

The Uniting Financial Services Ethical Diversified Fund – FAQ's

Glossary

Asset class: investments with similar characteristics and common legal frameworks or market practices are grouped together as an asset class. The characteristics that define different asset classes include: does the investment have a maturity date or is it perpetual? What form does the regular income take – e.g. dividends, rent, interest? Where does the investor rank in priority if the investment needs to be wound up? The most common asset classes are equities (perpetual, pay dividends), bonds (fixed income until a final maturity date), property (perpetual, rental income) and cash (at call, pays interest).

Asset Allocation: Refers to the percentages of a portfolio that each of the asset classes may represent. Growth portfolios have larger allocations to shares and property; conservative portfolios have larger allocations to bonds and cash; balanced portfolios (such as the Ethical Diversified Fund) have around a 50/50 mix of growth assets and conservative assets.

Buy/Sell Spread: Transactions in financial assets incur various transaction costs. These include brokerage or agent's commissions, as well as often needing to buy or sell at a different price to the current market valuation (called the bid/offer spread). So that new investments and redemptions from a mutual fund (defined below) don't generate these costs for existing unit holders such funds typically have a spread between the unit price at which new units are acquired and the price at which existing units can be redeemed. This is called the buy/sell spread.

Bond: A bond is a debt investment in which an entity (typically a company, government or government agency) promises to pay regular interest to the bond holders for a defined period of time at a variable or fixed interest rate and to repay face value at maturity. Bonds are used by companies, municipalities, states and sovereign governments to borrow money and finance a variety of projects and activities. The original purchasers of bonds in effect are lending to the issuer, but as tradable securities many bonds are sold often to other investors throughout their life. Owners of bonds are debtholders, or creditors, of the issuer. Bonds are also called fixed income or fixed interest securities.

Cash: Although we tend to think of 'cash' as legal tender or coins that can be used to exchange goods, debt or services, in investment terms it refers to funds invested either at call or in highly liquid short term securities. That is, cash is a general term for assets such as bank accounts, bank bills of exchange, promissory notes and other money market securities.

ESG: refers to Environmental, Social and Governance factors that are taken into account in evaluating an investment for inclusion in the Fund.

Equities: A share (sometimes called "stock") is a type of security that signifies ownership in a corporation and represents a claim on part of the corporation's assets and earnings. The investor has equity in the business.

Mutual Fund/Unit Trust: An investment fund that pools the capital of numerous investors to collectively purchase securities. Each investor owns a proportion of the total pool of assets and is entitled to their proportion of income and capital returns, while also bearing a

proportion of the costs of managing the Fund/Trust. An investment fund provides a broader selection of investment opportunities, greater management expertise and lower investment fees than investors might be able to obtain through directly owning assets in their own name.

Strategic Asset Allocation (SAA): A portfolio strategy that involves setting target allocations for various asset classes that will be retained for long periods of time. Usually also involves periodically rebalancing the portfolio back to the original allocations when they deviate significantly from the initial settings due to differing returns from various assets. In strategic asset allocation, the target allocations depend on a number of factors – such as the investor’s risk tolerance, time horizon and investment objectives. Although intended to be held over the long term, strategic allocations may change gradually as these parameters change. Strategic asset allocation is distinct from tactical asset allocation which involves deliberately setting a portfolio’s actual allocations different to the SAA based upon shorter term views of market conditions. Strategic and tactical asset allocation are based on modern portfolio theory, which emphasizes diversification in order to reduce risk and improve portfolio returns.

1. What is the reason for this Fund?

We developed the UFS Ethical Diversified Fund (“the Fund”) as a solution for our congregations and investors, who have been searching for consistent income streams and long term growth from their investments, with a reasonable security of capital. Their options have traditionally been limited and most have purchased property for rental income. The Fund has been developed as an alternative, with attractive investment characteristics. The two most important are captured in the name. We believe this Fund offers robust risk management, of which diversification as a key element. It also invests in accordance with the Uniting Church’s ethical investment policy. The UFS Ethical Diversified Fund is about strategic asset allocation and suitably broad exposure to a range of assets (Australian & international equities, Australian property, Australian & international fixed interest, high yield credit, commercial mortgages, and cash & short dated securities) that aim to capture market returns, with an appropriate degree of spreading investments across & within asset classes.

2. Who can invest in the Fund?

Sophisticated investors (refer to attached ‘Sophisticated Investors Policy’ on page 7 of this document. This policy is for internal use only, and not to be distributed to clients). Any client who has >\$500,000 can invest in the Ethical Diversified Fund.

