

Consolidated Trust Fund
Connecticut Conference of the United Church of Christ

Report to Participants
For the period ending December 31, 2009

Introduction

The Investment Committee of the Connecticut Conference is pleased to provide this summary of performance and investment activities for the Consolidated Trust Fund. The Connecticut Conference, participating churches and other participants in the Consolidated Trust Fund (“CTF”) are obligated by law¹ 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 CTF’s 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 CTF.

The Investment Committee has engaged Bank of America Merrill Lynch (BAML) to serve as investment consultant, custodian and record keeper. CTF is composed of five individually managed portfolios, each respecting the Conference's socially responsible guidelines. The Investment Committee works with BAML to select portfolio managers for different asset classes and, in some cases, different investment styles. This assures broad diversification at reasonable cost. Columbia Management Group, a subsidiary of BAML, manages four of the five portfolios. CTF assets are in dedicated funds; the portfolio managers do not co-mingle CTF assets with the assets of any other individuals or organizations. CTF is “unitized” and the addition of funds or re-investment of income increases the number of units assigned to an account, realized and unrealized gains and losses change the net asset value per unit, withdrawals of principal reduce the number of units assigned to an account.

Performance

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

	1-Year	3-Year	5-Year	10-Year
Consolidated Trust Fund	20.4%	-0.2%	3.1%	6.0%
<i>Benchmark (60% S&P 500 & 40% Barclays Govt/Credit)</i>	<i>17.7%</i>	<i>-0.7%</i>	<i>2.4%</i>	<i>2.0%</i>
Inflation	-0.4%	2.1%	2.5%	2.6%
Real Rate of Return	20.8%	-2.3%	0.6%	3.4%

* Includes interest and dividend income and capital appreciation

The annual rate of return exceeded the benchmark established by the Conference’s Investment Policy for all time periods. Real rates of return were negative for all periods at the end of 2008, however, the 2009 results lifted the three-year and five-year results back above zero. Many participants have adopted total return spending policies that assume a real rate of return of 5.0%. This objective was not been met for the most recent three-, five-, and

¹ Uniform Prudent Management of Institutional Funds Act, effective October 1, 2007

ten-year periods. This reflects the poor performance of markets in 2008, as this objective was being achieved for the five-year and ten-year periods ending December 31, 2007. While total return spending policies should be evaluated over longer periods of time and complete market cycles, participants may want to consider reducing spending rates.

CTF is composed of five individually managed portfolios. Each portfolio has a different fund manager, and each portfolio represents a different asset class or investment style. The Investment Committee has chosen “active” portfolio managers and has not adopted an indexing strategy. Portfolio manager performance compared to benchmarks has been generally favorable, especially over longer time periods.

Table 2: Annual Rate of Return by fund, before fees

	1-Year	3-Year	5-Year	10-Year
Large Cap Value Equity	17.89%	-3.93%	2.86%	5.78%
<i>Benchmark (Russell 1000 Value)</i>	<i>19.69%</i>	<i>-8.96%</i>	<i>-0.26%</i>	<i>-0.95%</i>
Large Cap Growth Equity	37.19%	-1.97%	2.82%	
<i>Benchmark (Russell 1000 Growth)</i>	<i>37.21%</i>	<i>-1.88%</i>	<i>1.64%</i>	
Small Cap Equity	38.06%	-2.27%	2.95%	
<i>Benchmark (Russell 2000)</i>	<i>27.19%</i>	<i>-6.06%</i>	<i>0.51%</i>	
International Equity	30.19%			
<i>Benchmark (MSCI EAFE Net TR USD Index)</i>	<i>31.78%</i>			
Fixed Income	8.16%	5.37%	4.54%	6.47%
<i>Benchmark (Barclays Govt/Credit)</i>	<i>4.52%</i>	<i>5.82%</i>	<i>4.71%</i>	<i>6.34%</i>

The Large Cap Value Equity Fund lagged its benchmark in 2009 but has consistently outperformed its benchmark by a substantial margin over longer time periods.

