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Leaping into 2012

With a challenging year behind us, during which the S&P/ASX300 Accumulation Index retreated 10.98%, it is time to take stock and look ahead to 2012.

In the USA, 2012 is a presidential election year. Notably, between 1948 and 2007, the S&P500 has returned on average 12.18% in the year Americans vote for a president. Cause for optimism, perhaps, but we are of the view that the reasons for optimism are more substantial.

As highlighted by our Portfolio Manager, Greg Chapman, in his Investment Comment, the US export/manufacturing-led recovery of early 2011 seems to have broadened into the consumer and employment sectors in recent months. There is also evidence to suggest that the US housing sector is beginning to show signs of life. Similarly, with corporate balance sheets in good shape, the elements for renewed merger and acquisition activity seem to be in place. This is also true domestically. Expansionary monetary policy in China is another positive indicator.

This year will not be plain sailing. Nonetheless, we feel there are good reasons to approach 2012 with a degree of optimism.

Regards,



Graeme Rough
Executive Director &
Chief Executive Officer



Quarterly Investment Update

Looking ahead after five years in the global economic wilderness

As we approach the end of 2011, global sharemarkets have again sent us a strong message: it is not enough to be a “lucky country”. Despite Australia having a strong banking system, low inflation, low unemployment, geographical advantage and positive – if decelerating – economic activity, the returns from the Australian sharemarket have been disappointing, declining some 11% this year as measured by the S&P/ASX 300 Accumulation Index. The past five years have been frustrating for sharemarket investors, with the above index returning -2.4% per annum (over this period) due to the Global Financial Crisis (GFC).

The sharemarket constantly takes into account new information. It therefore always looks forward, rather than reflecting the past or current environment. By way of example Australia’s largest company, BHP Billiton*,

has continued to benefit from booming Chinese demand for commodities, reporting an 86% increase in profit for 2010–11 to US \$23.6 billion. However despite this strong operational performance, BHP Billiton’s share price has declined more than 21% in 2011 as the market has focussed on events in Europe and the potential for the Chinese economy to suffer a “hard landing” caused by an unravelling of the Chinese property and banking sectors.

Clearly the recent events in Europe and the United States have overwhelmed the fundamentals of the Australian economy. In the 2007–08 GFC, we saw how a dysfunctional financial system could stem the efficient flow of funds to both the banking system and industry (see our previous strategy report *Debt is the slavery of the free*, September 2011).

Continued on page 2...

Events within the euro zone, whilst not yet near the scale of the GFC, do have the potential to significantly constrain the free flow of credit within the European region. This would undoubtedly have impacts outside Europe such as higher funding costs for banks and other corporations. These costs would inevitably be passed through to the consumer in the form of higher interest rates, or at least a reluctance of financial institutions to pass on official interest rate cuts.

Whatever the outcome within Europe, both the euro zone and most other regions will pay a price for high debt levels via lower economic growth, as all sectors of the economy deleverage over the course of the next few years.

In the near term, these constraints on economic growth will also slow corporate profit growth. Investors will need to be more selective, focussing on stocks with high, sustainable dividend yields, limited earnings risk and strong balance sheets. Generally, investors should be wary of companies with operational and financial leverage unless they possess a strong business franchise and market position.

Over the medium term, the outlook for investors may be somewhat brighter. We have spoken in the past about the emerging recovery in the US economy. Despite the European situation and a few political mishaps mid-year, the US export/

“Whatever the outcome within Europe, both the euro zone and most other regions will pay a price for high debt levels via lower economic growth, as all sectors of the economy deleverage over the course of the next few years.”

manufacturing-led recovery of early 2011 appears now to have broadened into the consumer and employment sectors over the past few months. Whilst certainly not a stellar period for US investors, 2011 has seen the Dow Jones Index rise more than 5%, following double-digit gains in the post-GFC recovery years of 2009 and 2010.

Within Australia, the outlook is still dependant on China's continuing demand for Australian exports. This drives corporate tax revenue, demand for employment and ultimately retail spending, despite a much more cautious attitude by consumers over the past year. Should Europe deteriorate more than expected or the Chinese economy slow faster than anticipated, Australia, as in the aftermath of the GFC, still retains some fiscal (budgetary) and monetary (interest rate) flexibility compared to most other major economies.

