

**Consolidated Trust Fund
Connecticut Conference of the United Church of Christ**

**Report to Participants
For the period ending December 31, 2010**

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 six individually managed portfolios and four mutual funds or ETFs. The individually managed portfolios, representing approximately 90% of assets, adhere to the Socially Responsible Investment (SRI) guidelines adopted by the Conference. The Investment Committee works with BAML to select portfolio managers, mutual funds, or ETFs for different asset classes and, in some cases, different investment styles. This assures broad diversification at reasonable cost. Columbia Management Group, formerly a subsidiary of BAML, manages four of the six individually managed portfolios. The individual portfolio managers do not commingle CTF assets with the assets of other organizations or individuals. CTF assets invested in mutual funds and ETFs are pooled with other investors. 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.

Annual Overview – Investment Policy Changes

There were important changes to the Investment Policy in 2010, followed by significant changes in asset allocation. The changes were triggered by a review of Connecticut Conference endowment funds by the Conference’s Board of Directors in 2009². Faced with reductions in the purchasing power of endowment funds since the adoption of a total return spending policy, the Board empowered the Investment Committee to consider additional diversification as a way to improve returns without increasing the overall risk of the portfolio. In order to facilitate this, the Board amended the SRI guidelines to permit the use of investment options that did not adhere to the guidelines when such an option represented the best or only alternative for investing in a particular asset class. (The specific language of the amendment was taken from the investment policy of United Church Funds, the investment arm of the national United Church of Christ.)

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

² The October 2009 Endowment Overview is available upon request.

The Investment Committee then revised the Investment Policy to include several new asset or sub-asset classes and adjusted the targeted allocation and ranges:

Asset or Sub-Asset Class	Strategic Allocation Target and Benchmark Weight	Permitted Range
Total Equities	60%	50% - 70%
Large Cap Growth	15%	10% - 23%
Large Cap Value	15%	10% - 23%
Medium and Small Cap	10%	5% - 15%
Int'l – Developed Markets	12%	7% - 17%
Int'l – Emerging Markets*	8%	3% - 15%
Total Fixed Income	35%	20% - 40%
Core	32%	18% - 38%
High Yield*	3%	2% - 5%
Total Real Assets*	5%	1% - 9%
Real Estate*	2%	0% - 5%
Commodities*	3%	2% - 5%

*New asset or sub-asset class

As the Investment Committee considered diversification goals and options, significant changes were taking place at BAML. The sale of Columbia Management Group, announced in 2009, closed in April 2010. BAML implemented an “open architecture” approach to portfolio management, which added hundreds of investment managers and funds to the universe of options the Investment Committee could choose from. While it is an oversimplification, the change from the old Bank of America (and predecessor companies) approach to the current BAML approach can be described as a shift from a brokerage model to a fiduciary model. Under the brokerage model, options were limited to “in-house” products which were marketed to clients. Under the fiduciary model, a larger universe of screened products is available to better match the specific goals of clients.

The combination of the Investment Policy revision and the increased number of options made available through BAML resulted in significant portfolio changes in 2010:

- In March, Agincourt Fixed Income was added as a second fixed income manager and the fixed income allocation was divided equally between Agincourt and Columbia. This diversification to two managers with different styles provides benefits similar to having both growth and value managers in the large cap equity asset class – the potential for greater returns at reduced overall risk. This also addressed performance concerns about the Columbia Fixed Income Fund. While long-term performance results were historically strong, the fund did not fare as well in the 2008 – 2009 market downturn and also experienced a manager change. The Agincourt Fixed Income fund is an individually managed portfolio adhering to SRI guidelines.
- Also in March, a position was established in commodities. Seeking to avoid direct ownership of assets, trading in futures contracts, or exposure to derivatives, a natural resources ETF and Gold ETF were purchased. While not a full commodities position, these funds should provide the return and inflation-hedging characteristics

desired in commodities. These ETFs are publicly traded and CTF assets are commingled with other investor funds. While the ETFs do not adhere to SRI guidelines, the nature of the underlying assets is such that there should be minimal, if any, conflicts with the SRI guidelines. The commodity positions were funded by reducing the allocation to domestic equity funds.

