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UCA Funds is a registered business name of UCA Funds Management Limited ABN 46 102 469 821 AFSL 294 147.

## Running for a cause

Last year UCA Funds Management staff and their family members ran in the Run Melbourne fun run, in aid of the Hotham Mission Asylum Seeker Project. I am pleased to report that we are doing it again this year, lending our support this time around to the Cerebral Palsy Education Centre (CPEC).

CPEC recently became a client of ours as a result of them being the beneficiary of the \$1000 prize money received by Goldman Sachs Executive Director, Strategy and Investment Research, Hamish Tadjell, at the recent ESG Research Australia Awards. The prize money was to be awarded to the charity of the winner's choosing. In this issue we pay a visit to the Cerebral Palsy Education Centre and hear from their indefatigable CEO, Garry Prigg. We also learn about Hamish's decision to donate his prize money to CPEC.

The Cerebral Palsy Education Centre is a world leader in its field. Naturally, they could always do with more funding. If you'd like to support them, go to the Run Melbourne supporter page (see rear page for link) where you can donate online.

Regards



Graeme Rough  
Executive Director &  
Chief Executive Officer



## Quarterly Investment Update

*Whither goest thou, America, in thy shiny car in the night?*

– *On the Road*, Jack Kerouac 1957

The Investment Update 'Deflation – the Good, the Bad and the Ugly' (Sept. 2010) was written when investors were worried about a double-dip recession. The US economy had lost its momentum. History shows it subsequently picked up, the employment market improved and all was going well until the first week in May this year when, suddenly, jobs growth stalled and a series of other economic data showed the US economy had slowed. This happened as the Greek Sovereign Debt crisis escalated and fears of the Global Financial Crisis (GFC) returned. Investors realised that the excessive debt that caused the GFC had not been repaid, it had been shuffled from private hands into government hands, and now shaky governments were passing the debt parcel onto the International Monetary

Fund (IMF) and the European Central Bank. Until this debt is lowered, we will not be free of the fear that the GFC may return in a more virulent form than before – that is, countries (like Greece) will fail, not just banks or individuals. Investment markets have fallen because of the US weakness and the Greek debt, exacerbated by a series of continuing natural disasters around the world, especially the tragedy in Japan. Our worries have returned.

The IMF recently forecast 2011 global growth to be 4.3% p.a. and downgraded the growth of the world's biggest economy, the US, to a modest 2.5% p.a. Ten years ago the US share of global Gross Domestic Product (GDP) was 32%. Today it is about 25%, and everyone wants to export to the

American consumer (notably China, which has just passed 10% of global GDP). If the US economy weakens, then the rest of the world will grow at a slower rate.

The hope was that renewed growth and financial health in the US would flow through to the rest of the world, enabling some debt to be repaid.

US growth has paused as the stimulus to the housing market has ended (house prices are slipping again) and both monetary and fiscal stimuli to the economy are ending. Recovery will resume later this year. Wall Street is doing very well, and Main Street will follow. Nevertheless, it seems that the US may never be the powerhouse it once was, despite being the most dynamic country in the world.

The US has a population of 311 million people, with half (154 million) in the workforce; 14 million are unemployed (9.1%), a further 11 million are underemployed. One in seven people (45 million) survive on food stamps. Like the British Empire before it, the US could now be in decline. There are early warning signs:

**ONE** – The US can be described as a continent – not a country; a continent where great wealth can be found in parts and great poverty in others. The disparity (or inequity) between rich and poor is growing. The top 1% of taxpayers take home 25% of all income and control 40% of US wealth. The top marginal income tax rate has fallen from 90% (post World War II) to bottom at 28% with the arrival of President Reagan in 1980. “Reaganomics” was based on the idea that cutting taxes would stimulate private enterprise thus increasing investment and employment and delivering greater wealth to all. This failed to happen. The rich did not reinvest, but saved their increased wealth.

