Summit Strategies Group

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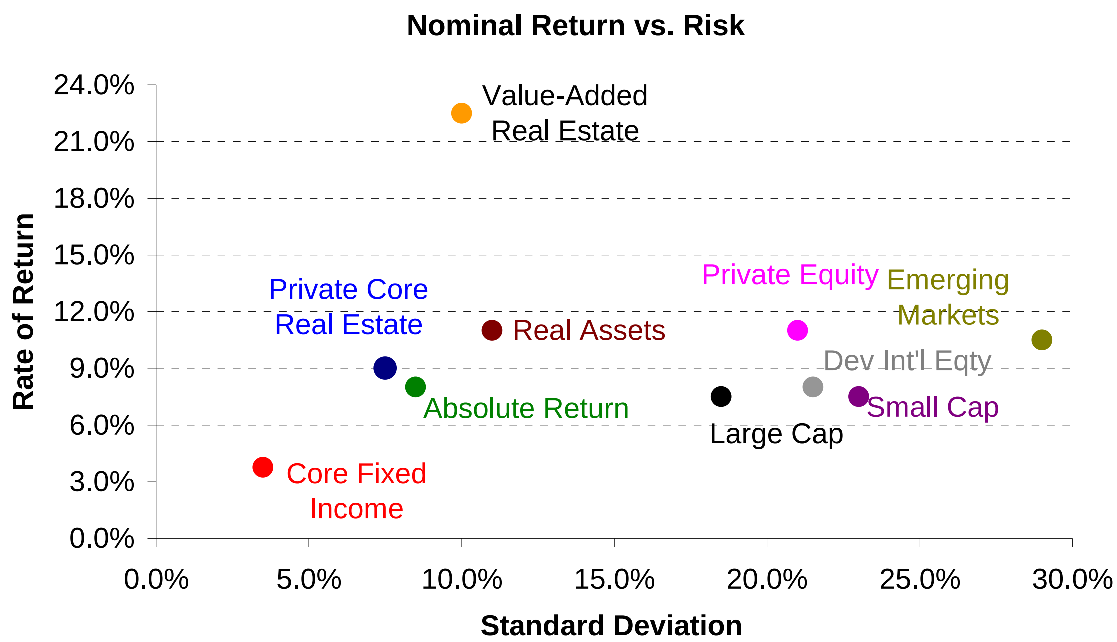
Alternative Investments

United Church Funds

August 2010

WHAT ARE ALTERNATIVES?

- **Private Equity**
  - Venture Capital
  - Buyout
  - Debt Related
- **Real Assets**
  - Real Estate
    - Public
    - Private
  - Energy
  - Infrastructure
  - Timber
- **Absolute Return Strategies**
  - Directional
  - Market Neutral
  - Event Driven



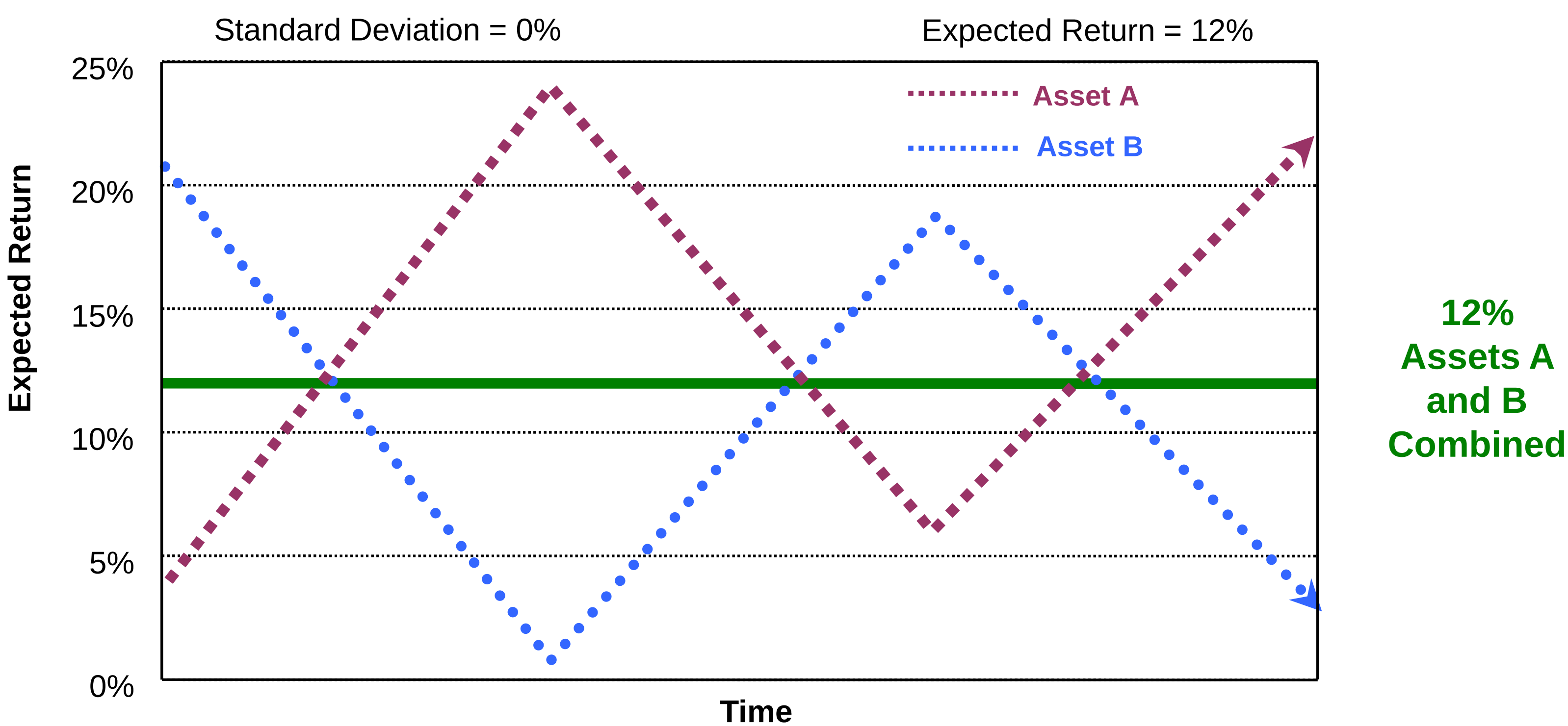
Asset Class	Return	Std. Dev.	Comments Regarding Return Assumptions
Core Fixed Income	3.8%	3.5%	Current Yield Curve
Large Cap	7.5%	18.5%	Long-term Expected, Fundamental Components
Small Cap	7.5%	23.0%	Long-term Expected, Fundamental Components
Developed Int'l Equity	8.0%	21.5%	Long-term Expected, Fundamental Components
Emerging Markets	10.5%	29.0%	Long-term Expected, Fundamental Components
Absolute Return	8.0%	8.5%	Cash + Equity Exposure + Absolute Return
Private Equity	11.0%	21.0%	55% Buyout, 20% Venture, 25% Debt Related
Private Core Real Estate	7.5%	9.0%	Current Cap Rate + Valuation + NOI Growth + Alpha
Value-Added Real Estate	10.0%	22.5%	Current Cap Rate + Valuation + NOI Growth + Alpha
Private Energy	11.0%	11.0%	Royalty Trust Yield + Risk Premium + Net Alpha

