



BEYOND FOSSIL FUELS

A climate-friendly domestic equity fund from United Church Funds

BECAUSE CREATION DESERVES NO LESS

In 2013, the United Church of Christ adopted a resolution calling on the denomination's members and ministries to take action to reverse climate change. United Church Funds accepted the challenge of addressing our investors' concerns, creating a new fund free of companies that explore for and produce fossil fuels. The first of their kind — and part of a family of thirteen investment options — the Beyond Fossil Fuels funds offer investors a new opportunity to invest their long-term assets to align with their values.



A CALL TO ACT

On July 1, 2013, the United Church of Christ adopted a resolution *Urging Divestment — Along with Other Strategies — From Fossil Fuel Companies*. The resolution, itself a landmark work of cooperation and collaboration, calls on each individual, each church, each ministry and each community to do their part to address climate change —

- reducing demand for fossil fuels
- fighting for legislation to reverse climate change
- adopting the tools of social action
- prioritizing shareholder engagements on carbon reserve accounting, fossil fuel company lobbying and emissions targets
- creating a “best in class” metric to identify fossil fuel companies striving to become part of the solution, and therefore remaining investable

The resolution also called on United Church Funds to develop a new fund within 18 months — a fund free of investment in fossil fuel companies.

A TIMELY RESPONSE

In less than 18 months from passage of the resolution, United Church Funds announced the opening of the Beyond Fossil Fuels Fund — a domestic core equity fund free of investments in US companies exploring for or producing fossil fuels. Alongside its partner balanced fund, the Beyond Fossil Fuels Fund launched on November 1, 2014 with just over \$21 million from eleven founding investors. As with all separately managed portfolios at United Church Funds, this pair of funds remains free of investments in companies producing tobacco, alcohol, gambling services and military weapons.

United Church Funds is proud to be the first denomination to offer a fund free of fossil fuels. We've made significant commitments to both the United Church of Christ and the wider environmental community, and we look forward to addressing the challenge of climate change.

*Donald Hart
President*



THE BEYOND FOSSIL FUELS FUND

The Beyond Fossil Fuels Fund expands on United Church Funds' longstanding advocacy and action to address climate change through investment.

AN ENHANCED INDEX STRATEGY

The Beyond Fossil Fuels Fund uses enhanced indexing, which combines positive elements of both passive and active management. Because enhanced index managers invest in primarily the same companies included in a commercially available index — in this case, the S&P 500 — the strategy resembles passive management. However, enhanced indexing allows managers the latitude to vary position holdings from the underlying index in order to capture attractive quantitative characteristics — adjustments that can lead to positive performance versus the index over time. Enhanced indexing strategies also enjoy the benefit of lower turnover and lower fees than actively managed portfolios.

A DOMESTIC CORE EQUITY ALTERNATIVE

The Beyond Fossil Fuels Fund portfolio essentially mirrors United Church Funds' traditional domestic core equity fund, while seeking to eliminate exposure to most fossil fuel companies. The primary investment objective of the fund: to generate a gross rate of return that exceeds the S&P 500 Index, re-weighted after excluding the stock of companies selected for exclusion. Beyond the restriction of these companies, the Beyond Fossil Fuels Fund carries no other strict limitations on portfolio characteristics such as beta or dividend yield. Nevertheless, the portfolio will

be managed to achieve a tracking error of approximately 2% over a full market cycle.

A BALANCED FUND OPTION

Because over 90% of United Church Funds' investors choose the Moderate Balanced Fund for its classic asset allocation, the Beyond Fossil Fuels Fund needed a partner fund to replicate the popular allocation — without fossil fuel companies. The Beyond Fossil Fuels Balanced Fund fills that niche, replacing the Moderate Balanced Fund's traditional Domestic Core Equity Fund allocation with an allocation to the Beyond Fossil Fuels Fund. In all other aspects, the Beyond Fossil Fuels Balanced Fund will mirror the Moderate Balanced Fund, and investors will continue to enjoy the advantage of participating in the range of United Church Funds' social responsibility work.

We spent significant effort and care to find a strategy and an investment manager that could potentially outperform the indexes — given the challenge of managing a fund that doesn't include the large part of the market that fossil fuel companies represent. We needed to be faithful to our existing screens, and at the same time remain cost effective. Many of the products we looked at currently have high fee loads that are unattractive to our investors. We think we've come up with a positive solution that takes advantage of the scale, buying power and experience that United Church Funds offers.

*David Klassen, CFA
Chief Investment Strategist*

ECONOMIC SECTOR	CURRENT UCF PORTFOLIO	CURRENT BFF PORTFOLIO	S&P 500 EXCLUDING ENERGY	S&P 500
CONSUMER DISCRETIONARY	11.38	11.89	12.92	11.72
ENERGY	10.25	2.75	—	9.30
FINANCIALS	16.36	18.39	18.07	16.39
HEALTH CARE	15.24	16.16	15.37	13.94
INDUSTRIALS	9.94	10.63	11.40	10.34
INFORMATION TECHNOLOGY	20.65	22.10	21.29	19.31
MATERIALS	2.77	3.30	3.76	3.41
TELECOMMUNICATION SERVICES	1.97	1.97	2.70	2.45
UTILITIES	3.17	3.54	3.55	3.22
CONSUMER STAPLES	8.26	9.28	10.94	9.93
<i>Tobacco (included in consumer staples)</i>	—	—	1.74	1.58
TOTAL (rounding discrepancies may apply)	100%	100%	100%	100%



TAKING ON CLIMATE CHANGE

Long an advocate for the environment with corporations, United Church Funds continues to do its part as a socially responsible investor to prioritize engagement with fossil fuel companies. Among many other actions, United Church Funds joins other investors to press Chevron to reveal the impact of its hydraulic fracturing activities in the Marcellus Shale. In coordination with other faith-based investors, United Church Funds has called on Alpha Natural Resources to examine how their carbon asset accounting will be affected by changes in environmental legislation. And as part of a coalition of shareholders calling for lobbying disclosure, United Church Funds helped lead Occidental Petroleum to renounce its membership in the American Legislative Exchange Council.

In addition to creating the Beyond Fossil Fuels funds, United Church Funds continues to explore opportunities to invest in energy technology and renewable energy platforms, investments that will join the green bonds already part of United Church Funds' fixed income portfolio.

But there's so much more to be done. The resolution adopted by the United Church of Christ called for action by everyone — making hard choices that yield real change. After all, as long as consumers and businesses, churches and schools create demand for fossil fuel products, corporations will continue to produce gasoline for cars, aviation fuel for airplanes, coal for electricity, oil for heat — the list goes on. Reversing climate change won't be quick or easy, but Creation deserves no less.

Using our position as shareholders, United Church Funds will continue the vital work of speaking environmental truths and pressing for immediate improvements in fossil fuel companies. We will employ all the tools at our disposal to prioritize the environment. The Beyond Fossil Fuels funds give investors just one more way to respond to the call to climate action.

*Kathryn McCloskey
Director, Social Responsibility*

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