- In addition to the new funds, \$500,000 was shifted in March from equities to fixed income, and within equities, \$400,000 was shifted from domestic to international companies.
- In May, the Lazard Emerging Markets Fund was selected for diversification to the emerging markets sub-asset class and \$1 million was shifted from domestic large cap value stocks to fund this position. In July, an additional \$1 million was transferred from the large cap value fund to the emerging markets fund. The Lazard fund does not adhere to the SRI guidelines.
- In November, the Artio Global High Yield Fund was selected for diversification to the high yield sub-asset class. The allocation to each of the high quality fixed income managers was reduced by \$650,000 to fund this position. The Artio fund does not adhere to the SRI guidelines.
- Also in November, the Columbia Large Cap Growth Fund was replaced with the Columbia Select Large Cap Growth Fund. The Select fund has less overlap with the Columbia Large Cap Value Fund. While holdings are more concentrated and, therefore, the Select fund is riskier than the fund it replaced, in the context of the overall portfolio the new fund is expected to enhance returns without increasing overall risks.

Performance

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

	1-Year	3-Year	5-Year	10-Year
Consolidated Trust Fund	13.2%	1.8%	4.7%	5.4%
<i>Benchmark (60% S&P 500 & 40% Barclays Govt/Credit)</i>	<i>12.2%</i>	<i>1.0%</i>	<i>4.0%</i>	<i>3.5%</i>
Inflation	1.6%	1.7%	2.2%	2.4%
Real Rate of Return	11.6%	0.1%	2.5%	3.0%

* 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 and 2010 results have lifted all time period results back above zero. 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 the most recent three-, five-, and ten-year periods. This reflects recent bear market, 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 six individually managed portfolios and four mutual funds or ETFs. Positions with the mutual funds and ETFs were established during the year and so there are no full-year performance results. Each portfolio/mutual fund/ETF has a different fund manager, and each portfolio represents a different sub-asset class or investment style. With the exception of the commodity ETFs, 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	13.96%	-1.76%	4.23%	4.87%
<i>Benchmark (Russell 1000 Value)</i>	<i>15.51%</i>	<i>-4.42%</i>	<i>1.27%</i>	<i>3.25%</i>
Large Cap Growth Equity	14.19%	-2.74%	3.67%	
<i>Benchmark (Russell 1000 Growth)</i>	<i>16.71%</i>	<i>-0.47%</i>	<i>3.76%</i>	
Small Cap Equity	31.92%	6.84%	7.55%	
<i>Benchmark (Russell 2000)</i>	<i>26.85%</i>	<i>2.22%</i>	<i>4.47%</i>	
International Equity – Developed Markets	9.55%	-7.55%		
<i>Benchmark (MSCI EAFE Net TR USD Index)</i>	<i>7.75%</i>	<i>-7.02%</i>		
Fixed Income – Two managers since 3/2010	8.05%	6.12%	5.62%	5.99%
<i>Benchmark (Barclays Govt/Credit)</i>	<i>6.60%</i>	<i>5.60%</i>	<i>5.56%</i>	<i>5.83%</i>

The Large Cap Value Equity Fund lagged its benchmark in 2010 but has consistently outperformed its benchmark by a substantial margin over longer time periods.

The Large Cap Growth Equity Fund has underperformed its benchmark for the one-year and three-year periods, while approximating the benchmark, before fees, for the five-year period. A new Large Cap Growth Equity Fund portfolio manager was selected in November.

The Small Cap Equity Fund has consistently outperformed its benchmark.

The International Equity Fund was added in the fourth quarter of 2007. Performance exceeded the benchmark for 2010 but fell short of the benchmark for the three-year period.

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 and 2010. The fund is currently beating the benchmark for all periods, but the modest advantage is more than offset by fees. The addition of a second manager enhanced performance in 2010 by 0.04% - a very modest amount, but it is a very short period for evaluating the benefit.