ALTERNATIVES OFFER A RETURN PREMIUM AND CORRELATION/DIVERSIFICATION BENEFITS

- **Private Equity – Enhanced Return**
  - Liquidity; investments are long term and illiquid
  - Concentration; fewer total investments
  - Specialized knowledge; investors need complete information
- **Real Estate – Diversification and Inflation**
  - Income-driven return that provides an inflation hedge
  - Diversification through low correlations to other asset classes
  - Long-term returns fall between bond and equity returns
- **Real Assets – Diversification and Inflation**
  - Returns are more closely correlated with inflation than broad markets
- **Absolute Return Strategies – Diversification**
  - Trading strategies that isolate specific mis-valuations or capture risk premiums in a systematic way
  - Complexity; non-main street tools and techniques

CORRELATION

Negative Correlation - A Perfect World



If two assets have a perfect negative correlation, one asset's return will increase while the other asset's return will decrease by the same amount. The net effect is the "perfect world" scenario where equal allocation among the two assets will result in one asset offsetting the other, causing the volatility to approach zero, while the average portfolio return remains greater than any one asset by itself.

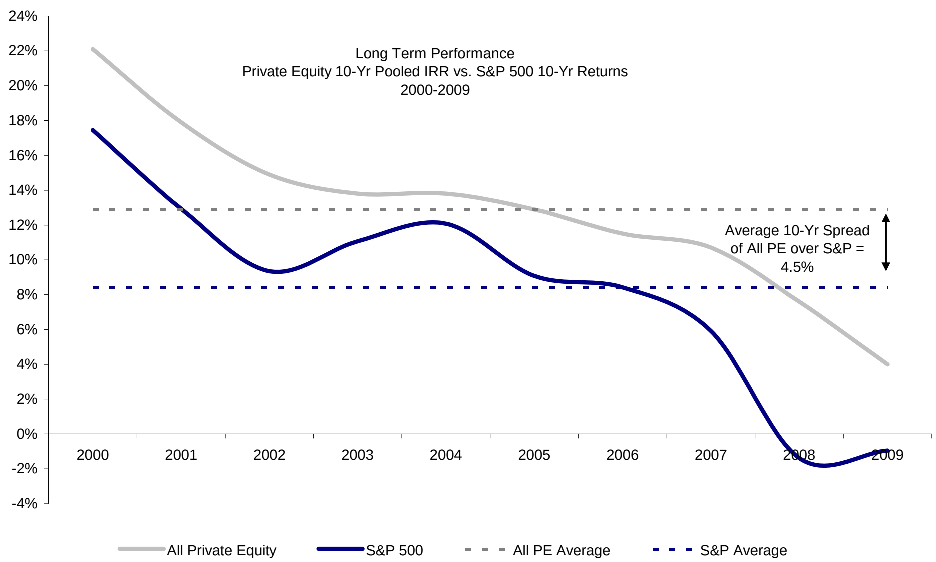
PRIVATE EQUITY

Advantages:

- Higher expected returns than other asset classes
- Diversification benefits
  - relative to traditional asset classes
  - within the asset class (stages, strategies, and industries)
- Inefficient market creates attractive opportunities
- Established asset class and group of managers

Disadvantages:

- Labor intensive
- Requires a specialized knowledge
- Higher expected volatility
- Investments are long-term and illiquid
- Expensive – high management fees



- The private equity strategies, have exhibited moderate diversification benefits relative to traditional asset classes.

Correlations	Private Equity	S&P 500	Russell 2000	MSCI EAFE	BC Aggregate
Private Equity	1.00				
S&P 500	0.74	1.00			
Russell 2000	0.50	0.91	1.00		
MSCI EAFE	0.73	0.88	0.80	1.00	
BC Aggregate	-0.83	-0.52	-0.51	-0.42	1.00

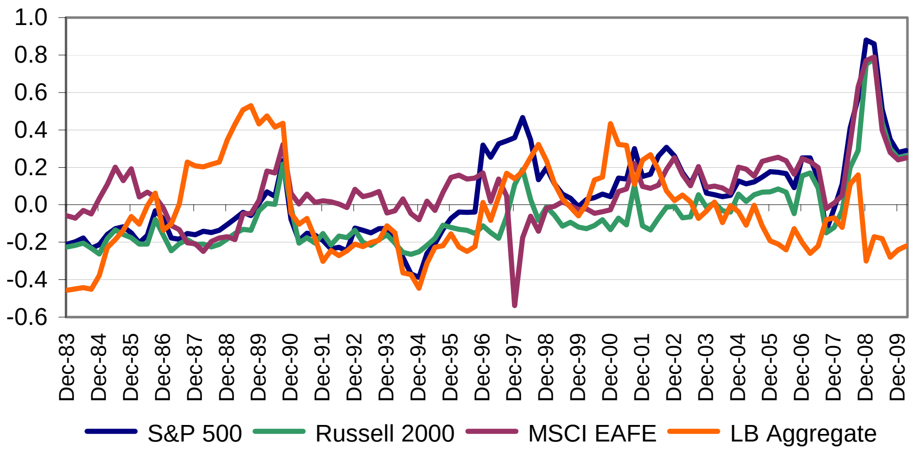
Source: All private equity returns are 10-year rolling horizon pooled IRR for all US private equity sourced from Thomson ONE as of 12/31/2009. S&P 500 returns are geometric mean returns for 10-year rolling periods using total return data from S&P 500 as of 12/31/2009.

