

# Quarterly Performance Review

# u ethical Australian Equities Trust – Wholesale

## Quarterly highlights June 2020

- Australian equity markets rebounded strongly off March lows, boosted by unprecedented fiscal stimulus and accommodative monetary policy
- The total return for the trust over the June quarter was 15.3 per cent, underperforming the ASX 300 Accumulation index by 1.5 per cent
- Over the 12 months to the end of June, the trust delivered a total return of -0.3 per cent, which was 7.3 per cent ahead of the benchmark
- Relative underperformance was largely driven by our defensive positioning with higher levels of cash and an underweight allocation to technology and energy stocks
- Top performing stocks for the quarter included Fortescue Metals, Macquarie and Wesfarmers. During the June quarter we added Ausnet Services and Orora to the portfolio to diversify our exposure to high yielding companies

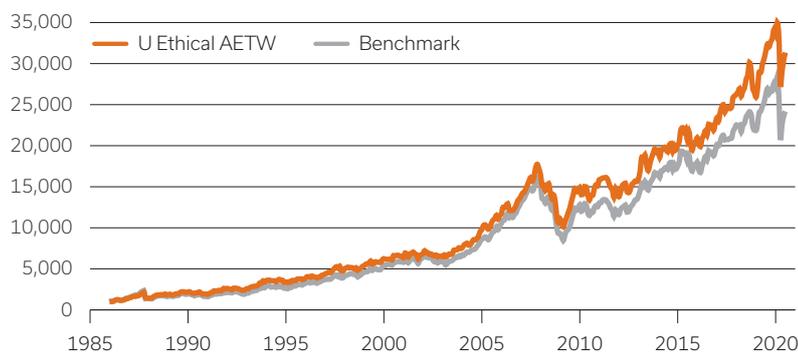
### Investment objective

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.

### Fund information

<b>Inception date</b>	1 January 1986 <sup>1</sup>
<b>Fund size</b>	\$403.88 million
<b>Benchmark</b>	S&P/ASX 300 Accumulation Index
<b>Buy/sell spread<sup>2</sup></b>	0.25% / 0.25%
<b>Management costs</b>	Estimated up to 0.80% p.a. See Information Memorandum
<b>Portfolio manager</b>	Jon Fernie
<b>Number of stocks</b>	20-40

### Growth of \$1000 invested<sup>†</sup>



### Total returns (% per annum)

	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 Australian Equities Trust – Wholesale<sup>†</sup></b>	15.28	-6.31	-0.32	8.29	8.65	8.89	10.51
<b>Benchmark</b>	16.79	-10.55	-7.61	5.24	6.00	7.71	9.67
<b>Relative performance</b>	-1.51	4.24	7.29	3.05	2.65	1.17	0.84



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.

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<sup>1</sup> The U Ethical Australian Equities Portfolio was originally established on 1 January 1986. The portfolio was then transitioned from a debenture to a unit trust and renamed as the U Ethical Australian Equities Trust - Wholesale on 1 November 2019.

<sup>2</sup> The buy/sell spread is set at 0.25 per cent per unit and is rounded to the nearest cent. The buy/sell spread was lowered (from 0.30 per cent) on 1 January 2018.

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

### Market commentary

By late June we saw a gradual easing of global lockdown measures combined with unprecedented fiscal stimulus measures and accommodative monetary policy. This resulted in global equity markets rebounding strongly off their March lows. At the end of another tumultuous quarter, equity markets appear locked into a range bound trading pattern amidst no shortage of mixed messages. Over recent months we've seen conflicting noise from economic indicators and corporate earnings data, increasing global rates of COVID-19 infections and rising geo-political tensions. Hopes are still pinned on a breakthrough vaccine development, but the timeline remains uncertain. Equity market momentum has been fuelled by an increasing number of online retail investors pushing 'big tech' names such as Amazon and Netflix higher, as well as the recovery of previously bombed out cyclical sectors such as energy. In contrast to the bond market, the equity market does not currently face a high hurdle rate in order to maintain its position as the only sector amongst core asset classes offering some chance of a positive return.