D.C. Johnston, Syracuse University, NY State writes: ‘Each dollar earned by the majority (90%) of Americans in 1980 had increased, 28 years later, to \$1.01 – a rise of 1%. By contrast, the top 1% of earners has seen that one dollar increase to two dollars over the same period.’ Under President Reagan, US tax receipts were 18.2% of GDP. This has fallen to 14.9% today, as Congress argues about whether to allow the US National Debt to increase above the current US\$14.3 trillion ceiling. The annual budget deficit is US\$1.5 trillion

(larger than Australia’s GDP!) and shows no sign of shrinking. It would seem (to an outsider) that tax collections must rise. The risk is that this might derail the fragile US recovery.

**TWO** – History shows that the rise of a middle class is associated with the growth of a nation’s wealth. This helped establish the British Empire. We see it happening in China today. In the US the middle class is struggling to stay afloat. The income of this important, aspirational group is declining.

**THREE** – Rupert Murdoch commented that the US public education system needed to be addressed if today’s youth were to have a future other than unemployment or crime. A McKinsey & Co report (2009), ‘The Economic Impact of the Achievement Gap in America’s Schools’, noted that the US led the world in K-12 education (primary and secondary) in the 1950s and

## It seems that the US may never be the powerhouse it once was



1960s, and dominated economically. This was maintained in the 1970s and 1980s to a lesser degree. Teenagers are being prepared for \$12 an hour jobs – not \$50 an hour. The school week is 32.5 hours (Sweden is top at 60 hours). Homework is about one hour per day (children in Japan and China don’t believe this!) There is no money to address this problem with the current budgetary restraints – the situation may worsen.

**FOUR** – Britain’s decline was accompanied by a shift from manufacturing to finance. This is happening in the US. The car industry has nearly been lost (as in the UK). In 1975 Congress introduced a fuel efficiency standard of 27.5 mpg (miles per gallon, for younger readers) that all new cars should achieve by 1985. Rick Wagoner, CEO of General Motors (GM), replied in answer to a question as to why GM did not build more fuel efficient cars: ‘We build what the market wants’. GM then went into bankruptcy and was bailed out

by the government. (GM became known as Government Motors). President Obama has now mandated that all cars should have a fuel efficiency of 35.5 mpg by 2016. By contrast, all Chinese cars give 35.8 mpg today, and are moving to 42.2 mpg by 2016. China is already the world’s biggest car maker with over 100 car manufacturing companies.

**FIVE** – The US has been a technology leader. It was home to the last technology boom – Internet Technology (the IT boom of 2000). The world’s energy needs are growing quickly and this will continue. Hence the concerns about global warming and carbon emissions. Cleaner energy sources are sought. There is a new boom, called ET – the Energy Technology boom – in the wind, solar and battery industries. Although these technologies were pioneered in the US, of the world’s 10 largest companies in

each of these three industries, only two solar photo-voltaic producers, two wind turbine producers and one advanced battery manufacturer are in the US. Eighteen of the remaining 25 manufacturers are in Japan or China.

For these reasons, plus the slight downgrade in global growth predictions – especially in the ‘old world’ (which today accounts for one-third of global growth), the portfolios have been adjusted so that:

- Exposure to US dollar earnings has been lessened
  - Increased emphasis has been placed on our ‘advantage of adjacency’, as *The Economist* called it, to China, India and the Asia Pacific region where growth will be higher than the rest of the world
  - The portfolio yield will be increased slightly
  - Exposure to gold shares will be maintained until the fears of European Sovereign Debt failures subside.
- To this end we have ‘switched’ some of our holdings:
- Sold Macquarie Group and bought AMP
  - Sold National Bank and bought CBA
  - Sold Brambles and bought Toll Holdings
- and bought shares in:
- Southern Cross Media.