PRIVATE REAL ESTATE

Advantages:
- Diversification with traditional asset classes
- Attractive income component
- Consistency of the income component
- Inflation hedge
- Generally stable returns over the long-term
- Inefficient market creates attractive opportunities

Disadvantages:
- Investments are generally illiquid
- Relatively expensive – active management required
- Infrequent valuation – artificially low volatility
- Cyclical investment – during recession can be volatile
- Inefficient market creates potential pitfalls

Five-Year Rolling Correlations vs. NCREIF Property Index



- The private real estate equity market, as measured by the NCREIF Property Index, has exhibited greater diversification benefits relative to traditional asset classes. The NCREIF's average five-year correlation with these asset classes are:
  - S&P 500: 0.04
  - Russell 2000: -0.06
  - MSCI EAFE: 0.07
  - Lehman Aggregate: -0.03

January 1979-March 2010

Note: Correlation analysis uses quarterly data.

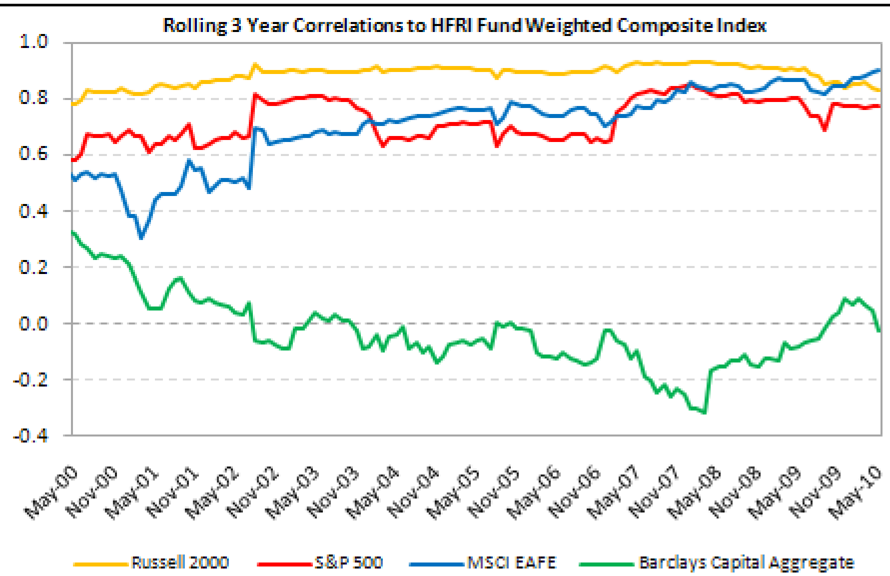
ABSOLUTE RETURN STRATEGIES

Advantages:

- Absolute-return oriented
- Better alignment of interest with investors
- Generally higher risk-adjusted returns relative to traditional asset classes
- Diversification with traditional asset classes
- Utilize leverage and short positions to enhance returns and manage risk
- Most underlying positions are liquid and marketable

Disadvantages:

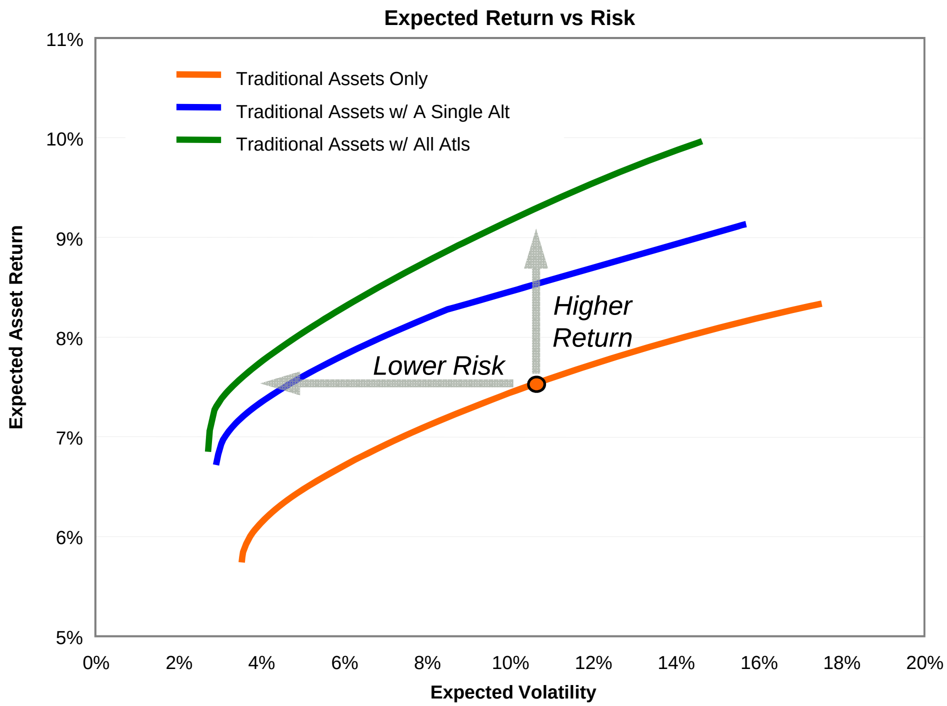
- Expensive – high management fees
- Significant asset flows may limit managers' ability to exploit market inefficiencies
- Lack of regulation and institutional reporting; however, this continues to improve
- Underlying positions are liquid; however, the funds are often less liquid due to lock-ups



- The absolute return strategies, as measured by the HFRI Fund Weighted Composite, have exhibited modest diversification benefits relative to equity markets and good diversification benefits relative to bonds.
- The HFRI Fund Weighted Composite Index's average three-year correlation with these asset classes are:
  - S&P 500: 0.71
  - BarCap Agg: 0.04
  - Russell 2000: 0.84
  - MSCI EAFE: 0.69

