

Quarterly Performance Review

U Ethical Australian Equities Trust - Retail

APIR UGF0001AU

September 2024

A diversified portfolio of ethically screened Australian shares designed to provide income and long-term capital growth.

Benefits and risks

- Twice-yearly distributions of fund net income
- Exposure to an actively managed portfolio
- Suggested minimum investment horizon - 7 to 10 years
- High-risk profile

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.

Fund information



Assigned as of 31/08/2024
Analyst-Driven 0%
Data Coverage 91%



Out of 515 Australia & New Zealand Equity Funds as of 31/08/2024. 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)	\$77.418
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	30

Performance	3 months	6 months	1 year	5 years	10 years	20 years	Since inception
	%	%	% p.a.	% p.a.	% p.a.	% p.a.	% p.a.
U Ethical Australian Equities Trust - Retail†	9.32	6.86	26.52	9.90	9.47	8.43	8.71
Benchmark	7.81	6.52	21.69	8.30	8.92	8.58	9.32
Relative performance	1.51	0.34	4.83	1.60	0.55	-0.15	-0.61

Past performance is not indicative of future performance.

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

† 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.

u ethical Australian Equities Trust - Retail

Market Commentary

Global equity markets continued to rally in the September quarter with inflation trending lower and more central banks starting easing cycles to engineer a 'soft landing'.

US inflation declined to 2.5% in August and recent economic data has been mixed. This led the Federal Reserve to reduce interest rates by 50 basis points at their September meeting ahead of the upcoming US election. The European Central Bank has also cut interest rates several times since June as growth remains challenging in the region. In Australia, the Reserve Bank of Australia has maintained interest rates at 4.35% since November and trimmed mean inflation in August remained above target levels at 3.4% annualised. We expect that domestic monetary policy will remain on hold for 2024 as the labour market has remained relatively robust.

China continues to deal with a troubled property sector and subdued consumer activity, although recent stimulus measures have provided more reason for optimism. Rising tensions in the middle east remain a risk for markets including potential inflation impacts from supply chain disruption and higher energy prices.

Corporate earnings results have remained solid in Australia and overseas. However, outlook statements were more cautious and earnings expectations have been revised lower. We also note increased concentration in a US market dominated by a handful of large information technology stocks. We continue to see equity market valuations as stretched given relatively optimistic earnings growth forecasts, although acknowledge central bank easing will be positive for sentiment.

Portfolio Commentary

The Trust delivered a total return of 9.3% in the September quarter, outperforming the market by 1.5% due to good stock selection, with sector allocation broadly neutral.

Australian equities market valuations continue to look expensive, however the two major macro events in the quarter – the US Federal Reserve cut rates by 50 bps and announcement of China stimulus measures – drove the market higher regardless. These events saw more defensive sectors underperform and resource stocks outperform given the resulting expectations of global growth re-acceleration.

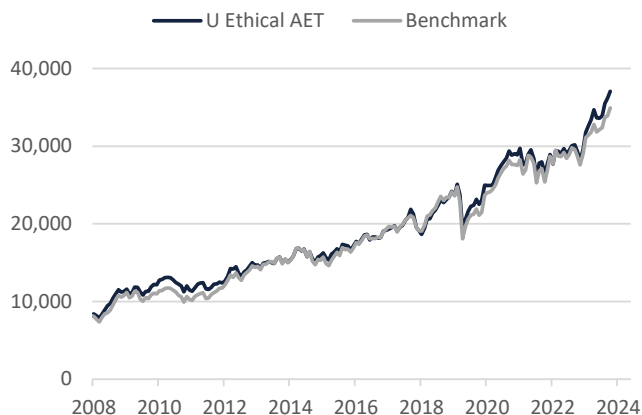
During the quarter we added HMC Capital to the portfolio as the company has a good track record of delivering earnings growth, and we see potential for strong earnings to continue if it delivers on its growth ambitions. We exited our position in Ramsay Health Care as patient admissions growth is moderating, and the European business continues to weigh on earnings.

We continued to build positions in recent additions Seek Limited and Cleanaway, and also added to Fortescue and Sandfire Resources. We reduced our holdings in ANZ and Westpac and also increased the underweight position in Commonwealth Bank as we consider the bank valuations to be stretched.

