The Consolidated Trust Funds
Total Return Fund
Eden Fund
Connecticut Conference of the United Church of Christ

Report to Participants
For the period ending December 31, 2017

Introduction

The Investment Committee of the Connecticut Conference is pleased to provide this summary of performance and investment activities for the Consolidated Trust Funds. The Connecticut Conference, participating churches and other participants in the Consolidated Trust Funds (" the CTF" or "the Funds") are obligated by law[1] to manage investments in a prudent fashion. This report demonstrates how the Investment Committee fulfills these obligations. Participants can fulfill their own obligations by reviewing the Funds' investment policy to ensure that it is congruent with the participant's own objectives, reviewing this report of activities, and by raising any questions and concerns regarding the management of the Funds.

Significant changes took place late in 2017 and early in 2018. These changes included:

- The selection of a new Fiduciary Partner (investment consultant), administrator, and custodian to replace US Trust effective January 1, 2018. The investment consultant change resulted in significant manager changes that were initiated in December but not completed until January. Both funds were in transition on December 31, 2017.
- An Investment Policy change in asset allocation targets, moving from a "home country bias" in equity holdings to a "market neutral" policy.
- A Socially Responsible Investing Policy change to permit the adoption of Environmental, Social, and Governance criteria for securities selection, rather than relying only on exclusionary criteria.

These changes will be described in detail.

This report is available online at www.ctucc.org/ctf

Investment Objective

The overall goal of the Funds is to maintain the inflation-adjusted market value of assets while providing a relatively predictable, growing stream of revenue. The objective, therefore, is to earn a total return (net of all fees and expenses) equal to or exceeding the

[1] Uniform Prudent Management of Institutional Funds Act, effective October 1, 2007. While this law applies only to donor-created endowment funds, it establishes as standard of care that is likely to be used more broadly.

Connecticut Conference's targeted spending rate, currently 4.5%[2], plus the inflation rate – as measured by the Consumer Price Index.

Performance – Total Return Fund

Table 1: Annual Rate of Return*, net of fees

	1-Year	3-Year	5-Year	10-Year
Total Return Fund	**16.2%**	**6.4%**	**8.0%**	**5.6%**
*Custom Benchmark***	*15.2%*	*7.1%*	*8.3%*	*5.7%*
Inflation	**1.2%**	**1.1%**	**1.3%**	**1.7%**
Real Rate of Return	**15.0%**	**5.3%**	**6.7%**	**3.9%**

* Includes interest and dividend income and capital appreciation
** As of 11/1/2013 the custom benchmark was comprised of 15% Russell 1000 Value, 15% Russell 1000 Growth, 10% Russell 2000, 12% MSCI EAFE, 8% MSCI Emerging Markets, 24% Barclays Gov't /Credit, 3% Merrill Lynch High Yield Global Constrained, 3% JP Morgan Non-US Hedged, 5% Dow Jones UBS Commodity and 5% MSCI US REIT indices. For prior periods, the benchmark was composed of indices that reflected the asset allocation policy in place for the period.

Performance in 2017 was strong in absolute terms and relative to the custom benchmark. Poor performance relative to the custom benchmark in 2016 has pulled longer-term performance below the custom benchmark. Longer-term results have typically been close to the custom benchmark in recent prior years. Past performance is no guarantee of future results, as 2016 illustrated. Comparisons to peer groups are still favorable over the most recent 10-year periods available, but are modestly unfavorable over the most recent 3- and 5-year periods available. (See pages 8 and 9.)

While inflation has been moderate, current real rates of return fall short of the current spending rate for the 10-year period. Many participants have adopted total return spending policies that assume a real rate of return of 5.0%. This objective has not been met for any of the ten-year periods ending after 2007. This reflects the market downturn in 2008, as this objective was being achieved for the ten-year period ending December 31, 2007. Participants may want to consider reducing spending rates.[3]

Performance – Eden Fund

Table 2: Annual Rate of Return*, net of fees

	2017	2016
Eden Fund	**16.5%**	**8.8%**
*Custom Benchmark***	*16.2%*	*9.4%*
Inflation	**1.2%**	**1.3%**
Real Rate of Return	**15.3%**	**7.5%**

* Includes interest and dividend income and capital appreciation

[2] Under the total return spending policy, spending is set by multiplying the spending rate by a 20-quarter average of net asset market value per unit, multiplied by the number of units on the determination date.
[3] The Connecticut Conference reduced the annual spending rate from 5.0% to 4.5% in 2013.