2012 is shaping into a year with many uncertainties. Potential positives in the US economy contrast with financial and political challenges in Europe. Japan remains subdued post the nuclear meltdown. Importantly for Australia, will the Asia-Pacific region maintain its economic growth momentum? Opportunities often arise from periods of upheaval and uncertainty. After five years of flat returns from Australian shares, the balance of probabilities is leaning toward positive returns in 2012, albeit income (dividends and franking credits) may be a large proportion of total return.

Greg Chapman
Portfolio Manager
December 2011

* BHP Billiton is excluded from the UCA Ethical Index due to its exposure to uranium mining.

The 2011 FSC Deloitte Future Leaders Award

Farhaana Desai, UCA Funds Management's Secretariat & Compliance Officer, entered and was shortlisted for last year's FSC Deloitte Future Leaders Award. Quite a feather in her cap really as only 30 people Australia-wide made the cut. Here, Farhaana gives us a brief background into her submission.

“This year I was privileged to be selected to compete in the FSC Deloitte Future Leaders Award. This award encourages and supports young future leaders from the Australian wealth management industry to develop considered and innovative papers that address pressing issues in the industry. It was launched in early 2006 and has nationally and internationally respected industry leaders to judge it.

“My selected essay topic required an evaluation of the impact of the introduction of CHI-X Australia (CHI-X), a rival trading venue to the ASX (Australian Stock Exchange). The introduction of this market participant meant that the ASX would face competition for the first time in equities trading. This issue required an analysis as to the liquidity, transparency, price discovery and the cost of execution that would be involved and affected by the introduction of CHI-X.

“I was lucky enough to be mentored by my manager, Leeanne Lukaitis, and appreciated the generous support and guidance of the investment management team at UCA Funds Management as well as the encouragement provided by our CEO, Graeme Rough. This was a challenging task and has broadened my financial market knowledge. I also appreciated the chance to participate and found the various networking opportunities a great way to meet other young professionals.”

Farhaana Desai
Secretariat & Compliance Officer
UCA Funds Management

(Farhaana has kindly made her submission paper available for viewing on our website under the News section.)



Performance Table to 31 December 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 \$
UCA Growth Portfolio	1.13	-10.47	-13.26	8.54	-0.85	6.45	1 Jul 1985	9.64	217.4m*
UCA Australian Equities Portfolio	0.54	-10.51	-13.16	7.55	-0.59	6.60	1 Jan 1986	10.50	228.2m
Uniting Growth Fund	0.71	-8.88	-11.06	10.31	0.05	N/A	7 Jul 2003	7.14	27.4m

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 1 January 2012

	3 months annualised	6 months annualised	1 year %	3 year % pa	5 year % pa	10 year % pa	Inception date	Since inception % pa	Fund size \$
UCA Cash Portfolio	6.25	6.25	6.13	5.31	6.09	5.64	1 Jul 1985	8.02	447.5m‡
Development Fund	5.75	5.75	5.56	†	†	†	#	†	114.3m
Funeral Fund	5.75	5.75	5.56	†	†	†	Feb 1997	†	3.7m

 – Shading signifies Tax Concession Charity Portfolio

- * 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.