ASSET CLASS RISK / RETURN PROFILE

The Effect of Alternative Strategies



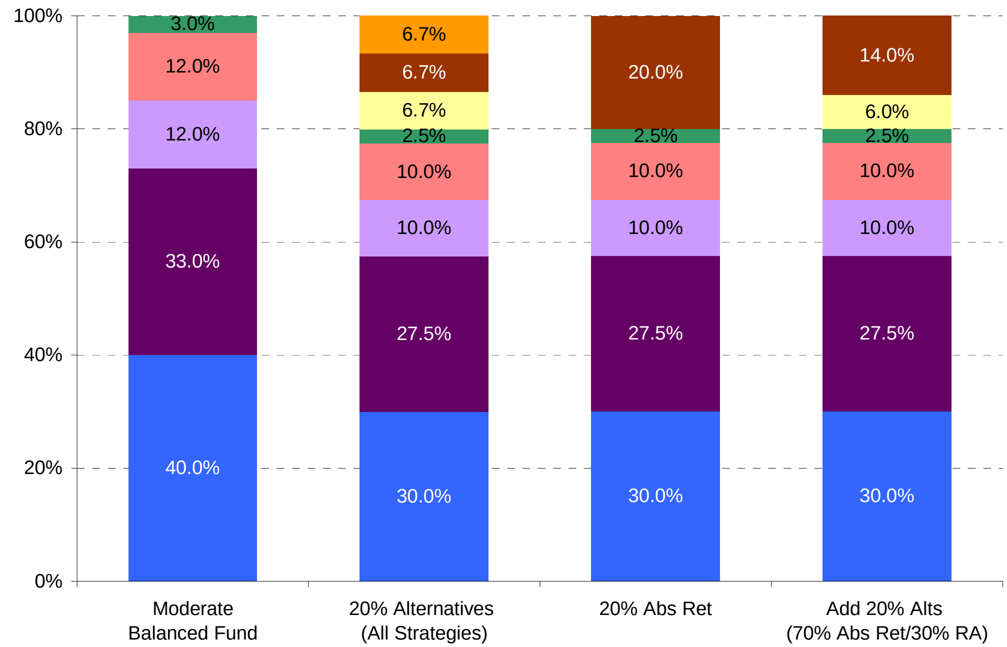
- Modern portfolio theory's (MPT) foundation is based on the prudent investor's desire to maximize return, while minimizing risk.
- MPT confirms that a portfolio of risky, uncorrelated assets can provide an investor a superior return per unit of risk than that of a portfolio comprised solely of traditional assets.
- Due to their enhanced return and low to negative correlations with traditional assets, the inclusion of alternative assets greatly enhances a portfolio's return/risk performance.

	Core Fixed	Large Cap Core	Small Cap Core	Developed Int Core	Emerging Markets	Private Core Real Est	Private Energy	Private Equity Blend	Absolute Return
Core Fixed	**1.00**								
Large Cap Core	0.02	**1.00**							
Small Cap Core	-0.07	0.90	**1.00**						
Developed Int Core	0.05	0.76	0.68	**1.00**					
Emerging Markets	-0.20	0.68	0.74	0.67	**1.00**				
Private Core Real Est	-0.08	0.12	0.07	0.15	-0.03	**1.00**			
Private Energy	-0.04	0.05	0.10	0.11	0.15	0.28	**1.00**		
Private Equity Blend	-0.18	0.70	0.61	0.63	0.56	0.33	0.22	**1.00**	
Absolute Return	0.00	0.47	0.43	0.57	0.54	0.22	0.43	0.42	**1.00**

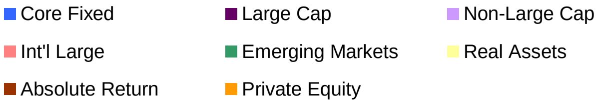
Alternative assets have low to negative correlation to many traditional asset classes

ADDITION OF ALTERNATIVES AND IMPACT ON PORTFOLIO

- Adding alternatives to the asset mix is beneficial; raising returns and lowering risk.
- Skewing the sub-allocations to various alternative asset classes does not materially change the beneficial impact of adding alternatives to the portfolio.



Expected Return	6.3%	7.0%	6.7%	6.7%
Standard Deviation	11.2%	10.8%	10.3%	10.2%
Return/Risk	0.56	0.64	0.65	0.65



INCORPORATING ALTERNATIVES
Administrative Issues

- Unique administrative and implementation issues
  - Easier to incorporate in funds that have longer investment horizons and “stickier” asset bases.
- Some of the administrative hurdles include:
  - Liquidity (Private Equity/Absolute Return Strategies/Real Estate)
  - Valuation expectations (Daily/Monthly/Quarterly)
  - Equitable treatment of members (the J curve); managed through implementation
  - Ability to implement SRI mandates

Asset Class	Typical Liquidity	Typical Valuation
Real Estate (REITS)	Daily	Daily
Real Estate (Private Core)	Monthly/Quarterly	Monthly/Quarterly
Equity Market Neutral	Monthly	Daily/Monthly
Low Beta Long/Short	Quarterly	Monthly
Multi-strategy (Relative Value/Event Driven)	Quarterly/Annually	Monthly
Private Equity (Debt/Buyout/Venture)	10 Years	Quarterly
Real Estate (Private Non-Core)	Quarterly/10 Years	Quarterly
Real Assets (Infrastructure/Oil & Gas/Timber)	Quarterly/10 Years	Quarterly

ALTERNATIVES REVIEW OUTLINE

- Why this Alternative?
  - Returns (net of fees)
  - Volatility
  - Correlations/risk reduction
- What are the different ways of investing in asset class?
- What are the characteristics of each type of vehicle or investment?
  - Liquidity/cash flow
  - Due diligence required – who does it and how is it done?
  - Transparency/valuation techniques
  - Monitoring – who does it and how is it done?
  - Fees (all in – including extra fees for audit, due diligence, monitoring, etc.)
  - Performance measurement – benchmarks
  - Appropriate or typical type of investor for each type of vehicle
  - Who are the top tier investment managers for each type of vehicle?
- Is this alternative an appropriate fit for the United Church Funds, given current products and our membership?
  - How do members benefit from exposure to strategies?
  - Do some members benefit more than others?
  - How does alternative fit in with current products?
  - Cash flow requirements given demographic profile of membership
  - Cost/benefit analysis
- Operational and implementation issues, if added
  - Valuation issues
  - Staffing requirements
  - Audit requirements - AICPA considerations
  - Timing
  - Investment guideline changes

DUE DILIGENCE PROCESS

UCF ALTERNATIVES' IMPLEMENTATION PROCESS

- Committee education
  - What are alternatives?
  - Expectations for asset classes and strategies
  - Benefits of adding alternatives
  - Appropriateness of alternatives given the structure of UCF
  - Review of implementation hurdles and methods for overcoming
- Board education
  - Impact of adding alternatives
  - Peer usage of alternatives and results achieved with alternatives
  - Methodology for implementing alternatives
- Committee approval to create alternatives fund
  - Selection of eligible asset classes and target asset allocation
  - Determination of fund terms for UCF participants
- Completion of manager search
  - 6 Candidates presented by Summit for consideration
    - Top Tier candidates for Committee to consider
    - Review of both qualitative and quantitative factors
  - Selection of candidates for interview – 3 candidates interviewed for each asset class
- In-person manager interviews with 3 finalists
  - Focus on differentiating factors of managers
  - Asses the likelihood of manager/strategy to achieve stated objectives
- Selection of manager for mandate
  - Contract negotiations