Overall performance (Table 1) is reported net of fees. Individual fund performance (Table 2) is reported before fees. Fees for 2010 were \$401,356 or 65 basis points (0.65% of average monthly assets) compared to \$375,056 or 69 basis points in 2009. These fees include investment management and administration fees charged by Bank of America Merrill Lynch,

administration expenses charged by the Conference, audit fees, and fees for a proxy voting service.

Risk Analytics

BAML provides risk statistics for trailing 36 month periods. At December 31, 2010, the portfolio beta was 1.0 and portfolio alpha was 0.81%.

“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 1.0 indicates that CTF is as risky – no more or no less – 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%. Alpha of 0.81% indicates that active management added 0.81% per year to returns, before fees. Annual fees in this period have ranged from 0.64% to 0.69%, so the net benefit of active management has been between 0.12% and 0.17% per year. The advantage over a purely passive indexing strategy is greater than this by the fees that would be incurred to execute the passive strategy. Passive strategies also do not permit implementation of SRI guidelines.

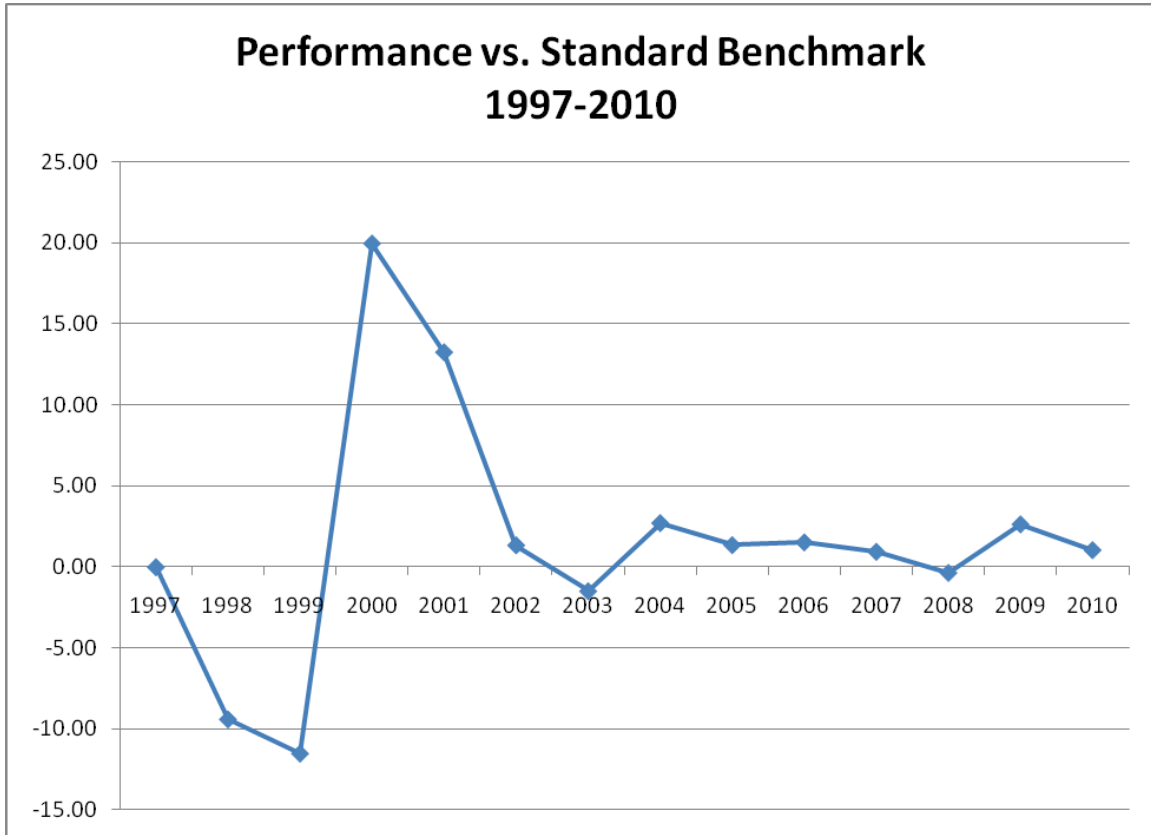
Asset Allocation

Table 3: Asset Allocation by Asset and Sub-Asset Class, periods ending December 31

