UCA Cash Management Fund Limited
ABN 41 075 948 444
Annual report for the year ended 30 June 2020

UCA Cash Management Fund Limited
ABN 41 075 948 444

A company limited by guarantee, domiciled in the State of Victoria in Australia.

The company is incorporated in Australia.

The registered office is:	Level 6, 130 Lonsdale Street Melbourne Victoria 3000 Australia
Auditor:	Deloitte Touche Tohmatsu 477 Collins Street Melbourne Victoria 3000 Australia
Custodian & Administrator:	Northern Trust Corporation Level 47, 80 Collins Street Melbourne Victoria 3000 Australia

Directors' Report

The directors present their report on the financial statements of UCA Cash Management Fund Limited (the ″Company″) for the year ended 30 June 2020 (the ″reporting period″). The Company has no share capital since it is incorporated as a company limited by guarantee.

Directors
The following directors held office at the date of this report and have held office throughout the year (except where indicated) and up to the date of this report.

J Bell	Non-executive director - retired 20 January 2021
M Browning	Executive director and Chief Executive Officer
D Cousins	Non-executive director - retired as Chairperson 4 December 2020
	People and nominations committee - Chairperson
L Mann	Non-executive director - appointed as Acting chairperson 4 December 2020
	Investment committee - Chairperson
T McCredden	Non-executive director
Z Pavri	Non-executive director
F Pearse	Non-executive director
D Ralston	Non-executive director – retired 24 August 2020
D Watson	Non-executive director
	Audit, risk and compliance committee - Chairperson
K Williams	Non-executive director

General Information
U Ethical Enhanced Cash Portfolio (ECP) is the investment portfolio which operates within the legal entity UCA Cash Management Fund Limited. Investment in the Company is available to Uniting Church congregations, organisations, agencies, related parties and other not-for-profit organisations with a religious, educational or charitable purpose that are registered as Tax Concession Charities. The Company seeks to operate at a low cost and to provide both competitive returns to investors and an annual grant to The Uniting Church in Australia, Synod of Victoria and Tasmania. All investments are made within the ethical investment policy of Uniting Ethical Investors Limited (U Ethical).

The Company is exempt from the fundraising, managed investment and licensing provisions of the *Corporations Act 2001* under Class Order 02/184 as extended by the Australian Securities and Investments Commission (ASIC) Instrument 2016/813. The Company has been accordingly registered by the Australian Securities and Investments Commission. The Company is also exempt from the *Banking Act 1959* by virtue of APRA Banking Exemption No 1 of 2006.

Principal activities
The Company's principal and continuing activities during the period consisted of:

(a) Providing an investment medium for congregations, programs, presbyteries and agencies of The Uniting Church in Australia; and

(b) Providing an investment medium for other non-profit organisations with a religious, charitable or educational purpose.

There were no significant changes in the nature of the Company's activities during the year.

Company Constitution/Investment Strategy
The Company is structured to provide a higher yield than traditional cash management trusts.

The Company may hold short term money market securities, discount securities, securities that are issued and guaranteed by the Commonwealth or any state or territory government, corporate debt and cash at bank. The Company may also hold longer dated securities including debentures, corporate bonds, preference shares, convertible preference shares, mortgage backed securities, commercial loans and community loans.

Investor funds are intended to be accepted into the Company for a reasonable period of time. The Company is not designed for use as an 'overnight' money market operation.

Results
Net operating profit of the Company for the year ended 30 June 2020 was $2,838,000 (2019: $22,306,000) prior to distributing $15,943,000 (2019: $19,050,000) to investors.

Review of Operations
Funds under management decreased by 11% during the year to $681,473,000 at 30 June 2020 (2019: $753,956,000). Interest was distributed to investors at the rate of 2.15% per annum over the year to 30 June 2020 (2019: 2.15%).

The total management fee and expense recovery charged during the reporting period was $3,673,000 (2019: $5,283,000) which is calculated at 0.70% per annum (2019: 0.70%) of the net funds under management each day, invoiced at the end of each month.

Significant changes in state of affairs
In the Directors' opinion, there were no significant changes in the state of affairs of the Company that occurred during the year not otherwise disclosed in this report or the financial statements.

Matters subsequent to the end of the year
From 1 July 2020, the ECP, the investment portfolio of the Company, transferred a portion of its assets into three newly created Unit Trusts, the U Ethical Cash Management Trust – Wholesale (CMWT), U Ethical Enhanced Cash Trust – Wholesale (ECTW) and U Ethical Diversified Income Trust – Wholesale (DITW). The ECP retained assets valued at $286 million consisting of cash and term deposits which earn higher interest rates due to the Company's charitable status.

The ECP will continue to operate as the internal portfolio for the Company. CMTW and ECTW have invested into the ECP through secured debentures issued by the Company.

The underlying assets in the ECP are held in two separate pools, the first being assets related to the investment by CMTW and the second being assets related to the investment by ECTW. There is no co-mingling of the assets in the two pools. Northern Trust holds these assets as custodian of each pool in separate accounts to enable the assets in each pool to be readily identified and allocated. The assets within each pool are registered with the Personal Property Securities Register (PPSR).

All existing investors in the ECP were issued units of an equal value to their holding in the ECP in one or more of the following new Unit Trusts at the time of the restructure.

U Ethical Cash Management Trust - Wholesale was allocated a secured debenture series identified as CMTW to the value of $154 million at the time of transition. The application and redemption price of this trust will normally be $1 and the price is not expected to change. However a decline in the value of the underlying assets could cause the unit price to drop below a $1. There is no guarantee of return of capital or income of the trust.

U Ethical Enhanced Cash Trust – Wholesale has been allocated a secured debenture series identified as ECTW and received hybrid securities, floating rate notes, mortgage backed securities, commercial loans and community loans to the value of $450 million at the time of transition. The application and redemption price of this trust will reflect the market value of the assets of the trust and consequently will rise and fall as the market value of the assets in the trust rises and falls. The unit price is calculated by dividing the total net assets by the number of units on issue.

U Ethical Diversified Income Trust – Wholesale received hybrid securities to the value of $43 million at the time of transition. The application and redemption price of this trust will reflect the market value of the assets of the trust and consequently will rise and fall as the market value of the assets in the trust rises and falls. The unit price is calculated by dividing the total net assets by the number of units on issue.

Accumulated reserve
Post year end, the accumulated reserve will be fully distributed in December 2020. The securities that were transferred in-specie resulted in a realised loss which was covered by the reserve and the remainder was distributed to investors of the ECP as at 30 June 2020.

Likely developments and expected results
The results of the Company's operations will be affected by a number of factors, including the performance of investment markets in which the Company invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Further information on other likely developments in the operations of the Company and the expected results of operations of the Company has not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Company.

COVID-19 Outbreak
In March 2020, the World Health Organisation (WHO) officially declared COVID-19 a pandemic.

The Directors and the Investment Manager acknowledge the current outbreak of COVID-19 and the increased market volatility it has created within the financial markets the Company operates.

During the year, the Company carried out an impairment test as required by AASB 136 'Impairment of Assets'. Key assumptions and drivers included property value fall, probability of default, rent fall and cost of sale. The ongoing economic uncertainty from the COVID-19 global pandemic has been factored into the value of the loan book with an estimated credit loss provision recorded to meet any future realised loss.

The Investment Manager is monitoring developments closely, noting that given the nature of the outbreak and the ongoing developments, there is a high degree of uncertainty and therefore it is not possible at this time to predict the extent and nature of the overall future impact on the Company. The Investment Manager however, actively manages the financial risks that the Company is exposed to, with the approach outlined further within Note 2 of these Financial Statements and the Net Asset Value of the Company continues to be valued in accordance with the frequency set out in the Company's Offer Documents, applying valuation policies reflective of the prevailing market conditions.