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Memories of Summers Past

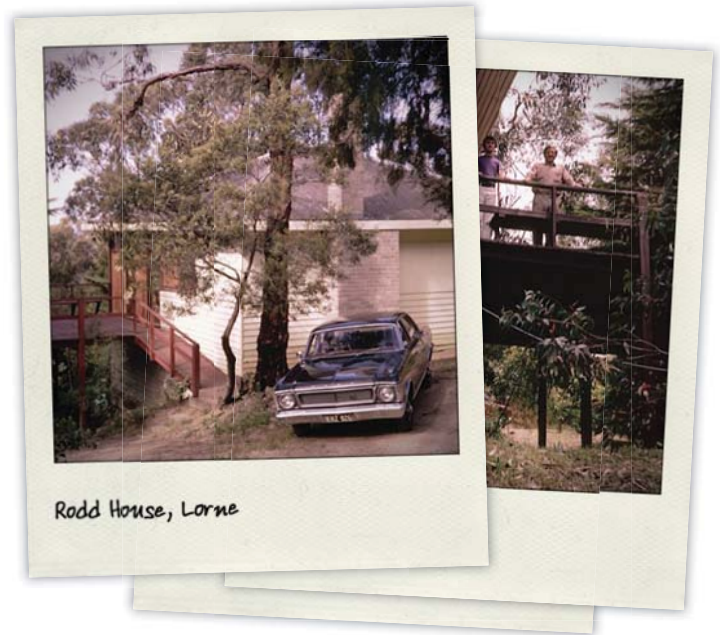
It's this time of the year most Australians are on holiday. The lure of the coast can be strong. Ask anyone what they associate most with summer holidays and chances are they'll say the beach. With this in mind, we invited some UCA Funds Management colleagues to rummage through their photo albums and share their memories of summers past – to the days long before the advent of slip, slop, slap. We thank Graham Rodd and David Hamley for kindly agreeing to share their memories (and photos) with us.

Graham Rodd – Lorne

Summer for me has generally meant spending time down at our holiday house in Lorne. I was 22, just joined the workforce, and Dad was eager for me to buy a place. Having spent my childhood summers on the coast I thought what better way to enter the property market than to buy a house at the beach. 'Two birds, one stone' was my rationale. So in 1969, I scraped up a \$300 deposit and paid \$7,200 for a modest weatherboard house located up a dirt road overlooking the township of Lorne.

Over the years we've spent many a fun time down there. On numerous occasions family members have entered the annual Pier-to-Pub swim as well as the Lorne Fun Run, somewhat challengingly held on consecutive days. There was also the occasional brush with disaster. We were fortunately spared during the Ash Wednesday bushfires in 1983 when the fires came perilously close to threatening the whole Lorne township.

It was always great taking the kids to the beach and splashing around in the waves. Now that they've grown up the definition of a relaxing time has changed. There's nothing like wheeling out the sun lounge, grabbing *The Age* and knowing you have enough time to read it cover to cover. Now that's a holiday.



Rodd House, Lorne

David Hamley – Mornington

Beach holidays have been a big part of my life since I was a small child. Mum and Dad built a house in Mornington in the '60s. Since then I have spent countless wonderful summers there with friends and family.

When we were younger, I used to love playing beach cricket, throwing a ball in the water, taking our sausage dogs for a swim, playing board games like Cluedo, Park & Shop and Monopoly, and lying on Fishermans Beach listening to the radio. I still remember the day at Fishermans Beach when my friend and I first heard *Bohemian Rhapsody* by Queen. We thought it was an amazing song, and it seems we were right. Two weeks later it was number one on *Countdown*.

We also used to go sailing. We had a Heron which we kept in the boat shed at Fishermans Beach. The shed was full of spiders. I didn't like going in there. I also didn't like rigging the boat, being constantly hit by the boom, and de-rigging the boat. In fact, come to think of it, the only thing I liked about sailing was when it was over!

At the end of the day at the beach, it was always great to go back to the house, eat an ice cream and watch *Get Smart* or the cricket. This would be followed by games of table tennis, badminton or cricket in the backyard.



Fishermans Beach, Mornington



Steve Maher and Rebecca Cleaver

Wombat Housing and Support Services

Wombat Housing and Support Services provide services to people who are homeless or at risk of becoming homeless in the west of Melbourne. Steve Maher is Wombat's Executive Officer. He has only recently returned from seven months' long service leave, which he spent riding a bicycle around Australia. Rebecca Cleaver was Acting Executive Officer in his absence.

Steve "Wombat came about from the amalgamation of two small services in the inner west about 12 years ago. We came together in one site in North Melbourne in 2001 and have since grown in increments. At that time we provided some housing, ran some rooming houses and provided housing support services, but four or five years ago the board decided to concentrate solely on providing housing support services.

