

Quarterly Performance Review

U Ethical Australian Equities Trust - Retail

Quarterly highlights December 2023

- Optimism that inflation is tracking better than expected, and the US Federal Reserve acknowledging that interest rate cut timing was discussed at its recent meeting saw the ASX 300 Accumulation Index rally 8.4% in the December quarter.
- The total return for the Trust over the quarter was 8.5%, outperforming the ASX 300 Accumulation Index by 0.1%.
- Good sector allocation was the key driver of the outperformance. This was partially offset by underperformance of a small number of stocks, including Pilbara Minerals, Computershare and Brambles. Strong commodity prices saw strong performance in both Fortescue and Sandfire Resources.
- During the quarter we exited Pilbara Minerals, and Invocare was delisted from the ASX following its takeover approval. We also added to positions in Resmed, CSL, Dexs and Lynas Rare Earths.

Fund information



Assigned as of 30/11/2023
Analyst-Driven 0%
Data Coverage 91%



Out of 266 Australia & New Zealand Equity Funds as of 31/12/2023. Based on 100 percent of eligible corporate AUM and 0 percent of eligible sovereign AUM. Data is based on long positions only.

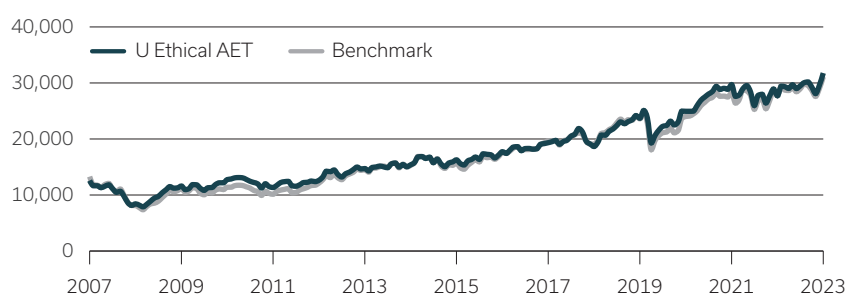


Portfolio manager	Cam Hardie
Chief investment officer	Jon Fernie
Inception date	7 July 2003
Total fund size (\$M)	\$72.26
Benchmark	S&P/ASX 300 Accumulation Index
Buy/sell spread	0.25%/0.25% ¹
Management costs	Estimated up to 1.315% p.a. See Product Disclosure Statement
Holdings range	Typically hold 20-40
Number of holdings	28

Investment objective

The U Ethical Australian Equities Trust - Retail has been developed for the long-term investor and aims to outperform the benchmark after fees over rolling 5-year periods. It invests primarily in Australian shares as well as up to 10 per cent in fixed interest and cash.

Growth of \$10,000 invested[†]



Performance

	3 months %	6 months %	1 year % p.a.	3 years %	5 years % p.a.	10 years % p.a.	Since inception % p.a.
U Ethical Australian Equities Trust[†]	8.46	7.83	14.61	8.40	11.23	8.00	8.22
Benchmark	8.36	7.45	12.13	8.99	10.27	7.91	9.06
Relative performance	0.10	0.38	2.48	-0.59	0.96	0.09	-0.84

Past performance is not indicative of future performance.

[†]Based on exit price with distributions reinvested and are net of all fees. From 1 October 2015, the Trust moved to a 100% Australian equities fund from previously having an 80% Australian equities and 20% cash allocation.

¹The buy/sell spread is set at 0.25 per cent unit and is rounded to the nearest cent.

Market commentary

Global equity markets rallied over the December quarter with the S&P 500 Index rising more than 11%. Contributing to the momentum has been inflation trending lower and optimism central banks will cut interest rates in the first half of 2024. Economic growth has remained more resilient than expected with a 'soft landing' now expected for the global economy.

US core inflation remained steady in November at 4.0% and the federal funds target range has been maintained at 5.25-5.50% since July. On the back of more dovish commentary and forecasts, the US yield curve shifted down over the quarter with 10-year treasury yields dropping below 4%.

In Australia, inflation eased to 4.9% in October and remains above target levels driven by stickier services components. The Reserve Bank of Australia (RBA) increased the cash rate to 4.35% in November and next meets again in February. A tight labour market will remain a concern with the unemployment rate at 3.8%, but we are close to the interest rate peak domestically.