No other significant events have occurred since the end of the reporting period which would impact on the financial position of the Company as disclosed in the Statement of Financial Position as at 30 June 2020 or on the results and cash flows of the Company for the year ended on that date.

Environmental Regulation
The Company is not subject to any particular or significant environmental regulation under a Commonwealth, State or Territory law.

Information on Directors

Ms Jane Bell B Ec, LLB, LLM, FAICD - retired 20 January 2021
Non-executive Director. She is a banking and finance lawyer with 30 years' experience in senior roles in leading law firms, financial services and corporate treasury operations gained living in Australia, UK, Canada and USA. Since 2002, she has held a number of directorship positions, and is currently a non-executive Director of Biomedical Research Victoria, Jessie McPherson Private Hospital, Deputy Chair of Monash Health, Chair of the Advisory Group of the Melbourne Genomics Health Alliance, and Trustee of the RSYLTC Foundation. She is also a Member of the Administrative Appeals Tribunal.

Mr Mathew Browning BSc FFin MRICS GAICD
Executive Director, Chief Executive Officer. Prior to joining U Ethical, Mathew spent 10 years with The Myer Family Company, most recently as general manager and previously as chief operating officer and head of investment. He has over 30 years' experience in financial, property and professional services across Australia, Asia and the UK. Mathew's executive and non-executive director experience includes both commercial and for-purpose organisations.

Dr David Cousins AM Ph.d M. Ec Dip.Ed. Fellow IPAA GAICD
David has worked in the public sector, universities and private consulting. Previous positions have included Director of Consumer Affairs Victoria, Commissioner of the Australian Competition and Consumer Commission, and Chairman of the Prices Surveillance Authority. His most recent appointments have been with the NSW Emergency Services Levy Monitor and as Deputy Chair of the Australian Migrant Workers' Task Force. He is an active member of The Uniting Church in Australia.

Mr Lindsay Mann BA, FIAA, GAICD
Non-executive Director. He is a Fellow of the Actuaries Institute and brings over 45 years financial services experience to the role. He has held a number of senior executive positions in funds management, wealth management and life insurance across Asia, Australia and New Zealand. Since retiring as Regional Head, Asia, of First State Investments in 2010, he has been a Non-executive Director for a number of investment companies and funds in Asia and Australia. He is currently a director of ASX listed companies WAM Capital Limited and WAM Leaders Limited and is a member of the Audit and Risk Committees of both of those companies. He is a member of Glen Waverley congregation of The Uniting Church in Australia.

Mr Terry McCredden B Com (Honours)
Non-executive Director. He has undertaken management courses at Wharton Business School USA and London Business School. He is a former CEO of UniSuper and Telstra Super. He is Chairman of Infradebt, an infrastructure debt manager and is an independent director on the MLC Super board. He is also a Council member of the University of Divinity and a director of 3MBS, Melbourne's classical community radio station. Terry is a member of Northern Community Church of Christ.

Ms Zarmeen Pavri BCom, ACA
Non-Executive Director. She has over 25 years' experience in the funds management, impact investing and international development sectors. She is a Partner at SDGx - a technology venture capital and advisory group, focused on solutions that address the UN Sustainable Development Goals (SDGs). She also is currently the Senior Advisor to the Global Impact Investing Network and runs her own impact and sustainable investing advisory consultancy – Sustainable Contracting Services. She serves on advisory boards of several impact enterprises including Bio Capital Life Sciences Fund and Sunmoyo (Renewable Energy - Africa). Previously, she served on the Audit, Risk and Compliance committee for the Women in Banking and Finance Association. She is an Australian chartered accountant with a Bachelor of Commerce (sub-major Law) degree from Western Sydney University.

Ms Fiona Pearse B. Ec. MBA FCPA FAICD
Non-executive Director. She has extensive commercial and financial expertise gained from a broad career spanning almost two decades at ASX-listed, global companies BHP Billiton and BlueScope Steel. She has subsequently served in a number of non-executive positions, including as non-executive director of City West Water, a $2 billion water utility, and as an Advisory Board member to a fintech in Stone & Chalk, developing leading-edge governance, risk and compliance solutions for the financial services sector. She remains a non-executive director of ASX-listed Smart Parking, a leading developer of Smart Cities technology with global operations, Scotch College, one of Australia's leading boys' schools, and World Vision Australia, one of the largest charities in Australia and an independent member of the Victorian Parliament Audit Committee. She holds a Senior Executive MBA; she is a Fellow of CPA Australia and is a Fellow of the Australian Institute of Company Directors.

Dr Deborah Ralston PhD, MEc, FAICD, FCPA – retired 24 August 2020
Non-Executive Director. She has over twenty-five years' experience as a non-executive director in the commercial and public sectors with particular interests in financial services regulation, superannuation, innovation and digital technologies. She is currently Chair of the SMSF Association, member of the Advisory Board of YBF Fintech Hub, the Payment Systems Board of Reserve Bank of Australia and non-executive director of SuperEd. She is also a Professional Fellow at Monash Business School, Monash University.

Mr David Watson B Com FCA GAICD
Non-executive Director. David has been a Chartered Accountant since 1983. David was a Partner at Deloitte for 20 years, specialising in providing assurance, transaction and advisory services to fast growing mid cap ASX companies and large private companies primarily in the manufacturing, retail and services industries. David retired from Deloitte after 33 years in May 2013 (at which time Deloitte was the auditor of the Company) and was appointed a director on 1 February 2016.

Ms Kerrie Williams BSc, MBA, FFin, GAICD
Non-Executive Director. She has over 30 years' experience in the financial services and retail sectors focused on business strategy and operational leadership, most recently as Director of Strategy and People for Frontier Advisors. During this time she has been a professional adviser to institutional investors on investments, risk and governance. She is currently an independent board member of the Municipal Association of Victoria Insurance Board, a Fellow of the Financial Services Institute of Australasia and a Graduate of the Australian Institute of Company Directors.

Directors' shareholdings
No director holds shares in the Company.

Meetings of Directors

	Meeting of Directors		**Audit, Risk & Compliance Committee**		**Investment Committee**		**People & Nominations Committee**	
	A	B	A	B	A	B	A	B
J Bell	5	5	4	3	*	*	4	3
M Browning	5	5	*	*	*	*	*	*
D Cousins	5	5	*	*	4	3	4	4
L Mann	5	5	*	*	4	4	*	*
T McCredden	5	5	*	*	4	3	4	3
Z Pavri	5	5	4	4	4	4	*	*
F Pearse	5	5	4	4	*	*	4	4
D Ralston	5	5	4	4	*	*	*	*
D Watson	5	5	4	4	*	*	*	*
K Williams	5	5	*	*	4	4	4	4

A = Number of meetings held during the time the director held office or was a member of the committee during the year
B = Number of meetings attended
* = Not a member of the relevant committee during the year.

Information on Company Secretary

Ms Leeanne Lukaitis B Bus, ASA

Company Secretary. Ms Lukaitis also fills the role of Director Finance.

Indemnification and insurance of officers and auditors
Under clause 4.11.2 of the Regulations of The Uniting Church in Australia, a member of a Church Council or other body responsible for the management and administration of property shall be indemnified against liability for any matter or thing done or liability incurred in the performance of functions as a member thereof except in the case of fraud, criminal act, gross negligence or wilful misconduct.

As at the date of this report, Uniting Ethical Investors Limited has paid a premium in respect of a contract insuring the Directors and Officers of the company (as named above) and of any other related body corporate against any liability incurred as such a Director or Officer to the extent permitted by the *Corporations Act 2001*. Due to the confidentiality undertakings of the policy, no further details in respect of the premium or the policy can be disclosed.

