

# Quarterly Performance Review

# U Ethical Australian Equities Trust - Retail

## Quarterly highlights June 2021

- The Australian equity market performed strongly over the quarter buoyed by solid economic data and positive earnings revisions
- The total return for the Trust over the quarter was 8.0 per cent, slightly below the benchmark. Over the last 12 months the Trust has delivered a strong total return of 25.9 per cent
- Sector allocation was a small drag, although security selection was positive with top performing stocks including ResMed, Cleanaway Waste Management and REA Group
- Recent lockdowns highlight the ongoing Covid-19 risks. Rising inflation and elevated valuations relative to historic levels also remain concerns

### Investment objective

The U Ethical Australian Equities Trust 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

|                                    |   |
|------------------------------------|---|
| <b>Inception date</b>              | 7 July 2003   |
| <b>Fund size</b>                   | \$91.35 million   |
| <b>Benchmark</b>                   | S&P/ASX 300 Accumulation Index                                  |
| <b>Buy/sell spread<sup>1</sup></b> | 0.25%/0.25% <sup>1</sup>  |
| <b>Management costs</b>            | Estimated up to 1.315% p.a.<br>See Product Disclosure Statement |
| <b>Portfolio manager</b>           | Jon Fernie  |
| <b>Number of stocks</b>            | 20-40   |

### Growth of \$1,000 invested<sup>1</sup>



| Performance  | 3 months % | 6 months % | 1 year % p.a. | 3 years % | 5 years % p.a. | 10 years % p.a. | Since inception % p.a. |
|--|------------|------------|---------------|-----------|----------------|-----------------|------------------------|
| <b>U Ethical Australian Equities Trust<sup>†</sup></b> | 7.97       | 12.34      | 25.93         | 11.02     | 11.36          | 8.44            | 8.66                   |
| <b>Benchmark</b>                                       | 8.48       | 12.98      | 28.49         | 9.77      | 11.26          | 9.21            | 9.55                   |
| <b>Relative performance</b>                            | -0.51      | -0.64      | -2.56         | 1.25      | 0.10           | -0.77           | -0.89                  |

Past performance is not indicative of future performance.

<sup>†</sup>Based on exit price with distributions reinvested, and are net of all fees



U Ethical has been certified by the Responsible Investment Association Australasia (RIAA) according to the strict disclosure requirements under the Responsible Investment Certification Program. The Certification Symbol signifies that an investment product or service takes environmental, social, ethical or governance considerations into account along with financial returns. Developed in response to investor requests for help in making informed choices, the Symbol and Certification Program promotes consistent, standardised disclosure and education about responsible investment products and services. The Symbol does not constitute financial advice by RIAA. See [www.responsibleinvestment.org](http://www.responsibleinvestment.org) for details.

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

<sup>†</sup>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.

### Market commentary

June 30 capped a remarkable year across financial markets. The beginning of financial year 2021 saw markets somewhat assured by monetary policy, while central banks helped thwart uncertainty. As bond yields retreated with increasing inflation concerns, equity markets continued to rally; the MSCI World ex-Australia index rose an extraordinary 27.5%, topped by the June quarter's rise of 9.3%. With the USA setting global risk appetite, Australian equities followed suit, up 28.5% for the year and a solid 8.5% for the June quarter.

While earnings recovered from a low base set last year amidst the initial, but short lived, pandemic slowdown, valuations continued to indicate an ever increasing market. However, with cash returns virtually non-existent and government bond yields paltry, the massive increase in money supply throughout major economies sought a home in equities with alternative sources of returns limited.

While the markets have been spinning their wheels unabated since May, they remain stubbornly elevated on the premise that inflation, or lack thereof, warrants ongoing central intervention in the form of low interest rates.

There is emerging evidence that supply bottle necks will choke the production of goods, creating pricing pressures. This is countered by the belief that immediate pricing pressures will prove transitory, as supply comes back on-stream over the next 12 months. As such, we remain cautious and reasonably defensive.

### Portfolio commentary

The Australian equity market performed strongly over the quarter buoyed by solid economic data and positive earnings revisions. The Trust delivered a total return of 8 per cent, which was 0.5 per cent below the benchmark. Over the last 12 months the Trust has delivered a strong total return of 26.2 per cent, although lagged the benchmark by 2.3 per cent due to more defensive positioning and underestimating the speed of the rebound.

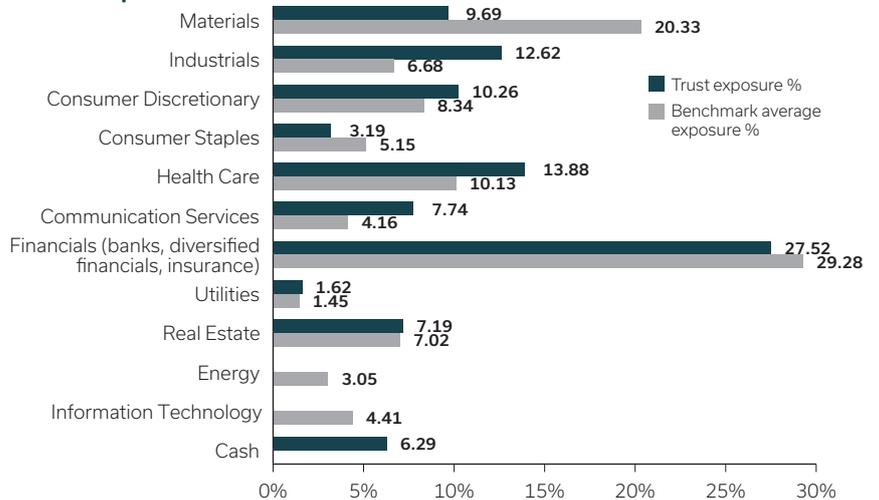
Sector allocation for the quarter was a small drag due to an underweight position in materials and information technology, as well as higher cash levels. Security selection was slightly positive and top performing stocks included ResMed, Cleanaway Waste Management, REA Group and Fortescue Metals. Bingo Industries also received a takeover offer during the period.