** As of 11/1/2013 the custom benchmark was comprised of 15% Russell 1000 Value, 15% Russell 1000 Growth, 10% Russell 2000, 12% MSCI EAFE, 8% MSCI Emerging Markets, 24% Barclays Gov't /Credit, 3% Merrill Lynch High Yield Global Constrained, 3% JP Morgan Non-US Hedged, 5% Dow Jones UBS Commodity and 5% MSCI US REIT indices. For prior periods, the benchmark was composed of indices that reflected the asset allocation policy in place for the period.

Performance in 2017 was strong in absolute terms and relative to the custom benchmark Through November 30, 2017, the Eden Fund mirrored the Total Return Fund except that the Eden Fund used a U.S. Trust carbon reserve free fund for domestic equities, so this one manager replaces all of the domestic equity managers utilized by the Total Return Fund. The reliance on a single manager with a shorter track record increases risk. The Eden Fund also did not have a position in the absolute return fund utilized by the Total Return Fund.

Asset Allocation – December 31, 2017

While manager transitions were in process at year-end, asset allocation adhered to the Investment Policy and Investment Committee instructions throughout the transition process.

Table 3: Total Return Fund Asset Allocation by Asset Class, Compared to Policy Targets

Manager/Asset Class	**Current $**	**Current %**	**Asset Allocation Target %**
Domestic	$40,952,411	38.5%	40.0%
International - Developed	$17,738,794	16.6%	12.0%
International - Emerging	$8,453,750	8.0%	8.0%
Total Equity	**$67,144,954**	**63.1%**	**60.0%**
Total Fixed Income	**$31,607,896**	**29.7%**	**30.0%**
Total Real Assets/Alternatives	**$5,208,194**	**4.9%**	**10.0%**
Cash	**$2,364,830**	**2.2%**	**0.0%**
Total Market Value	**$106,325,875**	**100.0%**	**100.0%**

Table 4: Eden Fund Asset Allocation by Manager and Asset Class, Compared to Policy Targets

Manager/Asset Class	**Current $**	**Current %**	**Asset Allocation Target %**
Domestic Equity	$7,042.392	39.6%	40.0%
International Equity	$4,008,348	22.6%	20.0%
Total Equity	**$11,050,740**	**62.2%**	**60.0%**
Total Fixed Income	**$5,280,649**	**29.7%**	**30.0%**
Total Real Assets/Alternatives	**$888,456**	**5.0%**	**10.0%**
Cash	**$552,293**	**3.1%**	**0.0%**
Total Market Value	**$17,772,138**	**100.0%**	**100.0%**

While the objective is to be fully invested at all times, as a practical matter there will always be some cash needed for distributions to participants and to provide liquidity for trading purposes. The Investment Committee believes that a 2% aggregate cash position should be sufficient for these purposes. Cash levels fluctuate somewhat due to variations in income, expense, additions, and withdrawals.

The December 31, 2015 asset allocation reflected a significant tactical against fixed income securities and in favor of equities. The December 31, 2016 asset allocation reflected a more neutral stance. During 2017, asset allocation shifted towards equities, and within equities, towards international markets.

Annual Overview

Engagement of New Fiduciary Partner, Fund Administrator, and Custodian

Investment Committee Concerns

The Committee enumerated a number of concerns early in 2017:

- Performance in 2016 fell considerably below the primary benchmark. Manager performance was a concern. In particular, US Trust had recommended pairs of complementary managers in several asset classes and expectations for complementary performance were not being met.

- The lead consultant assigned by US Trust to serve our accounts, the Strategic Portfolio Manager, turned over again in late 2016. There was a concern about the frequency of turnover and the impact of building new relationships on the management of the portfolios.

- US Trust was not providing strong support for incorporating new criteria for ethical investing (Environmental, Social, and Governance, or "ESG" criteria.)

- Administration concerns were growing, particularly regarding the timeliness of reporting to participants. US Trust also did not have an apparent path to providing participants with online access and other service enhancements.

As a result of these concerns, the Committee decided to review other options.

Review Process and Selection

Charlie Kuchenbrod, Executive Associate Conference Minister and staff person for the Committee, screened a range of potential new Fiduciary Partners and arranged for three presentations to the Committee. The Committee decided to choose two organizations as finalists. Reference checks were performed. Both finalists were provided with the same outline for a proposal and presented their proposals at the same Committee meeting. The Committee did not reach an immediate consensus and requested further information from both finalists. In November, the Committee chose Fiduciary Investment Advisors (FIA) in combination with two other vendors to replace US Trust:

- FIA was chosen to be the investment consultant and Fiduciary Partner;
- Atlantic Fund Services was chosen to be the fund administrator; and
- MUFG Union Bank was chosen to be custodian.