Corporate earnings have remained solid, although we expect more pressures to emerge as economic growth slows. While domestic consensus forecasts have declined over the last 12 months (excluding resources), globally we still see expectations as too high. Equity market valuations also look more stretched given the rally at the end of 2023.

Portfolio commentary

The Trust delivered a total return of 8.5%, outperforming the market by 0.1% due to good sector allocation, partially offset by underperformance of the Insurance names, Brambles and Computershare.

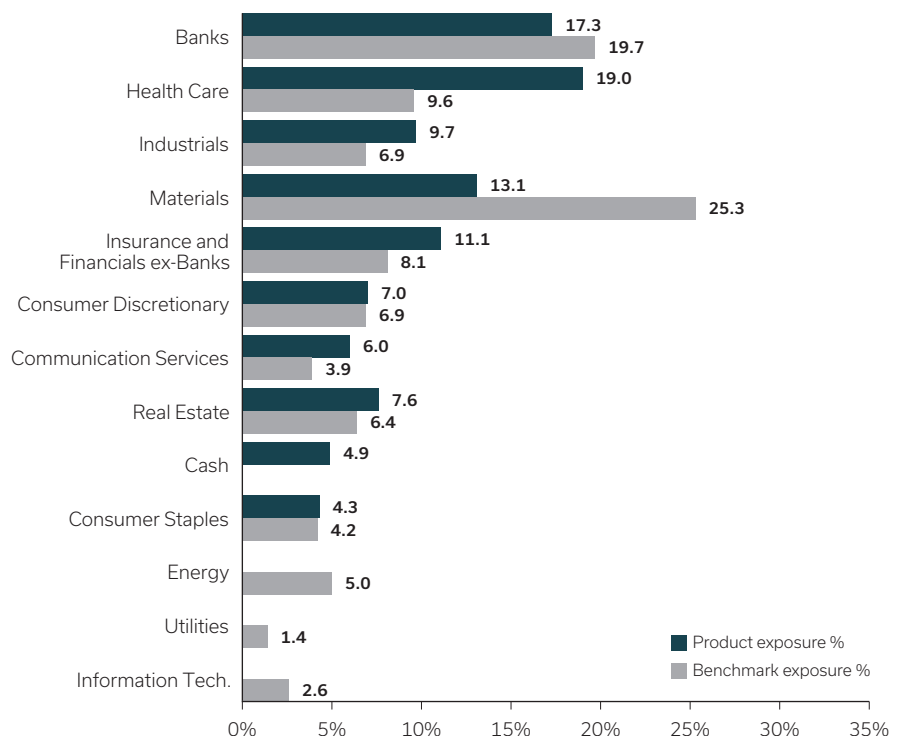
There are forces working in favour of the Australian economy - near-record terms of trade, high immigration and low unemployment - making it stand out against a range of other developed economies in terms of growth projection for 2024. That said, with the Materials sector accounting for around one quarter of the Australian market, our economy is very much tied to China growth prospects.

During the quarter we exited our position in Pilbara Minerals given the weak near-term outlook for the sector. The takeover of Invocare was successfully executed, and the company delisted from the ASX in November. We also reduced our holding in Carsales as it was trading above our valuation and at a record high.

We added to existing positions in Dexus, Resmed, CSL and Lynas Rare Earths. In each of these, we consider the respective share prices to be undervalued and supported by a solid fundamental backdrop.

Top 10 holdings	Weight %
CSL Limited	9.5
Fortescue Metals Group	6.3
Commonwealth Bank Of Australia	6.0
National Australia Bank	5.0
Telstra Corporation	5.0
Macquarie Group	4.9
Goodman Group	4.9
Resmed Inc.	4.2
Australia And New Zealand Banking Group	3.8
G.U.D. Holdings	3.6
Total	53.2