If an individual client has >\$250,000 but <\$500,000 to invest, the Trustee will consider this client on a case-by-case basis. If there are individual congregation members, who have >\$250,000 but <\$500,000, for instance in a self-managed super fund (SMSF), we would recommend that the Trustee accept this client in the first instance.

In some circumstances lesser amounts may be considered (e.g. where one presbytery has 5 congregations with \$100,000 each, acting together), but these situations will first need to be raised with UFS’s Executive Director to determine if Trustee approval will be sought.

The idea behind the \$500,000 minimum initial investment is twofold. First, it’s an amount that the industry regulators accept as representing a wholesale investment rather than a retail investment. Second, the Ethical Diversified Fund is being offered to congregations as an alternative investment to property, which typically requires more than \$500,000 and is more illiquid than the Fund. There is likely to be a lot of interest from clients who have less than \$500,000, and we will need to manage this message carefully and sensitively.

3. How does the Fund work?

The Fund is actively managed around a core Strategic Asset Allocation, with the flexibility to change the asset class mix at any time within specified ranges. This allows us to rebalance the Fund’s asset allocation mix across a range of asset classes in order to take advantage of opportunities arising from market mispricing. The allocation includes permission to invest in ‘alternative’ assets, which will be specific investments that deliver both strong commercial and ESG impact benefits. The strategic asset allocation limits are outlined in the table below.

Funds Under Management (initial)	\$250,000,000		
Minimum Initial Investment	\$500,000	Minimum Additional Funds	\$50,000
Target Return	Cash (Official Rate) + 2-3%		

Portfolio Structure and Investment Parameters

Asset Class	Strategic Asset Allocation	Min/Max
Australian Equities	25%	0%-40%
International Equities	10%	0%-25%
Australian Property & Infrastructure	15%	0%-25%
Alternatives	0%	0%-10%
Total Growth	50%	
Australian Fixed Interest	15%	5%-30%
International Fixed Interest	15%	0%-30%
High Yield Credit	5%	0%-10%
Commercial Mortgages	10%	0%-15%
Cash and Short dated securities	5%	0%-25%
Total Income	50%	

Management Fee	1.00% + GST	<i>Plus, performance fees which may apply for some 3rd party Managers</i>
Buy/Sell	+ 0.2%/-0.2%	
Distributions	Quarterly	
Redemption Notice	Quarterly	

4. Can you elaborate on your Ethical Policy?

UFS has a long history of ethical investing and is proud to be one of the early pioneers of ethical investing, dating back over more than 30 years. Our approach involves not only screening out investments that involve activities from which the Church does not wish to profit, but also a broader evaluation of ESG characteristics. Therefore we have both a negative & positive investing process, where we seek to positively impact communities, and have a sustainable footprint in our world. Full details of our Ethical Investment Principles and Procedures can be found on our website at www.unitingfinancial.com.au

5. What is the investment objective of the Fund?

The Fund aims to provide income and capital growth of the cash rate + 2-3% p.a. over a rolling 5 year period.

6. How are each of the asset classes that the Fund invests in going to be managed?

The list of asset classes and their target allocations are in the table in question 3 above. Some of those assets are managed by UFS and some are outsourced to other expert managers. At present the make-up is as follows:

UFS is managing the Australian fixed interest, commercial mortgages and cash & short dated securities allocations. These are assets that we manage for our own balance sheet in the normal course of our business.

Australian equities is invested via the UFS Australian Equities Trust, which has two external managers: Ausbil and BT.

International equities are invested in an AMP Responsible Leaders global share fund.

International fixed interest is invested in a mandate with Omega Global Investors, a boutique fund manager who also manages a similar mandate for the UFS balance sheet.

Australian Property is not yet invested, but approval is in place for investment into an unlisted property trust called HISOT (High Income Sustainable Office Trust) that is managed by EG Funds. The manager is still researching suitable properties to acquire to implement the fund's strategy.

High yield credit – not yet allocated; a search for external investors continues.

7. How can the client invest?

Investors can become unitholders by completing our Uniting Financial Services Ethical Diversified Fund Application Form (located at the back of the Information Document) as well as the relevant Identification and Verification Form. These need to be sent to us together with the required identification documentation. We will not be able to process an Application without these forms correctly completed.

8. What is the effective date of the initial investment of the client?

If an application for units is accepted and cleared application monies are received by the last business day of a month, units will be issued using the issue price calculated as at the last business day of that month (unit prices are struck on a monthly basis, on the last business day of each month). The issue price is an amount equal to the Unit Price plus the buy spread of 0.20% of the Unit Price (see "Buy/Sell Spread" on page 12). Additional investment amounts may be made by completing an Additional Investment Form available from the Trustee on request. The Trustee has complete discretion to accept or reject any application without stating a reason.

