

# New Uniform *Endowment Fund* Law Proposed



The Rev. Nelson R. Murphy -  
UCF Director of Education and Marketing

In most states, endowment funds held by churches and non-profits are governed by legislation passed some 35 years ago. What used to be known as the Uniform Management of Institutional Funds Act (UMIFA) is now being replaced by a proposed comprehensive revision known as the Uniform Prudent Management of Institutional Funds Act (UPMIFA). The revised act will incorporate rules on prudent investing from the Uniform Prudent Investor Act (UPIA), tighten the spending rule for endowment funds while adding needed flexibility to that rule, and provide for modification of existing restrictions on funds held by charities. The proposed language for the new legislation was finalized in July of 2006 and when approved by the American Bar Association,

UPMIFA will be introduced in the legislatures of every state and territory.

The proposed revisions clarify the distinction between an endowment fund that is not wholly expendable due to restrictions in the original gift and other assets held and designated by an institution as an "endowment fund" for its own use. The new law broadens the scope of the types of funds that will now be covered by statute, including those held for the benefit of non-profit organizations such as churches, church agencies, and other entities dedicated to charitable purposes regardless of how they are organized.

Managing restricted endowment funds prudently is defined and clarified in the act. UPMIFA

incorporates the principles of modern portfolio management theory set forth in UPIA, now the law in 46 states. UPIA allows trustees to use the expected return of the whole portfolio to justify holding previously forbidden, higher-risk securities. They can pool and diversify assets to manage risk. They can establish spending rules based on total return (not just the income earned) that are consistent with the time horizon, purposes and needs of the institution benefiting from the endowment.

UPMIFA will also provide trustees with more flexibility for maintaining the real value (not just the historic dollar value) of a fund as part of their decision making about spending. Trustees will be able to spend or accumulate as much of the fund as they deem prudent — whether it be principal or income, realized or unrealized appreciation — as long as they document the rationale and the process by which they made their spending decisions. Trustees must show that they prudently considered such factors as the intended duration and purpose of the fund, current economic conditions, inflation expectations, projected investment return, other resources available to the institution and any limitations set forth in the institution's investment policy.

For more information, the proposed UPMIFA legislation with commentary can be found at <http://www.law.upenn.edu/bll/ulc/umoifa/Jan2006MeetingDraft.htm>.

## 2007 Management Fees

The UCF's Common Investment Funds incur management fees at levels set by the UCF Board of Directors, based upon the estimated actual cost of offering each fund. For the calendar year 2007, the following fees will be charged to the earnings realized from each fund.

UCF Cash and Equivalent Fund	0.10%
UCF Fixed-Income Fund	0.40%
UCF Total Equity Fund	0.73%
UCF Domestic Core Equity Fund	0.40%
UCF Small Cap Equity Fund	1.08%
UCF International Equity Fund	1.15%
UCF Conservative Balanced Fund	0.52%
UCF Moderate Balanced Fund	0.60%
UCF Aggressive Balanced Fund	0.65%

The UCF reports performance figures net of fees.

# A Powerful Voice in the Marketplace



Since the early 1970s, the United Church of Christ has been an active and vital voice, raising important social and environmental issues in the business community. Recognizing the corporate sector's impact, the United Church of Christ has harnessed its vote and voice as an investor to engage with companies. Case in point: apartheid in South Africa and environmental concerns such as strip mining that were becoming prominent issues in the 1970s. Nearly 40 years later, the agenda has expanded to dozens of important governance, social and environmental concerns.

In a visionary move, the UCC recognized in 1971 the value of sharing ideas and resources with other faith-based investors. The UCC helped to create the Interfaith Center on Corporate Responsibility (ICCR), which now claims membership of 275 religious investors representing \$110 billion in assets.

How do the UCC and other faith-based investors engage with companies?

Much of the effort begins with private persuasion – letters and dialogues with management and corporate boards. When stronger measures are warranted, shareholders like the United Church Foundation can use public pressure by filing a shareholder resolution with a company, which then appears on their proxy statement for a vote by investors. Shareholder resolutions provide an effective way to petition corporate boards and management to disclose information or make policy changes.

Often, the United Church Foundation will co-file a resolution with others in the faith community and/or with socially concerned investors. A resolution usually prompts a dialogue with the company and in a third of cases, brings an agreement that allows the resolution to be withdrawn. In other cases, the resolution goes to a vote, promoting debate among investors and lead-

ing to change in following years — a process that requires shareholders to exercise the patience of the long distance runner.

