



Prudence over valour

Economic update by Director Investments James Cook

Sentiment across financial markets appears to have finally caught up with a not so sunny global outlook. Concerns over the economic cost of US-China trade/tariff wars have added to emerging US inflation concerns. Continued geo-political tensions and a weakening domestic housing market has added to uncertainty across Australian markets as well.

Global growth has now decelerated and become less synchronized, with accelerated economic momentum primarily restricted to the US. US wage pressures are beginning to grow at a faster rate, adding weight to expectations of further US Federal Reserve rate hikes. Global debt levels across both public and private sectors remain a concern, leaving many economies vulnerable in the face of an economic downturn and rising interest rates.

On the upside, Australia posted GDP growth of 3.4 per cent in the last quarter. The positive tone was reflected by the RBA's Assistant Governor Michele Bullock who noted both global and domestic structural drivers at work. In recognition of concerns over Australian household indebtedness and the elevated levels of the residential property market, she cited lower nominal interest rates - due to both lower inflation and more competition - and financial deregulation as indicators that the average household could service a larger loan.

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2018: A year of new and exciting beginnings

CEO update by Chief Executive Officer Mathew Browning

As 2018 draws to a close, I wanted to take a moment to review the busy year UCA Funds Management has had and the strategic initiatives still underway.

Using business as a force for good

One of the most exciting milestones of 2018 has been attaining our B Corporation certification. We are in select company as one of a handful of investment organisations in Australia with this certification, and we hope you are delighted to be a part of this achievement.

For those that may not have been able to attend our investor briefing and hear what this certification means, it is equivalent to the Fair Trade stamp for coffee. To receive it, companies must complete the B Impact Assessment which thoroughly examines areas of the business such as governance, employee standards, community involvement and environmental sustainability. With only 226 B Corporations Australia wide, we are thrilled to join their ranks. If you'd like to know more, I encourage you to visit www.ucafunds.com.au/BCorp.

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This was further bolstered by continued falls in unemployment.

“While unemployment continues to trend lower, we believe the serviceability of rentals and mortgage payments will hold up with the key risk to property markets being out of cycle interest rate increases, primarily borne from rising US interest rates” ([Michele Bullock: The evolution of household sector risks](#)).

Excessive debt is another cause of concern when assessing the sustainability of China’s growth trajectory – which remains important for Australia’s prosperity. In the face of slowing economic growth, China’s high levels of debt may magnify the extent of any global downturn, particularly in the materials sector which could dent Australia’s export receipts.

So while global economics point to increasing divergence, the Australian economic front looks benign with unemployment now at 5 per cent. With interest rates likely to remain unchanged, business confidence is largely supportive and the geo-political landscape is reasonably insulated from global machinations. However this is largely known news. Geo-politics and trade wars remain unpredictable and will only add to heightened volatility across financial markets.

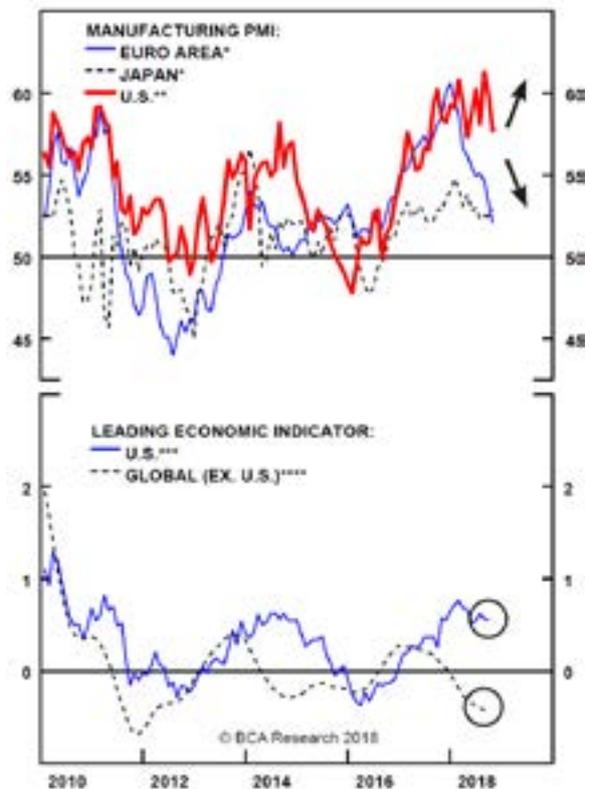
How does this landscape impact our investment strategy?