9. How can the client withdraw money from the Fund?

If the Trustee receives a redemption request in writing on or before the last business day of a month, the Trustee will generally process the redemption request using the redemption price calculated as at the last business day of the month plus three. Proceeds will normally be paid during the following month, after the applicable

redemption price is struck. The Trustee may defer processing redemption requests in certain circumstances set out in the Trust Deed.

The redemption price is an amount equal to the Unit Price, less the sell spread of 0.20% of the Unit Price (see "Buy/Sell Spread" on page 12). Currently, there is no minimum redemption amount. However, if a request for redemption of units would leave a balance for that unitholder in the Fund, with a redemption value which is less than \$250,000 or such lesser amount nominated by the Trustee from time to time, the Trustee may determine to redeem all the units of the unitholder in the Fund. All redemption requests should be sent to the Trustee (see "Contact Details Trustee" on page 14).

All redemption requests require a minimum notice period of **3 months**. Proceeds will normally be paid on the 15th business day after the end of the month for which the applicable redemption price is struck. The Trustee may defer processing redemption requests in certain circumstances set out in the Trust Deed.

Redemption Example – Request Received at the End of the Month

Client A sends her redemption form in to RBC on 31 January, 2018, which is the last business day of the month. UFS requires 3 months' notice for all redemptions. The redemption will be processed as per the unit price struck on 30 April, 2018. Proceeds will normally be paid in mid-May, 2018.

Redemption Example – Request Received at the Beginning of the Month

Client A sends her redemption form in to RBC on 2 February, 2018. UFS requires 3 full months' notice for all redemptions. The redemption will be processed as per the unit price struck on 31 May, 2018. Proceeds will normally be paid in mid-June, 2018.

Further, should a redemption request exceed 10% of the average of total Funds under Management over the previous three year period, the redemption payment may include both cash and other in-specie asset transfers. The Trustee will communicate with unitholders regarding market liquidity and will make all reasonable attempts to fulfil redemption requests in as timely a manner as possible that does not negatively impact the unit pricing of for other unit holders.

Unitholders requiring a fixed income above forecast distributions to meet a fixed expense schedule can utilise the regular redemption process by completing the appropriate redemption request form. The UFS Partnership Team will assist unitholders with scheduling of redemptions to match expenses with income. The Trustee will attempt to meet scheduled redemptions; however, it does not guarantee that expense matching can be achieved or that redemptions will always be made in accordance with the schedule (even if it has been agreed by the Trustee).

10. How are distributions paid?

Income is distributed to unitholders quarterly so that the taxable income of the Fund for each financial year is fully distributed as at year-end. Distributions to unitholders will occur quarterly on or around the 15th business day after the end of March, June, September and December. Distributions will be either reinvested or paid out in accordance with the unitholder's instructions on the Application Form.

The Fund's financial report contains information about the assets and liabilities and distributions of the Fund. A copy of the financial report is available free of charge from the Trustee on request.

Guidelines for Accepting Investments under the Minimum Sophisticated Investor Thresholds

Current UFS Position

Uniting Financial Services (UFS) is currently exempt from requiring a financial services license under the Corporations Act for its managed investments under *ASIC Regulatory Guide 87 'Charities' and ASIC Class Order (CO) 02/184 – Charitable Investment Schemes – Fundraising*. Nevertheless UFS chooses to follow the Corporations Act, to the extent possible as a matter of best practice, including by offering its investments only to Church entities meeting the 'Sophisticated or wholesale Investor' definition or who provide UFS with an acknowledgment saying the investor is aware of and accepts the risks involved with the investment they are proposing to make through UFS.

What is a 'Sophisticated or wholesale Investor'?

A sophisticated or wholesale investor is generally a type of investor who is deemed to have sufficient investment experience and knowledge to be able to weigh up the risks and merits of any investment opportunity.

Under the Corporations Act to meet the wholesale/sophisticated investor test an investor must meet at least one of the following criteria:-

- a) Have net assets of more than A\$2.5m and supply an Accountants Certificate confirming this;
- b) Have income of at least A\$250k over the last two financial years and supply an Accountants Certificate confirming this; or
- c) Be investing at least \$500,000 or more into the investment opportunity

The rationale is that people meeting one of the above criteria are more likely to be able to evaluate offers of securities and some financial products (such as interests in managed investment schemes) without needing the protection of a regulated disclosure document and other requirements needed for retail investors (which is what an investor is classed as if he/she does not meet the sophisticated or wholesale investor test).