SUMMIT'S INITIAL DUE DILIGENCE

- Summit conducts roughly 75-125 hedge fund of fund manager meetings each year. Initial meetings are sourced through databases and industry contacts.
- Summit works with the client to establish specific search criteria for each hedge fund of fund mandate.
- A request for information (RFI) is submitted by fund of funds managers. Summit reviews each response to find managers who meet the established criteria. The RFI focuses on the following areas:
  - Professional resources including biographies on the principals of the Firm
  - Firm and Product Growth
  - Fund Information
  - Performance
  - Asset Allocation/Manager Selection Process
  - Portfolio Construction
  - Risk Management
  - Administration/Operations
  - Client Information/Reporting
  - Compliance/Legal
- Summit also reviews the fund of funds offering memorandums, subscription documents, due diligence questionnaire (DDQ), valuation policies (if available), and samples of monthly/quarterly reports.

SUMMIT'S ON-SITE DUE DILIGENCE

- Summit conducts approximately 15 on-site visits with prospective hedge fund of fund managers annually.
- The on-site involves the following:
  - Interview of key firm professionals
    - Portfolio Managers
    - Analysts
    - Operational Team
    - Risk Management Team
  - Review of internal systems
  - Review of compliance, back office, and operational procedures
  - Transparency assessment
  - Liquidity review
  - Review historical data on the products
  - Review potential future allocations of the products
- Managers who are able to demonstrate their process and have achieved consistent positive performance will be considered for future client mandates.

SUMMIT'S PROCESSES FOR AVOIDING OPERATIONAL ISSUES

- Require fund of fund managers to demand more transparency from each underlying hedge fund manager in order to manage the overall portfolio exposures more effectively.
- Ensure that the managers are appropriately diversified and there are stated maximum position levels for the Fund.
- To further ensure that there is independent verification and oversight of a manager's practices and controls, require the fund of funds mangers to invest only in managers that have third party service providers.
- Increase operational controls to evaluate that every manager in the portfolio has the proper controls in place.
- Ascertain that they are comfortable with the existence of actual assets.
- Do not make any investments in hedge funds where material investment decisions are left to the discretion of a third party.
- Work with managers on creating customized structures that will satisfy requirements for transparency, consistent monitoring of assets, liquidity (taking into account the specific nature of the investment strategy), and robust controls of the Funds activities.
- Look to invest with managers that have significant portions of their personnel net worth invested within the same fund structure.

SUMMIT'S MANAGER SELECTION PROCESS: Hedge Fund of Funds

Hedge Fund of Fund Universe

ACCESS

~ 2700+ managers in hedge fund of fund universe

Databases
- HFR
- Hedgefund.net

Other Sources
- Industry Contacts
- Prime Brokers

Manager Meetings
- Summit's office
- Manager's office

Ongoing Evaluations
- Both existing and prospective managers
- Decision-maker on behalf of clients

Summit conducts approximately 75 - 125 meetings each year

Focus List

INITIAL FILTERING

~ 75 - 125 meetings / year
- Review of marketing material
- Initial meeting with manager to evaluate appropriateness of strategy, track record, talent, investment edge and risk controls

ADDITIONAL DUE DILIGENCE

~ 15 on-sites annually
- Further evaluation via offering memorandum, references, follow-up meetings and mandatory on-site visits

Focus List consists of approximately 12 - 15 funds

Search Book

INVESTMENT SEARCH CRITERIA

- Each search book is tailored to each client
- Search book is created with final hedge fund of fund recommendations
- Client specific issues factor into the recommendations

Each search book presents 5 - 8 products

Recommendation

INVESTMENTS & MONITORING

- Summit recommends the Committee interview 2 – 4 managers. The Committee makes a decision based on the interviews.
- The product(s) selected represents Summit's "best-in-class"
- Continued monitoring of client investments
  - Annual on-site visits
  - Quarterly review of returns & exposures
  - Manager conference calls

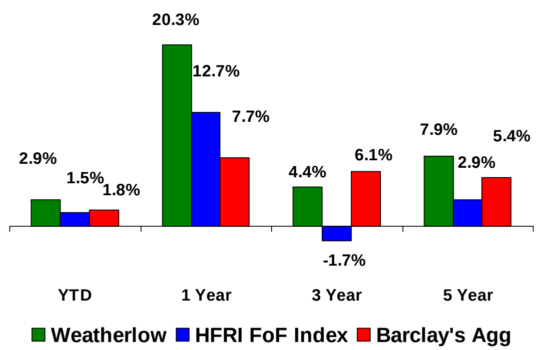
The recommendation includes 2 - 4 hedge fund of fund products

EVANSTON CAPITAL MANAGEMENT

FIRM DETAILS

Address:	1560 Sherman Ave., Suite 960, Evanston, IL 60201
Phone:	847.328.4961
Asset Class:	Hedge Fund of Funds
Founded:	2002
Ownership:	100% Employee Owned (6)
Assets Under Mgt:	$3.6 billion

Performance as of March 31, 2010



PRODUCT: Weatherlow Offshore Fund

Inception: March 2002

Fund Size: $3.6 billion

Minimum Investment: $1 million

Management Fee: Scaling 0.7%-1%

Incentive Fee: 10%

Hurdle Rate: 6%

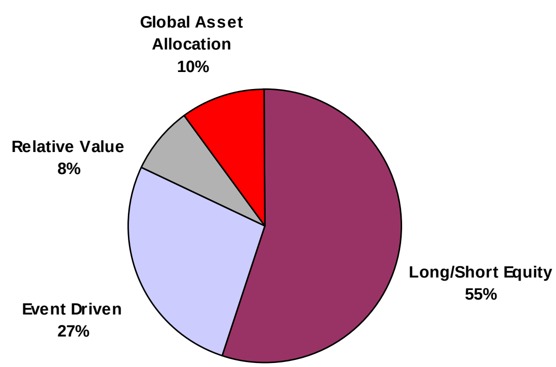
High-Water Mark: Yes

Contributions: Monthly

Withdrawals: Quarterly w/ 60 days notice

Lock-up Period: 1 Year

Strategy Allocation



CHARACTERISTICS

	Portfolio
No of Managers:	30
No of Strategies:	4
Standard Deviation (Annual):	4-6%
Perf. Expectations:	8-10%

