

Balanced at Core

With a multi-discipline and multi-manager strategy, the New Covenant Growth fund aims to outperform the broad market over long periods of time. It has entrusted its assets to five sub-advisors but closely monitors their performance. The sub-advisors not only have to beat their respective benchmarks, but also to comply with the social responsibility aspect of the fund, which prohibits investing in certain companies.

Q: What is the underlying investment philosophy of your fund?

A: The New Covenant Growth fund represents a portfolio of sub-advisors. We use a combination of different investment styles, including growth, value, domestic, international, large cap, mid cap, and small cap. The end objective is a diversified portfolio that, over long periods of time, should outperform the broad equity market indices. The total equity performance is measured against the S&P 500 benchmark.

We use the so-called core-satellite approach strategy, where approximately 60% of the equity assets are managed using a structured approach that keeps the industry and security holdings within very small tolerances of their weightings in a broad market index.

Then this core is complimented with several specialty sub-advisors, for example, growth, value and international. These stocks are managed to

add value and diversification to the overall equity portfolio. Foreign securities are included because of the long-term returns and the low correlation with domestic markets that reduces the performance volatility.

A key aspect of the fund's philosophy is that it is socially responsible. We have a restricted list of companies that the managers are not allowed to buy in the sectors of alcohol, tobacco, gambling and firearms. The other part of being socially responsible is how you vote your proxies and filing shareholder resolutions on stocks that you own. Shareholder activism is where we are so much more, pertaining to issues about the environment, human rights, and corporate governance.

Q: Why have you chosen this approach to managing money?

A: Prior to 2000 the fund had used a multiple core manager approach. With this approach it was hard to stay in sync with the markets,

New Covenant Growth

Fund Facts

Symbol	NGCFX
Website	www.newcovenantfunds.com
Address	New Covenant Trust Company, Inc. 200 East Twelfth Street Suite B Jeffersonville, IN 47130
Tel. No.	800-858-6127
Inception	7/1/1999

Portfolio

Total Net Assets *	\$ 906
Avg Mkt Cap (\$ Weighted) *	\$ 55,400
Average Price/Earnings Ratio	N/A
Average Price/Book Ratio	---
Turnover Ratio	76 %

Investment Information

New Investment	Open
Min Initial Investment	\$ 500
Min Subsequent Investment	\$ 100
Min Initial IRA Investment	---

Risk (Against S&P 500 - 3 Years)

Alpha	0.13
Beta	1.09
R-Squared	0.94
Ann Std Deviation	9.53
Sharpe Ratio	1.09

Returns vs. Lipper Multi-Cap Core Index

	NGCFX	Index
1 Year (Cum.)	10.17 %	9.42 %
3 Year (Ann.)	12.33 %	11.79 %
5 Year (Ann.)	2.77 %	3.12 %

Returns vs. S&P 500

	NGCFX	Index
1 Year (Cum.)	10.17 %	8.63 %
3 Year (Ann.)	12.33 %	11.22 %
5 Year (Ann.)	2.77 %	2.49 %

Fees and Expenses

Max Sales Charge - Front	0.00 %
Max Sales Charge - Deferred	0.00 %
Max Redemption Fee	0.00 %
Total Expense Ratio	1.08 %

Portfolio Manager

Team Managed	
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* millions

Data through: 6/30/06

Source: Company Documents; Lipper



to be able pick up when growth styles were doing well or when value styles were doing well.

Towards the end of 2000, the investment committee decided to adopt the core-satellite approach with the belief that as you go through the different market cycles, you have an anchor in the portfolio, the core holding that's tracking pretty close to the market. But you also have satellite managers that are able to add value and diversification when their respective markets are doing well.

Q: *What criteria do you have for selecting and monitoring the sub-advisors?*

A: The sub-advisors are chosen for their demonstrated abilities and historical outperformance in their styles. One of my main jobs is to monitor them closely. We look at their performance versus their respective benchmark and versus the broad market every day. Then every quarter we do a formal review of each sub-advisor versus the benchmark.

As we do a formal review of the firms, we compare performance vs. benchmark, as well as peer universe studies, upside-downside capture, style charting, various risk-return statistics in addition to a detailed interview with each manager for current updates on the firm.

Q: *What would bring a new manager on your radar?*

A: Our Chief Investment Officer has always said that we don't change but we find that managers change. Changes in people, process or performance may result in a change in allocation to a manager or to actually replacing a manager. If the decision to replace a manager is

made, we typically use a consultant who will search through thousands of investment managers in databases. By using a variety of criteria pertaining to performance, risk control, style adherence, universe ranking and more, we are able to narrow the candidates and make decisions.

We're seeking managers that fit within our core-satellite approach. We're trying to find managers with a good understandable investment process. We're looking for consistency, for a long-term perspective.

