

# Quarterly Performance Review

# u ethical Growth Portfolio

## Quarterly highlights September 2023

- Global equities retreated over the quarter with the MSCI World Ex Australia TR Index (AUD) delivering a total return of -0.4% with September notably weaker.
- The Portfolio delivered a total return of -0.2% over the quarter, 0.6% ahead of the benchmark driven by solid relative performance in Australian equities and being overweight fixed income and cash.
- Despite some pressure from energy prices, inflation continues to trend downwards. However, core inflation may take some time to reach target levels.
- We believe some caution is warranted given earnings risks as economic growth slows and interest rates are expected to remain higher for longer.

### Investment objective

The U Ethical Growth Portfolio is more suitable for medium to long-term investment and aims to provide a total return of 3 per cent above the rate of inflation (CPI +3%) over a rolling 5-year period. It combines a strategic mix of Australian and international shares, listed property trusts, fixed interest and cash to achieve income and capital stability. The Portfolio is available to not-for-profit organisations that are registered for charity tax concessions.

### Fund information

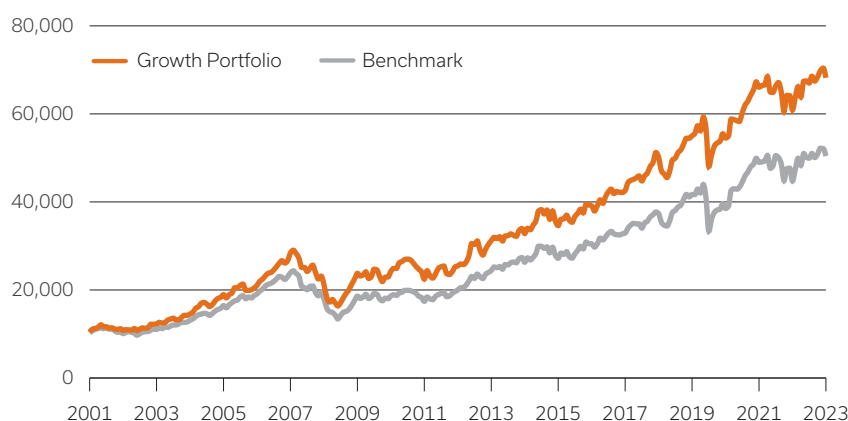


Out of 6,531 Australia & New Zealand Equity Funds as of 31/08/2023. Based on 99.41 percent of eligible corporate AUM and 0 percent of eligible sovereign AUM. Data is based on long positions only.



<b>Portfolio manager/ Chief investment officer</b>	Jon Fernie
<b>Inception date</b>	1 July 1985
<b>Total fund size (\$M)</b>	\$240.38 <sup>1</sup>
<b>Benchmark</b>	Refer below <sup>2</sup>
<b>Buy/sell spread</b>	0.20%/0.20%
<b>Management costs</b>	Estimated up to 0.80% p.a. See Offer Document

### Growth of \$10,000 invested<sup>†</sup>



### Performance

	3 months %	6 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	20 years % p.a.	Since inception % p.a.
<b>U Ethical Growth Portfolio<sup>†</sup></b>	-0.21	1.75	12.03	7.75	6.33	8.13	8.94	9.82
<b>Benchmark</b>	-0.82	0.93	12.65	9.37	6.18	7.52	7.88	N/A
<b>Relative performance</b>	0.61	0.82	-0.62	-1.62	0.15	0.61	1.06	N/A

Past performance is not indicative of future performance. <sup>†</sup>Based on exit price with distributions reinvested, including franking credits and net of all fees.

Issued by UCA Growth Fund Limited ABN 39 075 948 435. Managed and administered by Uniting Ethical Investors Limited ABN 46 102 469 821 AFSL 294147

<sup>1</sup> Figure represents the sum of the underlying products within which it invests and includes franking credits.

<sup>2</sup> The Portfolio's composite benchmark reflects the strategic asset allocation of the Portfolio: 70% S&P/ASX 300 Accumulation Index, 10% MSCI World Ex Australia Net Total Return Index (AUD) (unhedged), 10% S&P/ASX 300 Real Estate Accumulation Index, 5% Bloomberg Ausbond Bank Bill Index, and 5% Bloomberg Ausbond Composite 0-3 Year Index.

### 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 Growth Portfolio delivered a total return of -0.2% over the September quarter, outperforming the benchmark by 0.6%. Following a solid start, International and Australian equities both retreated at the end of the quarter. Corporate earnings have remained solid, although central banks remain focused on getting inflation back to target levels.

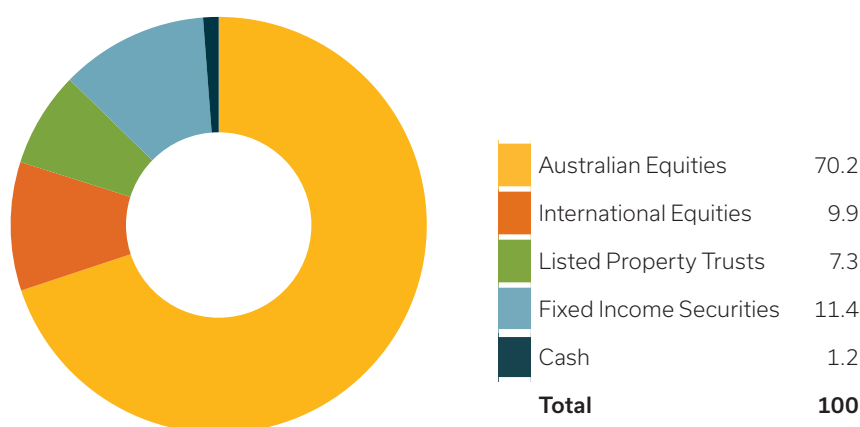
The outperformance for the quarter was predominantly due to solid relative performance in Australian equities. From an asset allocation perspective, the Portfolio benefitted from being overweight fixed income and cash (the best performing asset class) and underweight listed property (worst performing).