QUALITATIVE ASSESSMENT

- ECM was founded by David Wagner, the former VP and Chief Investment Officer of Northwestern University (1992-2002). In March 2002, he decided to depart the not-for-profit world and establish his own investment advisory firm to specialize in alternative investment strategies. At the onset of the Firm, Mr. Wagner was joined by Adam Blitz, Kenneth Meister, and Ryan Cahill and has since built a team with complementary skills and backgrounds.
- ECM seeks to combine the advantages of being a smaller, more nimble, "niche" firm, with an institutional quality investment process and business practice, meaningfully aligned with the interests of investors. ECM strives to implement diversification within its portfolios, but feels many other fund of funds over diversify, and end up investing with second and third tier managers. They employ a three tier investment process dissecting the art and science of investing.
- ECM utilizes optimization software to develop an initial cut at potential allocations to hedge funds. By inputting three factors – (1) historical or forecasted return, risk, and correlation series for each manager; (2) position limits (e.g., strategy limits); and (3) individual hedge fund constraints (i.e., constraints due to a "closed" hedge fund or due to a relatively illiquid strategy), the optimization software creates hundreds of allocation scenarios in order to build an "efficient frontier" of optimized risk-return tradeoffs. Once the optimization is run, ECM analyzes the results of the optimization and chooses a portfolio of managers that best represents the Weatherlow Fund's risk target.

QUALITATIVE RANKING

FIRM	-2 -1 0 1 2
Empl Ownership	
Mgmt Consistency	
Focus	
Cost	
Litigation	
Responsiveness	
TOTAL	+6

PERSONNEL	-3 -2 -1 0 1 2 3
Staff Depth	
Experience	
Stability	
Support	
TOTAL	+7

PRODUCT	-2 -1 0 1 2
History	
Size	
Liquidity/Redemption	
Diversification	
TOTAL	+4

PHILOSOPHY	-3 -2 -1 0 1 2 3
Philosophy	
Due Diligence	
Portfolio Construction	
Portfolio Monitoring	
Risk Mgmt	
Research	
Characteristics	
TOTAL	+14

TOTAL QUALITATIVE SCORE: +31

Poor | Average | Above Avg | Exceptional

-10 | 0 | +10 | +20 | +30

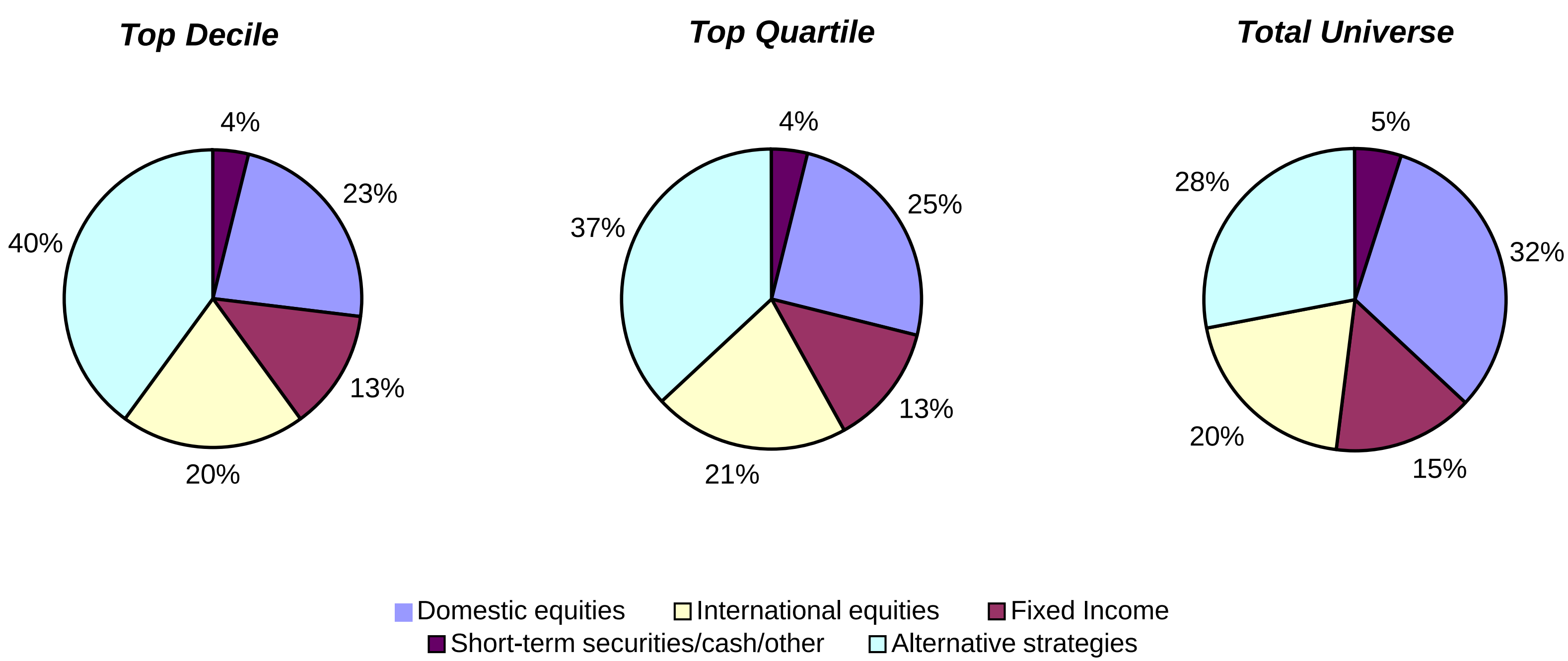
NEXT STEPS FOR ALTERNATIVES FUND

- Target asset allocation for the Alternatives Balanced Fund will consist of the following exposure to alternative strategies:
  - 70% absolute return strategies – Evanston will fill the mandate
  - 30% real assets – mandates have yet to be filled
    - Core real estate
    - Master Limited Partnerships
    - Commodities
    - REITS, including hedged REIT strategies
- Committee will undergo an education session in August 2010 to further discuss core real estate
  - Expectations for the asset class
  - Characteristics of the asset class
  - Suitable managers for the mandate
  - Advantages and disadvantages of investing
- At the October meeting, the Committee will interview finalists for the mandate
- Additional strategies for real assets will be examined following the core real estate education and search process.