"We run quite a few programs, including transitional housing support for families, young people, single people, and people in rooming houses. We provide a program in partnership with the Office of Housing called SHASP (Social Housing Advocacy and Support Program) aimed at helping people in public housing to maintain their tenancies. We also manage the Office of Housing's community facilities across the Western region. We provide a program for young people coming out of youth justice facilities and also for young people leaving care. We provide support services for those target groups. Two years ago we started the Maribyrnong Youth Accommodation Program, providing support for young refugees and young people newly arrived to Melbourne. We also provide a Community Support Program, working with people in rooming houses. There are lots of people on the books."

Rebecca "The housing crisis obviously impacts the whole community, but anyone disadvantaged or vulnerable is going to be more disadvantaged when it comes to getting housing. We just don't have enough housing. That's the bottom line."

Steve "That's always the key – getting access to housing. The other thing that's quite frustrating is that our support is always time-limited. Programs are funded for various periods of time and two years is seen to be a long time. But there's a cycle of homelessness. Often we get people who're homeless, we'll put them in transitional housing, we'll work intensively with them, assist them to access specialist services and address the issues that are causing them to be homeless, we'll get them on priority waiting lists, get them into public housing, establish their tenancies, and then pull out and leave them on

their own and quite often they'll have a crisis which leads to them losing their housing, they become homeless again, and get back into that cycle. There have been programs aimed at addressing this, but our frustration is that it's difficult for us to maintain support for a client over the long term.

"Our clients face many issues. Gambling is devastating to families. It's huge. We often don't see the person who has the gambling addiction, we just see their family who're now homeless. But there's no one biggest issue. People have multiple and complex needs. Quite often the most vulnerable people will have a mental health issue, will have a drug and alcohol issue, they'll have a gambling issue, they have the whole gamut and each one feeds off itself in some way.

"Our funding comes from various sources, mainly state and Federal Governments. It's important to be invested ethically, not in businesses that make money from activities which cause homelessness, like gambling and alcohol. We receive some donations, not a huge amount."

Rebecca "We've had help from the Rotary Club. One of their members was a chef, and she helped us run cooking classes which was fantastic. We got money for the food, and took some young people to the Victoria Market and she actually showed them the difference between supermarket food and what you can buy at the market. Then we went to the community centre in Yarraville and they did this lovely cooking session and she cooked five different meals with the kids. It was great because we cooked some of their food, we did the Ethiopian dishes, and then we did something like a chicken salad and showed them what a real hamburger was like, unlike the ones you may find at well-known fast food chains. That was a donation which was really a benefit.

"At the moment we have funding for some sexual health training, because we're finding a huge increase in the number of children our young people have. That impacts on their housing. Probably over 50% of our clients have children. So it's much harder for them to get out of that cycle of poverty."

UCA Financial Planning

– Client Briefing Note

Transition to retirement

The nature of retirement is changing and so are the rules. If you want to pay less tax without sacrificing your income, a transition to retirement pension could be the answer.

Did you know that you can access your superannuation while you are still working?

When using a transition to retirement pension you can access between 3–10 per cent of your super balance, as long as you've reached your preservation age (between 55 and 60 depending on the year you were born) and you are still working, up to age 65.

A better lifestyle on the same income

A transition to retirement strategy allows you to supplement your income by drawing a regular pension payment from your super fund.

A transition to retirement pension may also help to reduce your overall tax bill while boosting your total super balance before you retire.

This is how it works

You contribute part of your salary to super (where it is generally taxed at just 15 per cent rather than at your marginal tax rate). Then, after age 60, you move your super money into a tax-free

'transition to retirement' pension and use the pension income to supplement your reduced salary. The tax-effectiveness of the pension will help lower your overall personal tax liability.

Your preservation age

Under current superannuation law you must reach your 'preservation age' before you can access your super. Your preservation age depends on the date you were born (refer to the table below).

Date of Birth	Preservation Age
Before July 1960	55
1 July 1960 – 30 June 1961	56
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
After 30 June 1964	60

For further information regarding transition to retirement or any other financial planning advice, please contact our office on (03) 9251 5465.

Rod Giri

CFP G. Dip Fin Planning (Finsia)
December 2011

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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
- Contact me regarding Financial Planning

Please send me more information on:

Retail Funds

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

Tax Concession Charity Portfolios

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