The Company has not otherwise, during or since the end of the reporting period, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

Rounding of amounts
The Company is of a kind referred to in Class Order 98/100 issued by the Australian Securities and Investments Commission, relating to the rounding off of amounts in the directors' reports and financial statements. Amounts have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Auditor's Independence Declaration

Auditor's Independence Declaration as required by section 307C of the *Corporations Act 2001* is set out on page 8.

This Directors' Report is signed in accordance with a resolution of directors made pursuant to s.298(2) of the *Corporation Act 2001*.

L Mann
Director

M Browning
Director

Melbourne
27 January 2021

Deloitte.

Deloitte Touche Tohmatsu
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27 January 2021

The Board of Directors
Uniting Ethical Investors Limited
130 Lonsdale Street
MELBOURNE VIC 3000

Dear Board Members,

Independence Declaration - UCA Cash Management Fund Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Uniting Ethical Investors Limited, the Trustee of UCA Cash Management Fund Limited.

As lead audit partner for the audit of the financial statements of UCA Cash Management Fund Limited for year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

M Stretton

Mark Stretton
Partner
Chartered Accountants

Directors' Declaration

In the Directors' opinion:

(a) the financial statements and notes of UCA Cash Management Fund Limited set out on pages 10 to 32:

  (i) comply with Australian Accounting Standards, the *Corporations Act 2001*, and other mandatory professional reporting requirements;

  (ii) present fairly the Company's financial position as at 30 June 2020 and its performance, as represented by the results of its operations, changes in equity and its cash flows, for the year ended on that date; and

  (iii) comply with International Financial Reporting Standards.

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the *Corporations Act 2001*.

L Mann
Director

M Browning
Director

Melbourne
27 January 2021

Statement of Profit and Loss and Other Comprehensive Income

	Notes	2020 $'000	2019 $'000
Investment income			
Interest income	3(a)	20,039	25,323
Net gain/(loss) on financial assets at fair value through profit or loss	3(b)	(5,722)	2,472
Total investment income/(loss)		14,317	27,795
Expenses			
Management fee	6(a)	3,673	5,283
Other operating expenses		207	206
Loan provision	8(b)	7,599	-
Total expenses		11,479	5,489
Profit/(loss) attributable to investors		2,838	22,306
Interest paid/payable to investors	4	(15,943)	(19,050)
Net profit/(loss) for the year		(13,105)	3,256
Other comprehensive income for the year			
Other comprehensive income for the year		-	-
Total comprehensive income for the year		(13,105)	3,256

The above Statement of Profit and Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes

Statement of Financial Position

	Notes	As at $'000	30 June 2019 $'000
Assets			
Cash and cash equivalents	10(a)	268,095	55,013
Term deposits		200,000	325,000
Accrued income		1,898	5,676
Financial assets at fair value through profit and loss			
Floating rate notes		83,709	141,929
Hybrid securities		26,101	80,567
Mortgage backed securities		490	620
Loans receivable			
Commercial loans	7	83,382	132,769
Community loans	7	10,199	12,382
Total assets		673,874	753,956
Liabilities			
Amounts payable to investors:			
External investors		465,287	488,790
Related parties	6(b)	193,839	238,094
Accrued management fee expense	6(a)	306	484
Interest payable to investors	4	7,585	6,625
Total liabilities		667,017	733,993
Net assets		6,857	19,963
Equity			
Contributed equity		-	-
Accumulated Reserve	5	6,857	19,963
Total equity		6,857	19,963

The above Statement of Financial Position should be read in conjunction with the accompanying notes

Statement of Cash Flows

	Notes	2020 $'000	2019 $'000
Cash flows from operating activities			
Proceeds from the sale of financial assets		736,121	41,613
Payments for the purchase of financial assets		(504,037)	(105,976)
Loan repayments		65,107	55,152
Loan advances		(21,128)	(40,328)
Interest income received		22,593	23,245
Franking credits refund received		1,236	1,156
Management fees paid		(3,829)	(5,262)
Other operating expenses paid		(241)	(206)
Net cash inflow/(outflow) from operating activities	10(b)	295,822	(31,606)
Cash flows from financing activities			
Investor applications received		1,216,094	809,269
Investor redemptions paid		(1,294,000)	(785,478)
Interest paid to investors		(4,834)	(10,226)
Net cash inflow/(outflow) from financing activities		(82,740)	13,565
Net change in cash and cash equivalents		213,082	(18,041)
Cash and cash equivalents at beginning of the year	10(a)	55,013	73,054
Cash and cash equivalents at end of the year	10(a)	268,095	55,013

The above Statement of Cash Flows should be read in conjunction with the accompanying notes

Statement of Changes in Equity

	Share Capital $'000	Accumulated Reserve $'000	Total $'000
Balance at 30 June 2018	**-**	16,707	16,707
Net profit/(loss) for the year	-	3,256	3,256
Other comprehensive income for the year	-	-	-
Total comprehensive income for the year	-	3,256	3,256
Balance at 30 June 2019	-	19,963	19,963
Net profit/(loss) for the year	-	(13,105)	(13,105)
Other comprehensive income for the year	-	-	-
Total comprehensive income/(loss) for the year	-	(13,105)	(13,105)
Balance at 30 June 2020	-	6,858	6,858

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes

Note 1: General Information

(a) General information

This general purpose financial report covers the legal entity of UCA Cash Management Fund Limited (the "Company"). The registered office is 130 Lonsdale Street, Melbourne, Victoria 3000.

The financial statements were authorised for issue by the directors on the date the Directors' declaration was signed. The directors have the power to amend and reissue the financial report.

The Company does not guarantee an income stream or return on capital.

(b) Investors

Related investors include Uniting Ethical Investors Limited, UCA Growth Fund Limited, U Ethical Australian Equities Trust, U Ethical Enhanced Cash Trust, U Ethical Funeral Fund and the Ministers Home Endowment Fund, which are managed by Uniting Ethical Investors Limited. External investors represent Uniting Church bodies and other not-for-profit organisations. Investor funds are generally available within 24 hours and are therefore classified as financial liabilities.

(c) Company commencement

The Company commenced operating in July 1985 to provide a low cost financial product to tax concession charities and not-for-profit organisations. On 11 October 1996 UCA Cash Management Fund Limited was created as the legal entity to manage the U Ethical Enhanced Cash Portfolio.

Note 2: Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards and Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

(b) Investment income

Interest from financial assets at fair value through profit or loss is determined based on the contractual coupon interest rate and includes interest from debt securities. Other changes in fair value for such instruments are recorded in accordance with the policies described in Note 8 to the financial statements.

Interest income is calculated using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, management of the Company estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

(c) Financial assets

Classification
Certain financial instruments are designated at fair value through profit or loss. These include financial assets that are not held for trading purposes and which may be sold. Financial assets designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Company's documented investment strategy.

Measurement

Financial assets held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset. Transaction costs on financial assets at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the statement of comprehensive income.

The fair value of financial assets traded in active markets is based on their quoted market prices at the balance sheet date without any deduction for future selling costs. Financial assets are priced at bid prices. In the absence of quoted values financial assets are valued by other financial institutions using appropriate redemption yields.

Recognition/derecognition

The Company recognises financial assets on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets from this date. Financial assets are derecognised when the right to receive cash flows from the financial assets has expired or the Company has transferred substantially all risks and rewards of ownership.

Impairment of financial assets

At each reporting date, the Company measures the loss allowance on financial assets at amortised cost (cash, due from borrower, broker and receivables). The expected credit loss (ECL) approach is used to calculate the loss allowance. The ECL approach is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Fund expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

The determination of the ECL, is unbiased and probability weighted, and incorporates all available information relevant to the assessment, including information about past events, current conditions, and reasonable and supportable information about future events, time value of money and economic conditions at the reporting date.

