

## Measuring the ESG footprint

Back in 2007, UCA Funds Management became a signatory to the United Nations Principles for Responsible Investment. Broadly, being a signatory requires members to integrate environmental, social and governance (ESG) issues into their investment analysis and decision-making processes. To achieve this, members should “seek appropriate disclosure on ESG issues by the entities in which we invest” and to “promote acceptance and implementation of the Principles within the investment industry.”

This latter point was a contributing factor behind our membership of another organisation, Environmental Social & Governance Research Australia (ESGRA). At the recent ESGRA Awards (of which we were a sponsor) the award for ‘Best ESG Broking Firm as voted by Investment Managers’ went to Citi Investment Research in recognition of work by analyst Elaine Prior. Elaine’s prize was \$1,000, invested in one of our funds, to be donated to a charity of her choice. She chose Oxfam.

Both organisations are to be commended – Citi for incorporating ESG issues into their investment research, and Oxfam for their tireless community work – for demonstrating all the benefits that an ESG-inspired footprint can leave.

Regards



Graeme Rough  
Executive Director &  
Chief Executive Officer

## Quarterly Investment Update

### Climbing the ‘Wall of Worry’



As we all relaxed over the New Year break, investors may well have reflected on the previous two years in financial markets. Global policymakers appeared to have engineered a recovery in financial markets, which was beginning to expand into real growth in economic activity. Even dormant areas, such as US employment and European industrial production, were starting to hustle along. Could anyone have imagined what both nature and the youth of the Middle East/North Africa were about to unleash over the next few months!?

### 2011, A YEAR OF LIVING DANGEROUSLY?

While the floods in Australia and the earthquake in Christchurch caused both personal and financial devastation to many of those involved, and the proximity of these events dominated our thoughts and emotions, the broader economic and financial impact

is likely to be fairly limited in Australia. Our friends across the Tasman Sea, perhaps, face a tougher road ahead.

Whilst Australia and New Zealand are often a footnote on the global economic agenda, the same cannot be said for the world’s third-largest economy, Japan. A devastating earthquake and tsunami was followed by a series of nuclear reactor incidents. The scale of the destruction and loss of life will inevitably have negative consequences for a country whose economy has often struggled over the past 20 years under the weight of a strong Yen and a poorly capitalised banking system. After the reconstruction of Japan is complete, the nuclear reactor incidents will, no doubt, also result in some reflection on how a “commodity poor” country can meet the energy needs of its businesses and citizens\*.

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While the Middle Eastern and North African nations are also minnows in terms of economic scale, they command a much higher level of importance to global economic activity and financial markets due to the strategic oil supplies which many countries in this region control. The contagion effect of democratic uprising, that, in most cases, is driven by social media and the youth of these nations, has spread across the region with amazing speed. Regime change has already occurred in Tunisia and Egypt. A UN-sponsored coalition is intervening in Libya. Major unrest is also occurring in Algeria, Bahrain, Jordan, Yemen and now Syria.

The hope that democracy may emerge in some of these countries is inspiring, however the transition from authoritarian power to democracy is likely to be a rocky and protracted journey with many obstacles, given the nature of the many disparate groups in the region.

No doubt, the two regional powers, Saudi Arabia and Iran, would be viewing these revolutions with some concerns given the authoritarian nature of both these regimes. Given their power within OPEC (Organization of the Petroleum Exporting Countries), any populist uprising in either of these countries could have major negative ramifications for the geopolitical balance within the region, as well as the world economy via the oil price, which has already increased to around US\$105 per barrel.

**FINANCIAL CRISIS? WHAT CRISIS?!**

Investors that slept through the past three months may expect the above events to have wreaked havoc on global sharemarkets. However, this has not been the case. The United States sharemarket has gained 5.4% over the quarter, as measured by the S&P 500 Index, as data continues to support a robust recovery in most areas of their economy. US housing remains a notable exception.

The Australian market, although directly impacted by the Queensland and Victorian floods, and the uncertainty of the proposed Mineral Resource Rent Tax (MRRT) and Carbon Tax regime, has also risen 3.1% (S&P/ASX 300 Accumulation Index) since the end of 2010. We are indeed fortunate to have Australia's terms of trade at a 50-year high, supporting strong employment growth and robust corporate and personal tax revenue. Even the Japanese sharemarket is trading above the level of six months ago, despite the devastation that has been experienced recently.