Ian Baster – Chief Investment Manager  
30 June 2011



FROM LEFT: Allan Hau, Nathan Hau and Garry Prigg

## \$1,000 ESGRA award donated to the Cerebral Palsy Education Centre



**ESG Research Australia promotes the integration of environmental, social and governance research into investment decision-making. The recent ESGRA Awards recognised the contribution of Goldman Sachs Executive Director, Strategy and Investment Research, Hamish Tadgell (left). His award of \$1,000, invested in one of our funds, was donated to the Cerebral Palsy Education Centre.**

“Over a number of years I’ve been involved with the Centre through the Goldman Sachs community team-work program. I’ve got to know them and the fantastic work they do through the program, and also through a colleague whose daughter has cerebral palsy.

“It’s a unique place. I was previously the healthcare analyst here and I saw how kids benefit so much from things like the Cochlear implant when they’re really young. It’s exactly the same with cerebral palsy. If you are able to work with kids when they’re very young and help them get into good practices, it’s life changing.

“We won the ESGRA award for a new product we launched last November called Structural Leaders. It’s a framework which really attempts to mainstream environmental, social and governance issues into a longer term investment process. It has three aspects: returns, industry structure and ESG management. It’s the first time, to our knowledge, it has been integrated in this way, and we’re applying the process to all stocks we research, other than real estate investment trusts, infrastructure and non-producing mining companies.

“The increased focus on ESG is being driven by asset owners becoming more proactive in encouraging fund managers to formally incorporate ESG into their investment processes, which in turn is seeing them demand greater ESG research from brokers.

I think analysing ESG issues, and particularly governance, is an intuitive and significant part of most fund managers’ process in deciding what companies to invest in. To a large degree, the increased focus on ESG is about formalising these processes with a view to enhancing the fundamental analysis and understanding which companies are managing their ESG risks appropriately.

“I think it’s very encouraging that fund managers are more formally incorporating ESG into their processes, and that ESG Research Australia is engaging with the broking community and recognising good ESG research through these awards. I think at times investors are too short-term focused which is, to a degree, forced on them by the drive for monthly or quarterly performance. I think increasing the focus on ESG adds to the longer-term perspective, given most ESG issues take time to play out. I see this as only positive, particularly if you believe, as I do, the market is disproportionately focused on the short term, and it’s sustained superior returns and performance over the long term that drives real value creation.”



**Garry Prigg (left) is CEO of the Cerebral Palsy Education Centre, which is recognised around the world for its specialised education programs for babies and children with cerebral palsy and similar disabilities.**

“There are four or five children in a group, with a physio, a speech pathologist and an occupational therapist. The mothers, fathers too, bring the children in and stay in the group for the four-hour session, learning from the therapist. So it’s learning for life that they take away to apply in every aspect of daily life. The kids look fantastic, but if they weren’t here you wouldn’t recognise them. If they were doing it by themselves and getting 45 minutes of service a week elsewhere, it’s not much at all.



CLOCKWISE FROM TOP LEFT: Joss McDonald, Austin Reid, Holly Negri, Helena McNeill and Sunny McNeill

“Mums can be here, learning, giving confidence, self-esteem, becoming advocates for their children. If the parents are confident, the child becomes confident. Improved skills mean increased self-esteem. Our objective for all our children, if possible, is to get mobile. That won’t always happen, but even if they’re in a wheelchair they have better management of their body. Very rarely do our children have to go to special schools because of what they’re taught and how they’re taught.

“Gayle Porter has been part of the centre since 1988, and she’s created a communication book for children who can’t speak language. It opens up a child’s communication with parents and teachers, in fact, the world. She has created a DVD that enables people to make and use communication books which we export to America and Europe. It’s adding quite a bit to our bottom line.

“We constructed this building in 2005. Before that we moved nine times in 18 years. Collectively, with the families we raised \$1,000,000. Now we’re providing training for teachers and therapists, not just in Melbourne or Australia, but globally. We’re bringing people here from around the world, providing knowledge, skills and expertise that they’ll take back and up-skill their own kids. We’re also finalising to provide online e-learning training for teachers and therapists around the world — another source of income for us.

