

# Quarterly Performance Review

# u ethical International Equities Trust - Wholesale

## Quarterly highlights March 2024

- The positive performance of the MSCI World Ex Australia Index in December continued over the next three months, and saw it finish the March quarter up an impressive 14%.
- The Trust provided an otherwise impressive 11.9% return for the March quarter, but it underperformed the broader market index by 2.1%.
- Key drivers of the underperformance were stock selection within several sectors, including Financials, Industrials, and Communication Services. This was partially offset by outperformance in Consumer Discretionary and Health Care companies held in the Trust.
- During the quarter we added to positions in Visa, Edwards Lifesciences, Microsoft, ServiceNow, and TSMC. We also reduced holdings in a number of companies, including Mercedes Benz, Kimberly Clark, Shionogi, and Amgen.

### Investment objective

The Trust seeks to achieve competitive market returns over the long term, while limiting harm and creating positive impact through the implementation of U Ethical's Ethical Investment Policy. The Trust is an actively managed high-conviction fund that's designed for investors who seek exposure to international equities aligned to UN SDGs and positive ESG ratings. Through a focus on high quality companies with strong fundamentals that are trading at acceptable valuations the Trust aims to outperform the benchmark over a rolling 5-year period.

### Fund information

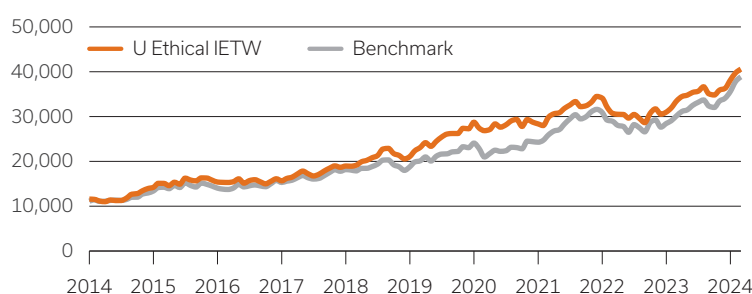


Out of 8213 funds Australia & New Zealand Equity Funds as of 31/01/2024. Based on 100 percent of eligible corporate AUM and 0 percent of eligible sovereign AUM. Data is based on long positions only.



<b>Portfolio manager</b>	Cam Hardie
<b>Chief investment officer</b>	Jon Fernie
<b>Inception date</b>	1 August 2019 <sup>1</sup>
<b>Total fund size (\$M)</b>	\$32.739 <sup>2</sup>
<b>Benchmark</b>	MSCI World Ex Australia TR Index (AUD)
<b>Buy/sell spread</b>	0.25%/0.25%
<b>Management costs</b>	Estimated up to 0.90% p.a. See Information Memorandum <sup>3</sup>
<b>Holdings range</b>	20-50
<b>Number of holdings</b>	29
<b>Targeted ESG rating</b>	BBB

### 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.	Since inception % p.a.
<b>U Ethical International Equities Trust - Wholesale<sup>†</sup></b>	11.87	15.69	21.11	10.77	11.90	13.78	14.26
<b>Benchmark</b>	14.01	20.11	28.48	14.43	14.07	13.38	13.80
<b>Relative performance</b>	-2.14	-4.42	-7.37	-3.66	-2.17	0.40	0.46

**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 Uniting Ethical Investors Limited trading as U Ethical ABN 46 102 469 821 AFSL 294147

<sup>1</sup>On 1 August 2019, the Portfolio was transferred from a sub-account of the U Ethical Growth Portfolio into a unit trust, the U Ethical International Equities Trust (Trust). The Trust retains the same investment manager and investment strategy, and charges management cost of up to 0.90% p.a.

<sup>2</sup>This figure contains \$26.530 million invested by the U Ethical Growth Portfolio product.

<sup>3</sup>From inception to 30 June 2019, performance is that of the U Ethical International Equities Portfolio (the Portfolio) with management costs adjusted from 0.80% to 0.90%.

### 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

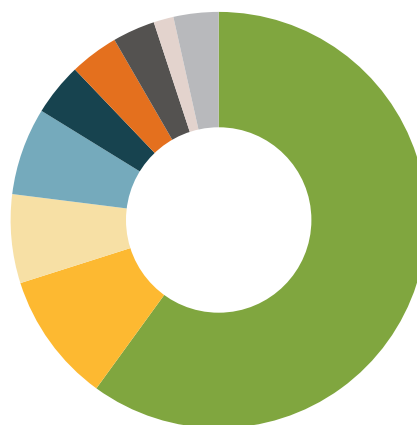
Despite the Trust's positive performance of 11.9% for the quarter, it underperformed the benchmark by 2.1%. Key primary detractors to performance included not holding Nvidia, and an underweight position in the US coupled with being overweight Europe. This was partially offset by good stock selection in the Health Care sector.

