

INVESTOR  
STORIES

## Making a Difference in Minnesota



First Congregational UCC in Wadena, Minnesota

Located on the northern plains of Minnesota along the legendary Lincoln Highway, the 105-member First Congregational UCC of Wadena worships in a county where 16% of its children and 10% of its families live below the poverty line.

So when the congregation became the beneficiary of a sizeable trust fund bequeathed by the long-faithful Lamson family, one of the first things they considered was how this resource could make a difference in the lives of friends and neighbors struggling every day to make ends meet.

“Our church is not rich,” said Allan Lynk, one of the church’s trustees, “but we are not poor either, and certainly not poor in spirit. We have always helped friends and neighbors struggling to get by – and now we can do so much more thanks to the Lamsons’ legacy, which is so characteristic of their faithfulness and generosity.”

Working with their local United Way and a group called the Highway 10 Outreach Mission, the church uses income from the Lamson Trust to provide cash grants to destitute families moving into town with literally nothing – no furniture, kitchen utensils, food, or other essentials. Thanks to the trust, the church has also provided \$500 “launch gifts” to four 18-year-olds finishing school – an amount matched by another loving individual that helped set up housekeeping for a person with

developmental disabilities, and made community college thinkable for another.

Invested in the Foundation’s Moderate Balanced Fund, the Lamson Trust adds about \$7,500 to the church’s coffers each quarter. For a congregation with an \$80,000 annual budget, this extra income makes many good things happen that otherwise would not be possible. With support from the Trust, 28 adults and 12 confirmands made an urban mission study trip to St. Paul, where they worshipped in a Jewish synagogue, visited a Roman Catholic basilica, and attended Sunday worship at Grace UCC, a vibrant inner-city congregation with its own inspiring ministry of community service and reconciliation in the Twin Cities area.

A Five For Five congregation and generous supporter of Our Church’s Wider Mission, First Congregational also uses income from the Lamson Trust to send kids to UCC summer camp on a “pay what you can” basis, and sent four youth and their adult advisors to the National Youth Event in Knoxville. About 75% of the income provided by the trust has been devoted to mission projects not covered by the regular budget.

Most UCC churches have faithful and generous members like the Lamsons – you may be one of them. What will your legacy be when you are gone? No matter the size of your estate, remember your church in your will so that your life may continue to bless your church’s ministry for generations to come.



## Funds Outperform Benchmarks

Although the United Church Foundation's family of funds were not immune to recent woes in the market, our investment managers delivered benchmark-beating performances in an environment characterized by record oil prices, \$4 per gallon gasoline, rising unemployment, a 4.2% inflation rate through May, and continued stresses in the financial system.

While the Lehman Brothers Government/Credit Index fell 1.51% despite an interest rate cut of 0.25%, the Fixed-Income Fund declined only 1.46%. As investors anticipated the end of official rate cuts, the Fixed-Income Fund's shorter duration helped as rates rose across the curve.

Down 2.21%, the Domestic Core Equity Fund nevertheless outperformed the S&P 500 by 0.52% due primarily to strong issue selection in the information technology, materials and industrials sectors. Domestic stocks fell 2.73% as concerns mounted over weaker corporate profits, higher commodity prices, and asset write-downs by financial institutions. The Small Cap Equity Fund exceeded the Russell 2000 by 3.70% returning 4.28%, due primarily to the strong performance of our growth manager and an overweighting of growth stocks, one of the few equity subclasses that registered positive returns.

International developed markets performed slightly better than the US market with the MSCI EAFE Index decreasing

2.25% in US dollar terms. Because emerging markets proved stronger than developed markets, the International Equity Fund declined only 1.27%, outperforming the MSCI EAFE Index by 0.98% – primarily due to emerging market gains and the strong performance of the international growth and emerging market managers.

The Total Equity Fund fell 0.92% yet outperformed the S&P 500 by 1.81% because of allocations to better performing domestic small capitalization and international stocks, in addition to the outperformance by the equity managers of their respective benchmarks. The Foundation's three Balanced Funds also outperformed their benchmarks due to strong equity performance despite having a higher allocation to equities than their policy benchmarks.

The outlook will remain unsettled until oil and other commodity prices stabilize, corporate profits reverse their declining trend, a bottom in home prices is reached, and financial institutions put credit problems to rest. Until then, investor confidence will likely remain low while the Federal Reserve struggles to deal with a weakening economy at the same time that inflationary pressures are rising. The United Church Foundation and its investment managers will continue to seek selections that help our investors weather this challenging environment.

## Diversification and Risk

From an early age, you probably learned, "don't keep all your eggs in one basket." That familiar adage applies to many areas of life – especially the arena of investing. Over the long term, investments in stocks and bonds offer the best opportunity for portfolio growth and the best defense against erosion of value by inflation. But investors always face risk, so wise investors diversify their portfolio: buying a mixture of stocks and bonds, or investing in already diversified funds like those offered by the United Church Foundation.

The US and world economies are always evolving, always operating in cycles, creating inherent risk. Broad diversification – across asset classes, industries and individual corporations – mitigates the impact of these changes and ensures that unfortunate changes in the value of one company or industry are balanced by better performers. The Foundation's Balanced Funds, for example, include both stocks and bonds, so that when stock prices start falling, the often-corresponding rise in bond prices balances the market shift to minimize negative impact on overall portfolio performance.

While diversification cannot offset all risk, this important investment strategy greatly reduces the likelihood that any one market shaping event will have a disastrous impact on the performance of an entire investment portfolio. In the recent sub-prime lending crisis, for example, investors who had all of their eggs in one mortgage lender's basket probably suffered from several types of risk: the decline in the value of the lender's stock, the general stock market risk as the entire market declined, and a drying-up of the credit markets as everyone from



credit card holders to bond issuers came under intense scrutiny of their credit worthiness. While almost all portfolios have suffered, well-diversified investors enjoyed better protection from the crisis.