Throughout most of 2018 we have targeted a neutral stance, recognising the prospect for a traditional late cycle run in equity markets while economic and earnings data top out.

Profit results to date have delivered positive surprises with two consecutive years of +20 per cent growth in the US. Australian earnings recently reported +8 – 10 per cent for the full year, slightly ahead of expectations. This was led by positive earnings in resources (+20 per cent) and industrials (+9 per cent), with financials, while still positive, slightly weaker (+2 per cent).

Previously, it had been enough to keep risk on the table, especially at a time when bond yields remain stubbornly low and inflation sits within targeted bands.

Chart 1: Unsustainable divergence?



Source: BCA Research Inc. Monthly Portfolio update November 1 2018

With the economic outlook looking so supportive, the major concern had been when to take risk off the table as the US Federal Reserve lifts interest rates, setting a higher demand for return across all asset classes.

Whilst economic growth and employment figures are so strong, it is seemingly obvious to continue to expect further gains from equities. History, however, tells us a different story. Equity markets will invariably start to anticipate an economic downturn through the early stages of a rising interest rate cycle as prospects of slower corporate earnings lead to a deterioration in investor sentiment.

These concerns were realized across October as global equity markets sold off, most from positions close to record highs, to levels that were around 10 per cent lower.

We had adopted a defensive stance early in October and are now decidedly overweight in cash in the UCA Growth Portfolio, with both Australian and international equity portfolios holding higher than normal levels of cash. After a long period of stellar returns, capital preservation now appears more prudent than chasing ever higher levels of growth.

Behavioural finance suggests we may well be approaching a period where despite the news being positive, it is no longer as positive as it had been and, more importantly, no longer as positive as the market expects. With rising rates, geo-political tensions and inflationary pressures now finally breaking free, prudence has won over valour.

2018: A year of new and exciting beginnings

CEO update continued from page 1

Taking a stand for an ethical banking and finance sector

Earlier this year, we announced that the entire UCA Funds Management team took the Banking and Finance Oath. Created by not-for-profit group the Banking and Finance Oath Limited, the oath is a personal pledge to improve the ethical and moral standards of the sector by speaking out against wrongdoing and striving to meet community needs and expectations. Sadly, the banking royal commission highlighted that the finance world hasn't always conducted itself in the most ethical manner. With more people taking the oath each day, we hope this will change for the better.

Growing the business to grow your impact

Over the second half of 2018, we have been investing in people and systems designed to enhance the quality of our service. This includes expanding our investment and sales and marketing teams, as well as several projects focused on improving our operations. We have also been reviewing how we can improve our interaction and communication with our clients.

As you may recall from our annual report, these initiatives are working towards our three strategic goals of being more visible, more accessible, and strengthening our investment and business performance. The ultimate goal is to grow our annual grant to community and advocacy projects, and so increase the impact of your investments.

This means broadening and deepening the awareness of UCA Funds Management, both geographically and with different types of clients from institutions to individuals. In particular, we have begun the process of reinvigorating our brand to reach more like-minded investors. The full extent of this project will be revealed in 2019, and will include a new name and logo linking to our heritage, while clearly articulating our values-driven point of difference. I'd like to thank the clients and other stakeholders who have given up their time to help us with this process so far.

What does this all mean for you?

One of the vicarious benefits is that these endeavours have enabled the whole team to understand and embrace what makes us distinct. They have also helped us to feel the genuine loyalty of our clients and to understand more about why they invest with us. It is wonderful to be part of an organisation with so much heart. Even more inspiring is the fact that after 33 years, our mission to make the world a better place remains the same and will continue long into the future.

I cannot wait to share the re-energised UCA Funds Management with you in the new year. Together, our passionate team and our loyal clients will enable us to take our ethical authenticity to more investors and have an even greater positive impact.

Modern Slavery Act - a step closer

Mandatory reporting of modern slavery risks in cross-border supply chains has moved a step closer for Australia's largest businesses. Following NSW legislation passed in June, the Australian Government's Modern Slavery Bill is due for final debate in the Senate this month. The threshold for reporting is likely to be \$100 million in revenue and will cover around 3,000 private, not-for-profit and public sector organisations.