The Large Cap Growth Equity Fund has tracked closely to its benchmark for the most recent year and three-year period, but exceeded its benchmark for the five-year period.

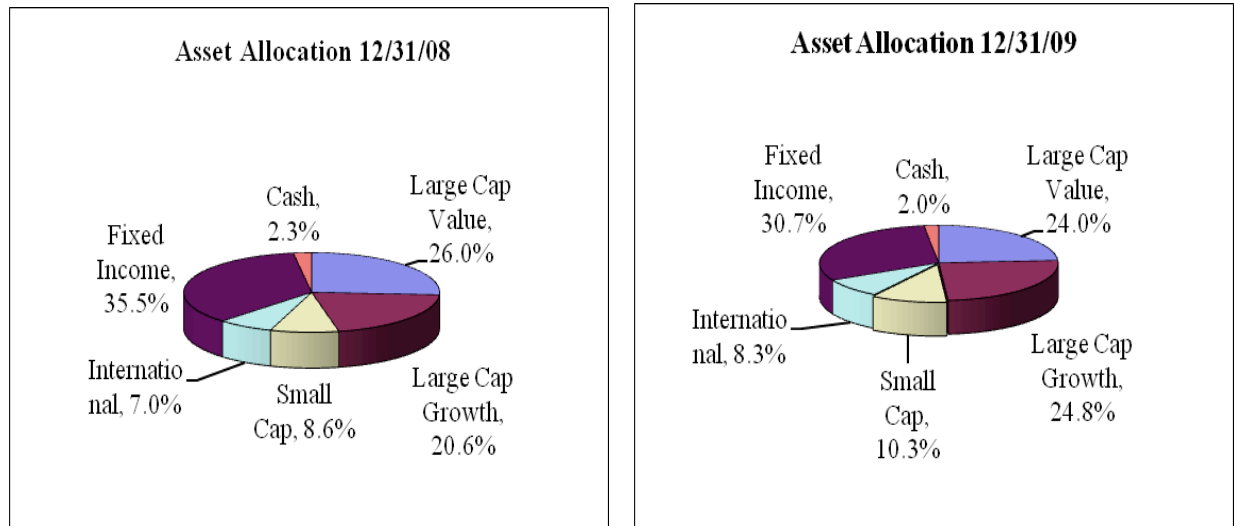
The Small Cap Equity Fund has consistently outperformed its benchmark.

The International Equity Fund was added in the fourth quarter of 2007. Performance lagged the benchmark in 2009 by a modest amount

For many years, the Fixed Income Fund performance consistently exceeded the benchmark. However, the fund’s performance was relatively poor in 2007 and 2008 before rebounding in 2009. The fund has trailed its benchmark for the three-year and five-year periods and the modest advantage of the ten-year period is more than offset by fees. In February of 2010, approximately 50% of the fixed income fund was transferred to a new manager, Agincourt Capital Management.