US markets are now richly valued versus historic averages. It is a similar story in Europe, but while elevated, its valuation looks more realistic. Global performance over the last 18 months has been driven by multiple expansion rather than an uptick in earnings. As a result, we believe earnings need to accelerate from here in order to justify current valuations.

Despite the strong run up in US markets, we continue to favor European equities over the US. The US market performance has been highly concentrated in a handful of sectors, most notably Information Technology. With a weight of 3.4%, chip developer Nvidia is now the third largest stock in the benchmark, and it saw gains of 82.5% over the quarter highlighting just how concentrated the US market's performance has been.

Top 10 holdings	Weight %
Microsoft Corp	8.4
Alphabet Inc	6.1
TJX Cos Inc	5.6
Taiwan Semiconductor Manufacturing	5.4
Bank New York Mellon Corp	5.1
Visa Inc	4.6
Novo-Nordisk A S	4.5
Mastercard Inc	4.4
Apple Inc	4.4
GSK Plc	4.1
<b>Total</b>	<b>52.6</b>

### Geographic exposure



Geographic Exposure	%
United States	61.8
United Kingdom	9.6
Germany	7.1
Denmark	6.8
Taiwan	5.5
France	4.1
Finland	2.9
Japan	0.7
Other	1.3
<b>Total</b>	<b>100.0</b>

Note: Total may not add due to rounding

**Ethical view**

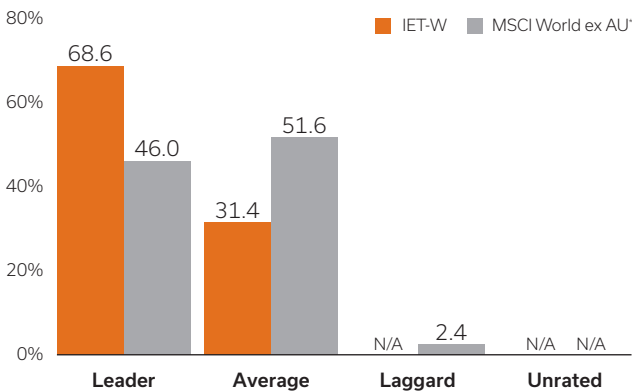
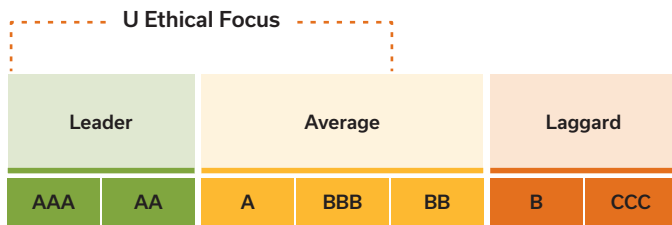
Environmental, Social, and Governance (ESG) refers to the central factors in measuring and tracking the sustainable and societal impact of an investment. These factors include climate risk management and preparedness, human rights considerations, and modern slavery risk.

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.

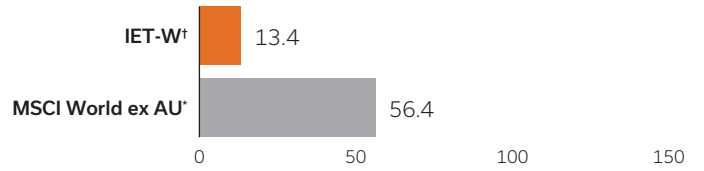
**ESG ratings**

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 31/01/2024. Based on 88.52% percent of eligible portfolio covered. Data is based on long positions only.

**Top pick for sustainable impact this quarter**

**Company:**

Novo Nordisk

**Weight:** 4.5%

**Industry classification:**

Pharmaceuticals

**ESG Rating:** AAA

**Company SDG alignment:**



Novo Nordisk is a Danish company that develops and produces insulin and other products for diabetes and other serious chronic diseases, including Wegovy and Ozempic. Novo Nordisk leads global peers in executive pay practices and is on par with peers in product quality management. By producing drugs to manage diabetes and obesity, Novo Nordisk aligns with SDG 3 (Good Health and Wellbeing).

† 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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Sustainability Rating as of 31/01/2024. Corporate and Sovereign Sustainability Score and Investment Style as of 31/01/2024. 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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