

INVESTOR  
STORIES

## Energized About Giving

When Rufus Cushman “retired” in 1998, his colleagues in the UCC’s Financial Development Ministry presented him with their Energizer Bunny award. They knew him well — Rufus exudes energy, and his enthusiasm for planned giving is contagious.

At the heart of Rufus’s commitment to stewardship education is a love of God and the church. But he is realistic about the financial necessities of funding ministry.



“I believe in the church,” he says, “and I know that the church needs money to do its work just like a car needs gasoline. We take it in, we burn it up and then we need some more to continue.”

Vital, life-changing ministry requires enough funding to pay for essentials like staffing, building use, materials, transportation and advertising. Planned giving plays an important role in ensuring that a church can continue to provide such ministry.

In making a “planned” gift, a donor arranges for a charitable gift to be paid at some point in the future. The gift may be proceeds from a life insurance policy, appreciated stock, real estate, or outright cash.

“People who love God and their church don’t want to depart this earth only to leave an empty pew,” Rufus notes. Planned giving allows such people to continue giving — and sustaining the life of the church they love — long after they are gone.

Rufus tells of working with a woman over a decade ago,

whose planned gift matured this year to create an endowment. “The annual income from the endowment her gift created continues the annual gift she made to the church each year during her life.”

Even smaller gifts can have an impact on a church’s ministry.

“If ten people left just \$2,000 to a church, that church’s endowment would have an additional \$1,000 of income each year to do mission — feeding the hungry, clothing the naked, visiting those in prison.”

Charitable gift annuities and other planned gifts made through the UCC’s Financial Development Ministry are managed by the United Church Foundation, helping to ensure the money given to the church grows over the years and is put to work for ministry.

If your church or organization is looking for someone who is excited about planned giving, Rufus recommends looking to someone excited about the mission of the church.



“They may not like doing stewardship, but they’ll probably do a great job promoting planned giving because they’re committed to mission.”

*For more information on charitable gift annuities or starting a planned giving program in your church, contact the Financial Development Ministry at 1-800-846-6822 or [giving@ucc.org](mailto:giving@ucc.org).*

## Fixed-Income Fund Avoids Subprime Mortgages

Since last summer, newspaper headlines have featured the US mortgage and credit crisis. Large losses in the subprime mortgage market have adversely affected several bond and money-market funds, leaving investors unnerved when some funds disclosed major losses and others required capital infusions to shore up underlying asset values. Fortunately, the UCF Fixed-Income Fund has steered clear of these problems, having never delved into the world of subprime lending. Here's why —

**1. Fundamentals.** When we assess the credit quality of a mortgage investment, we consider many factors to ensure a borrower will make timely payments. We favor owner-occupied, well-documented mortgage investments where the borrower has made a substantial down payment and established a reasonable amount of owner equity, lessening the possibility that a decline in property values would cause a homeowner to simply walk away from his/her mortgage. We favor mortgages in which principal and interest are paid monthly, and avoid “teaser” rates that entice borrowers to borrow more than they can realistically afford. Subprime credit, which constitutes roughly 12% of the overall market, is the riskiest class of mortgage credit and includes loans advertised as ‘interest only’, ‘no money down’, ‘no documentation’ and of course the catch-all ‘NINJA’ loan: no income, no job or assets! Many securities backed by subprime loans were originally assigned AAA ratings due to what now have proven to be unrealistic assumptions about delinquencies, foreclosures, cash flows and the belief that the US housing economy would remain relatively stable. Because our assessment concluded that many recent subprime mortgages originated under loose underwriting standards were not good credit risks, we avoided them.

**2. Valuation.** Over the past several years as the bond market experienced an ‘irrational exuberance,’ investors grew content to accept a very low yield for riskier investments. Alan Greenspan’s oft-quoted and frequently paraphrased sentiment, “History has not dealt kindly with the aftermath of protracted periods of low risk premiums,” means simply that what goes up must come down. Subprime mortgages along with other types of risky assets, especially those that were AAA-rated, were being sold at very aggressive levels, especially when compared to other relatively more conservative offerings. Basically, the entire market was ‘priced to perfection’ — hardly a time to be making investments in newer and untested types of securities, especially subprime, where steep market valuations left little room for error regarding delinquency and foreclosure projections.

**3. Style.** We adhere to a disciplined investment process, maintaining a well-diversified portfolio of high quality, relatively uncomplicated bonds that generate an above-market return. We rigorously monitor and control risk and strive to avoid negative surprises. Yield is a significant contributor to the total return of the fund, yet our style dictates that we not take excessive risk simply to earn a higher yield. The often complex structures of subprime mortgage investments require analysis that includes a myriad of assumptions, extensive modeling, and the receipt of accurate and timely loan data. Also, higher yielding securities such as these are often less liquid and more difficult to price. Instead, we look to generate additional return by anticipating trends in relationships among liquid securities with more predictable cash flows, ideally buying cheap and selling dear.

We’re proud of our discipline, and pleased that our rigorous process has yielded a safer and better-performing portfolio for our United Church Foundation investors.

## Planned Giving is Good Stewardship!

For many people, talk about stewardship seems to be simply a way of asking for money. But exercising good stewardship begins with the conviction that everything we have – our possessions, our talents, our skills, even the power to love – is a gift from God, to be used not only for our own needs, but to fulfill God’s mission in the world.

Because we live in uncertain times, generous people of ordinary means are often anxious about giving away a portion of their “nest egg.”

What if a costly illness strikes, or a loved one must move into an expensive care facility? Planned giving takes seriously questions about the uncertainty of the future, and a planned giving initiative in a church often begins with a “wills emphasis” – ensuring all members have protected their families with an up-to-date will in place.