The Company applies the three-stage ECL model as part of the calculation of the loss allowance. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Company measures the loss allowance at an amount equal to 12-month expected credit losses. If, at the reporting date, the credit risk has increased significantly since initial recognition, the Company measures the loss allowance equal to lifetime expected credit losses. If, at the reporting date, the credit risk has increased to the point that the asset is considered to be credit impaired, interest income will be calculated based on the net carrying amount (adjusted for the loss allowance).

Determining significant increase in credit risk

The Company defines a significant increase in credit risk based on a weighted probability of default as any contractual payment which is more than 30 days past due, or a material negative change in the loan to value ratio (LVR), rentals or capitalisation rate.

Credit impaired

The Company defines a loan as being credit impaired if any contractual payment is more than 90 days past due, the counterparty has any significant financial difficulties, the counter party has or requires to undertake a financial re-structure or the counterparty is, or about to enter into bankruptcy. These are indicators of credit impairment and would move a loan asset into Stage 3.

The three-stage model applied by the Company to determine the loss allowance of its loans receivables follows the stages below:

Stage 1:12-month ECL

On initial recognition, an ECL is collectively assessed and measured by class of loan receivables with the same level of credit risk. The ECL is calculated as a product (i.e. by multiplying) of the Probability of Default (PD) within the next 12 months and the Loss Given Default (LGD), with consideration to forward looking economic factors. Loss allowance for loan receivables are presented net of the gross carrying amount of the related loan receivables.

Stage 2:Lifetime ECL

When the Company determines that there has been a significant increase in credit risk since initial recognition (but loan/s are not considered to be credit impaired), the Company recognises a lifetime ECL calculated as a product of (i.e. by multiplying) the PD for the remaining lifetime of the financial asset and the LGDs, with consideration to forward looking economic indicators. Similar to Stage 1, loss allowances for the loan receivable are presented net of the gross carrying amount of the loan receivables.

Stage 3:Lifetime ECL – impaired
At each reporting date, the Company assesses whether loan receivables are credit impaired. For loan receivables that have been assessed as credit impaired, a lifetime ECL is recognised as a collective or specific provision, and interest revenue is calculated by applying the effective rate to the net carrying amount instead of the gross carrying amount.

(d) Loans receivable

Receivables comprise commercial loans and community loans advanced to congregations and other Church organisations. They are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Receivables are valued at the amount provided less any principal repayments adjusted for the amortised cost using the effective interest rate and impairment losses.

Interest income is accrued at the balance sheet date from the date of last payment, using the effective interest method.

(e) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call at banks and other short-term highly liquid investments.

(f) Foreign currency translation

Functional and presentation currency
Items included in the Company's financial statements are measured using the currency of the primary economic environment in which it operates its functional currency. This is the Australian dollar, which reflects the currency of the economy in which the Company operates. The Australian dollar is also the Company's presentation currency.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

The Company does not isolate the portion of gains or losses on securities that are measured at fair value through profit or loss and which are due to changes in foreign exchange rates from that which is due to changes in the market price of securities. Such fluctuations are included with the net gains or losses on financial instruments at fair value through profit or loss.

(g) Interest paid to investors

The Company pays interest to investors at the rate determined by the Board. Interest is recognised as an expense in the Statement of Profit or Loss and Other Comprehensive Income. Interest is payable to investors on 30 June and 31 December.

(h) Income tax

The Company is exempt from Income Tax under Section 50-5 of the *Income Tax Assessment Act 1997.*

(i) Goods and services tax (GST)

Where applicable, GST incurred by the Company, that is not recoverable from the Australian Taxation Office, has been recognised as part of the expense to which it applies. Receivables and payables are stated with any applicable GST in their value.

The amount of any GST recoverable from, or payable to, the Australian Taxation Office is included as a receivable or payable in the Statement of Financial Position. Cash flows relating to GST are included in the Statement of Cash Flows on a gross basis.

(j) Compliance with International Financial Reporting Standards (IFRS)

The financial statements of the Company also comply with IFRS as issued by the International Accounting Standards Board (IASB).

i) New and amended standards adopted by the Company
There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2019 that have a material impact on the amounts recognised in the prior periods or will affect the current or future periods.

ii) New standards and interpretations not yet adopted
A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2020, and have not been early adopted in preparing these financial statements.

None of these are expected to have a material effect on the financial statements of the Company.

(k) Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The World Health Organisation declared COVID-19 as a pandemic on 13 March 2020. Whilst there has not been significant impact on the investment service of the Company, there has been an impact on security prices. The impact going forward is unclear in terms of business disruption and the economic environment. The Company has a program of measures in place to manage and respond to the risk as the situation evolves.

For the majority of the Company's financial instruments, current observable prices are readily available. When current observable prices are not readily available, the fair value of such financial instruments is determined by using valuation techniques. Where valuation techniques (for example, pricing models) are used to determine fair values, they are validated and periodically reviewed by experienced personnel independent of the area that created them. Where models are relied upon, they use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of the Company's financial instruments.

Measurement and recognition of expected credit losses

The Company recognise an ECL allowance on the Company's exposure to financial assets categorised as commercial loans and community loans.

Due to the ongoing COVID-19 pandemic and current government economic interventions, while the loan book has not suffered from any losses to date, there is uncertainty as to what will happen in the market after the current government stimuli begin to end. As such the ECL model has a significant level of future uncertainty. Due to this uncertainty which has been created by COVID-19, an additional COVID-19 model overlay has been included within the ECL allowance. These assumptions and inputs are a source of estimation uncertainty and are subject to future changes, especially as the impacts of COVID-19 continue to develop across the global economy. See notes 7 and 8(b) for further information.

Note 3: Investment Income

(a) Interest income

	2020 $'000	2019 $'000
Cash and cash equivalents	521	1,224
Term deposits	3,949	10,296
Financial assets at fair value through profit and loss	9,215	6,296

	2020 $'000	2019 $'000
Loans receivable	6,354	7,507
Total	20,039	25,323

(b) Net gain/(loss) on financial assets at fair value through profit or loss

	2020 $'000	2019 $'000
Net realised gain/(loss)	(1,079)	143
Net unrealised gain/(loss)	(4,643)	2,329
Net realised and unrealised gain/(loss)	(5,722)	2,472

Note 4: Interest Paid to Investors

	2020 $'000	2019 $'000
Interest paid	8,358	6,625
Interest payable	7,585	12,425
Total for the year	15,943	19,050

Note 5: Accumulated Reserve Reconciliation

This amount represents interest income and unrealised changes in fair value of financial assets not yet allocated to investors. The amount held meets the objective of holding a portion of the Company's assets, before adjustments, in unallocated assets to investors, which could be used to compensate for any fall in market value of securities or any loss arising from impaired loans. The Company may hold the financial assets giving rise to the unrealised losses arising from fair value to maturity. In this event the unrealised losses will reverse and not crystallise.

Note 6: Related Parties

(a) Management Fee

The management fee is paid to Uniting Ethical Investors Limited and comprises a share of the cost of operating Uniting Ethical Investors Limited and a contribution to The Uniting Church in Australia, Synod of Victoria and Tasmania. The management fee is not to exceed 1% per annum of the net value of the funds under management. The management fee expense is recorded on an accruals basis.

(b) Investments in UCA Cash Management Fund Limited

Uniting Ethical Investors Limited, UCA Growth Fund Limited, U Ethical Australian Equities Trust, U Ethical Enhanced Cash Trust, U Ethical Funeral Fund and the Ministers Home Endowment Fund invest their cash holdings in UCA Cash Management Fund Limited.

The sole member of UCA Cash Management Fund Limited is Uniting Ethical Investors Limited.