Although the bill does not include the appointment of an independent commissioner nor financial penalties, companies will be required to publish annual Modern Slavery Statements with mandated criteria. This will improve accountability, transparency and comparability, highlighting industries and companies most at risk of enabling modern slavery. When passed, the new law means businesses need to prepare to:

- Introduce or revise policies and practices, map suppliers and review contract terms
- Conduct due diligence risk assessments
- Train and engage contractors and staff
- Implement grievance and remediation plans where modern slavery is identified.

How do these standards impact how we invest?

In addition to advocating for a modern slavery bill to be passed here in Australia, we also engage directly with companies within our portfolio on the issue. For example, we recently engaged with Wesfarmers (Coles) on improvements to their Ethical Sourcing Charter and a review of their supply chain processes.

As a result of mitigating modern slavery risks we expect that companies will improve the quality of work practices, even by insourcing jobs. Moves such as this contribute to Sustainable Development Goals which aim to end all child labour by 2025, and eliminate forced labour, modern slavery and human trafficking by 2030. From an ethical investment perspective, improved transparency of the human, social and relationship capital of businesses and their supply chains may contribute to higher environmental, social and governance (ESG) ratings, lower cost of capital and higher company valuations.

Have you considered receiving future statements and communications by email? Contact us on 1800 996 888 to change your communication preference to email.



Steel and sustainability: how ethical investing is involved

Ethical Corner by Investment Specialist Bridgette McDonald

Carbon emissions are a hot topic at the moment, even playing a significant part in the latest Australian political leadership spill. With Australia's carbon emissions heading in the wrong direction ([climbing 1.3 per cent in the year to March 2018*](#)), it's important for all corners of the economy to curb greenhouse gas output.

Sustainable steel - BlueScope

BlueScope (BlueScope Steel Ltd) is one of the world's largest manufacturers of engineered building solutions and a leading supplier of steel building products. As part of our investment portfolios, BlueScope is playing its part in meeting emissions targets through embracing sustainable business practices.

As a steel producer, you might assume that BlueScope is ineligible for investment, given its reliance on high impact fossil fuels (metallurgical coal) to generate steel products. However, BlueScope is making inroads in adopting a range of sustainable initiatives to reduce its energy usage and greenhouse gas output. Over the last seven years, BlueScope has changed its manufacturing process to use residual heat from drying and baking to pre-heat its forges for the next batch of steel. This simple change has reduced its carbon emissions by over 4,800 kilotons.

Another initiative includes a recently signed solar power offtake agreement. This will represent 20 per cent of the company's electricity needs in a first step towards transitioning to more renewable energy sources. Moreover, BlueScope is a strong proponent of a circular economy emphasising its long-lasting, continuously recyclable steel solutions.

But we don't only focus on a company's carbon emissions performance – BlueScope has a strong overall 'AA' environmental, social and governance (ESG) rating, supported by high rankings for corporate governance and safety performance.

Sustainable production, sustainable development

BlueScope's sustainability journey is important as a pathway to align with several of the UN's Sustainable Development Goals – specifically, SDG 11 and SDG 13.

SDG 11 focuses on sustainable cities and communities. BlueScope has a clear focus on lowering their carbon footprint through sustainable product and process design. Its buildings and infrastructure products are helping to literally build the world's sustainable cities.

The company is also taking strong strides towards climate change action (SDG 13). It has adopted the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD), examining three scenarios of climate change impacts on their business.

This kind of sustainable, ethical investment is what UCA Funds Management is all about – supporting and emphasising companies with a culture that positively impacts the environment, helping us work together for a better world.

*Lisa Cox 2018, Australia's greenhouse gas emissions climb again amid climate policy vacuum, The Guardian, viewed 15 October 2018, <<https://www.theguardian.com/environment/2018/sep/28/australias-greenhouse-gas-emissions-climb-again-amid-climate-policy-vacuum>>.

To find out more about BlueScope Steel's commitment to sustainability, visit bluescope.com/sustainability



Mindy Leow, Head of Community Building at B Lab Australia and New Zealand, shared with attendees what it means to invest with a B Corporation.

Climate change and change makers

In early August, we hosted the annual UCA Funds Management Investor Briefing, with almost 200 people venturing out into the Melbourne grey to attend.

The day included two sessions: a breakfast networking event for charities and a special briefing for retail and Synod investors.

The breakfast event included a detailed presentation from MinterEllison special counsel Sarah Barker on recent changes in climate change legislation and their impacts. Ms Barker indicated the climate change discussion had moved beyond debate of its existence to the financial implications of inaction for companies.

With recent legislation changes and reporting requirements, boards now need to take climate change into account and develop risk strategies around its impacts.