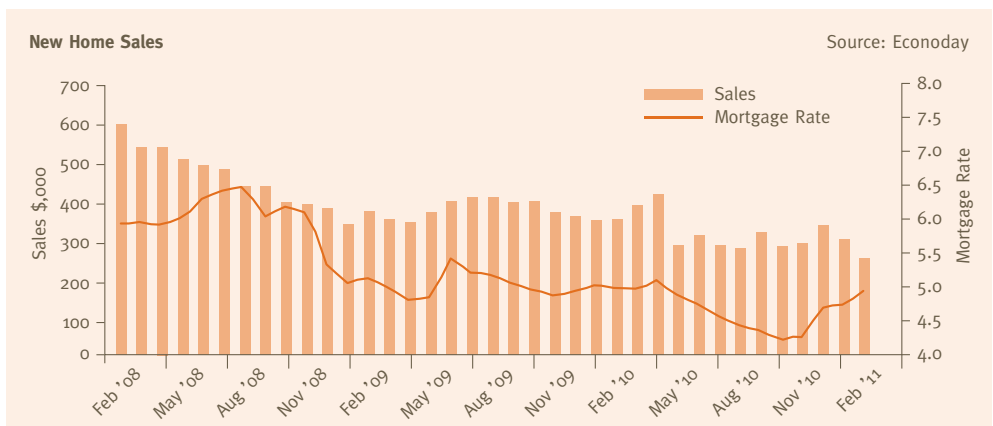
**OUTLOOK**

We have spoken previously about the potent combination of global economic recovery and monetary stimulus (such as low interest rates). Recent events, tragic as they have been, will result in significant reconstruction activity and will also likely further delay the inevitable raising of interest rates around the world. We continue to see positive returns ahead for investors in growth assets such as shares.

*Greg Chapman, Portfolio Manager, April 2011*



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\*The Ethical Investment Policy of UCA Funds Management prohibits investment in companies involved in the nuclear industry, such as uranium producers and explorers.



# The ESGRA Awards



Elaine Prior

Environmental, social and governance (ESG) issues are becoming more and more important, not just to environmentalists and social advocacy groups, but to mainstream investors and their advisers.

ESG Research Australia is an organisation dedicated to promoting the integration of environmental, social and governance research into investment decision-making. In the recent ESGRA Awards, of which UCA Funds Management was a sponsor, the award for 'Best ESG Broking Firm as voted by Investment Managers' went to Citi Investment Research in recognition of work by analyst Elaine Prior. Elaine's prize was \$1,000, invested in one of our funds, to be donated to a charity of her choice. She chose Oxfam.

We asked her about her ESG research work, the importance of ESGRA, and why she picked Oxfam.

"One of the reasons for picking Oxfam was the overlap of some of its projects with issues that are the subject of ESG research. Oxfam in the UK was involved in an investor collaboration project 'Better Returns in a Better World', a report I referenced as part

of background for research I did on bribery and corruption. In Australia, Oxfam is doing work that relates to the extractive industries.

The extractive industries have to deal with a raft of environmental, social and community issues – everything from water access and local pollution to dealing with communities that may benefit from their operations, or where some community members may not welcome the project. Dealing with a range of stakeholders is integral to project success. Also, a fact of life is that the extractive industries tend to have amongst the most visible environmental footprints because they're the industries that extract from the earth a huge amount of the materials we use for every other aspect of our business and lives.

An example of our EGS research is our analysis of the potential valuation impact of carbon pricing on various companies. We look at different scenarios for carbon price and we also look at the way different regulatory scenarios might work.

ESGRA is a collaboration of fund managers and superannuation funds, and there's a significant overlap with Citi's client base. A key motivation for Citi to conduct ESG research as part of our equities research function is that our client base values it and pays for it via panel votes and tags. The ESGRA collaboration also highlights the importance of ESG research.

There is a significant overlap between those who vote for the ESG Award and those clients who allocate business to Citi, in recognition of its ESG research."



Serena Lillywhite and Christina Hill

## Oxfam

Oxfam was formed in 1942, with the aim of relieving famine in Greece caused by Allied naval blockades.

By 1960 it was a major international non-governmental aid organisation. Today Oxfam is an international confederation of 14 organisations working in 98 countries to find lasting solutions to poverty and injustice. Serena Lillywhite and Christina Hill lead Oxfam Australia's Mining Advocacy Team.

"For the past two years we've focussed on the operations of Australian companies, in Papua New Guinea, Indonesia and South Africa, in particular. Currently there are more than 360 Aust Companies operating in Africa alone, many in countries with weak governance and where corruption and conflict exist

Our work involves engagement with companies and work with mine-affected communities and small NGOs that work with mine affected communities. For example, in September 2010, we spent time in Wewak, in the Sepik River region of PNG. We worked with Oxfam partners and communities to build their understanding

of 'Free, Prior and Informed Consent'. This is a right Indigenous Peoples hold under the United Nations Convention of the Rights of Indigenous Peoples, to ensure they participate in project decisions, and have a say as to whether or not they want the operation to go ahead. It requires they have all the information in a timely and accessible way and, that they're not being coerced, bribed or influenced in any other way to give consent.

PNG is a challenging country to do business in. Mining can have an adverse impact, particularly on women and children. PNG is a resource rich country that would benefit from improved governance, particularly with regard to resource revenue disclosure and benefit sharing. As part of our political engagement strategy we aim to influence Australia's export credit agency (Export Finance and Insurance Corporation) to be more transparent and accountable for their project finance decisions, particularly for mining projects in high risk countries.

Our work in South Africa, PNG and Indonesia reflects where Australian mining companies are active, and is a good fit with Oxfam's regional strategic plan. Oxfam is currently going through a global restructure, to ensure a coordinated approach to our work. Oxfam Australia will have a larger presence in South Africa and Indonesia, among others, where our work extends beyond mining and includes HIV and AIDS, labour rights in sportswear apparel factories, and building the participation of women in decision-making processes."