Investment Policy Review

FIA reviewed the Investment Policy and recommended a number of changes. Regarding asset allocation, FIA recommended a more market neutral approach with equal allocation targets for domestic and international equities. This reflects the investable opportunity set and also current valuations in the marketplace. This change will also reduce a source of tracking error compared to the benchmark. In addition, the market neutral approach was extended to the targets for developed international and emerging markets. Ranges around the asset allocation targets will permit tactical asset allocation as determined by the Investment Committee.

FIA recommended a number of other changes to the Policy to:

- Clarify the roles and responsibilities of the various parties involved in portfolio oversight including the Investment Committee, Fiduciary Partner, Fund Administrator and Custodian;
- Introduce a section addressing investment monitoring and reporting, including watch list criteria; and to
- Introduce a section addressing the potential termination of underlying investment strategies.

The Investment Committee accepted most of the recommended changes. The revised Policy was then adopted by the Board of Directors of the Connecticut Conference. Following adoption by the Board, the new asset allocation targets were implemented in the first quarter of 2018

The revised Investment Policy is available at ctucc.org/ctf.

Socially Responsible Investment Policy

In November of 2017, the Connecticut Conference Board of Directors adopted a resolution "Expanding Authorized Investment Strategies To More Fully Reflect the Conference's Commitment To A Just World For All." Prior to the adoption of this resolution, the Socially Responsible Investing Policy was based on excluding identified companies profiting from alcohol, tobacco, gambling, and defense weapons. The new resolution permits the use of positive criteria, generally identified as Environmental, Social, and Governance criteria, to select securities for the portfolio, even if these criteria do not specifically incorporate the current exclusions. A copy of the Resolution is available at ctucc.org/ctf.

Manager Changes – Total Return Fund

Domestic Equities

A new passive strategy was adopted using Parametric, a manager that can implement the SRI exclusions while "optimizing" the portfolio to reduce tracking error. This is an "all cap" strategy that includes exposure to large-, mid-, and small-cap equities. The Columbia Large Cap Value separately managed account was retained. This is an active strategy. In addition, a new active small-cap manager employing ESG criteria for security selection was added. The passive manager can adjust holdings to reflect the active large cap and small cap managers, so that the resulting domestic equity portfolio will be market cap and style neutral. The Investment Committee still has the ability to engage in tactical asset allocation by instructing Parametric to favor different market caps or investment style. This approach allows the use of active management strategies when the Investment Committee sees opportunities to improve risk-adjusted performance while incorporating many of the advantages of passive investing strategies.

International Equities

The MFS International Equity fund was retained, albeit as a mutual fund instead of a separately managed account. The Hartford Schroders Emerging Markets Equity I mutual fund was also retained. While this means the SRI exclusions will not be applied to these funds, the Hartford Schroders fund incorporates SRI criteria into securities selection. In addition, for further diversification in international developed markets as the asset allocation target for this asset class is increased, the DFA International Social Core I fund was added to the portfolio. The result is a set of actively managed mutual funds with two of the three managers employing SRI criteria when selecting securities.

Fixed Income

The new core fixed income manager will be Breckinridge Fixed Income. This will be a separately managed account and will adhere to the SRI exclusions and other Investment Policy directives. Diversification will be obtained by the continued use of the PIMCO Income Fund I and by adding the Blackrock Strategic Income Opportunities mutual fund. The use of these mutual funds is an example of using unscreened pooled investment funds when it is not practical to obtain the desired diversification with a screened option.

Real Assets

A global real estate fund was added to complement the exiting domestic manager. FIA recommended substituting a natural resources equity fund for direct commodities exposure. The Investment Committee agreed to eliminate direct commodities holdings at this time, but deferred a decision on adding a natural resources equity fund.

Eden Fund – Manager Changes

The Eden Fund has been totally reconfigured. The foundation of the portfolio will be two separately managed accounts that will exclude companies holding fossil fuel reserves and as well as the SRI exclusions – a Parametric All Cap Blend account and a Breckinridge Fixed Income account. Additional diversification and a degree of active management will be added by the Walden Small Cap and DFA International Sustainability I mutual funds, which employ ESG criteria. Further diversification will be obtained through a global real estate mutual fund. Positions in commodities and/or natural resources equity funds are not appropriate for the Eden Fund mandate.

2017 Committee Activity

The Investment Committee held four regular quarterly meetings during the year and several special meetings to interview potential new partners. Each regular meeting was attended by at least five committee members and by US Trust's Strategic Portfolio Manager and Relationship Manager. Performance was reviewed at each quarterly meeting. US Trust rebalancing recommendations were considered and acted upon at each meeting along with any recommendations for manager changes.