PEER REVIEW

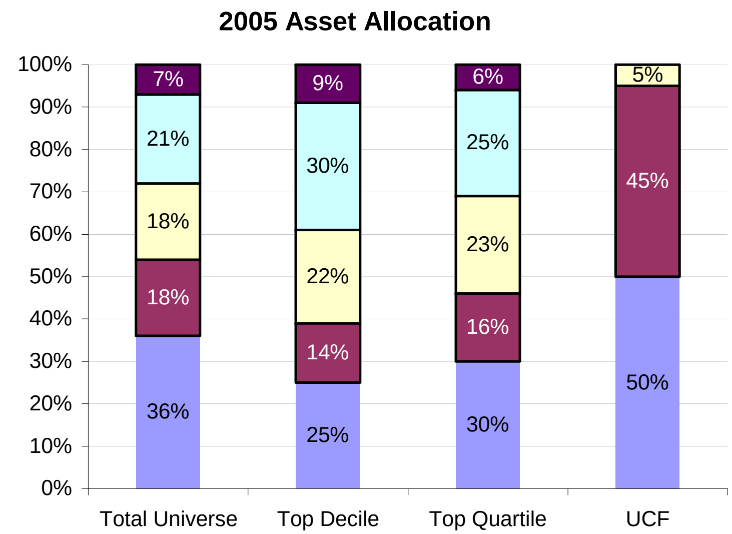
ASSET ALLOCATION OF FOUNDATION UNIVERSE
Commonfund Benchmark Study of Foundations

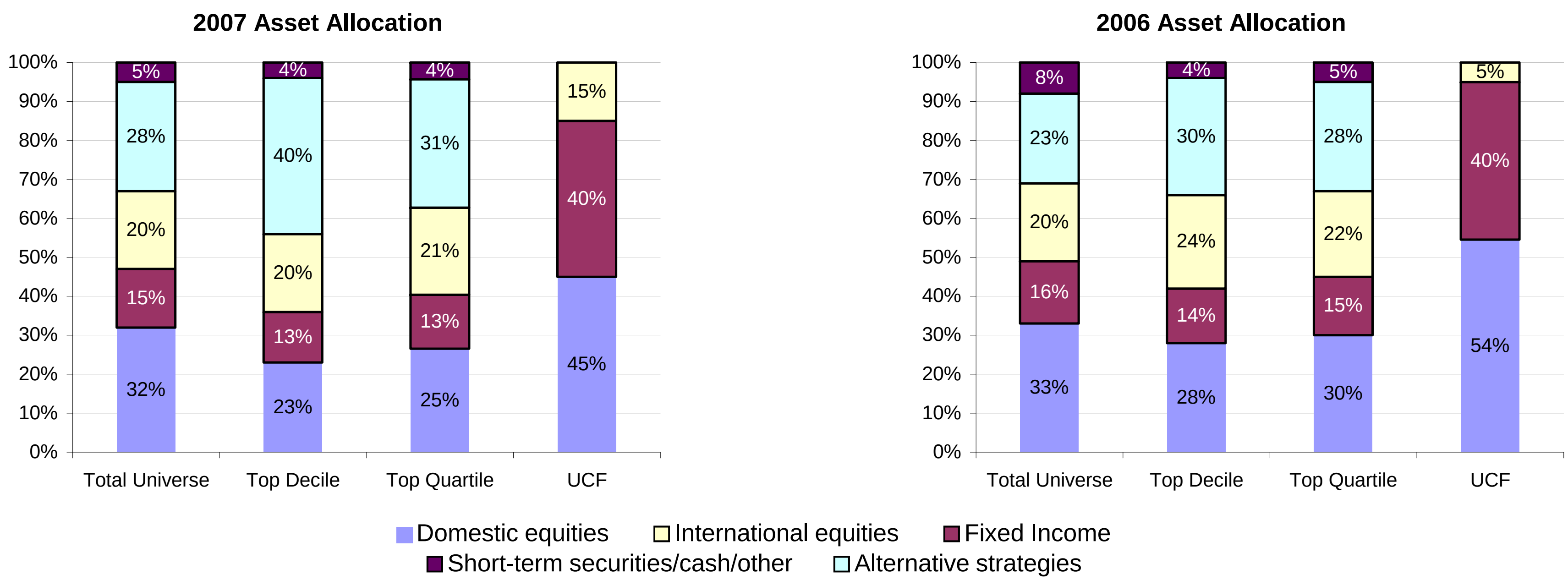
- The top decile performers within the universe have significantly larger allocations to alternative strategies and international equities than the universe in whole.



ASSET ALLOCATION COMPARISION
Commonfund Benchmark Study of Foundations

- In the following charts, the asset allocation of the UCF Moderate Fund is compared to the Commonfund universe, as well as the top quartile and decile of the universe.
- Compared to other foundations, UCF has larger allocations to domestic equities and fixed income and a lower allocation to international and no allocation to alternative strategies.