“Money’s always a challenge. Every disabled child in Victoria gets \$7,200. It costs \$20,000 per child to come here. Parents pay a small fee, about \$2,500 to \$3,000, which leaves a balance of around \$10,000. So fundraising and donations are vitally important. We’re involved in Melbourne Marathon. We get none of the registration fees, but people, when they go online and register to run can set up a fundraising page for people to donate at. In return we’ve provided 1,400 volunteers since 2007.

“We have places for a maximum of 60 children. For every child there’s a deficit of \$10,000 to \$14,000 dollars, so we can’t really expand. And the size of the building limits us to 60 children.

**It’s a unique place. I was previously the healthcare analyst here and I saw how kids benefit so much from things like the Cochlear implant when they’re really young. It’s exactly the same with cerebral palsy. If you are able to work with kids when they’re very young and help them get into good practices, it’s life changing.**

“For many years fundraising was the dinner auction, mums and dads coming and paying \$70 a night, great food, entertainment. We have great auction items donated, and we make about \$80,000. The Melbourne Marathon is also very important, and we’re looking at other events. So if you have a group at your work, and you want to run or walk the Melbourne Marathon, or put together a team and do the Murray-to-Moyne charity bike ride, we encourage them to do it as a fund-raiser for us.

“My background is business. Since 1985 I’ve advised around 30,000 Australians about purchasing residential property. I worked three days a week at my business and two days at the Centre as a volunteer. Two years ago this organisation had grown so much that I had a choice of either keeping my business or expanding my time in here, and there was no choice. For me it’s not about the money. This is much more important. The legacy the staff leaves here and what we’ve been able to do here is forever.”



# Performance Table to 30 June 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>	-6.08	-3.11	15.75	1.95	4.28	7.82	1 Jul 1985	10.30	245.1m*
<b>UCA Australian Equities Portfolio</b>	-4.34	-2.96	15.04	2.33	4.40	7.76	1 Jan 1986	11.20	213.3m
<b>Uniting Growth Fund</b>	-5.10	-2.39	14.91	3.59	4.57	N/A	7 Jul 2003	8.86	35.4m

## INCOME PORTFOLIOS/FUND – AVERAGE ANNUAL DISTRIBUTION RETURNS

The current interest rate of 5.75% p.a. for the Development Fund and Funeral Fund is effective as at 01 July 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	6.00	5.75	5.43	6.06	5.58	1 Jul 1985	8.06	422.1m‡
<b>Development Fund</b>	5.5	5.33	5.12	†	†	†	#	†	102.2m
<b>Funeral Fund</b>	5.5	5.33	5.12	†	†	†	Feb 1997	†	3.6m

 – 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.



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# Run Melbourne 2011



Once again UCA Funds Management staff are entering the Run Melbourne 2011 fun run. It's an event where participants get to keep fit and raise funds for their nominated charity at the same time. This year UCA Funds Management is getting behind the Cerebral Palsy Education Centre (CPEC) in Glen Waverley (see story pages 3 & 4).

CPEC is acknowledged as a world leader in providing specialist education programs for children with cerebral palsy. The professional staff who work at the Centre are renowned internationally as being the best in their field.

Having a child attend the Centre is not cheap. Parents who can afford it pay a small fee, \$2,500 to \$3,000. Notwithstanding this fee, there is still a shortfall of around \$10,000 per child which must be met either by fundraising or donations. Which is why we'd like to seek your help.

It would be great if our newsletter readers could help defray some of the costs in having a child attend the Cerebral Palsy Education Centre by donating online. Doing so is easy. Just go to [www.everydayhero.com.au/henry\\_thompson](http://www.everydayhero.com.au/henry_thompson). It's Henry's Run Melbourne 2011 Fundraising Page (that's Henry in the white t-shirt) who just happens to be the youngest member of Team UCA Funds Management running for CPEC. And if you'd like to learn more about the Cerebral Palsy Education Centre just go to [www.cpec.org.au](http://www.cpec.org.au).

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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

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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