Fund Invested	**As at 30 June 2020 $'000**	**30 June 2019 $'000**
Uniting Ethical Investors Limited	1,164	1,164
UCA Growth Fund Limited	30,664	91,822
U Ethical Australian Equities Trust	4,727	3,962
U Ethical Enhanced Cash Trust	152,793	130,802
U Ethical Funeral Fund	4,491	4,589
Ministers Home Endowment Fund	-	5,755
Total	**193,839**	**238,094**

(c) Interest paid/payable

Interest paid/payable to related entities:	**2020 $'000**	**2019 $'000**
Uniting Ethical Investors Limited	25	84
UCA Growth Fund Limited	998	1,978
U Ethical Australian Equities Trust	132	96
U Ethical Enhanced Cash Trust	4,148	3,319
U Ethical Funeral Fund	129	120
Ministers Home Endowment Fund	71	155
Total	**5,503**	**5,752**

(d) Key Management Personnel Compensation

The Company has no employees. All directors are employed by Uniting Ethical Investors Limited in the current reporting year.

(e) Directors

The names of the persons who were the directors of the Company at any time during the year and up to the date of this report were:

J Bell	Non-executive director - retired 20 January 2021
M Browning	Executive director and Chief Executive Officer
D Cousins	Non-executive director - retired as Chairperson 4 December 2020 People and nominations committee - Chairperson
L Mann	Non-executive director - appointed as Acting Chairperson 4 December 2020 Investment committee - Chairperson
T McCredden	Non-executive director
Z Pavri	Non-executive director
F Pearse	Non-executive director
D Ralston	Non-executive director – retired 24 August 2020
D Watson	Non-executive director Audit, risk and compliance committee - Chairperson
K Williams	Non-executive director

Directors' remuneration is paid by Uniting Ethical Investors Limited, which in turn provides management services to UCA Cash Management Fund Limited, UCA Growth Fund Limited, U Ethical Australian Equities Trust, U Ethical Enhanced Cash Trust, U Ethical Australian Equities Trust (Wholesale), U Ethical International Equities Trust (Wholesale), U Ethical Property Trust (Wholesale), U Ethical Funeral Fund and Ministers Home Endowment Fund (wound up March 2020).

The remuneration of the executive director and non-executive directors of Uniting Ethical Investors Limited is set out in the following table:

	2020	2019
	$	$
Income paid or payable to executive and non-executive directors of the Company by the Company and related parties		
Short-term employee benefits	543,578	436,505
Total	543,578	436,505

Short term employee benefits include director fees, executive salary, superannuation, accrued annual leave and sick leave entitlements.

Other long-term benefits include accrued long service leave entitlements.

There are no post-employment benefits, termination benefits or share-based payments applicable.

(f) Other key management personnel

There were no other persons with responsibility for planning, directing and controlling the activities of the Company, directly or indirectly during the year. During the year, no director held an account in the Company (2019: Nil).

Note 7: Loans

The Company provides commercial mortgage loans and community loans. Loans are generally for 1-5 year terms and secured. The loan-to-value ratio for loans secured by property must be less than 66.7%. Community loans may also be secured by financial assets or guaranteed by an acceptable guarantor.

Loans are conditional and at a minimum meet required financial criteria. However, U Ethical's credit committee assesses each specific loan application on its merits, including the geographic location, the industry sector of the tenant/s and prevailing market conditions, and may impose more onerous conditions on the borrower. A new loan application is assessed within the context of the existing loan portfolio to ensure diversity of geographic location and industry sector.

The lending criteria for each loan application typically includes the property address, property type, loan amount, loan purpose, estimated property value, tenant/s and the term of current lease/s.

Valuations are conducted by an approved certified practicing valuer.

Loan agreements for loans against property security include rent redirection provisions.

All property used as security must be insured, with UCA Cash Management Fund Limited noted on the policy.

Financial criteria

Maximum loan to value ratio (LVR)	66.7%
Minimum interest cover ratio (ICR) - gross annual rental income divided by annual interest amount	1.25 times
Minimum capitalisation rate (CR)	4.0%

Due to the impacts of COVID-19 an ECL allowance of $7.6m has been recognised. This represents a specific COVID-19 model overlay as there is inherent uncertainty in the ECL modelling while the impacts of the pandemic continue to evolve and the Australian economy continues to be supported by government stimulus. In the prior year the calculation of the ECL resulted in a non-material ECL allowance and as such no allowance was recorded in the financial statements. For further information on the calculation of the ECL allowance see note 8(b).

Loan-to-value ratio

The following table identifies credit exposure from commercial loans using ranges of LVR.

LVR is calculated as the ratio of the approved amount of the loan against the value of the security.

	30 June 2020				30 June 2019			
LVR Ratio	**Gross Loan Carrying Amount ($'000)**	**ECL ($'000)**	**ECL (% of Gross Loan)**	**Net Loan Carrying Amount ($'000)**	**Gross Loan Carrying Amount ($'000)**	**ECL ($'000)**	**ECL (% of Gross Loan)**	**Net Loan Carrying Amount ($'000)**
50% and less	46,375	1,874	4.5%	45,501	58,031	-	-	58,031
50 – 60%	18,588	1,824	9.1%	16,764	29,362	-	-	29,362
60 – 65%	10,491	1,022	11.4%	9,469	25,910	-	-	25,910
65 – 70%	25,726	2,879	9.4%	22,847	31,848	-	-	31,848
Above 70%	-	-	-	-	-	-	-	-
	101,180	7,599	7.5%	93,581	145,151	-	-	145,151

Impairment provision

	Commercial loans		Community loans		Total loans	
	2020	**2019**	**2020**	**2019**	**2020**	**2019**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Loans receivable	90,840	132,769	10,340	12,383	101,180	145,151
less ECL allowance	(7,458)	-	(141)	-	(7,599)	-
Total	83,382	132,769	10,199	12,383	93,581	145,151

Note 8: Financial Risk Management

The Company's principal financial instruments comprise cash and cash equivalents, financial assets at fair value through profit or loss and loan receivables.

The Company's activities expose it to a variety of financial risks: market risk (including interest rate risk and price risk), credit risk, and liquidity risk. The Company's risk management strategies seek to minimise potential adverse effects of market movements on the Company's financial performance.

Financial risk management is the responsibility of the Chief Investment Officer. This responsibility is discharged having regard to policies approved by the Board of Directors. Compliance with Board policies is monitored by the Board's Investment Committee and reported to the Board of Directors quarterly.

The objectives of the Company are to provide an income stream to investors and to provide competitive returns.

COVID-19 induced a rise in financial risk which peaked at the beginning of the global pandemic containment phase of March 2020. Financial risk has since abated with the economy in a recovery phase alongside strong fiscal and monetary stimulus to assist the recovery.

The financial market's risk appetite will take some time to revert to normal levels. Across the last six months risk tolerance has risen while global interest rates had moved to unprecedented lows. This is evident across the array of Australian fixed income and cash profiles. This has been furthered by Reserve Bank of Australia efforts to maintain low interest rates to its term funding facility (TFF) and its targeted quantitative easing program.

The Investment Manager's approach to reducing financial risk is largely though tactical asset allocation, portfolio construction and security selection. At the security level the focus is on stability of income and credit holdings by investment grade issuers. The Company is denominated in Australian dollars and is not exposed to currency risk. The Company's liquidity profile is tested annually.

The Company uses different methods to measure different types of risk to which it is exposed. These methods are explained below.