At the April meeting, US Trust reported that their due diligence team raised concerns about the Montag & Caldwell Large Cap Growth Fund. This manager was replaced with the Boston Company Large Cap Growth Fund. After reviewing the PIMCO Foreign Bond Fund, it was determined that the PIMCO Income Fund would better meet diversification needs. Schroders Emerging Market Fund was added to increase manager diversification and add a degree of Socially Responsible Investing as the allocation to emerging markets was increased by reducing the Large Cap Growth and core fixed income positions. In August, an underperforming Small Cap manager as removed and assets allocated to one of the remaining small cap managers. Also in August, equity assets were shifted from domestic to international equities.

Fees

Overall performance is reported net of fees.. Total Return Fund fees for 2017 were $516,340 or 51 basis points (0.51% of average monthly assets.) Eden Fund fees for 2017 were $90,381 or 53 basis points (0.53% of average monthly assets.) These fees include investment management and administration fees charged by U.S. Trust, administration expenses charged by the Conference, audit fees, and fees for a proxy voting service.

In addition to these fees, there are management fees charged by the mutual funds and ETFs selected for diversification. As with all mutual funds and ETFs, fees are deducted from invested assets by the fund manager and performance is reported net of fees. The exact dollar amount of the fees is difficult to calculate due to the varying amount of assets invested.

If mutual fund and ETF results were reported gross of fees, total fees for all of these funds would be approximately 0.24% of Total Return Fund portfolio assets, indicating a modest cost for the diversification benefits. Total fees, including mutual fund and ETF fees, were approximately 75 basis points (0.75% of average monthly assets.)

Risk Analytics – Total Return Fund

At December 31, 2016, on a trailing 60-month basis, the portfolio standard deviation was 7.23 compared to 6.67 for the custom benchmark, portfolio beta was 1.07 and portfolio alpha was -0.77%. Standard deviation declined in 2017, continuing a trend.

"Standard deviation" indicates the degree to which a portfolio's returns have fluctuated over a time period. It permits comparisons to benchmarks, other portfolios, and to the portfolio itself over time. A steady decline in standard deviation from 14.61 as of December 31, 2010 indicates that the diversification strategy is significantly reducing volatility. The difference between the portfolio and the benchmark reflects that the portfolio was not as diversified as the benchmark over the full five-year period evaluated. Reduced volatility has real benefits for participants. If you compare two portfolios with the same long-term average annual rate of returns, a portfolio with lower volatility will have a higher ending balance. This is particularly true for funds that schedule distributions with a total return spending policy.

"Beta" measures the sensitivity of rates of return for a fund to general market movements and, therefore, the relative riskiness of a portfolio compared to the market. A portfolio with a beta of 1.5 would increase or decrease by 1.5% for each 1.0% of market change. Beta of 1.07 indicates that Total Return Fund is fractionally riskier than the markets invested in.

"Alpha" represents rates of return on a risk-adjusted basis, and is generally interpreted to represent the value added or subtracted due to active management - security selection and asset allocation choices. An index fund would have an alpha, before fees, of 0%. For any given level of performance, lower beta means higher alpha and vice versa. Alpha of -0.77% indicates that active management detracted 0.77% per year from returns, before fees. The objective for future performance is to have alpha exceed fees.

Participant Activity

New and existing participants added $1.7 million to their CTF accounts in 2017, which was below average for recent years. Participants withdrew $7.1 million in 2017, which is above average for recent years. Most withdrawals reflect the adoption of total return spending policies or the need to raise cash, and not a decision by participants to withdraw funds for reinvestment elsewhere.

Peer Comparisons

While the custom benchmark is the primary comparison reference for the Investment Committee, peer comparisons provide additional perspective.

Callan Associates provides performance data for a client and surveyed non-client universe. The following table compares the median performance, before fees, for Endowments and Foundations with between $100 million and $1 billion of assets to CTF:

Table 5: Median Annual Rates of Return, before fees, 12/31/17

	1-Year	**3-Year**	**5-Year**	**10-Year**
Consolidated Trust Fund	**16.74%**	**6.87%**	**8.52%**	**6.11%**
CAI Endowment/Foundation ($100 MM to $1B))	*16.39%*	*7.36%*	*8.61%*	*5.49%*
Margin of outperformance (underperformance)	**0.35%**	**(0.49%)**	**(0.09%)**	**0.62%**

The NACUBO-Commonfund survey of educational institution endowments provides another point of comparison:

Table 6: Average Annual Rates of Return, net of fees, 6/30/17

	1-Year	3-Year	5-Year	10-Year
Consolidated Trust Fund	**10.5%**	**3.5%**	**7.6%**	**4.9%**
NACUBO-Commonfund ($101-$500 MM)	*12.5%*	*4.1%*	*7.8%*	*4.4%*
Margin of outperformance (underperformance)	**(2.0%)**	**(0.6%)**	**(0.2%)**	**0.5%**

The underperformance is primarily due to poor performance in 2016. Historically, peer group comparisons have generally been favorable.