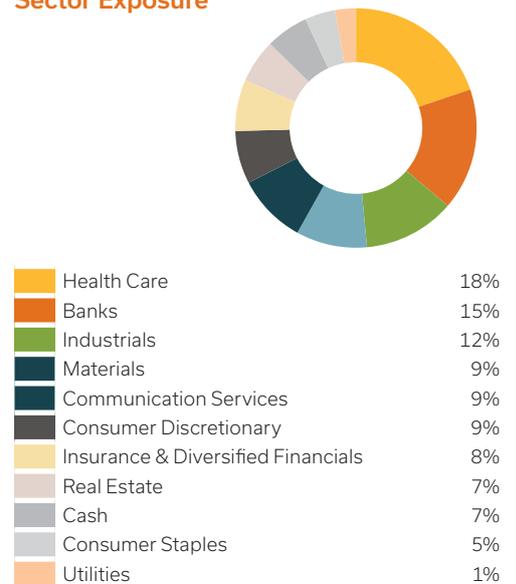
### Portfolio commentary

The Trust delivered a total return of 15.3 per cent during the quarter, underperforming the benchmark return of 16.8 per cent. Over the 12 months to the end of June, the Trust delivered a total return of -0.3 per cent, which was 7.3 per cent ahead of the benchmark. Higher levels of cash were the key detractor during the quarter, outweighing positive stock selection. Conglomerate Wesfarmers was a key performer benefiting from a pull forward in sales in their Bunnings and Officeworks stores. This was due to consumers adjusting to work from home arrangements and Australian lockdowns sparking DIY projects. Fortescue Metals was again a strong contributor benefitting from resilient iron ore prices and the shutdown of key competitor Vale's iron ore operations in Brazil. With the major banks deferring or withdrawing dividends, we added Ausnet Services and Orora to support portfolio income. While fiscal stimulus measures and lower interest rates may be supportive of equity markets in the near-term, we remain cautious given stretched valuations, the ongoing COVID-19 health crisis and a weaker economic environment. The upcoming reporting season in August will provide a key insight into the outlook for corporate earnings.

### Top 10 holdings

	%
<b>CSL</b>	8.51
<b>Commonwealth Bank of Australia</b>	6.39
<b>Wesfarmers</b>	4.04
<b>Fortescue Metals Group</b>	3.90
<b>Macquarie Group</b>	3.88
<b>Goodman Group</b>	3.77
<b>Transurban Group</b>	3.50
<b>Coles Group</b>	3.25
<b>Telstra Corporation</b>	3.20
<b>Westpac Banking Corporation</b>	3.10
<b>Total</b>	<b>43.54</b>

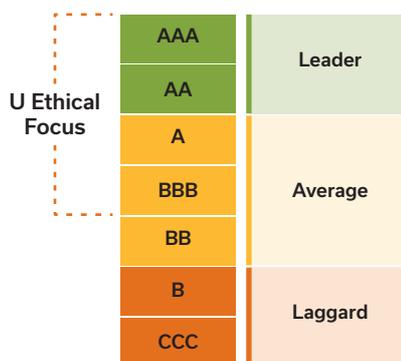
### Sector Exposure\*



\* Numbers are rounded to nearest whole number.

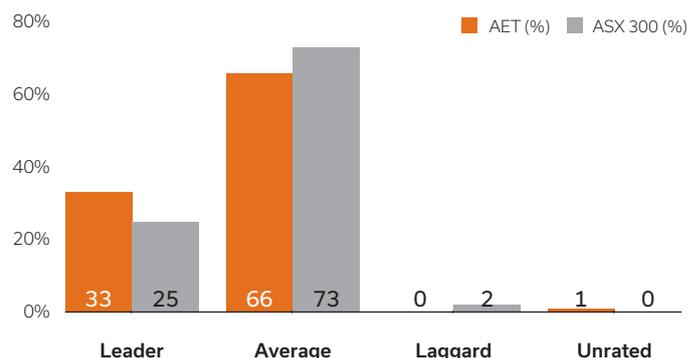
## Ethical Outcomes

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



### ESG ratings

The fund has more leading ESG ratings compared to the benchmark



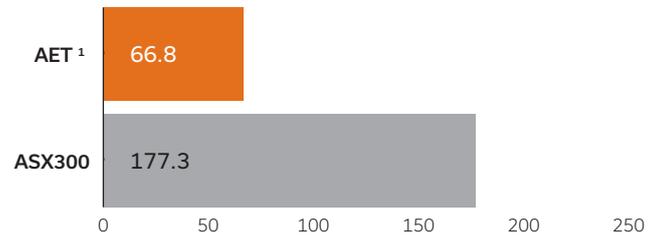
### SDG Champions

The United Nations Sustainable Development Goals SDGs have created a clear message that the private sector has a significant role to play in their achievement.

The SDGs are used as a targeted alignment with the Portfolio. 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 5 sustainable impact securities

Company	Weight	Impact
CSL	8.51%	CSL derived 57% of its revenue (FY2019) from products for treatment and diagnosis of major global diseases.
ResMed	2.92%	Derived 30% of its 2019 revenues from the treatment of respiratory disorders.
Brambles	2.23%	Where most of their peers sell pellets, Brambles rents them and collects them at the end of the chain, promoting reuse of resources.
Lendlease	2.20%	Derived 17% of its revenue (FY2019) from operation and construction of green-certified properties and supplying alternative energy or products.
Dexus	1.64%	A Dow Jones Sustainability Index Global Industry Leader, Dexus derived 36% of its revenue (FY2019) from operation and construction of green-certified properties.

**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 AETW holdings reported carbon data, remaining estimated by MSCI. 75.0% of the benchmark reported carbon data, remaining estimated by MSCI.