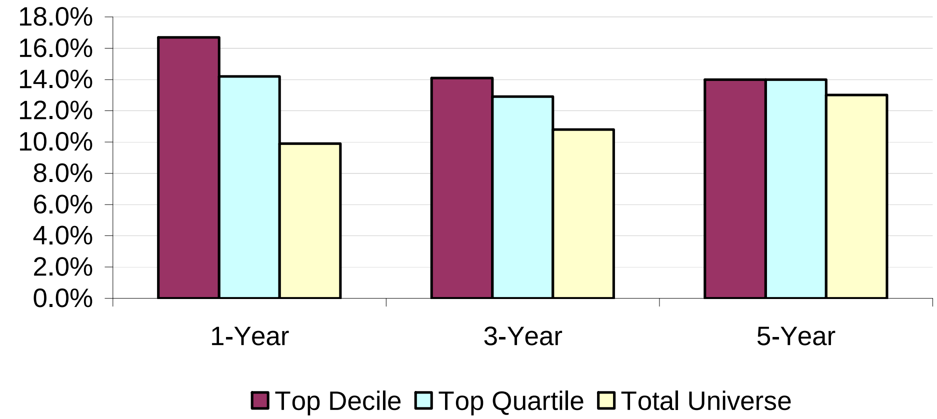




PERFORMANCE COMPARISION (NET OF FEES)
Commonnfund Foundation Universe versus UCF

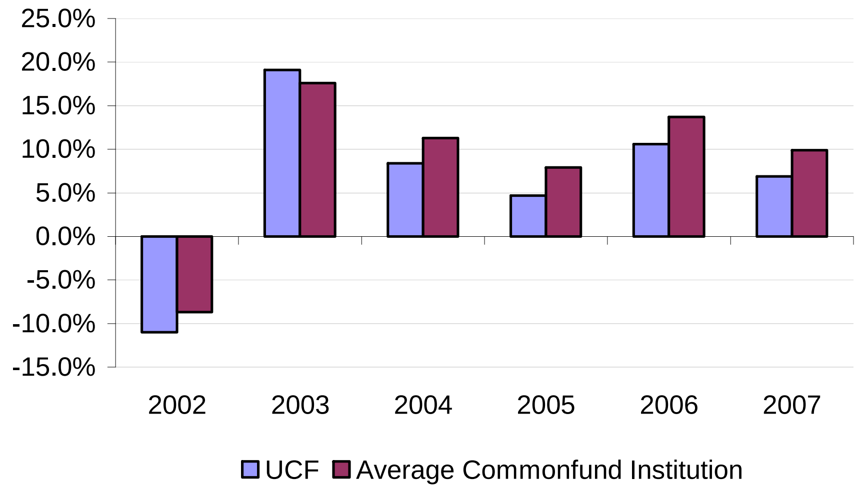
- The 300 institutions that participated in the survey had average returns of 9.9% for 2007, while the top decile performers averaged 16.7%.
- The same level of performance was produced for the trailing 3- and 5-year periods ending December 31, 2007.

Annualized Performance (Periods Ending 12/31/07)



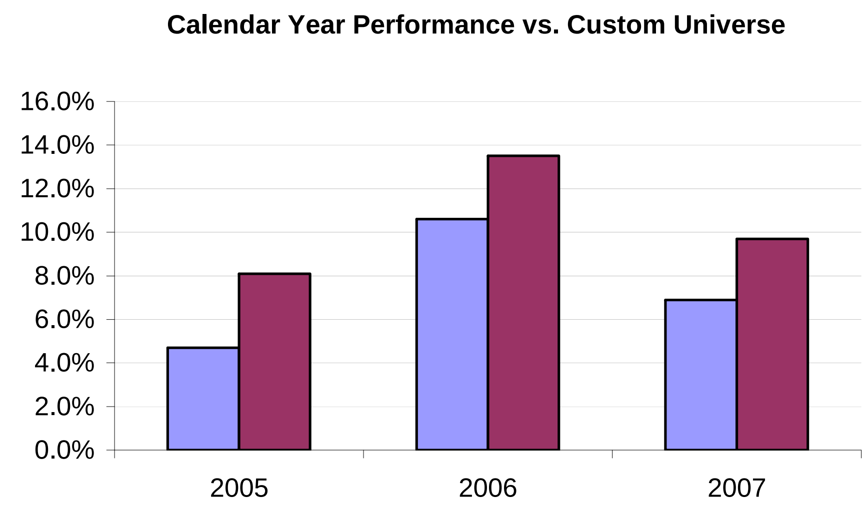
- The chart on the right, shows the average annual return for the survey participants versus the return of the UCF Moderate Balanced Funds for the last 6 calendar years.
- In five of the six periods shown, UCF trailed the return of the survey participants.

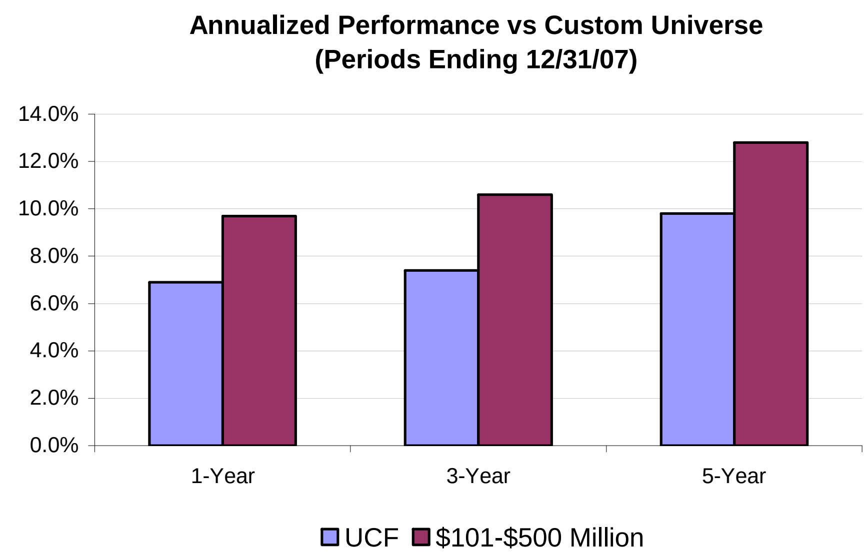
Calendar Year Performance



PERFORMANCE COMPARISION (NET OF FEES)
Commonnfund Foundation Universe versus UCF

- The charts at the right show UCF Moderate Balanced Fund performance relative to Commonfund survey participants with assets of $101 million to $500 million.
- The performance of UCF has lagged the results of the survey participants over the last few calendar years, as well as for the annualized periods shown through December 31, 2007.





APPENDIX

PORTFOLIOS EXAMINED

Moderate Fund	Moderate Fund with 20% Alternatives (all Alts)	Moderate Fund with 20% Absolute Return)	Moderate Fund with 20% Alternatives (14% Abs Return and 6% Liquid Real Assets)
▪ 40% Core Fixed	▪ 30% Core Fixed	▪ 30% Core Fixed	▪ 30% Core Fixed
▪ 33% Large Cap	▪ 27.5% Large Cap	▪ 27.5% Large Cap	▪ 27.5% Large Cap
▪ 12% Small Cap	▪ 10% Small Cap	▪ 10% Small Cap	▪ 10% Small Cap
▪ 12% International	▪ 10% International	▪ 10% International	▪ 10% International
▪ 3% Emerging Markets	▪ 2.5% Emerging Markets	▪ 2.5% Emerging Markets	▪ 2.5% Emerging Markets
	▪ 6.7% Real Assets	• 20% Absolute Return	• 6% Real Assets
	▪ 6.7% Absolute Return		• 14% Absolute Return
	▪ 6.7% Private Equity		