The 2007 proxy season will see over 1,000 resolutions on corporate governance, environmental issues and social concerns. On issues like climate change and diversity, 35–40% of the resolutions are moving to a vote, while on some governance change issues, resolutions going to vote have reached the 50–80% range. Shareholder engagement does make a distinctive and measurable difference.

The United Church of Christ — along with its financial ministry partners like the United Church Foundation — pioneered this approach to shareholder activism in the early 1970s and can be justifiably proud of its tremendous growth and effectiveness.

*Timothy Smith, Senior Vice President of Walden Asset Management, served for 30 years as the Executive Director of ICCR. He was a staff person for the United Church of Christ on South Africa in the early 1970's.*

## Board Focus: The Rev. Sandy Hulse

As the chair of the UCF's Corporate Social Responsibility Committee, Rev. Sandy Hulse combines her professional experience in financial management and a faith-filled commitment to justice. During her tenure, she has helped guide and inform UCF shareholder resolutions and proxy voting.

Sandy has been an ordained UCC minister since 1996. She spent ten years in interim ministry in New York and California, and now serves as the pastor of the United Church in Tallahassee. Before her tenure as a UCC minister, Sandy worked as a trader in taxable fixed income securities for Reynolds Securities, Edwards & Hanly, and EF Hutton. She is a graduate of Muhlenberg College, holds an MA in Counseling from Montclair State University, an M.Div from Drew Theological School and a D.Min from the University of Creation Spirituality in Oakland, CA.

Sandy and her partner Karen live in the Myers Park neighborhood of Tallahassee and enjoy film, reading, gardening, crossword puzzles and spoiling their two cats Dot & Emma.



Catherine Waterworth  
Chief Investment Officer

## Fourth Quarter and Calendar Year 2006 United Church Foundation Performance Results

Propelled by strong earnings, lower energy prices and robust merger/acquisition activity, the final quarter of 2006 witnessed a surge in stock prices. In the fourth quarter —

Equity Managed funds performed strongly, pushing returns for the year into double digits. Funds of Funds outperformed across the board, ending the year at or modestly below their benchmarks net of expenses.

The UCF International Equity Fund led the way with a return of 9.3% for the quarter and 22.0% for the year. The fund fell short of the EAFE Index primarily due to a larger exposure to the Japanese market which underperformed other international markets because of a weak yen and fears that central bank policy would choke off the recovery under way.

The UCF Domestic Core Equity Fund returned 7.0% for the quarter and 15.5% for the year, exceeding the S&P 500 for the

quarter and modestly underperformed for the year net of fees. The change to an enhanced index strategy in the second quarter was beneficial to overall performance.

The UCF Small Cap Equity Fund returned 8.7% (net of fees) in the quarter and 13.9% for the year, narrowly underperforming the Russell 2000 Index for the quarter and by a wider margin for the year, primarily due to the performance of small cap value stocks in the fund. Small cap value stocks as represented by the Russell 2000 Value Index returned 23.5% for the year and proved to be a very difficult benchmark to meet. Lipper Analytical Services reported that less than 6% of small cap value managers were able to meet or beat this index and the average return of value fund managers was 16.6% for the year as traditional value stocks (those with quality earnings and low price/earnings ratios) were beaten by lower quality stocks with higher price/earnings ratios.

The UCF Equity Fund benefited from the strong performance of international and small cap securities as well as the out-performance of the UCF Domestic Core Equity Fund.

The three UCF balanced funds exceeded their respective benchmarks in the fourth quarter due to their higher weighting and the stronger performance of the UCF Equity Fund relative to the Policy benchmarks.

The UCF Fixed Income Fund returned 0.9% for the quarter and 3.6% for the year (net of expenses), slightly underperforming the benchmark which has no expense adjustment. Bond prices eased a bit and yields rose in the fourth quarter despite the Federal Reserve maintaining a steady interest rate policy. For the year, bond returns as represented by the Lehman Government/Credit Index, were once again subdued, returning 3.78%. The bond market was held back by core inflation readings that remained

above the Federal Reserve's comfort zone.

Looking forward, equities are not expected to match the above-average return of 2006, as a slowing economy and lower corporate earnings in the US will factor into stock prices. Equity returns in a more slowly expanding economy are expected to range from 6% to 9%. Bond prices will continue to be heavily influenced by Federal Reserve action, with returns expected in a range of 4% to 5%. The continued decline in commodity prices is a welcome development, but the question remains whether these prices will reaccelerate in the coming months. Global imbalances remain, as oil-producing nations and Asian savers have kept interest rates low by historical standards and encouraged bloated real estate values and global demand. How these imbalances play out will affect stock and bond prices globally.

