

# Quarterly Performance Review

# u ethical Australian Equities Trust - Wholesale

## Quarterly highlights March 2024

- March saw the equity markets strong run continue as hopes of central banks cutting rates and avoiding recessions provided ongoing tailwinds. This resulted in the ASX 300 Accumulation Index climbing 5.4% in the March quarter.
- The total return for the Trust over the quarter was 9.2%, outperforming the ASX 300 Accumulation Index by 3.8%.
- Stock selection was the key driver of the outperformance. This was also supported by good sector allocation. No Information Technology exposure in the Trust was a headwind in the quarter given the strong interest in the AI thematic driving tech stocks.
- We did not add or remove any companies from the Trust during the period. However we did reduce holdings in CAR Group, Cochlear and Reliance Worldwide on valuation grounds. We also added to positions in Brambles, Woolworths and QBE amongst others where we see potential valuation upside.

### Fund information



Assigned as of 29/02/2024  
Analyst-Driven 0%  
Data Coverage 91%



Out of 479 Australia & New Zealand Equity Funds as of 31/01/2024. Based on 100 percent of eligible corporate AUM and 0 percent of eligible sovereign AUM. Data is based on long positions only.

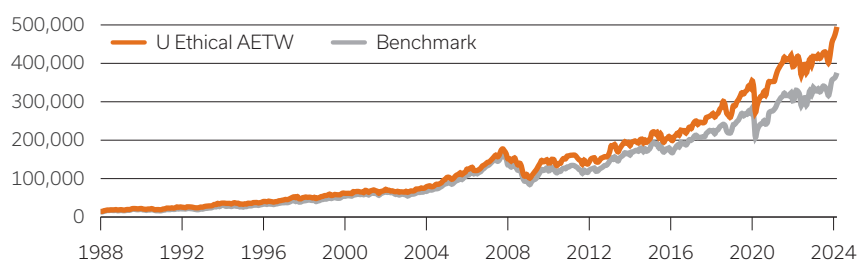


<b>Portfolio manager</b>	Cam Hardie
<b>Chief investment officer</b>	Jon Fernie
<b>Inception date</b>	1 January 1986 <sup>1</sup>
<b>Total fund size (\$M)</b>	\$782.133
<b>Benchmark</b>	S&P/ASX 300 Accumulation Index
<b>Buy/sell spread</b>	0.25%/0.25% <sup>2</sup>
<b>Management costs</b>	Estimated up to 0.80% p.a. See Information Memorandum
<b>Holdings range</b>	Typically hold 20-40
<b>Number of holdings</b>	28

### Investment objective

The U Ethical Australian Equities Trust - Wholesale has been developed for the long-term investor and aims to outperform benchmark after fees over rolling 5-year periods. It invests primarily in Australian shares and listed property trusts, as well as up to 10 per cent in fixed interest and cash. It is available to not-for-profit, corporate, and institutional investors.

### 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.	20 years % p.a.	Since inception % p.a.
<b>U Ethical Australian Equities Trust - Wholesale<sup>†</sup></b>	9.23	18.58	19.87	10.49	11.27	9.66	9.45	10.74
<b>Benchmark</b>	5.43	14.24	14.40	9.43	9.15	8.27	8.74	9.94
<b>Relative performance</b>	3.80	4.34	5.47	1.06	2.12	1.39	0.71	0.80

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

Issued by Uniting Ethical Investors Limited ABN 46 102 469 821 AFSL 294147

<sup>1</sup> From inception to 31 October 2019, performance is that of the U Ethical Australian Equities Portfolio (the Portfolio) which includes franking credits. On 1 November 2019, the Portfolio was transferred into a unit trust, the U Ethical Australian Equities Trust, and performance excludes franking credits. The benchmark throughout is the S&P/ASX 300 Accumulation Index.

<sup>2</sup> The buy/sell spread is set at 0.25 per cent per unit and is rounded to the nearest cent.