Proxy Voting Service

Late in 2008, the Connecticut Conference Board of Directors authorized the use of a proxy voting service to enable a stronger commitment to Socially Responsible Investing. Concurrently the Board adopted the voting guidelines used by the United Church of Christ's United Church Foundation and the Pension Boards – United Church of Christ. The fee for this service is an expense of the Consolidated Trust Fund, but is less than 2 basis points (0.02%) and is included in the fees reported above.

Conflict of Interest

The Connecticut Conference has a conflict of interest policy in place and Investment Committee members are required to complete disclosure forms on an annual basis. No conflicts were reported.

Financial Statements

The Independent Accountants' Compilation Report is prepared on a annual basis. Whittlesey & Hadley, P.C. currently serve as the independent accountants. Statements can be reviewed at www.ctucc.org/ctf

Investment Committee Members

Investment Committee members are volunteers appointed to the Committee by the Connecticut Conference Board of Directors.

Eric B. Anderson, CFA. Eric joined the committee in 2003. He is a member of Church of Christ Congregational in Norfolk, where he has served as chair of the Trustees and Investment Committees. Eric is a senior portfolio manager and head of equity research at Hartford Financial Management, Inc. He is a past president of the Hartford Society of Financial Analysts, Inc. Eric is a graduate of Trinity College and a Chartered Financial Analyst (CFA) and has over thirty-five years of investment experience. Eric was elected Vice Chair at the October meeting.

Jim Barnes. Jim joined the committee in 1994 and was the committee chair from 2002 to 2009. He is a member of First Church, Congregational in New Haven. Jim was Senior Vice President, Wealth Management for Smith Barney, Inc. (now Morgan Stanley) where he headed a five member practice managing approximately $500 million of client assets before retiring in 2008. He is a graduate of Colgate University and has an MBA from the College of William & Mary.

Tim Bertaccini. Tim joined the committee in 2007. He is a member of United Church on the Green in New Haven. Tim works for Yale University and is the Business Manager for the Department of Finance. He serves as treasurer for his church, the New Haven Association, and the Yale Club of New Haven, where he is also a member of the investment committee. He is a graduate of Yale University. Tim was elected Chair at the October meeting.

Sandra A. Lee, CFA. Sandy joined the committee in 2008. She serves on the Investment Committee at Asylum Hill Congregational Church where she is an active member. She is on the Board of Directors, the Executive Committee and the Investment Committee of Cedar Hill Cemetery in Hartford. Before retiring, Sandy headed her own investment management firm. She is a past president of the Hartford CFA Society. She has a BA in mathematics from the University of Texas, an MS in operations research and computer systems from the American University in Washington, D.C. and an MBA from the University of Connecticut.

Nancy Grasing. Nancy joined the committee in 2015. She is a member of North Congregational Church in Woodbury, where she is he chair of the Trust & Investment Committee and has served in many other positions. Nancy was a Vice President with JP Morgan Chase before retiring after a 30-year career in banking. She is a member of the Woodbury Board of Finance and is Treasurer of Friends in Service of Woodbury. Nancy is a graduate of Bryant University and has an MBA from Sacred Heart University.

James Q. Rice, CFA. Jamie joined the committee in 2015. He is the Chief Investment Officer at JQR Capital Management, LLC, and has over thirteen years of investment management experience. He is a member of South Congregational Church in Granby and has chaired the investment committee. Jamie is an active member of the CFA Society Hartford. He has a BS from Webb Institute of Navel Architecture, an MS from MIT, and an MBA from Tuck School of Business at Dartmouth.

The New Hampshire Conference of the United Church of Christ sends a representative of their Investment Mission Group to serve on the Committee. Representation varied in 2017.

Staff support for the Investment Committee is provided by the Executive Associate Conference Minister:

Charlie Kuchenbrod. Charlie was called to the Conference staff in 2002. He is a member of South Congregational Church in Granby. Prior to serving the Conference, he held a number of executive positions in health care. He served as a trustee of two corporate pension plans. Charlie is a graduate of the University of Pennsylvania and has an MBA from The Wharton School.