

Quarterly Performance Review

Uniting Ethical Enhanced Cash Trust

June 2018

Fund size	\$129.35 million
Benchmark	<ul style="list-style-type: none"> > 50% Bloomberg Bank Bill Index (0+yr) Maturity > 50% Bloomberg Composite Bond Index 0 – 3 Year Maturity
Management costs	1.00% p.a. ¹ See Offer Document
Inception date	1977
Portfolio manager	Noel Bryant

Top 5 exposures	(%)
Bank of Western Australia	17.16
Bank of Queensland	12.26
Bendigo and Adelaide Bank	10.45
Suncorp Metway	11.42
National Australia Bank	8.85
Total	60.14

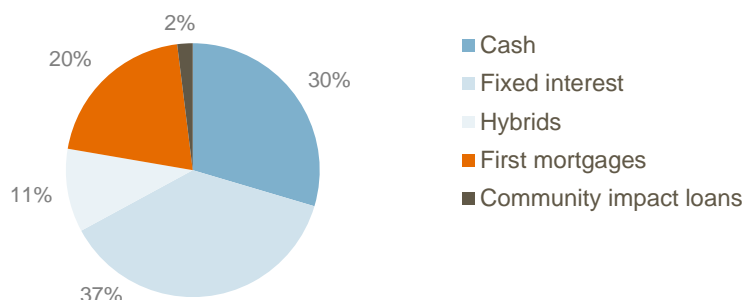
Investment style and objectives

The Uniting Ethical Enhanced Cash Trust invests wholly in the UCA Enhanced Cash Portfolio, which is diversified by a combination of cash and fixed interest securities, first mortgages and community impact loans. As the Trust is a low-risk investment option, it is suitable for short- to medium-term investment or as a cash management facility. The Trust aims to outperform the fund benchmark over a rolling three-year period.

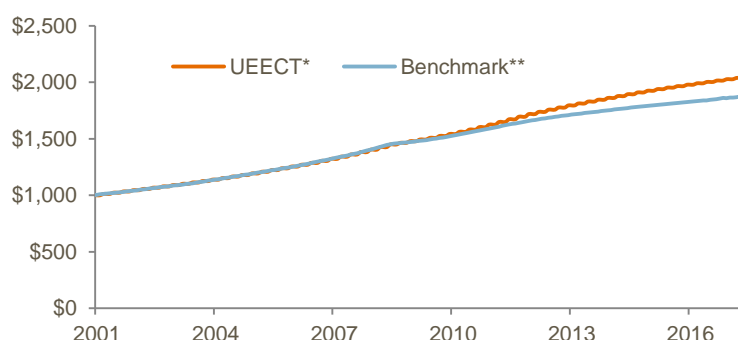
Quarterly highlights

- > The higher US short-term interest rate is influencing the local interest rate environment with the 3 month Bank Bill Swap (BBSW) rate above 2 per cent.
- > Offsetting the slowing property market, the growth baton has been passed to government spending on infrastructure and defence, and pre-election tax cuts.
- > Considerable spare capacity in the labour market remains, crimping excess wage demands and inflation.
- > Higher rates on term deposits, hybrid resets and new mortgages have all contributed to a modest improvement in portfolio running yield over the quarter.

Asset allocation²



Growth of \$1,000 invested[†]



* Uniting Ethical Enhanced Cash Trust ** See Trust benchmark above
[†] Based on exit price with distributions reinvested, and are net of all fees.

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 All data in this document as at 30 June 2018 unless otherwise stated.

¹ Actual management costs as a percentage of fund size.

² Asset allocation for the UCA Enhanced Cash Portfolio as at 30/06/18. Funds from the Uniting Ethical Enhanced Cash Trust are invested into this portfolio. Cash includes cash accounts, call accounts and term deposits maturing within 90 days. Term deposits maturing greater than 90 days are included in fixed interest.

	Total returns						
	3 months %	6 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception % p.a.*
Uniting Ethical Enhanced Cash Trust[†]	0.56	1.13	2.27	2.50	2.92	3.98	6.00
Benchmark	0.53	1.02	1.93	2.10	2.48	3.94	–
Relative performance	0.03	0.11	0.34	0.40	0.44	0.04	–

Market commentary

On the back of a 'hot' US economy, the official US short-term interest rate (the Federal funds rate) rose by 0.25 per cent to 2.25 per cent. This move continued to drive offshore wholesale interest rates higher. As a result, the quarter end saw an increase of local BBSW rates as Australian banks competed for more local funding. This led to appreciably higher term deposit rates (towards the 2.7- 2.8 per cent level). Driven largely by an increase in exports, the March quarter also saw Australian economic growth move above 3 per cent. However, economic momentum is slowing on the back of tighter lending restrictions, recent out-of-cycle mortgage rate hikes, high consumer debt levels and a cooling housing market. . Despite this, robust state and federal government spending trends, pre-election cycle tax cuts, an Australian dollar below 75 cents (to the US dollar) as well as continued low short-term interest rates should support GDP growth at around 3 per cent over the coming year. As noted by Governor Lowe of the Reserve Bank of Australia in May, although wage growth has ticked up off its lows (to around the 2 per cent level) we need to see wage growth back above 3 per cent to see any improvement in real household incomes or for inflation to return to a more normal 2.50 per cent. This low wage growth has delayed the prospect for any rise in the official cash rate until at least the second half of 2019.

Portfolio commentary

We continued to take advantage of improving term deposit rates, especially around the 6 to 9 month area, to modestly lengthen the duration of the portfolio. The allocation to hybrid securities and recent resets continue to diversify and complement portfolio income, with improving bank lending standards also providing added comfort. Although we have taken on several new mortgages during the quarter, we remain highly selective in terms of location, tenant quality, and demanding high levels of security. The better interest rate environment continues to improve the running yield on the portfolio since the lows experienced last year.

About the Manager

UCA Funds Management is a social enterprise of The Uniting Church in Australia (Victoria and Tasmania). We are Australia's first dedicated ethical funds manager, beginning in 1985 to manage investments and treasury services for the Church. Throughout the last 30 years, we have grown to become one of the largest dedicated ethical fund managers in Australia. Today we have more than \$1 billion funds under management, and offer investment options for personal investors, charities and faith-based organisations.

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