



## SECOND QUARTER 2007 INVESTMENT COMMENTARY

*Kimberly D. Gluck CFA - UMFNE Investment Committee*

Returns across the equity asset class spectrum were strong in April and May, largely attributable to better-than-anticipated corporate earnings and continued private equity buy-outs of large and mid-sized companies. June proved much more volatile and less profitable when bond investors became more cautious as sub-prime debt obligations showed further signs of deterioration due to rising mortgage delinquency. Credit spreads widened as investors demanded higher returns across all types of credit. While this has proved to be a headwind for the stock markets, we do not believe that this portends an economic slowdown.

U.S. economic growth over the first half of 2007 is expected to be about 2.5%, down from the 3.3% of 2006. However, global economic growth is estimated by the International Monetary Fund to be approximately 4.5% with Asia being the area of greatest strength. Anticipated growth rates are: China about 10%, India about 6%, Latin American economies about 5%, and Europe's growth at 3%+, only modestly better than the U.S.

### **UMFNE SOCIALLY RESPONSIBLE STOCK POOL \***

The UMFNE Socially Responsible Stock Pool is comprised of two portfolios designed to optimally track the performance of both domestic and international stocks as represented by the Russell 3000 Index (target: 75%-80% of the pool) and MSCI EAFE (Europe Australia Far East) Index (target: 20%-25% of the pool). Currently, our Stock Pool consists of over 960 holdings with an asset allocation of 60% large-cap, 13% mid-cap, 5% small-cap, and 22% international companies.

As summarized below, returns of the UMFNE Stock Pool have matched the S&P 500 Index for the first quarter and significantly outperformed it for the past 12 months. The best performing group continues to be international stocks with the MSCI EAFE Index having a total return of 6.4% for the quarter, supported by attractive valuation levels, higher economic growth and continued weakness in the US dollar. Global economic expansion has become less dependent on a strong U.S. economy as these emerging economies gain momentum. While the U.S. has slowed due to weakness in housing and moderately higher interest rates, places like China and Latin America have continued to grow at a rapid pace.

	Quarter Ended	6 Months Ended	12 Months Ended
Time Weighted Return	06/30/07	06/30/07	06/30/07
UMFNE Stock Pool*	6.17	8.20	22.21
Russell 3000 Index	5.76	7.10	20.08
S & P 500	6.28	6.96	20.59
Domini Social Index	5.57	5.39	19.17
MSCI EAFE Index	6.40	10.74	27.00

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

For the second quarter, the UMFNE Socially Responsible Bond Pool\* posted returns of -0.11%, slightly ahead of the -0.14% return for the Lehman Intermediate Government Credit Index. Year to date, our Bond Pool is up 1.40% vs. 1.45% for the Index. For the full year, the Bond Fund returned 5.57% vs. 5.76% for the benchmark. With our focus on quality, the conservative structure of the portfolio (particularly its underweight to BBB-rated bonds) including an underweight

to corporate bonds relative to the benchmark, caused this modest underperformance for the year. We will continue to avoid the sub-prime home equity market, and will maintain a portfolio duration in line with the benchmark as the fixed income market has been very volatile recently.

\* 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.

To view the full **Second Quarter 2007 Investment Commentary** including our **Market Outlook**, please visit our website at [www.umfne.org](http://www.umfne.org) and click on **Investments**

## **2006 Annual Report** *Now Available*

We are pleased to announce that our **2006 Annual Report** is now available on-line. The highlight of this report is the "Faith & Money" initiative which offers a *year-round comprehensive financial stewardship ministry* that is being held throughout the eight districts of the New England Conference.

You can view our **2006 Annual Report** on our web site at [www.umfne.org](http://www.umfne.org).



*A Year-Round Comprehensive Financial Stewardship Ministry*

## **DISTRICT TRAINING SCHEDULE**

- ◆ **MET DISTRICT:** Saturday, **September 8, 2007**
  - *Pentecost UMC, Brockton MA*
- ◆ **TRI DISTRICT:** Saturday, **September 15, 2007**
  - *Exeter UMC, Exeter NH*
- ◆ **NME DISTRICT:** Saturday, **October 20, 2007**
  - *Stetson Memorial UMC, Patten ME*
- ◆ **NH DISTRICT:** Saturday, **October 27, 2007**
  - *Wesley UMC, Concord NH*
- ◆ **MME DISTRICT:** Saturday, **November 17, 2007**
  - *Green Street UMC, Augusta ME*
- ◆ **CMA DISTRICT:** Saturday, **January 19, 2008**
- ◆ **RISEM DISTRICT:** Saturday, **February 9, 2008**
- ◆ **CTWMA DISTRICT:** *Event held April 28, 2007*

Registration forms and directions are also located on our web site at [www.umfne.org](http://www.umfne.org).  
Questions? Please call the Foundation at 1-800-595-4347 and contact Bonnie X106 or Gary X103.