

# Quarterly Performance Review

# U Ethical Australian Equities Trust - Retail

## Quarterly highlights September 2023

- Macroeconomic data started to sink into the minds of investors in the quarter with the optimism of July replaced by economic concern in September. This resulted the ASX 300 Accumulation Index finishing the quarter down 0.84%.
- The total return for the Trust over the quarter was -0.58%, outperforming the ASX 300 Accumulation Index by 0.26%.
- The outperformance was driven by good stock selection, partially offset by underperformance of the Health Care and Consumer Staples sectors. No exposure to the Energy sector was also a headwind.
- During the quarter we exited Bluescope, Sonic Health Care, James Hardie Industries and APM Human Services. We also added Dexus to the portfolio and continued to build positions in Lynas Rare Earths, Woolworths and GUD Holdings.

### 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 31/08/2023  
Analyst-Driven 0%  
Data Coverage 95%

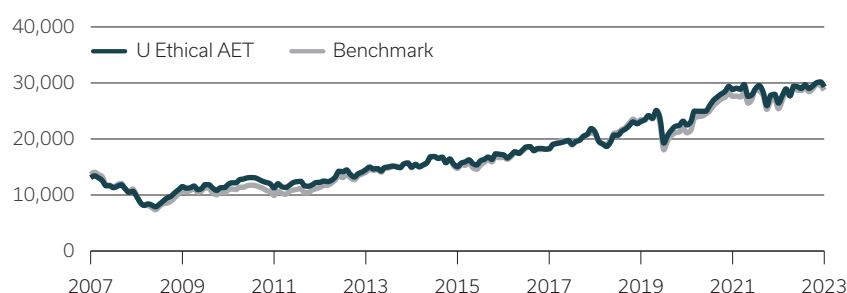


Out of 461 Australia & New Zealand Equity Funds as of 31/08/2023. Based on 100 percent of eligible corporate AUM and 0 percent of eligible sovereign AUM. Data is based on long positions only.



<b>Portfolio manager</b>	Cam Hardie
<b>Chief investment officer</b>	Jon Fernie
<b>Inception date</b>	7 July 2003
<b>Total fund size (\$M)</b>	\$72.26
<b>Benchmark</b>	S&P/ASX 300 Accumulation Index
<b>Buy/sell spread</b>	0.25%/0.25% <sup>1</sup>
<b>Management costs</b>	Estimated up to 1.315% p.a. See Product Disclosure Statement
<b>Holdings range</b>	Typically hold 20-40
<b>Number of holdings</b>	31

### Growth of \$10,000 invested<sup>†</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>	-0.58	0.92	10.87	9.18	6.64	7.26	7.89
<b>Benchmark</b>	-0.84	0.14	12.92	10.78	6.62	7.40	8.74
<b>Relative performance</b>	0.26	0.78	-2.05	-1.60	0.02	-0.14	-0.85

Past performance is not indicative of future performance.

<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.

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

### Market commentary

Global equities retreated over the quarter with central banks signalling interest rates may remain higher for longer. While economic growth has been more resilient than expected, inflation remains in focus. After a solid start to the quarter, the MSCI World Ex Australia Index (AUD) finished down 0.4% with September notably weaker.

US (United States) inflation increased to 3.7% in August in line with expectations given energy price pressures. The Federal Reserve maintained interest rates at 5.5% in September and is committed to returning inflation to target levels. The yield curve has shifted up in recent weeks and 10-year government bond yields are more than 1% higher than 12 months ago.

Headline inflation in Australia rose to 5.2% in August, although core inflation continued to ease. The Reserve Bank of Australia (RBA) has kept the cash rate at 4.1% since June. Tight labour markets, sticky services inflation and Australian dollar weakness may mean interest rates need to be tightened further.

Australian corporate earnings have remained solid despite relatively weak consumer confidence. However, specific guidance was lacking during reporting season and the outlook is more challenging. Consensus forecasts in Australia have declined substantially over the last 12 months with more moderate negative revisions overseas. We are cautious on the near-term outlook for equities given earnings uncertainty and interest rates may remain higher for longer.

### Portfolio commentary

The Trust delivered a total return of -0.58%, outperforming the market by 0.26% due to good stock selection, partially offset by underperformance of the Health Care and Consumer Staples sectors. No Energy exposure was also a headwind for performance.