For investments into any UFS Investment Fund an investor must normally invest a minimum of at least \$500,000, which would satisfy the sophisticated investor criteria.

However, there are times when UFS would like to accept investments below the \$500,000 minimum threshold, and in such cases UFS would like to ensure that steps are taken to satisfy UFS that the investor (who may or may not satisfy the other sophisticated investor criteria) is aware of and accepts the risks of its proposed investment.

How should investments under \$500,000 be managed within UFS?

The *Uniting Church NSW Trust Association Equity Fund* and the *Ethical Diversified Fund* are currently offered to Uniting Church entities only and therefore such entities are not required to satisfy the wholesale/sophisticated investor test even if investing less than \$500,000. However UFS believes that it is still important that Church entities understand the risks involved in their investments, including:

- That greater returns are normally expected in the longer rather than the shorter term;
- That in 1 out of every 6 years the investor can expect a negative return for that year.
- The investor should be able to afford to have a two standard deviation negative result of around 25% to 30% investment falls in the pursuit of longer term returns.

UFS acting as the Treasury and Investment Services arm of the Uniting Church have been advising investors like Uniting for some time now on its investment products and asset allocation. Given the size of Uniting's funds and the documentation created for it by UFS when providing its investment services, Uniting would be considered a sophisticated Investor without the need for any additional documentation.

However, for other investors that fall below the minimum investment threshold for sophisticated investors UFS proposes to ensure that the investor acknowledges the risks of investment by obtaining an acknowledgement with any application received for investments under \$500,000 stating that the investor understands and accepts the risks involved with the investment they propose to make.

Acknowledgement Form

An acknowledgement similar to the document annexed as Annexure "A" is to be obtained for any investments falling under the minimum sophisticated investor threshold of \$500,000.

Annexure A

ACKNOWLEDGEMENT OF INVESTMENT RISK FOR INVESTMENTS UNDER \$500,000

Before investing in the Uniting Church NSW Trust Association fund you are required to sign this acknowledgement of risk form

By signing below, I / we confirm that:

- a. I/we understand that all investments involve a degree of risk and that I/we may lose some or all of my/our money invested through the Fund offered by Uniting Church (NSW) Trust Association Limited ("UCTAL");
 - b. I/we are familiar with the risks associated with an investment of this nature and as described in the 'Risks' section of the Trustee Information Document and including:
 - i. Investments are likely to have greater returns only in the longer (5 years or longer) rather than the shorter period;
 - ii. Assets with the highest long term returns may also carry the highest level of short term risk, particularly if you do not hold your investment for the minimum suggested investment timeframe;
 - iii. the value of your investment may vary, and there may be the risk of loss of invested capital;
 - iv. The value of your investment may also be affected by the specific risks of your Fund and by other risks or external factors such as the state of the Australian and world economies, consumer confidence and changes in laws and regulations including tax laws and government policies relating to managed investment schemes; and
 - v. I/we are likely to expect a negative return in at least 1 out of every 6 years;
 - c. I/we are responsible for determining the investment strategy for my/our organisation;
 - d. The investments proposed by my/our Investment Instructions comply with the investment strategy for my/our organisation, including having regard to the risks of the investment through the Fund offered by the UCTAL and the level of diversification of my/our organisation if these and future investments are made;
 - e. I/we understand that UCTAL is exempt from requiring an Australian Financial Services License and therefore is not subject to the specific disclosure requirements under the Corporations Act for product disclosure statements which may not contain all the information that a prospective unitholder or their advisers may expect or reasonably require in order to make an informed decision as to whether to subscribe for units in the Fund offered by UCTAL;
 - f. I/we understand that if we are making this investment on behalf of a Uniting Church entity that I/we have beneficial stewardship only in relation to the investment.
 - g. I/we understand that none of UCTAL, their officers, directors, employees or agents (including investment managers) make any representation or give any guarantee as to the future performance or success of, the rate of income or capital return from, the recovery of money invested in, or the income tax or other taxation consequences of, any investment in the Fund, whether made on the basis of this Information Document or otherwise;
 - h. I/we have not received any investment or other advice from UCTAL;
 - i. I/we request UCTAL to proceed with my/our Investment Instructions and we indemnify and hold UCTAL harmless for any losses we may suffer to the extent that UCTAL acts correctly in performing its obligations.
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Organisation

Signature

Position

Date

Signature

Position

Date