### Market commentary

Global equity markets extended their rally in the March quarter with the MSCI World Ex Australia Index (AUD) delivering a total return of 14.0% (partly driven by a weaker Australian dollar). While US inflation has trended lower, expectations for interest rate cuts have been pushed out given stronger economic data.

The US Manufacturing Purchasing Managers' Index (PMI) increased to 50.3 in March ahead of forecasts and up from 47.8 in the prior month. Recent nonfarm payrolls figures have also surprised to the upside. The federal funds target range has remained at 5.25-5.50% since July, although we have seen US 10-year treasury yields rise well above 4% during the quarter.

Australian inflation excluding volatile items declined to 3.9% in February and despite services inflation remaining sticky the trend lower has continued. The Reserve Bank of Australia (RBA) has maintained the cash rate at 4.35% since November, although minutes revealed a shift to more dovish stance. The domestic labour market remains tight with the seasonally adjusted unemployment rate declining slightly to 3.7%.

Corporate earnings were better than expected during the quarter, although stretched equity market valuations leave little room for disappointment. Stronger economic data will likely mean central banks are reluctant to ease monetary policy near-term and we view this as a key driver of equity markets in recent months.

### Portfolio commentary

The Trust delivered a total return of 9.2%, outperforming the market by 3.8% due to sector allocation complemented by strong stock selection.

While earnings revisions were generally positive in the quarter, multiple expansion has been responsible for most of the March quarter's gains. With the exception of the pandemic period, the Australian equities market has never been more expensive. The PE of the ASX-300 is now 16.9x, which is 16% above its long-run average. The path for future share price gains from here will likely be driven by sentiment and momentum rather than underlying fundamentals.

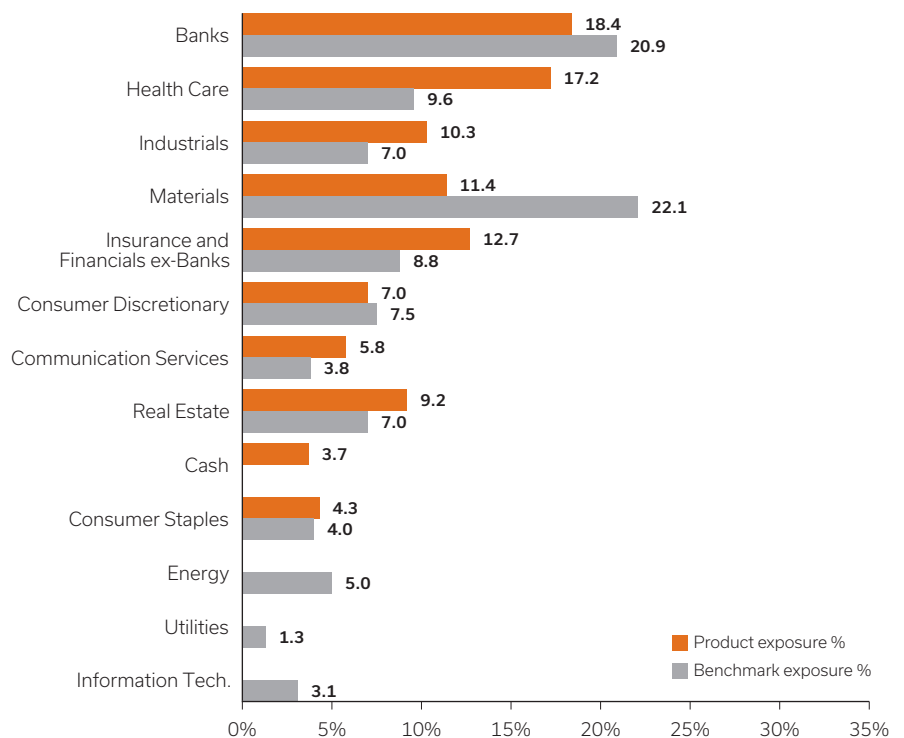
During the quarter we increased position sizing in Brambles, and QBE as we view these as well-run businesses with good valuation upside. We also added to Woolworths following its disappointing result; the market overreacted to the news causing the share price to fall. As Woolworths is our preferred supermarket exposure this provided an opportunity to add to our position at a favourable price.