**Q:** How do we deposit and withdraw funds from our UCF account?

**A:** The most common way to deposit funds to a UCF account is by sending a check. All checks should include written instructions which specify the account number and the desired fund allocation. Wire transfer deposits require special instructions. Please contact the Foundation at (877) 806-4989 for routing information.

Withdrawing funds requires sending an email, fax or letter indicating the account number, the amount to be withdrawn and the specific fund from which the funds are to be taken. Payments are sent directly to the bank account of record via electronic funds transfer (EFT). Requests received before Noon are processed on the next business day and are usually credited within 48 hours of processing. Withdrawals via wire transfer can be requested, but incur a \$25 processing fee.

## AVERAGE TOTAL RATES OF RETURN

## ANNUALIZED

Returns on UCF funds are presented net of fees

	Quarter	Year to Date	1 Year	3 Years	5 Years	10 Years	Current Yield	Unit Value	Market Value	
Managed Funds	<b>UCF Fixed-Income Fund</b>	0.9%	3.6%	3.6%	3.2%	5.0%	5.9%	5.2%	\$ 4.3120	\$235.8M
	<i>Lehman Brothers Government/Credit Bond Index (LBGC)</i>	1.0%	3.8%	3.8%	3.5%	5.2%	6.3%			
	<b>UCF Domestic Core Equity Fund</b>	7.0%	15.5%	15.5%	N/A	N/A	N/A	1.8%	\$11.5423	\$264.9M
	<i>S&amp;P 500 Index</i>	6.7%	15.8%	15.8%	N/A	N/A	N/A			
	<b>UCF Small Cap Equity Fund</b>	8.7%	13.9%	13.9%	N/A	N/A	N/A	0.8%	\$11.3632	\$78.7M
	<i>Russell 2000 Index</i>	8.9%	18.4%	18.4%	N/A	N/A	N/A			
	<b>UCF International Equity Fund</b>	9.3%	22.0%	22.0%	N/A	N/A	N/A	2.2%	\$12.6913	\$103.0M
	<i>EAFE Index</i>	10.4%	26.3%	26.3%	N/A	N/A	N/A			
Funds of Funds	<b>UCF Cash &amp; Equivalent Fund (annualized)</b>	5.1%	4.8%	4.8%	3.1%	N/A	N/A	5.2%	\$ 1.0000	\$6.0M
	<i>Lipper Money Market Funds Index (annualized)</i>	5.2%	5.0%	5.0%	3.1%	N/A	N/A			
	<b>UCF Equity Fund</b> (58.3% Domestic Large Cap Equity, 18.1% Domestic Small Cap Equity and 23.7% Int'l Equity)	7.7%	15.4%	15.4%	10.9%	6.7%	8.5%	1.7%	\$11.8537	\$445.9M
	<i>S&amp;P 500 Index</i>	6.7%	15.8%	15.8%	10.4%	6.2%	8.4%			
	<b>UCF Conservative Balanced Fund</b> (39.1% Equity, 60.9% Fixed-Income)	3.2%	7.5%	7.5%	N/A	N/A	N/A	3.8%	\$10.4031	\$397K
	<i>Policy Index (35% S&amp;P 500, 65% LBGC)</i>	3.0%	7.9%	7.9%	N/A	N/A	N/A			
	<b>UCF Moderate Balanced Fund</b> (64.3% Equity, 35.7% Fixed-Income)	5.1%	10.6%	10.6%	7.9%	5.8%	7.3%	3.0%	\$ 8.1963	\$400.7M
	<i>Policy Index (60% S&amp;P 500, 40% LBGC)</i>	4.4%	10.9%	10.9%	7.7%	6.0%	7.9%			
	<b>UCF Aggressive Balanced Fund</b> (79.0% Equity, 21.0% Fixed-Income)	6.1%	12.7%	12.7%	N/A	N/A	N/A	2.7%	\$11.0351	\$6.3M
	<i>Policy Index (75% S&amp;P 500, 25% LBGC)</i>	5.3%	12.7%	12.7%	N/A	N/A	N/A			

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



475 Riverside Drive, Suite 1020,  
New York, NY 10115  
Toll-free: 877-806-4989  
Phone: 212-729-2600  
Fax: 212-729-2601  
e-mail: info@ucfoundation.org  
website: www.ucfoundation.org

Non-Profit Org.  
US Postage  
**PAID**  
Rochester, NY  
Permit #357