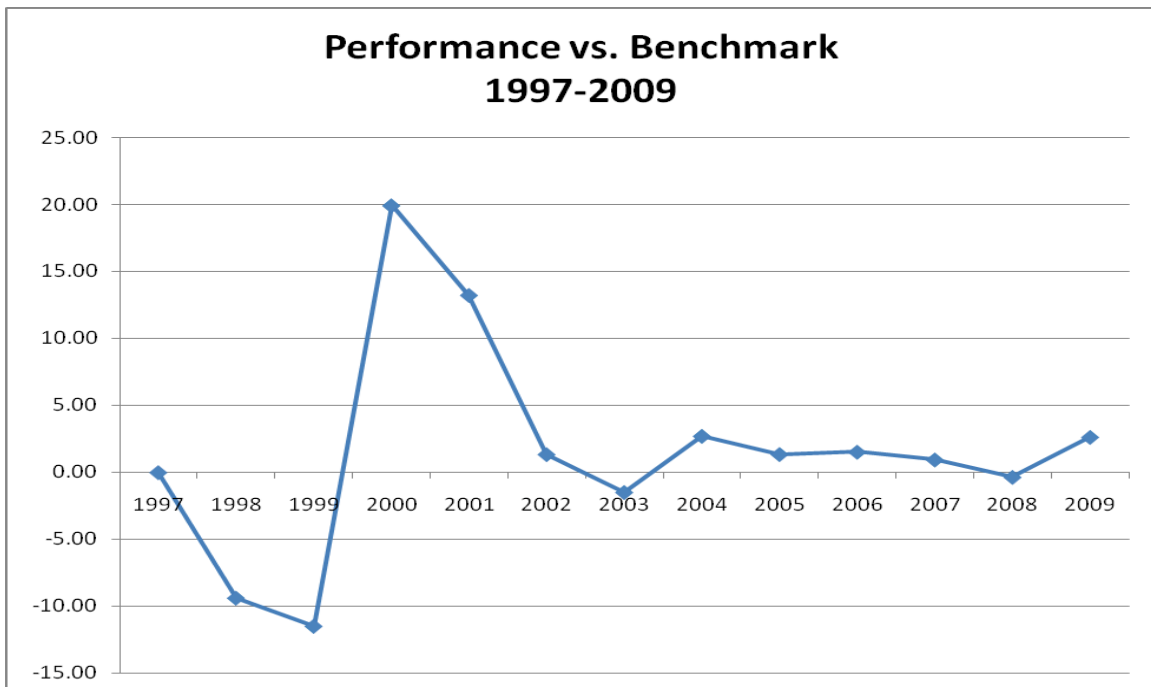
Overall performance (Table 1) is reported net of fees. Individual fund performance (Table 2) is reported before fees. Fees for 2009 were \$375,056 or 69 basis points (0.69% of average monthly assets) compared to \$394,910 or 64 basis points in 2008. These fees include investment management and administration fees charged by Bank of America Merrill Lynch, administration fees charged by the Conference, audit fees, and fees for a proxy voting service.

Asset Allocation



Asset allocation is a key determinant of performance. In 2009, a number of steps were taken to maintain the targeted balance between equities and fixed income securities (shifting assets to equities early in the year and shifting assets to fixed income later in the year.) Assets were also shifted among the equity portfolios during the year. The net result for the year was a modest shift towards equities, with slightly more invested in small cap and international equities and a more neutral position regarding large cap value and large cap growth equities.

Performance (before fees) Compared to Benchmark



Prior to 2002, CTF was relatively less diversified, with only a single equity manager and a fixed income manager. The equity investment approach was large cap value, which substantially lagged the tech rally in 1998 and 1999, but then outperformed the market when the tech bubble burst. As additional equity managers were added, the variance from the benchmark has generally narrowed. Performance has exceeded the benchmark for eight of the past ten years. Although this chart shows performance before deducting fees, performance has exceeded the benchmark in these eight years even after deducting fees.

Committee Activity

The Investment Committee met five times in 2009. Meetings to review quarterly performance were held in the months of February, May, September and November. Each meeting was attended by at least six committee members. Each meeting was also attended by Bank of America's Strategic Portfolio Manager, Relationship Manager, and by a portfolio manager: February, Large Cap Growth; May, Large Cap Value; September, Small Cap; and November, International Equity. In June the committee held a special meeting with Don Hart, President, United Church Funds.

The role of the Strategic Portfolio Manager is to coordinate reporting from the various portfolio managers, provide advice regarding asset allocation, and to assist with portfolio manager selection and review of performance. The support of the Strategic Portfolio Manager was a new service initiated by Bank of America in 2007 and is included within the preexisting fee schedule. In the first quarter of 2009 a new Strategic Portfolio Manager was assigned to the Consolidated Trust Fund.

Over the course of the year the committee monitored Bank of America's acquisition of Merrill Lynch and sale of Colombia Management Group and determined that there would be no adverse consequences for CTF. The committee also reviewed manager options for fixed income, international equities, and considered the addition of commodities as an asset class. In early 2010, the committee divided the fixed income portfolio between two managers and allocated 3% of the total portfolio to two commodity funds. Consideration of an emerging markets fund will continue in 2010.