Asset or Sub-Asset Class	2010	2009	Change
Total Equities	63.6%	67.4%	(3.8%)
Large Cap Growth	23.1%	24.8%	(1.7%)
Large Cap Value	17.1%	24.0%	(6.9%)
Small Cap	11.2%	10.3%	0.9%
Int'l – Developed Markets	8.7%	8.3%	0.4%
Int'l – Emerging Markets*	3.5%	0.0%	3.5%
Total Fixed Income	30.0%	30.7%	(0.7%)
Core	28.1%	30.7%	(2.6%)
High Yield*	1.9%	0.0%	1.9%
Total Real Assets*	3.3%	0.0%	3.3%
Real Estate*	0.0%	0.0%	0.0%
Commodities*	3.3%	0.0%	3.3%
Cash	3.1%	2.0%	1.1%

Asset allocation is a key determinant of performance. Changes to asset allocation in 2010 were described in the Annual Overview section of this report. The net result was a shift from equities to commodities, an asset class that combines equity-like returns with the hedging characteristics of fixed income assets. Within the equities asset class, there was a shift from domestic large cap stocks to small cap stocks and international equities. Within the fixed income asset class there was a shift from high quality funds to high yield.

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 standard benchmark (60% S&P 500 & 40% Barclays Gov't/Credit) for nine of the past eleven years. Although this chart shows performance before deducting fees, performance has exceeded the benchmark in these nine years even after deducting fees.

Committee Activity

The Investment Committee met five times in 2010. Meetings to review quarterly performance were held in the months of February, May, July, and November. Each meeting was attended by at least five committee members. Each meeting was also attended by BAML's Strategic Portfolio Manager and Relationship Manager. In past years, the committee met regularly with portfolio managers on a rotating basis. In 2010, the emphasis was on policy development and diversification options. In June the committee held a special meeting to revise the asset allocation targets and ranges.

When selecting a portfolio manager, mutual fund, or ETF, the Strategic Portfolio Manager chooses several options from the screened BAML universe for consideration. The committee reviews the options and frequently asks for additional information or even additional options

before making a selection. Considerable attention was focused on understanding the BAML due diligence process for screening investment options

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 service initiated by Bank of America in 2007 and is included within the preexisting fee schedule. The current Strategic Portfolio Manager, Tim Nash (a UCC church member!), has been serving in this role since the first quarter of 2009 and is well regarded by the Investment Committee.

As discussed in the Annual Overview section of this report, the committee focused on portfolio optimization over the course of the year. The goals of portfolio optimization were to:

- Increase diversification to enhance returns and reduce volatility;
- Keep fees moderate relative to the enhancements to maximize expected returns (low fees are a sure thing, relative performance is less certain); and
- Maximize the portion of the portfolio that adheres to the SRI guidelines.

As 2010 closed, the Committee was considering real estate options. In February of 2011, \$1 million was shifted from the large cap growth fund to the Vanguard REIT Index Signal Fund. This mutual fund does not adhere to SRI guidelines, but there should be no conflicts between the assets held by this fund and the SRI guidelines.

Commonfund Benchmarks Study[®] Operating Charities Report

The Consolidated Trust Fund participated in the Commonfund Benchmarks Study[®] for 2009. This study was based on information provided by 66 participating institutions, including 25 religious institutions and 16 institutions with endowments between \$50 million and \$100 million. CTF's 2009 performance was 1.1% less than the average results for participating operating charities. The average annual return for three years was 0.5% better than the study group and the average annual return was 0.9% lower over five years. 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 during the market downturn. In 2009 CTF returns by asset class were lower than the study group, but this was largely offset by CTF's larger allocation to equities, which was the best performing asset class. Costs are notoriously difficult to compare, but the study seems to indicate that other endowments achieve a higher level of diversification without incurring greater costs.

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 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.

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 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.

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.