(a) Market risk

Market risk is the risk that the value of the Company's investments will fluctuate as a result of changes in market values. The Company manages this risk by:

Diversification of investments within specified limits for individual asset classes. Hence the Company invests in a mix of fixed and floating interest rate securities. The strategic asset allocation as outlined in the investment policy is as follows:

	2020 Actual Allocation %	**2019 Actual Allocation %**
Cash and cash equivalents	40	7
Term deposits	29	43
Debt securities and mortgage backed securities	12	20
Hybrid securities	4	11
Commercial loans	13	18
Community loans	2	1
Total	100	100

The universe of securities available for investment is restricted by the ethical investment policy of U Ethical. This may have an impact on market risk.

U Ethical avoids investments in companies whose products, services or practices cause injustice and suffering, infringe human rights or cause unacceptable damage to the natural environment.

The Chief Investment Officer monitors the Company's investments with the aid of specialist software and tools as well as other resources which can facilitate the identification of investments that do not meet the investment guidelines. A report is presented to the Board Investment Committee quarterly which monitors compliance of investments with U Ethical's ethical investment policy. The Board has also established policies and procedures for voting on significant matters at annual general meetings of companies in which the Company invests. The voting register is available on U Ethical's website.

The Company is not exposed to foreign exchange risk.

(i) Interest rate risk

The Company's interest-bearing assets expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Company's assets are a mixture of fixed and floating rate interest bearing investments. Its liabilities are all at a fixed interest rate. The risk of fluctuations in interest rates is limited to the income payable to investors. The possible mismatch in interest rates (between earning at a floating interest rate and paying a fixed interest rate) is monitored by calculating a weighted average running yield, which is assessed on a monthly basis. To mitigate the possible mismatch, the Company has the ability to change the interest rate paid to investors at any time during the reporting period. The table in note 8 (e) summarises the impact of an increase/decrease in interest rates on the Company's net assets.

Interest rate risk is managed by focusing on the duration of the Company's investments. The policy is to limit interest rate risk by restricting the investments to an average duration of between 0 and 1 year. During the reporting period, in which official interest rates remained unchanged, the duration of the Company's investment has been less than the benchmark duration of 0.75 years. In addition the yield of the Company is measured six monthly. The Board, through its Investment Committee, monitors these measures quarterly.

The Company's interest bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The interest rate risk disclosures have been prepared on the basis of the Company's direct investments and not on a look-through basis.

The table in section note 8(e) summarises the impact of increases/decreases in official interest rates on the Company's net assets at 30 June 2020. The analysis is based on the assumption that official interest rates increased/decreased by 75 basis points (2019: 75 basis points) with all other variables held constant and that the Company's cash and fixed interest securities and loans moved according to the historical correlation with official interest rates.

The table below sets out the Company's exposure to interest rate risks:

2020	Floating interest rate $'000	Fixed interest rate $'000	Non-interest bearing $'000	Total $'000
Financial Assets				
Cash and cash equivalents	243,095	25,000	-	268,095
Term deposits	-	200,000	-	200,000
Accrued income	-	-	1,898	1,898
Financial assets at fair value through profit & loss				
Debt securities	74,486	9,223	-	83,709
Hybrid securities	26,101	-	-	26,101
Mortgage backed securities	490	-	-	490
Commercial loans	83,382	-	-	83,382
Community loans	7,743	2,456	-	10,199
Total	435,297	236,679	1,898	673,874

2019	Floating interest rate $'000	Fixed interest rate $'000	Non-interest bearing $'000	Total $'000
Financial Assets				
Cash and cash equivalents	19,013	36,000	-	55,013
Term deposits	-	325,000	-	325,000
Accrued income	-	-	5,676	5,676
Financial assets at fair value through profit & loss				
Debt securities	135,719	6,210	-	141,929
Hybrid securities	80,567	-	-	80,567
Mortgage backed securities	620	-	-	620
Commercial loans	12,812	119,956	-	132,768
Community loans	9,593	2,790	-	12,383
Total	258,324	489,956	5,676	753,956

The weighted average interest earned on investments for the year ended 30 June 2020 was 3.38% (2019: 3.31%).

The table below analyses the Company's financial assets into their relevant maturity groupings based on the remaining period at balance date to the contractual maturity date.

2020			**Maturity analysis**		
	3 months or less	**4 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Financial Assets					
Cash and cash equivalents	268,095	-	-	-	268,095
Term deposits	-	200,000	-	-	200,000
Accrued income	1,898	-	-	-	1,898
Financial assets at fair value through profit & loss					
Debt securities	4,046	2,022	26,274	51,367	83,709
Hybrid securities	-	-	8,097	18,004	26,101
Mortgage backed securities	-	-	-	490	490
Commercial loans	14,628	35,350	33,404	-	83,382
Community loans	-	589	4,673	4,937	10,199
Total	288,667	237,961	72,448	74,798	673,874

2019			**Maturity analysis**		
	3 months or less	**4 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**
Financial Assets					
Cash and cash equivalents	55,013	-	-	-	55,013
Term deposits	-	325,000	-	-	325,000
Accrued income	5,676	-	-	-	5,676
Financial assets at fair value through profit & loss					
Debt securities	-	9,989	48,793	83,147	141,929
Hybrid securities	-	-	5,121	75,446	80,567
Mortgage backed securities	-	-	-	620	620
Commercial loans	22,457	31,830	78,481	-	132,768
Community loans	-	1,286	4,568	6,529	12,383
Total	83,146	368,105	136,963	165,742	753,956

(ii) Price risk

The Company is not materially exposed to other price risk.

(b) Credit Risk

Credit risk is the risk that a counterparty will fail to perform contractual obligations, either in whole or in part. Concentrations of credit risk are minimised primarily by:

- ensuring counterparties, together with the respective credit limits, are approved, and
- ensuring that transactions are undertaken with a number of counterparties.

The Company determines credit risk and measures expected credit losses for financial assets measured at amortised cost using probability of default, exposure at default and loss given default. The Investment Manager considers both historical analysis and forward looking information in determining any expected credit loss.

The Investment Manager monitors the Company's credit position on a regular basis. This information and the compliance with the Company's policy are reported to the Board Investment Committee and other key management personnel. All contracts are with counterparties included in the Investment Manager's Approved Counterparties list.

The maximum credit risk on financial assets of the Company is the carrying value of these assets on the Statement of Financial Position.

(i) Cash and cash equivalents, and financial assets at fair value through profit or loss

The Company invests in cash and cash equivalents and financial assets at fair value through profit or loss, which have an investment grade as rated by a well-known rating agency. For unrated assets a credit analysis is conducted for each investment and approved by the Director Investments.

Investment by rating category:

Rating	**2020** **%**	**2019** **%**
AAA	2	-
AA+	1	-
AA-	54	45
AA	1	-
A+	1	12
A	3	2
A-	1	3
BBB+	28	38
BBB	6	-
BBB-	1	-
BB+	2	-
Total	100	100

The ratings of each of the financial assets are measured against updates issued by Standard & Poor's and Moody's credit rating agencies.

(ii) ECL Allowance

During the year, there has been no direct credit impairment for any of the loans within the loan books. There are also no loan repayments which are more than 30 days overdue. As such there has been no significant credit events and all loans continue to be categorised in Stage 1.

When assessing loans due for renewal during the current reporting period, the U Ethical credit committee considered all external factors to the best of its ability, based on the knowledge available prior to the renewal date. In particular, the strength of each security was considered carefully taking into account factors caused by the COVID-19 pandemic. Such indicators and factors considered include comparable sales, current government incentives, rental default and local market conditions. During the period, loans that presented a higher risk profile did not have new terms offered resulting in full repayment.

With the onset of the COVID-19 pandemic being declared in March 2020, there has been a notable slowdown in direct lending activity from new loans. Australia has experienced its first recession in 30 years. It is management's view that the impact of recessions on commercial property is a process whereby the repercussions unfold over months and years rather than weeks and months. Management expects that the valuations of commercial properties will decline in future periods due a combination of lost rental income, lower expectations of future rental growth, online retail, organisations reducing their long-term floor space requirements and a larger scale shift to working from home.