The Consolidated Trust Fund has had an unusual track record of stability among portfolio managers. At the end of 2007, there had been no turnover since a portfolio manager was selected or in at least ten years. In 2008, both the long-serving fixed income portfolio manager and the large cap growth manager in place since that asset class was added left Bank of America for other opportunities. The committee reviewed the transition and determined that there would be continuity in the investment approach for these asset classes. In 2009, the long-serving small cap manager retired. This was an anticipated transition and the committee met with the new manager to confirm continuity.

Commonfund Benchmarks Study[®] Operating Charities Report

The Consolidated Trust Fund participated in the Commonfund Benchmarks Study[®] for 2008. This study was based on information provided by 107 participating institutions, including 45 religious institutions and 28 institutions with endowments between \$50 million and \$100 million. CTF's 2008 performance was better than the average results for participating operating charities, but lags slightly over three-year and five-year periods.

Similar sized endowments are more diversified than CTF, typically investing in alternative strategies and allocating more assets to international equities, including emerging markets. From 2004-2007 the greater diversification did lead to better performance, on average, than achieved by CTF. In 2008, the relatively high allocation to fixed income and relatively strong performance in domestic equities and fixed income resulted in an advantage for CTF.

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. These guidelines can be reviewed at http://www.pbucc.org/interior_art_special.asp?id=Proxy_Voting. The fee for this service will be an expense of the Consolidated Trust Fund, but is expected to be less than 2 basis points (0.02%.)

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.

Audited Financial Statements

CTF is audited on an annual basis. The auditors are Whittlesey & Hadley, P.C. Copies of audited statements are available upon request. Contact Charlie Kuchenbrod, Associate Conference Minister for Endowment Ministries at charliek@ctucc.org or 860.761.7111.

Investment Committee Members

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

Steve Bright, CFA, chair. Steve rejoined the committee in 2005. He is a member of the First Congregational Church of Vernon, where he serves on the Board of Finance. Steve is a Senior Portfolio Manager at Trust Company of Connecticut, A Division of NewAlliance Bank where he manages portfolios for a variety of individuals and not-for-profit organizations. He is a graduate of Middlebury College and has an MBA from the Colgate Darden School of Business Administration at the University of Virginia.

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).

Jim Barnes. Jim joined the committee in 1994 and was the committee chair from 2002 to 2009. He is a member of First Church of Christ, Congregational in Glastonbury. Jim recently retired as Senior Vice President, Wealth Management for Smith Barney, Inc. where he headed a five member practice managing approximately \$500 million of client assets. 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 leads the department which does most of the purchasing for Yale. 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.

Sandra A. Lee, CFA. Sandy joined the committee in 2008. She serves on the Board of Administration and Finance at Asylum Hill Congregational Church and formerly chaired its Investment Committee as well as the Board of Christian Service. Before retiring, Sandy headed her own investment management firm. She is a past president of the Hartford CFA Society. She has a BA from the University of Texas, an MS from the American University in Washington, D.C. and an MBA from the University of Connecticut.

Patricia J. Pierce, CFA. Pat joined the committee in 2003. She is a member of United Congregational Church of Tolland. Pat completed an investment career of 32 years in September of 2001. Her experience ranged from equity research to discretionary portfolio management and covered positions at a bank, a brokerage firm, and private management companies. Pat is a graduate of Northwestern University.

Daniel P. Towle. Dan joined the committee in 1999. He is a member of Canton Center Church and a past member of the Board of Trustees. He is also a member of the Town of Canton's Pension Committee. Dan is an Independent Engagement Manager for UHY Advisors, Enterprise Risk Advisory Services, where he assists companies, higher education institutions and governmental entities with a broad spectrum of risk and financial issues. He was a Vice President for General Re – New England Asset Management and has had investment responsibilities for insurance companies. He is a graduate of Williams College and has an MBA from Amos Tuck at Dartmouth College.

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

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.