*Oxfam Australia is running a symposium on 19 May, in partnership with Melbourne Business School, called Sustainable Mining: Trends and developments in responsible financing. The focus will be on: Project finance due diligence, Policy frameworks for investing, Private sector, international finance institutions and export credit agency approaches to responsible financing, Social and environmental impact assessments – choosing the right project, Revenue transparency and reporting and Lessons from sustainable hydro-power financing. For details of the Oxfam Mining Program go to <http://www.oxfam.org.au/explore/mining>*

# Performance Table to 31 March 2011


## GROWTH PORTFOLIOS/FUND – ANNUALISED TOTAL RETURNS

	3 months actual	6 months actual	1 year %	3 year % pa	5 year % pa	10 year % pa	Inception date	Since inception % pa	Fund size \$
<b>UCA Growth Portfolio</b>	3.16	11.53	9.32	3.70	5.08	9.72	1 Jul 1985	10.67	263.7m*
<b>UCA Australian Equities Portfolio</b>	1.44	8.73	7.08	3.44	4.74	9.47	1 Jan 1986	11.51	237.1m
<b>Uniting Growth Fund</b>	2.86	10.28	10.64	5.05	4.98	n/a	7 Jul 2003	9.90	36.8m

## INCOME PORTFOLIOS/FUND – AVERAGE ANNUAL DISTRIBUTION RETURNS

The current interest rate of 5.50% p.a. for the Development Fund and Funeral Fund is effective as at 01 April 2011

	3 months annualised	6 months annualised	1 year %	3 year % pa	5 year % pa	10 year % pa	Inception date	Since inception % pa	Fund size \$
<b>UCA Cash Portfolio</b>	6.00	5.75	5.53	5.52	6.04	5.57	1 Jul 1985	8.08	432.5m‡
<b>Development Fund</b>	5.25	5.11	4.87	†	†	†	#	†	99.8m
<b>Funeral Fund</b>	5.25	5.11	4.87	†	†	†	Feb 1997	†	3.5m

 – Shading signifies Tax Concession Charity Fund

\* figure includes funds invested in UCA Australian Equities Portfolio.

‡ figure includes funds invested in the Development Fund and Funeral Fund.

† the Development Fund and Funeral Fund earn the UCA Cash Portfolio rate less a margin that is paid as a grant to the Synod to enable it to carry out its charitable activities. Changes to this margin may occur when adjustments to interest earned in the UCA Cash Portfolio rate are passed through to the Development Fund and Funeral Fund on a deferred basis.

# the inception of the Development Fund predates the union of the Congregational, Methodist and Presbyterian Churches in 1977 to form the Uniting Church in Australia.



CERTIFIED BY RIAA

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UCA Funds Management has been certified by RIAA according to the strict disclosure practices required under the Responsible Investment Certification Program. The Certification Symbol signifies that an investment product or service takes environmental, social, ethical or governance considerations into account along with financial returns. See [www.responsibleinvestment.org](http://www.responsibleinvestment.org) for details.

# New Staff Appointments

We are pleased to announce the arrival of three new staff members in recent months. It's a measure of a growing business and a good one at that.



*"It is a pleasure to work with such dedicated and experienced people. It has been a privilege to be part of the team that has prepared and published the Sustainability Report for UCA Funds Management. I am proud of the results for 2010."*

**– FARHAANA DESAI, SECRETARIAT AND COMPLIANCE OFFICER**



*"Working at UCA Funds Management is a wonderful opportunity. I am looking forward to providing service to our investors, so many of whom provide support to the less fortunate in our community."*

**– YUMIN LIU, RECEPTIONIST**



*"UCA Funds Management is an enjoyable place to work. My position encompasses a variety of tasks such as unit-pricing, assisting with end-of-month reconciliation and client liaison."*

**– EDNA TAI, FINANCIAL OPERATIONS OFFICER**

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## Changed your details? Want more information?

Please complete and return to: UCA Funds Management, 130 Little Collins Street, Melbourne VIC 3000

**uca funds**  
UCA FUNDS MANAGEMENT

Full Name 1 (Mr/Mrs/Ms/Dr/Rev/Other) \_\_\_\_\_

Full Name 2 (Mr/Mrs/Ms/Dr/Rev/Other) \_\_\_\_\_

Address \_\_\_\_\_

Postcode

Email \_\_\_\_\_

Telephone(s) \_\_\_\_\_

My UCA Congregation is \_\_\_\_\_

Acc. Numbers \_\_\_\_\_

Signature 1 \_\_\_\_\_ Signature 2 \_\_\_\_\_

- Please send me the 2010 Annual Report & Sustainability Report
- Please note my change of address
- I wish to receive a diary
- I wish not to receive a diary

**Please send me more information on:**

### Retail Funds

- Development Fund
- Special Assistance Plan
- Funeral Fund
- Uniting Growth Fund

### Tax Concession Charity Funds

- UCA Cash Portfolio
- UCA Growth Portfolio
- UCA Australian Equities Portfolio