Given the future uncertainty relating to COVID-19 and its impact on the economy after government stimulus subsides, we have included a specific COVID-19 model overlay ECL allowance in the current year. This allowance has been added to the ECL allowance to take into consideration the uncertainty surrounding COVID-19 which the current ECL model does not take into account. The specific COVID-19 overlay allowance is $7,458,000 for the commercial loans and $141,000 for the community impact loans.

Commercial Loans

As at 30 June 2020 there were no loans that were past due and payable or impaired (30 June 2019: Nil).

The commercial mortgage loans are secured by a registered first mortgage over commercial property. The Company does not lend against owner-occupied residential property. Loans are limited to 66.7% of the value of the property as ascertained from a valuation issued by a licensed practicing valuer or in limited circumstances by reference to the capital improved value detailed on the most recent council rates notice. Loans are generally provided for fixed terms not exceeding five years. Borrowers are required to demonstrate the property's ability to service the loan. This is assessed by analysis of the interest cover provided by the rental income from the property. Where appropriate, borrowers provide personal guarantees and rental redirections in favour of the Company.

The board, through its investment committee, also analyses the loan portfolio by sector (commercial, retail, industrial) and by geographic location to ensure adequate diversity. The Company is not permitted to make loans to one entity (or related entities) which exceed 5% of the value of the total investment portfolio without the approval of the investment committee.

An ECL is calculated for all commercial loans held within stage 1. The inputs to the model are based on property prices falling by 35% and a probability of default of 1% based on the loans being credit rated BB-. For the year ended 30 June 2020, an additional COVID Model Overlay ECL allowance has been included, please see note 8(b)(iii).

Balances by Impairment Stages
The table below shows movements in gross carrying amounts of commercial mortgage loan receivables subject to impairment requirements to net loan receivables for the prior to the current period.

30 June 2020	**Stage 1 $'000**	**Stage 2 $'000**	**Stage 3 $'000**	**Total $'000**
Gross Loan Receivable	90,840	-	-	90,840
ECL Allowance	(7,458)	-	-	(7,458)
Net Loan Receivable	83,382	-	-	83,382

30 June 2019	**Stage 1 $'000**	**Stage 2 $'000**	**Stage 3 $'000**	**Total $'000**
Gross Loan Receivable	132,768	-	-	132,768
ECL Allowance	-	-	-	-
Net Loan Receivable	132,768	-	-	132,768

ECL Allowance Staging Movements
The table below shows movements in ECL allowance for commercial loans from the prior to the current period.

	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000
Opening Balance - 30 June 2019	-	-	-	-
Transfers between Stage 1 and Stage 2	-	-	-	-
Transfers between Stage 2 and Stage 3	-	-	-	-
Write-offs	-	-	-	-
ECL Allowance input changes	-	-	-	-
COVID-19 Model Overlay	(7,458)	-	-	(7,458)
Closing Balance - 30 June 2020	(7,458)	-	-	(7,458)

Community Loans

As at 30 June 2020 there were no loans that were past due and payable or impaired (30 June 2019:Nil). The risk of losses is mitigated by the conservative lending practices outlined below.

Loans are normally provided for terms of up to fifteen years on a principal and interest basis, with a variable (floating) or fixed interest rate. Borrowers are required to demonstrate their ability to service the loan. This is assessed by analysis of the interest cover, normally provided by operating cash flow and, in some cases, assisted by government grants.

Interest payments are monitored regularly. Arrears are measured monthly and reported to the investment committee quarterly.

During the reporting period and the prior period, the Company has not experienced any losses due to credit impairment. As there has been no significant credit events, the loans continue to be classified within Stage 1.

Due to the unknown future impacts of COVID-19, management included the specific COVID-19 model overlay to the ECL allowance for the year ended 30 June 2020, please see note 8(b)(iii). This allowance is approximately 1.3% of the value of the loans.

Balances by Impairment Stages
The table below shows movements in gross carrying amounts of Community loan receivables subject to impairment requirements to net loan receivables from the prior to the current period.

30 June 2020	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000
Gross Loan Receivable	10,340	-	-	10,340
ECL Allowance	(141)	-	-	(141)
Net Loan Receivable	10,199	-	-	10,199

30 June 2019	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000
Gross Loan Receivable	12,383	-	-	12,383
ECL Allowance	-	-	-	-
Net Loan Receivable	12,383	-	-	12,383

ECL Allowance Staging Movements

The table below shows movements in ECL allowance for the Community loans for the prior and current period.

	Stage 1 $'000	Stage 2 $'000	Stage 3 $'000	Total $'000
Opening Balance - 30 June 2019	-	-	-	-
Transfers between Stage 1 and Stage 2	-	-	-	-
Transfers between Stage 2 and Stage 3	-	-	-	-
Write-offs	-	-	-	-
ECL Allowance input changes	-	-	-	-
COVID-19 Model Overlay	(141)	-	-	(141)
Closing Balance - 30 June 2020	(141)	-	-	(141)

(iii) COVID-19 Model Overlay

During the reporting period and the prior period, the Company has not experienced any losses due to credit impairment. However, Management expects that due to COVID-19, the long term value of commercial properties may decline in future periods due to a combination of lost rental income, lower expectations of future rental growth, online retail, organisations reducing their long term floor space requirements and a larger scale shift to working from home.

Due to the unknown future impacts of COVID-19, management included the specific COVID-19 model overlay to the ECL allowance during the year. In order to help calculate a COVID-19 overlay, management engaged with an independent licensed property valuer to stress test a number of commercial mortgage loans applying assumptions that factored in a loss of rental income, a probability of default, a cap rate expansion and the costs of sale should it be necessary to foreclose a loan. The Company used this analysis as a basis to prepare its own specific COVID-19 overlay model, which included management's own assumptions to assess the risk of losses.

For the reasons outlined above, the directors believe the inclusion of a specific COVID-19 ECL allowance to take into consideration the future impacts of COVID-19 is appropriate.

The ECL overlay model for the commercial loans uses a capitalisation rate methodology to calculate possible future values of the commercial properties provided as security. A “cost of sale” amount is then subtracted from these values and the total compared to the carrying value of the loans to provide a “loss given default” value. The loss given default is then multiplied by the probability of default which results in the ECL allowance for a loan. A conservative ECL Overlay allowance has been calculated for all loans held within stage 1. The inputs to the model are based on a significant decrease in security values and a probability of default of 20%.

The ECL overlay model for the community loans is based on significant decrease in security values and a probability of default of 20%.

(c) Liquidity and cash flow risk

Liquidity risk is the risk that the Company will experience difficulty in either realising assets or raising sufficient funds to satisfy commitments to investors. Cash flow risk is the risk that the future cash flows derived from holding financial instruments will fluctuate. The risk management guidelines adopted are designed to minimise liquidity and cash flow risk through:

- Ensuring that there is no significant exposure to illiquid or thinly traded financial instruments, and
- Applying limits to ensure there is no concentration of liquidity risk to a particular counterparty or market.

Liquidity risk is measured and monitored regularly by analysis of securities and loans and the Company’s asset allocation. Liquidity risk is reported quarterly to the Board through its Investment Committee.

(d) Fair value measurement

The carrying amounts of the Company's financial assets and financial liabilities at the balance sheet date approximated their fair values as all financial assets and liabilities not fair valued are short-term in nature.