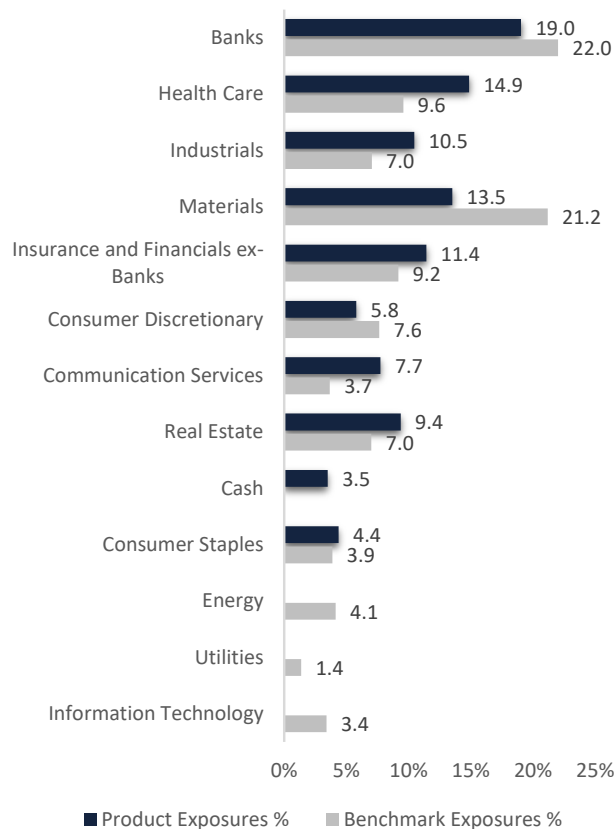
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Top 10 holdings	Weight %
CSL Limited	8.4
Goodman Group	6.0
Telstra Corporation	6.0
Fortescue Metals Group	5.9
Commonwealth Bank Of Australia	5.7
National Australia Bank	5.4
Macquarie Group	5.2
Brambles	5.0
Westpac Banking Corporation	4.3
Resmed Inc.	4.2
Total	56.2

Growth of \$10,000 invested†



Sector exposure



Ethical view

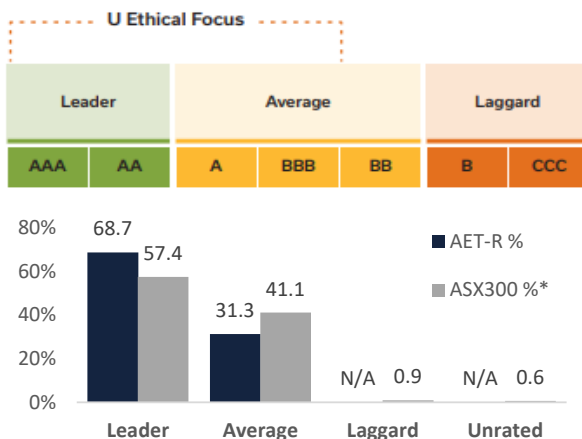
Environmental, Social, and Governance (ESG) refers to the central factors in measuring and tracking the sustainable and societal impact of an investment. These factors include climate risk management and preparedness, human rights considerations, and modern slavery risk.

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

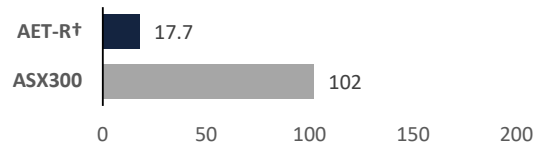
ESG Ratings are designed to measure a company's resilience to long-term, industry material environmental, social and governance (ESG) risks. This helps identify industry leaders and laggards according to their exposure to ESG risks and how well they manage those risks relative to peers.



† 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.

Carbon footprint

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



Carbon Metrics as of 31/08/2024. Based on 97.29% percent of eligible portfolio covered. Data is based on long positions only.

Engagement Update

U Ethical communicates with portfolio companies for a number of reasons, including to gain greater insight on ESG-related issues, communicate our preferences for best practice management of ESG risks and opportunities, and seek commitments for enhanced performance on ESG matters. U Ethical believes that stewardship and engagement is part of our responsibility as ethical investors.

U Ethical continues to lead a collaborative engagement with other investors on financed and facilitated emissions for the Australian banking sector covering Australia and New Zealand Bank, Macquarie Group, Westpac Banking Corporation and Commonwealth Bank of Australia.

U Ethical is lead investor on this engagement with Macquarie Group. In a meeting held early July, U Ethical and support investors spoke with MQG regarding lending client transition plans and links to future finance, disclosure of financing of fossil fuel projects and companies and how MQG activities align with meeting the goal of limiting climate change to 1.5° C. Further planning for a second round of meetings is underway with other engagement participants.

U Ethical engaged in conversations with portfolio companies regarding meeting the target of 40% women in board positions, gaining insights into board recruitment strategies and progress towards meeting that target. Currently, 70% of AET portfolio companies have at least 40% board-level gender diversity.

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About U Ethical and your team

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.

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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

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