We reduced position sizing in Reliance Worldwide, Cochlear and Car Group on their strong respective performance. Meanwhile we also reduced holdings in Amcor where organic earnings growth may be challenging in the near term.

### Top 10 holdings

	Weight %
CSL Limited	8.6
Goodman Group	6.1
Commonwealth Bank of Australia	5.9
Macquarie Group	5.4
National Australia Bank	5.3
Telstra Corporation	5.3
Fortescue Metals Group	4.8
Resmed Inc.	4.6
Brambles	4.5
Sandfire Resources	4.1
<b>Total</b>	<b>54.7</b>

### Sector exposure



### Ethical view

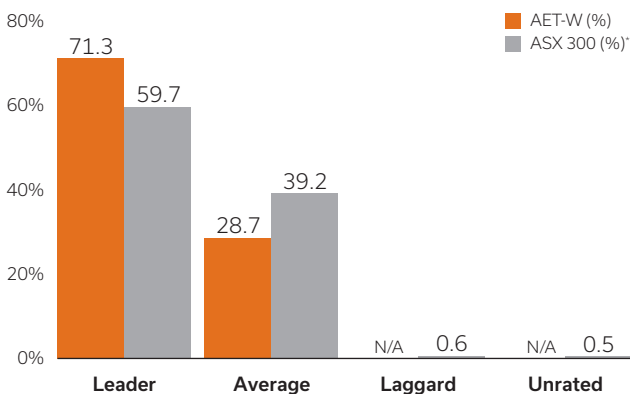
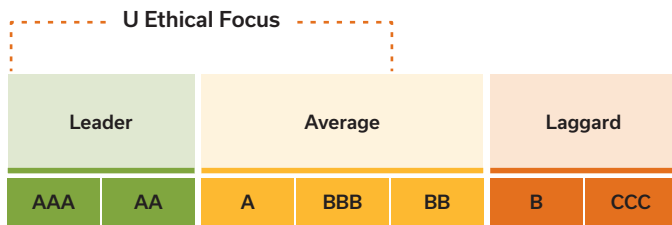
Environmental, Social, and Governance (ESG) refers to the central factors in measuring and tracking the sustainable and societal impact of an investment. These factors include climate risk management and preparedness, human rights considerations, and modern slavery risk.

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.

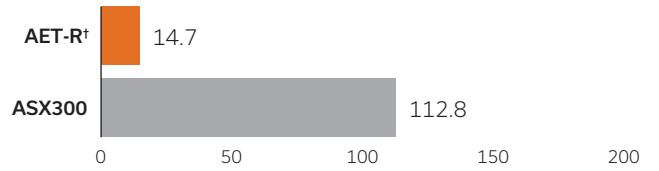
### ESG ratings

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

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



Carbon Metrics as of 29/2/2024. Based on 94.50% percent of eligible portfolio covered. Data is based on long positions only.

### Top pick for sustainable impact this quarter

**Company:**  
Lynas Rare Earths

**Weight:** 2.1%

**Industry classification:**  
Materials

**ESG Rating:** AA

**Company SDG alignment:**



Lynas Rare Earths (LYC) supplies approximately 10% of global Neodymium & Praseodymium (NdPr) and as a key component of many electrical motors Lynas shows good alignment with SDG 13 (Climate Action). The company operates one of the only rare earths separation plants outside of China which is supported by the long mine life Mt Weld deposit in Western Australia. Lynas has robust health and safety practices as well as strong policies on human rights.

\* 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 - Wholesale Strategy is 'Silver' as of 29/02/2024. Sustainability Rating as of 31/01/2024. Corporate and Sovereign Sustainability Score and Investment Style as of 29/02/2024. 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**

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