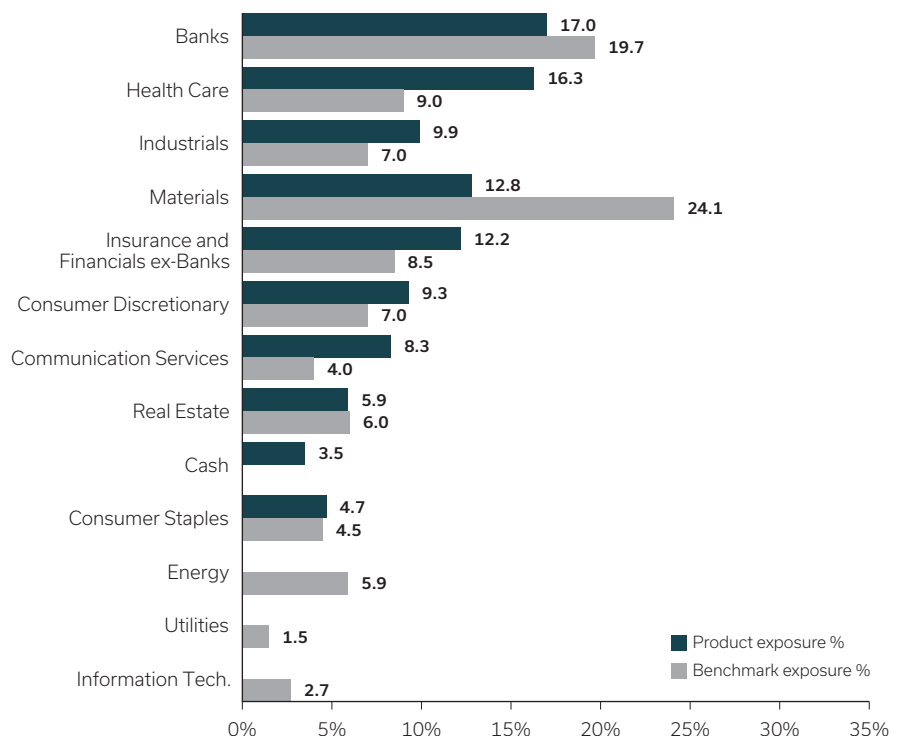
Sleep apnoea and ventilation devices company ResMed (RMD) was in the spotlight this quarter as fears new GLP-1 weight loss drugs could have a detrimental impact on the sleep apnoea market weighed on the share price. While we acknowledge there will likely be an impact, we do not believe it will be as great as the RMD share price implies and we have therefore added to our RMD position.

During the quarter we exited our position in James Hardie following its strong performance. We also exited positions in APM Human Services, Bluescope and Sonic Health Care.

We added Dexus to the portfolio as we believe that the stock is pricing in a worst-case scenario for office demand in Australia that is unlikely to eventuate. The Consumer Staples exposure was further diversified by adding to Woolworths while reducing Coles. We also continued to add to positions in Lynas Rare Earths and GUD Holdings.

Top 10 holdings	Weight %
CSL Limited	7.6
Commonwealth Bank of Australia	5.7
Fortescue Metals	5.3
Macquarie Group	5.2
Telstra Group	5.0
National Australia Bank	4.7
Goodman Group	4.2
GUD Holdings	4.1
Suncorp Group	3.7
ANZ Group	3.6
<b>Total</b>	<b>49.0</b>

### Sector exposure



### Ethical view

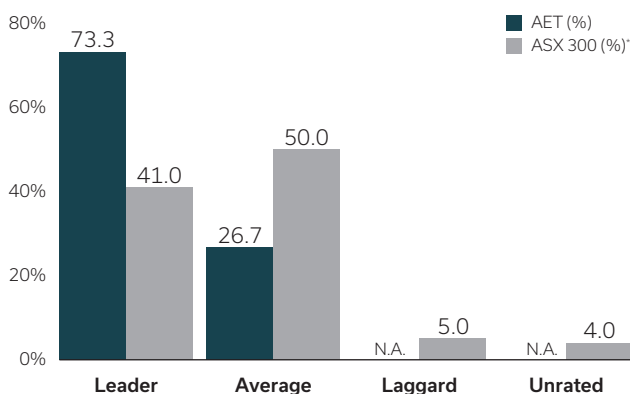
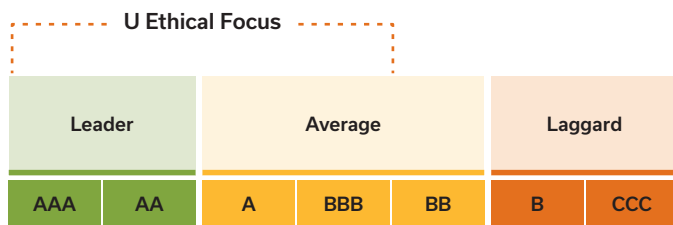
Environmental, Social, and Governance (ESG) refers to the central factors in measuring and tracking the sustainable and societal impact of an investment. These factors include climate risk management and preparedness, human rights considerations, and modern slavery risk.

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.

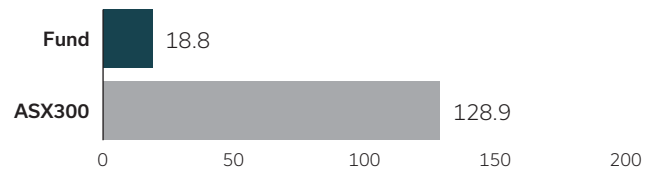
### ESG ratings

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<sup>2</sup>

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



Carbon Metrics as of 31/08/23. Based on 91.38% percent of eligible portfolio covered. Data is based on long positions only.

### Top pick for sustainable impact this quarter

**Company:**  
Commonwealth Bank of Australia (CBA)

**Weight:** 5.7%

**Industry classification:**  
Diversified banks

**ESG Rating:** AA

**Company SDG alignment:**



CBA has made strides to strengthen its position on the climate transition. Notably, CBA has set 2030 60% emissions intensity reduction target on its mortgage book, increased its lending to renewable energy projects by 28% in FY2023 and has improved stringency across climate goals. Their robust governance practices set them apart from their peers in the Australian banking industry.

<sup>2</sup>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 'Silver' as of 31/08/2023. Sustainability Rating as of 31/08/2023. Corporate and Sovereign Sustainability Score and Investment Style as of 31/08/2023. 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.

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