30 June 2020	**Total $'000**	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**
Financial assets at fair value through profit and loss				
Debt securities	83,709	-	83,709	-
Hybrid securities	26,101	14,468	11,633	-
Mortgage backed securities	490	-	490	-
Total	110,300	14,468	95,832	-

30 June 2019	**Total $'000**	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**
Financial assets at fair value through profit and loss				
Debt securities	141,929	-	141,929	-
Hybrid securities	80,567	52,277	28,290	-
Mortgage backed securities	620	-	620	-
Total	223,116	52,277	170,839	-

Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. Quoted market price represents the fair value determined based on quoted prices on active markets as at the reporting date, without any deduction for transaction costs.

Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Financial instruments that trade in markets that are not considered active but values are based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified with Level 2. These include the floating rate notes and mortgage backed securities that trade in markets that are not considered active but the underlying asset values are based on quoted market prices.

Level 3 fair value measurements are those derived from valuation techniques that included inputs for the assets or liability that are not based on observable market data (unobservable inputs).

(e) Sensitivity analysis

The following table summarises the impact of increases/decreases in interest rates on the Company's assets attributable to investors at 30 June 2020 and 30 June 2019:

2020	**Impact on operating profit/loss and net assets attributable to investors**		
	Carrying Amount	**Interest Rate Risk**	
		-75bps	**+75 bps**
	$'000	**$'000**	**$'000**
Cash and cash equivalents	268,095	(1,823)	1,823
Term deposits	200,000	-	-
Accrued income	1,898	-	-
Financial assets at fair value through profit or loss			
Floating rate notes	83,709	(628)	628
Hybrid securities	26,101	(196)	196
Mortgage backed securities	490	(4)	4
Commercial loans	83,382	(625)	625
Community loans	10,199	(76)	76
Total increase	673,874	(3,352)	3,352

2019	**Impact on operating profit/loss and net assets attributable to investors**		
	Carrying Amount	**Interest Rate Risk**	
		-75bps	**+75 bps**
	$'000	**$'000**	**$'000**
Cash and cash equivalents	55,013	(143)	143
Term deposits	325,000	-	-
Accrued income	5,676	-	-
Financial assets at fair value through profit or loss			
Floating rate notes	141,929	(1,064)	1,064
Hybrid securities	80,567	(604)	604
Mortgage backed securities	620	(5)	5
Commercial loans	132,768	(996)	996
Community loans	12,383	(93)	93
Total increase	753,956	(2,905)	2,905

Note 9: Auditor's Remuneration

	2020	**2019**
	$	**$**
Audit Services		
Audit of financial report	20,000	20,000
	20,000	20,000

The auditor of the Company is Deloitte Touche Tohmatsu. The audit fees were paid by Uniting Ethical Investors Limited, on behalf of the Company.

Note 10: Note to Statement of Cash Flows

(a) Reconciliation of Cash

For the purposes of the Statement of Cash Flows, cash includes deposits held at call with a financial institution and amounts which are readily convertible to cash. Cash at the end of the year comprises the following cash and cash equivalents:

	As at	
	30 June 2020	30 June 2019
	$'000	$'000
Cash at bank	36,974	3,949
Short term deposit at call	206,121	15,064
Fixed term deposits	25,000	36,000
Total cash & cash equivalents	268,095	55,013

(b) Reconciliation of net profit/(loss) for the period to net cash inflow/(outflow) from operating activities

	2020	2019
	$'000	$'000
Profit/(loss) attributable to unitholders	2,838	22,306
(Increase)/decrease in accrued income	3,778	(921)
(Increase)/decrease in expenses payable	(178)	22
(Increase)/decrease in term deposits	125,000	31,000
Decrease/(increase) in other receivables	43,970	14,824
(Increase) in allowance for impairment losses	7,599	-
Movement on financial assets held at fair value through profit or loss	112,815	(98,837)
Net cash inflow/(outflow) from operating activities	295,822	(31,606)

(c) Non-cash financing activities

During the year interest payments to investors totalling $10,149,000 (2019: $11,021,000) were satisfied through the reinvestment plan.

Note 11: Events occurring after balance sheet date

From 1 July 2020, the ECP, the investment portfolio of the Company transferred a portion of its assets into three newly created Unit Trusts, the U Ethical Cash Management Trust – Wholesale (CMWT), U Ethical Enhanced Cash Trust – Wholesale (ECTW) and U Ethical Diversified Income Trust – Wholesale (DITW). The ECP retained assets valued at $286 million consisting of cash and term deposits which earn higher interest rates due to the Company's charitable status.

The ECP will continue to operate as the internal portfolio for the Company. CMTW and ECTW have invested into the ECP through secured debentures issued by the Company.

The underlying assets in the ECP are held in two separate pools, the first being assets related to the investment by CMTW and the second being assets related to the investment by ECTW. There is no co-comingling of the assets in the two pools. Northern Trust holds these assets as custodian of each pool in separate accounts to enable the assets in each pool to be readily identified and allocated. The assets within each pool are registered with the Personal Property Securities Register (PPSR).

All existing investors in the ECP were issued units of an equal value to their holding in the ECP in one or more of the following new Unit Trusts at the time of the restructure.

U Ethical Cash Management Trust - Wholesale was allocated a secured debenture series identified as CMTW to the value of $154 million at the time of transition. The application and redemption price of this trust will normally be $1 and the price is not expected to change. However a decline in the value of the underlying assets could cause the unit price to drop below a $1. There is no guarantee of return of capital or income of the trust.

U Ethical Enhanced Cash Trust – Wholesale has been allocated a secured debenture series identified as ECTW and received hybrid securities, floating rate notes, mortgaged backed securities, commercial loans and community loans to the value of $450 million at the time of transition. The application and redemption price of this trust will reflect the market value of the assets of the trust and consequently will rise and fall as the market value of the assets in the trust rises and falls. The unit price is calculated by dividing the total net assets by the number of units on issue.

U Ethical Diversified Income Trust – Wholesale received hybrid securities to the value of $43 million at the time of transition. The application and redemption price of this trust will reflect the market value of the assets of the trust and consequently will rise and fall as the market value of the assets in the trust rises and falls. The unit price is calculated by dividing the total net assets by the number of units on issue.

COVID-19 Outbreak

In March 2020, the World Health Organisation (WHO) officially declared COVID-19 a pandemic.

The Directors and the Investment Manager acknowledge the current outbreak of COVID-19 and the increased market volatility it has created within the financial markets the Company operates.

The Investment Manager is monitoring developments closely, noting that given the nature of the outbreak and the ongoing developments, there is a high degree of uncertainty and therefore it is not possible at this time to predict the extent and nature of the overall future impact on the Company. The Investment Manager however, actively manages the financial risks that the Company is exposed to, with the approach outlined further within Note 2 of these Financial Statements and the Net Asset Value of the Company continues to be valued in accordance with the frequency set out in the Company's Offer Documents, applying valuation policies reflective of the prevailing market conditions.

There were no other matters or significant events that have occurred since balance sheet date which would impact on the financial position of the Company disclosed in the Statement of Financial Position at 30 June 2020, or the results and cash flows of the Company for the year ended on that date.

Note 12: Contingent assets and liabilities and commitments

There were no outstanding contingent assets and liabilities or commitments as at 30 June 2020 or at 30 June 2019.

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Independent Auditor's Report to the Investors of UCA Cash Management Fund Limited

Opinion

We have audited the financial report of UCA Cash Management Fund Limited (the "Entity") which comprises the statement of financial position as at 30 June 2020, the statement of profit or loss and other comprehensive income, the statement of changes in equity, and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Entity is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Entity's financial position as at 30 June 2020 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Entity in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Entity, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The directors are responsible for the other information. The other information comprises the directors' report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon. Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

The directors are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as

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the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Entity to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

M Stretton

Mark Stretton
Partner
Chartered Accountants

Melbourne, 27 January 2021