The United Church Foundation offers a family of nine different funds, including three Balanced Funds, to give investors a range of options as they seek to meet their investment goals and minimize their portfolio risk. For more information on the Foundation's offerings, visit [ucfoundation.org](http://ucfoundation.org).

## Ending Child Labor on Cocoa Farms

In collaboration with other socially responsible shareholders, the United Church Foundation recently conducted a series of meetings with a major multinational confectionary company to stress the importance of creating a supply chain of cocoa farms that are free of the worst forms of child labor.

In 2001, a series of media reports claiming child slavery on cocoa farms in West Africa – specifically the Ivory Coast and Ghana – led US legislators Senator Tom Harkin and Representative Eliot Engel to propose legislation for the chocolate industry to certify their products as “slavery free.” In 2008, such a certification does not yet exist.

So far, the chocolate industry has set up an auditing system of the cocoa farming process which attempts to gauge the use of inappropriate child labor on farms. The industry is in the process of vetting its farms to see whether children have been trafficked onto farms, whether they have access to education, whether they are engaging in dangerous farming tasks like applying pesticides or using machetes, and whether there is forced adult labor.

Industry representatives have said that the structure of West African cocoa farming processes would make it impossible to certify that sourced cocoa is untainted by inappropriate child labor. Critics say the lessons learned from the Fair Trade coffee movement can be applied to the cocoa industry. Labor rights groups claim that placing pricing “floors” into the cocoa market



will create livable wages for cocoa farmers, which will in turn allow families to employ adults and send their children to school.

The Foundation has been in contact with several of these activist organizations to learn whether their recommendations can be presented to the management of cocoa sourcing confectionary companies. As a steward of the financial resources of participating churches and organization, the Foundation remains committed to using investments to ensure global human rights.

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## Welcome to Michelle Andree



On June 9, the Foundation welcomed Michelle Andree as its new Controller. A CPA with extensive experience in the not-for-profit sector and public accounting, Michelle graduated *summa cum laude* from Southern Connecticut State University in 1993. A native of Sri Lanka, Michelle came to the United States in 1990 to study and work, met her husband (also from Sri Lanka) in 1997, and now lives on Long Island, where she and her husband are the proud parents of twins. Although Michelle likes to travel, cook and garden, she says she doesn't have much spare time to pursue hobbies because “the twins are a full-time job when I go home!” A woman who likes getting to know people from all parts of the world and learning about their culture and languages, Michelle is also looking forward to getting to know the Foundation and its family of clients.

INVESTMENT  
PERFORMANCE  
JUNE 30, 2008

AVERAGE TOTAL RATES OF RETURNS		ANNUALIZED								
Returns on UCF funds are presented net of fees		Quarter	Year to Date	One Year	Three Years	Five Years	Ten Years	Current Yield	Unit Value	Market Value
MANAGED FUNDS	<b>Fixed-Income Fund</b>	-1.46%	0.59%	7.17%	3.73%	3.40%	5.16%	5.3%	\$4.3550	\$265.6M
	Lehman Brothers Government/ Credit Bond Index (LBGC)	-1.51%	0.98%	7.24%	3.84%	3.58%	5.68%			
	<b>Domestic Core Equity Fund</b>	-2.21%	-11.76%	-12.96%	N/A	N/A	N/A	2.4%	\$10.4982	\$213.9M
	S&P 500 Index	-2.73%	-11.91%	-13.12%						
	<b>Small Cap Equity Fund</b>	4.28%	-6.63%	-12.68%	N/A	N/A	N/A	0.8%	\$10.7856	\$64.0M
	Russell 2000 Index	0.58%	-9.38%	-16.19%						
	<b>International Equity Fund</b>	-1.27%	-8.53%	-7.76%	N/A	N/A	N/A	3.8%	\$12.2010	\$66.8M
	EAFE Index	-2.25%	-10.96%	-10.61%						
	<b>Cash &amp; Equivalent Fund (annualized)</b>	2.39%	2.24%	3.30%	3.88%	N/A	N/A	2.8%	\$1.0000	\$13.3M
	Lipper Money Market Funds Index (annualized)	2.68%	3.30%	4.28%	4.57%					
FUNDS OF FUNDS	<b>Total Equity Fund</b> (54.5% Domestic Large Cap, 17.0% Domestic Small Cap, and 28.5% International Equity)	-0.92%	-10.05%	-11.65%	5.65%	8.62%	3.55%	2.5%	\$11.0816	\$392.0M
	S&P 500 Index	-2.73%	-11.91%	-13.12%	4.41%	7.58%	2.88%			
	<b>Conservative Balanced Fund</b> (34.8% Equity, 65.2% Fixed-Income)	-1.20%	-3.22%	0.09%	N/A	N/A	N/A	4.3%	\$10.2481	\$996.3K
	Policy Index (35% S&P 500, 65% LBGC)	-1.81%	-3.52%	-0.09%						
	<b>Moderate Balanced Fund</b> (59.8% Equity, 40.2% Fixed-Income)	-1.13%	-5.96%	-4.83%	4.94%	6.70%	4.07%	3.6%	\$7.9163	\$376.5M
	Policy Index (60% S&P 500, 40% LBGC)	-2.11%	-6.75%	-5.19%	4.34%	6.12%	4.33%			
	<b>Aggressive Balanced Fund</b> (75.0% Equity, 25.0% Fixed-Income)	-1.05%	-7.61%	-7.66%	N/A	N/A	N/A	3.2%	\$10.5232	\$9.4M
	Policy Index (75% S&P 500, 25% LBGC)	-2.32%	-8.69%	-8.20%						



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