Ms Barker believes awareness around the financial implications of climate change is “really going to really take off in the next few months here in Australia”.

The lunch session included a special presentation from Mindy Leow, Head of Community Building at B Lab Australia and New Zealand. Ms Leow took investors through what it means to invest with a B Corporation – a global accreditation UCA Funds Management was able to achieve in May this year.

“Even though consumers want to support good companies, we find that it can be really difficult sometimes to identify who are really good companies from those doing good marketing” Ms Leow said.

“B Corp certification sets a high standard globally for companies to prove that they are walking the talk.”

Would you like a copy of the investor briefing presentation?

Contact Development Manager David Patterson on 1800 996 888 or email marketing@ucafunds.com.au for a copy of the presentation.

Added account security

Keeping personal information safe and protecting your account is our top priority. That is why in 2019 we will be increasing account security procedures and introducing password protection for your account.

Your password will be used to verify your identity when accessing information about your account over the phone as well as for any telephone transactions (if you use this service).

We will provide more information about this enhancement as well as how to set up your password with your January distribution statement.

What to think about when selecting your password

As this password will be used to access account information as well as your personal details, we recommend you protect access to your account by following some of the tips below.

- › Do not share your password with others, either verbally or in written form
- › Try to use a password that you do not use for other accounts or companies
- › Create a password that cannot be guessed easily. The easiest passwords to guess are dates like birthdays and anniversaries, a pet or child’s name, or a generic password such as “password”.

Already have a password set-up for our telephone transaction service?

No need to do anything!

Performance table to 31 October 2018

Funds	3 months %	6 months %	1 year %	5 years % p.a.	10 years % p.a.	20 years % p.a.	Inception % p.a.	Inception date	Fund size (million)
UCA Enhanced Cash Portfolio	0.65	1.30	2.60	3.18	4.28	5.02	7.29	1 Jul 1985	750.88 *
Benchmark ¹	0.59	1.16	2.00	2.43	3.60	4.70	–	–	–
UCA Growth Portfolio	-3.78	2.58	6.07	8.07	9.92	9.30	10.26	1 Jul 1985	360.35 [^]
Benchmark ²	-4.52	0.52	3.97	7.01	–	–	–	–	–
UCA Australian Equities Portfolio	-5.67	1.32	4.29	6.61	9.09	8.70	10.56	1 Jan 1986	294.44
Benchmark ³	-5.98	-0.54	2.88	6.00	8.46	8.64	9.93	–	–
Uniting Ethical Australian Equities Trust	-6.24	0.09	2.62	5.47	8.57	–	7.68	7 Jul 2003	56.89
Benchmark ³	-5.98	-0.54	2.88	6.00	8.46	–	8.94	–	–
Uniting Ethical Enhanced Cash Trust	0.56	1.13	2.27	2.84	3.87	4.41	5.96	1977	125.82
Benchmark ¹	0.59	1.16	2.00	2.43	3.60	4.70	–	–	–
Funeral Fund	0.56	1.13	2.27	2.84	3.87	4.41	4.47	2 Feb 1997	4.67
Benchmark ¹	0.59	1.16	2.00	2.43	3.60	4.70	–	–	–

Based on exit price with distributions reinvested, and are net of all fees. UCA Enhanced Cash Portfolio, UCA Growth Portfolio and UCA Australian Equities Portfolio performance includes reinvested franking credits. From 1 October 2015, the Uniting Ethical Australian Equities Trust moved to a 100% Australian equities fund from previously having an 80% Australian equities and 20% cash allocation.

¹ 50% Bloomberg Bank Bill Index (0+yr) Maturity and 50% Bloomberg Composite Bond Index 0 – 3 Year Maturity

² Composite Reference Index based on the Strategic Asset Allocation of the Portfolio (70% Australian shares, 10% international shares, 10% property, 10% enhanced cash).

³ S&P/ASX 300 Accumulation Index

* Figure includes funds invested from the Uniting Ethical Enhanced Cash Trust and Funeral Fund

[^] Figure includes funds invested in UCA Australian Equities Portfolio

UCA Funds Management has been certified by the Responsible Investment Association Australasia (RIAA) according to the strict disclosure requirements 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. Developed in response to investor requests for help in making informed choices, the Symbol and Certification Program promotes consistent, standardised disclosure and education about responsible investment products and services. The Symbol does not constitute financial advice by RIAA. See www.responsibleinvestment.org for details.



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