Over time, we may change our allocations to the sub-advisors, for example, increasing or decreasing international, as we deem appropriate.



Q: *At any given time, how many sub-advisors do you generally have in the fund? Are they equally weighted?*

A: The fund is composed of 5 managers and they are not equally weighted. The core manager has approximately 61% of the assets, and we have 13% in international, 13% in value, and a total of 13% in our growth component, split between a large cap growth and a smid cap growth manager. We have a large-cap growth piece with an allocation of 9% and a small- to mid-cap growth piece with allocation of 4%.

When deciding how to distribute the assets among the managers, we

consider economic, political, and other factors, and make the decision based upon our perspective on the market.

Q: *How often do you replace a manager?*

A: The last change was in January 2005, when we changed our growth manager. Prior to that, we replaced a value manager back in 2001. So in about 4 years there have been only two changes. We're not necessarily looking to replace managers all the time but if for some reason they no longer fit with our core-satellite approach, that would be a reason for a change.

Q: *Could you explain the social responsibility in more detail, especially the resolution aspect? Also, how many companies fall under the restrictions?*

A: The corporate resolution aspect is where we can apply social responsibility on the companies we hold for our shareholders. The common areas nowadays have to do with environment, human rights issues, and corporate governance. Those are three really big areas. Our shareholders can go to our website, click on the proxy voting, and see how we have voted. As we vote proxies or file shareholder resolutions on these various issues, we're encouraging our companies to be good corporate citizens.

The companies on the restricted list fall in the categories of alcohol, tobacco, gambling, and firearms. It's not every single name in these industries but the larger companies that have the lion's share of their revenue from these areas. The restricted list is not that large; it has 115 names on it. Over the past few years that we've monitored this, its effect on

the performance of the portfolio has not been significant.

The New Covenant Funds were originally common-funds managed by the Presbyterian Foundation. The Presbyterian Foundation has been around for over 200 years and we started putting social screens in place back in the '70s as we managed money for churches, so we've been doing this for quite some time. It's something that we strongly believe in and at the end of the day, we can be proud both by the social responsibility aspect and by our performance numbers. The New Covenant Funds are now available for individual investors, IRA rollovers, and UGMA accounts.

Q: *What are the key elements of your portfolio construction? Do you leave the managers alone as long as they deliver the performance and stick to their discipline?*

A: As long as they stay with their discipline in terms of their mandates and their benchmarks, and as long as they do what they were hired to do and pay attention to the restricted list, then they buy and sell as they decide. Each manager has a unique approach in that respect.

For example, the manager who has the largest share of the equity assets is the sub-advisor Wellington Management. They have the core part of our portfolio, called an enhanced U.S. intersection portfolio. It's a combination of a quantitative and qualitative strategy and they get their best ideas where these strategies intersect. Then they weight the portfolio with some small tolerances within 1% of the broad Russell 3000 Index. They don't take any big bets; they add value by taking some small overweights into these sectors.

The international manager, Capital Guardian, takes a very long-term perspective on the holdings. They strictly look for stocks of foreign companies that they believe are going to do well over long periods of time. Sometimes it surprises investors that they don't try to weight countries; they're strictly looking at the stocks. If they have an overweight in Europe or an overweight in Japan, it's simply because that's where they found some of the best buys. So their perspective differs a bit from that of typical international managers.

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about

Anita Clemons

Anita Clemons, Vice President, Investments, is a graduate of the University of Louisville. A CERTIFIED FINANCIAL PLANNER™, Ms. Clemons has over twenty years of investment management experience, including twelve years in brokerage and ten years in trust investment management.

The value manager, Sound Shore, obviously tries to find companies that are attractive and undervalued. This has been their traditional approach since inception.

The large-cap growth manager is Santa Barbara Asset Management. The small- to mid-cap growth manager is Mazama. One of the key reasons for hiring them was the excellent performance with low turnover. They didn't feel like they had to generate tons of trades to generate returns. Their investment process was solid on trying to go to the right industries, find the right companies, and the historical numbers and their process were very impressive.

Q: *What kind of risks do you monitor and how do you try to mitigate them?*

A: As we look at each manager, we're looking at the amount of risks they've taken to achieve the returns. When it comes to the core manager, we're expecting the standard deviation to be a little bit less than the benchmark. When we're looking at the satellite managers, we're expecting their standard deviation to be a little above the benchmark, but it should not be huge.

We expect these managers to provide positive alpha numbers and, again, we consider the monitoring of their allocations as risk control. Given the current markets, the core-satellite approach in itself, with a 61% allocation to core holdings and 13% to each of the other three styles, is a level of risk control. As the manager does well, the risk control would be trimming some of the manager's holdings and re-allocating the assets among some of the other managers. That's part of our process. ■

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