 31, 2005

AVERAGE TOTAL RATES OF RETURN		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 – (71.1% Large Cap, 17.0% Small Cap, 11.9% Int'l Equity)		6.2%	6.2%	15.2%	0.9%	9.2%	1.6%	\$10.3824	\$412.6M
<i>S&P 500 Index</i>		4.9%	4.9%	14.4%	0.5%	9.1%			
UCF Fixed-Income Fund		2.5%	2.5%	3.3%	5.6%	5.9%	5.1%	\$ 4.3558	\$251.7M
<i>Lehman Brothers Government/Credit Bond Index (LBGC)</i>		2.4%	2.4%	3.7%	6.1%	6.2%			
UCF Balanced Fund – (61.6% Equity, 38.4% Fixed Income)		4.7%	4.7%	10.6%	2.5%	7.6%	3.0%	\$ 7.5812	\$393.6M
<i>Strategy Index (See Note)</i>		3.9%	3.9%	10.4%	2.5%	7.7%			
UCF Cash & Equivalent Fund (annualized)		3.0%	3.0%	1.7%	N/A	N/A	4.2%	\$ 1.0000	\$ 3.1M
<i>Lipper Money Market Fund Index (annualized)</i>		3.1%	3.1%	1.8%	N/A	N/A			

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.



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