Sector exposure



Ethical view

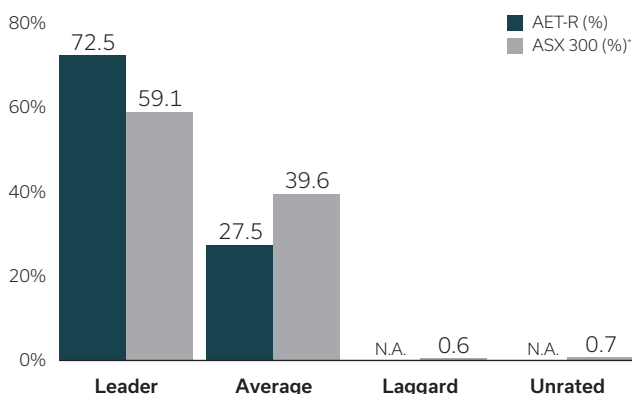
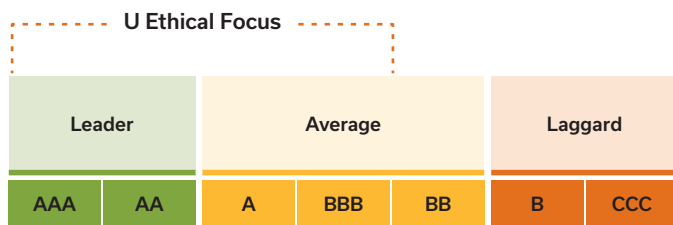
Environmental, Social, and Governance (ESG) refers to the central factors in measuring and tracking the sustainable and societal impact of an investment. These factors include climate risk management and preparedness, human rights considerations, and modern slavery risk.

U Ethical pursues a values-based, risk-adjusted and, where possible for equities, SDG-aligned approach to investing. Our investment process seeks to ensure that our portfolio holdings are aligned with our clients' financial and ethical expectations.

U Ethical's investment process integrates ESG considerations with the aim of minimising investment risk and identifying investment opportunities. Informed by our ethical investment philosophy, we seek out companies producing goods or providing services that appropriately manage their impact on society and the environment according to industry best-practice, industry standards and/or voluntary frameworks.

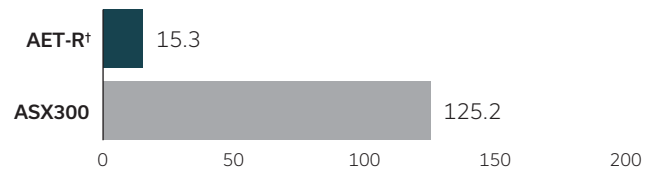
ESG ratings

ESG Ratings are designed to measure a company's resilience to long-term, industry material environmental, social and governance (ESG) risks. This helps identify industry leaders and laggards according to their exposure to ESG risks and how well they manage those risks relative to peers.



Carbon footprint

Absolute emissions Scope 1&2.
Tonnes CO2 equivalents per \$ million invested.



Carbon Metrics as of 31/10/23. Based on 97.69% percent of eligible portfolio covered. Data is based on long positions only.

Top pick for sustainable impact this quarter

Company:
ResMed (RMD)

Weight: 4.2%

Industry classification:
Health Care Equipment & Services

ESG Rating: A

Company SDG alignment:



ResMed is a global leader in digital health with cloud-connected devices, improving the lives for people with sleep apnoea and other chronic diseases. The delivery of digital health solutions enables an increase in remote monitoring, improving treatment access and outcomes. The company also leads industry peers on product quality management. Through its development of medical devices to treat and manage respiratory disorders, ResMed shows alignment with SDG 3 (good health and well-being).

*This is based on a combination of company reported and MSCI estimated carbon data. Certain information ©2021 MSCI ESG Research LLC. Reproduced by permission.

*Constituent-level scores might be affected by MSCI ESG Research's ESG Rating model enhancements introduced on the 10th of November 2020.

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The Morningstar Medalist Rating™ for Fund U Ethical Australian Equities Trust - Retail Strategy is 'Bronze' as of 30/11/2023. Sustainability Rating as of 30/11/2023. Corporate and Sovereign Sustainability Score and Investment Style as of 30/11/2023. Morningstar's Sustainability Score incorporates Sustainalytics' company and country-level analysis.

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U Ethical is recognised as a Responsible Investment Leader 2023 by the Responsible Investment Association Australasia (RIAA). We are placed in the top 20% of organisations assessed, demonstrating leading practice in our commitment to responsible investing; our explicit consideration of environmental, social and governance factors in investment decision making; our strong and collaborative stewardship; and our transparency in reporting activity, including the societal and environmental outcomes being achieved.

U Ethical is an investment manager with a difference. We believe in creating a better world by investing with purpose—today and into the future.

With the creation of our first funds in 1985, we have become one of the largest ethical investment managers in Australia with over \$1 billion in funds under management.

We are also one of the few investment businesses in Australia to have been certified as a B Corporation. As a not-for-profit social enterprise, we grant the majority of our operating surplus to community programs.

U Ethical

Level 6
130 Lonsdale Street
Melbourne VIC 3000

Email info@ueethical.com
Freecall 1800 996 888