As part of drawing their will, many people choose to remember their church or a special ministry, making a “planned gift”

of money they will no longer need. Often, donors also purchase gift annuity contracts, making planned gifts with money that provides a regular income during the donor’s lifetime before being given to the church or ministry upon the donor’s passing. When made through the UCC’s Financial Development Ministry, gift annuities are managed by the United Church Foundation, helping to ensure the funds are carefully invested to grow over time.

A planned gift enables a donor to use their accumulated resources during their lifetime, then allow their assets to support valued ministries. Donors of planned gifts leave a legacy of good stewardship for generations to come.

*To discuss a planned gift to a UCC church or institution, contact the UCC’s Financial Development Ministry at 1-800-846-6822.*

## Foundation Signs Onto UN Principles



In October, the Corporate Social Responsibility Committee of the Foundation's Board of Directors voted to become a signatory of the United Nations' Principles for Responsible Investment (PRI). The Principles include six commitments investors can make to be good stewards of investments in terms of environmental, social, and governance (ESG) impacts. They represent broad goals by which investors should structure their investments, their engagements with corporations, and the reporting and assessing of their ESG-investment improvements.

Becoming a signatory demonstrates the Foundation's level of commitment to socially responsible investing (SRI). Other signa-

ories include the California State Teachers' Retirement System, the General Board of Pension and Health Benefits of the United Methodist Church, and the New York State Teachers' Retirement System. An annual PRI-coordinated survey and benchmarking tool will provide the Foundation with a means to report and assess SRI progress.

The six Principles state —

- We will incorporate ESG issues into investment analysis and decision-making processes.
- We will be active owners and incorporate ESG issues into our ownership policies and practices.
- We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- We will promote acceptance and implementation of the Principles within the investment industry.
- We will work together to enhance our effectiveness in implementing the Principles.
- We will each report on our activities and progress towards implementing the Principles.

In addition to the structural benefits the Principles provide, signatories share their best-practice research and resources so that others can improve their SRI procedures. All signatories take part in an information clearinghouse to impart news and receive others' resources.

The Foundation affirms the goals of the Principles for Responsible Investment and hopes that its involvement in this program will benefit not only its investors, but all people concerned about building a better, more just world.

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## Good News from the Foundation

The Board of Directors of the United Church Foundation is pleased to announce two decisions of particular interest and importance to investors —

- The expense ratio on six of the Foundation's nine funds was lowered as of January 1, 2008. See our website for more details.
- The Foundation has added an Emerging Markets component to its portfolio. "Eighty-five percent of world's population lives in developing markets," says Chief Investment Officer Catherine Waterworth. "We believe the Foundation's investors will benefit with a commitment to that area." In June, an emerging market manager was added to the International Equity Fund and is being funded with a 20% allocation over the course of the next year.



AVERAGE TOTAL RATES OF RETURN		ANNUALIZED							
Returns on UCF funds are presented net of fees		Quarter	One Year	Three Years	Five Years	Ten Years	Current Yield	Unit Value	Market Value
MANAGED FUNDS	<b>Fixed-Income Fund</b>	3.4%	7.6%	4.5%	4.2%	5.6%	5.3%	\$ 4.4319	\$261.0M
	Lehman Brothers Government/ Credit Index (LBGC)	3.1%	7.2%	4.4%	4.4%	6.0%			
	<b>Domestic Core Equity Fund</b>	-2.7%	5.8%	N/A	N/A	N/A	2.1%	\$12.0165	\$255.1M
	S&P 500 Index	-3.3%	5.5%	N/A	N/A	N/A			
	<b>Small Cap Equity Fund</b>	-3.8%	1.4%	N/A	N/A	N/A	0.6%	\$11.5453	\$73.4M
	Russell 2000 Index	-4.6%	-1.6%	N/A	N/A	N/A			
	<b>International Equity Fund</b>	-1.3%	9.1%	N/A	N/A	N/A	2.6%	\$13.5451	\$121.9M
	EAFE Index	-1.8%	11.2%	N/A	N/A	N/A			
	<b>Cash &amp; Equivalent Fund (annualized)</b>	4.0%	4.7%	4.4%	N/A	N/A	3.3%	\$1.0000	\$11.9M
	Lipper Money Market Funds Index (annualized)	5.0%	5.3%	4.5%	N/A	N/A			
FUNDS OF FUNDS	<b>Total Equity Fund (56.7% Domestic Large Cap 16.3% Domestic Small Cap and 27.0% International Equity)</b>	-2.5%	6.4%	9.2%	13.4%	6.4%	2.0%	\$12.4408	\$449.4M
	S&P 500 Index	-3.3%	5.5%	8.6%	12.8%	5.9%			
	<b>Conservative Balanced Fund (37.4% Equity, 62.6% Fixed-Income)</b>	1.2%	7.5%	N/A	N/A	N/A	4.0%	\$10.8029	\$857K
	Policy Index (35% S&P 500, 65% LBGC )	0.9%	6.8%	N/A	N/A	N/A			
	<b>Moderate Balanced Fund (62.5% Equity, 37.5% Fixed-Income)</b>	-0.3%	6.9%	7.4%	9.8%	5.9%	3.2%	\$8.5459	\$408.7M
	Policy Index (60% S&P 500, 40% LBGC )	-0.8%	6.3%	7.0%	9.5%	6.3%			
	<b>Aggressive Balanced Fund (78.0% Equity, 22.0% Fixed-Income)</b>	-1.2%	6.8%	N/A	N/A	N/A	2.7%	\$11.5417	\$9.9M
	Policy Index (75% S&P 500, 25% LBGC )	-1.7%	6.0%	N/A	N/A	N/A			



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