



## UMFNE STAFF TRANSITIONS

It is with mixed emotions that we announce the departure of **Ann-Marie Miller**, our Director of Finance and Administration for the last six years, who has taken a new position with another organization. We thank Ann-Marie for her faithful service in the accounting and financial operations of the Foundation; her significant contribution to this ministry is greatly appreciated.

We are also pleased to announce the upcoming arrival of **Claire H. Gagnon** to the Foundation as its new Director of Finance and Administration. Claire is a CPA who has worked in public accounting as well as not-for-profit organizations. She brings to this position a wealth of management experience and excellent technical and people skills. Her warm and friendly personality will be a wonderful addition to the Foundation staff.

In addition, we have also brought on board: **Doris A. Connors** as our new part-time Accountant, and **Bonnie I. Marden**, our new Development Associate, who will assist us in developing and delivering to our churches the new Foundation "Faith & Money" financial stewardship ministry. We congratulate **Pamela J. Di Martino** on her promotion to Trust Operations Manager; Pam will be operating our Charlotte trust accounting software with Judy Vining.

## FOURTH QUARTER/YEAR END 2006 INVESTMENT COMMENTARY

The market performed very well in 2006, producing excellent returns across nearly every stock market index. The S&P 500 Index rose 15.8% for the year, well above the 10.4% long term average for the period from 1926 to 2006. The majority of this return came in the second half of 2006 when the S&P 500 Index surged 12.7%. The rally was fueled by continued growth in the US economy, robust merger and acquisition activity and an increase in investor appetite for risk. A record \$260 billion in junk bonds were issued last year with relatively narrow spreads over investment grade debt. The previous record was made in the year 2000 when \$210 billion in junk bonds were issued. Higher stock prices were also supported by a relatively benign inflation environment in the second half of 2006 as falling fuel and housing costs offset rising health care and other inflationary pressures.

According to data from Lipper (a mutual fund survey group), less than 30% of active equity managers (US and international) outperformed their benchmarks during 2006. Managers were challenged by dramatic shifts in market leadership and sector rotation during the latter part of the year. Also, private equity firms acquired many poorly performing businesses for their restructuring potential, propelling prices of these firms higher, while companies with strong balance sheets and sustainable earning power tended to lag the market averages.

### UMFNE SOCIALLY RESPONSIBLE STOCK POOL\*

The UMFNE Socially Responsible Stock Pool\* is comprised of two portfolios designed to track the performance of both domestic and international stocks as represented by the Russell 3000 Index (target: 80% of the pool) and MSCI EAFE ("Europe, Australasia, and Far East") Index (target: 20% of the pool). The Stock Pool currently consists of about 960 holdings with an asset allocation of 59% large-cap, 14% mid-cap, 5% small-cap, and 22% international companies.

The returns for the fourth quarter and year to date are summarized below. International (particularly emerging markets) equities were among the best performers for the fourth straight year with the developed market MSCI EAFE Index up 26.8% and the MSCI Emerging Markets Index up 32.5%. The weakness in the US dollar added about 10% to international returns. Exposure to international stocks helped the UMFNE portfolio produce attractive returns for 2006.



	<b>Quarter Ending 12/31/06</b>	<b>Full Year 2006</b>
<b>Time Weighted Return</b>		
UMFNE Stock Pool*	7.81%	18.01%
Russell 3000 Index	7.12%	15.72%
S & P 500	6.70%	15.80%
Domini Social Index	6.30%	13.26%
MSCI EAFE Index	10.40%	26.84%

### **UMFNE SOCIALLY RESPONSIBLE BOND POOL\***

The UMFNE Socially Responsible Bond Pool\* posted returns of 1.02%, underperforming its benchmark by 1 basis points for the quarter. For the full year however, the fund outperformed the benchmark by 6 basis points. The underweight to corporate bonds relative to the benchmark caused the modest underperformance for the quarter, in particular the underweight to the BBB-rated bonds. Once again, BBB's outperformed all other credit qualities.

## **2007 MARKET OUTLOOK**

Looking out to 2007, we believe that equities are likely to produce a positive return. We think large cap US equities are attractively valued relative to smaller companies and they comprise the majority of our equity portfolio. With few exceptions, large cap growth stocks did not fully participate in the rally of 2006. While economic growth is not expected to be as robust this year, we think that the US economy will continue to expand at a more sustainable annual rate of 2% to 3%. Risk premiums are likely to rise as economic growth slows and businesses come under increased pressure to grow their earnings. Companies with strong balance sheets, able managements and competitive advantages are bound to reward equity investors.

The combination of the weak US dollar and robust economic growth abroad, particularly in Asia, make international markets attractive for US investors. We think that investments in foreign companies can enhance the growth potential of our equity portfolio. In addition, while investment markets are increasingly correlated, there is still some diversification benefit to owning companies domiciled outside the US.

While 2007 could be weaker than 2006, to date, the slowdown in housing is not impacting the rest of the economy and the data points to a soft landing. There are still several factors helping the economy, such as lower energy prices, low borrowing costs, an increase of non-residential investment, and strong corporate balance sheets. All of these factors should keep the Federal Reserve from reducing rates for a period longer than the market anticipates. We continue to maintain a short average maturity in this environment. We are overweight asset-backed securities (ABS) and collateralized mortgage backed securities (CMBS) and will hope to add more in 2007.

Kimberly D. Gluck CFA  
UMFNE Investment Committee  
January 23, 2007

\* The actual performance of individual customer accounts will be impacted by fees, deposits, withdrawals and timing of investments, and may not reflect the performance described in UMFNE's Pools.

***This "2006 Investment Commentary and 2007 Market Outlook" along with other valuable investment information can be found on our website: [www.umfne.org/investment](http://www.umfne.org/investment).***