Looking ahead, the domestic Covid-19 vaccine rollout has not progressed as planned and the recent lockdowns highlight the ongoing risks. While rising inflation leading to higher interest rates remains a concern, this is not our base case. Valuations remain elevated relative to historic levels and the upcoming earnings season will be important for assessing the outlook for stocks.

### Top 10 holdings

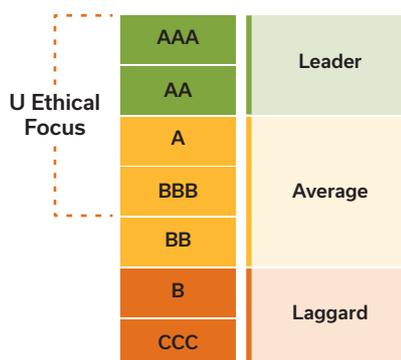
|  | %            |
|--|--------------|
| <b>Commonwealth Bank of Australia</b>          | 6.94         |
| <b>CSL</b>                                     | 6.60         |
| <b>Westpac Banking</b>                         | 4.63         |
| <b>Wesfarmers</b>                              | 4.33         |
| <b>National Australia Bank</b>                 | 4.29         |
| <b>Australia and New Zealand Banking Group</b> | 4.05         |
| <b>Fortescue Metals Group</b>                  | 4.05         |
| <b>Macquarie Group</b>                         | 3.78         |
| <b>Goodman Group</b>                           | 3.26         |
| <b>Telstra Corporation</b>                     | 3.25         |
| <b>Total</b>                                   | <b>45.18</b> |

### Sector exposure



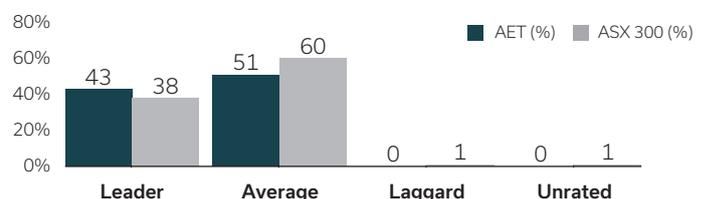
### Ethical Outcomes

Environmental, Social, and Governance (ESG) refers to the three central factors in measuring the sustainable and societal impact of an investment.



### 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.



\*based on AETW holdings and weights.

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

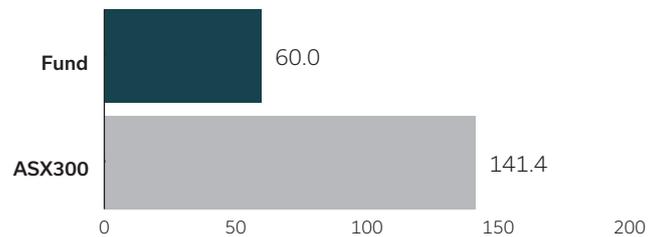
## SDG Champions

The United Nations Sustainable Development Goals (UN SDGs) were adopted by the United Nations in 2015 as a universal action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity. The goals identified the significant role that the private sector has to play in their achievement.

By assessing how aligned a company is to achieving specific goals, our investment team can tailor our portfolio according to U Ethical's values. Using the goals as a guideline for ethical investing helps maintain our vision of doing well while doing good.



## Carbon footprint (Tonnes CO2 equivalents per \$ million invested)



## Top pick for sustainable impact this quarter

Company: **ResMed Inc**

Industry classification: **Healthcare equipment and supplies**

Weight: **2.23%**

ESG Rating: **AA**



ResMed Inc is an industry leader with exceptionally low levels of controversies.

The company's improving ESG profile can be attributed to product safety & quality management and human capital development, distinguishing it from its peers.

Over the quarter it performed strongly, up ~30%. The company has also recently contributed to the COVID-19 response globally through shifting production towards ventilators and respirators. ResMed is also a leader in digital health with cloud-connected devices enabling an increase in remote monitoring, which should improve treatment access and outcomes.

Through its development of medical devices that help to treat and manage respiratory disorders, which account for approximately 26% of total revenues, ResMed shows alignment with UN-SDG 3 (Good health & wellbeing).

**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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<sup>1</sup> 90.1% of AET holdings reported carbon data, remaining estimated by MSCI. 75.0% of the benchmark reported carbon data, remaining estimated by MSCI. Certain information ©2021 MSCI ESG Research LLC. Reproduced by permission.