Australian equities outperformance was driven by stock selection across the Consumer Discretionary, Real Estate and Industrials sectors. From a sector allocation perspective, holding no Energy sector exposure and being overweight Health Care detracted from performance.

We believe some caution is warranted for equities given earnings risks as economic growth slows and interest rates are expected to remain higher for longer. Fixed income and cash are also more attractive given the improved yields.

Top 10 holdings	Weight %
CSL Limited	5.2
Goodman Group	5.0
Commonwealth Bank Australia	4.0
Fortescue Metals Group	3.7
Macquarie Group	3.7
Telstra Corporation	3.5
National Australia Bank	3.3
G.U.D. Holdings	2.9
Suncorp Group	2.6
Australia and New Zealand Banking Group	2.5
<b>Total</b>	<b>36.4</b>

### Asset allocation\*



\* The asset allocation breakdown relates to investment in underlying trusts and is not on a look-through basis. Cash represents cash held at bank.

### Ethical view

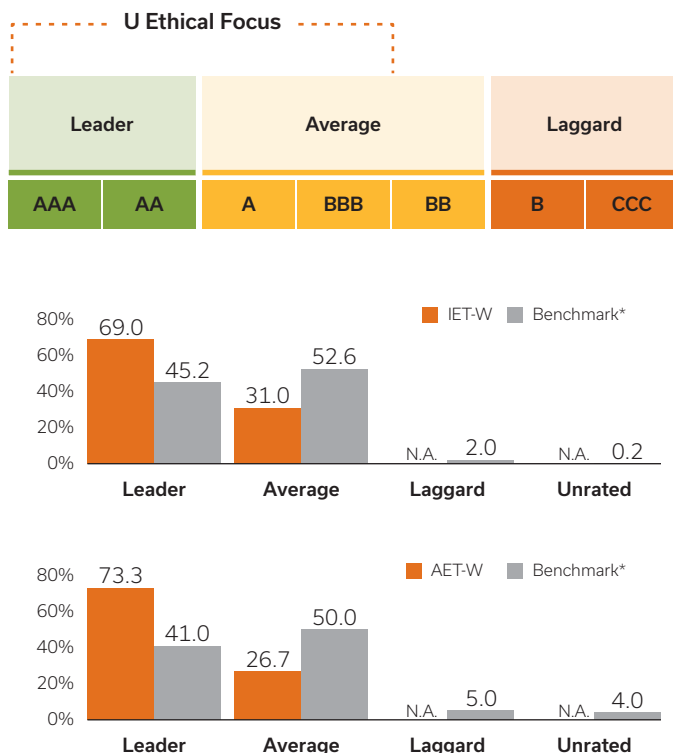
Environmental, Social, and Governance (ESG) refers to the central factors in measuring and tracking the sustainable and societal impact of an investment. These factors include climate risk management and preparedness, human rights considerations, and modern slavery risk.

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.

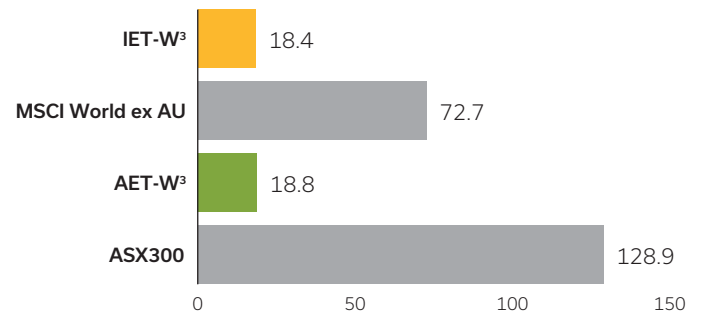
### ESG ratings

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 31/08/23. Based on 90.86 percent of eligible portfolio covered. Data is based on long positions only.

### Top pick for sustainable impact this quarter

**Company:**  
GSK PLC

**Weight:** 0.4%

**Industry classification:**  
Pharmaceuticals

**ESG Rating:** AA

**Company SDG alignment:**



GSK is an ESG leader in the pharmaceutical sector and has shown continued commitment to improving access to medicine in developing markets, ranking 1st in the 2022 access to medicine index. With the recent release of the Task Force on Nature Related Financial Disclosures (TNFD), we were pleased to see GSK taking a proactive approach on nature. Inclusion in the portfolio was also due to having 65% of revenue contributing to sustainable impacts and Science Based Targets Initiative (SBTi) approved emissions targets.

<sup>3</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 Portfolio is not prudentially supervised by the Australian Prudential Regulation Authority (APRA). Therefore, an investor in the Portfolio will not receive the benefit of the financial claims scheme or the depositor protection provisions in the Banking Act 1959. The Portfolio is listed as a religious charitable development fund under APRA's Banking Exemption. Investments in the Portfolio will be used to support the charitable purposes of the Portfolio. UCA Growth is required to notify investors that the debentures in the Portfolio and their offering, are not subject to the usual protections for investors under the Corporations Act or regulation by ASIC and have not been approved or examined by ASIC. Investors in the Portfolio may be unable to get some or all of their money back when the investor expects or at all. Investment in the Portfolio is not comparable to investments with banks, finance companies or fund managers. UCA Growth relies on the exemptions under section 5(1) and 5(2) of ASIC Corporations (Charitable Investment Fundraising) Instrument 2016/813.

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 Sustainability's 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**

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