

# Quarterly Performance Review

# U Ethical Australian Equities Portfolio

## Quarterly highlights September 2019

- Equity markets were positive over the quarter with the benchmark ASX 300 Accumulation Index returning 2.6 per cent.
- Reporting season in August saw softer outlook commentary leading to lower consensus earnings forecasts.
- Top performing stocks for the quarter included Lendlease, CSL and JB Hi-Fi on the back of solid earnings results.
- During the quarter we added waste management firm Cleanaway and online travel company Webjet to the portfolio.

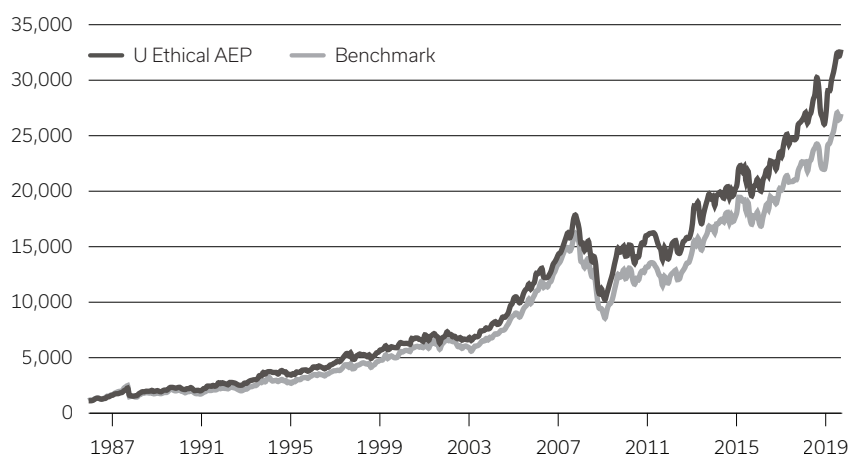
### Investment objective

The U Ethical Australian Equities Portfolio has been developed for the long-term investor, and aims to produce a total return of 3 per cent above the rate of inflation (CPI +3) over a rolling five-year period. 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 organisations that are registered for charity tax concessions.

### Fund information

|                                    |                                  |
|------------------------------------|----------------------------------|
| <b>Inception date</b>              | 1 Jan 1986                       |
| <b>Fund size</b>                   | \$360.21 million                 |
| <b>Benchmark</b>                   | S&P/ASX 300 Accumulation Index   |
| <b>Buy/sell spread<sup>†</sup></b> | 0.25% / 0.25%                    |
| <b>Management costs</b>            | 0.80% p.a.<br>See Offer Document |
| <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 Portfolio<sup>†</sup></b> | 3.79       | 12.80      | 11.47    | 13.21          | 11.11          | 8.28            | 10.88                   |
| <b>Benchmark</b>   | 2.55       | 10.80      | 12.57    | 11.85          | 9.55           | 8.05            | 10.24                   |
| <b>Relative performance</b>                                | 1.24       | 2.00       | -1.10    | 1.36           | 1.56           | 0.23            | 0.64                    |

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



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>†</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.

### Market commentary

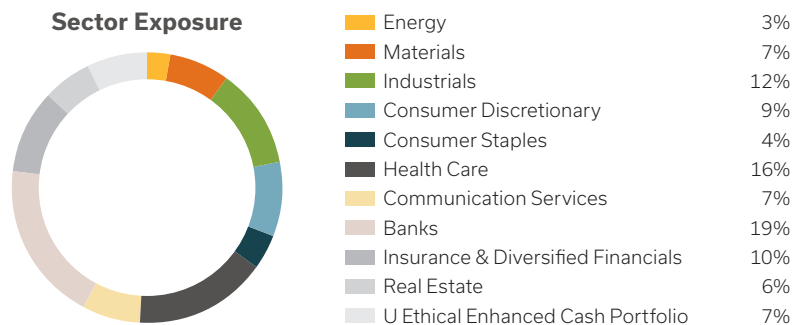
Geo-political concerns remain varied, such as Brexit, the Middle-East and mounting climate change awareness, while uncertainty arising from the China-America stand-off is portrayed as an issue of a trade-war but in reality is much more. There is a disparity between what bond markets are signaling and what equity markets are implying at present. As yields and central bank interest rates hit record lows, leading economic indicators increasingly signal a marked slowdown, if not an impending recession across many major economies. Current levels of interest rates are generally less than 1 per cent or negative, flagging a fairly dour outlook. Equity markets remain elevated near record levels however most have added very little value to investors over the last 21 months. Earnings for companies remain low and face the risk of rising cost imposts – enough to warrant continued caution.

for FY20 being revised lower. Stock and sector allocation were both positive over the quarter. Lendlease Group was the top contributor following a better than expected full year result combined with an announcement that parties were undertaking due diligence on their troubled engineering business. CSL and JB Hi-Fi also contributed strongly due to robust full year results. A weaker housing construction sector weighed on Boral Limited and GUD Holdings traded lower after full year results revealed weak organic sales growth. During the quarter we added waste management company Cleanaway and took a position in online travel company Webjet. We also began exiting positions in fossil fuel exposed stocks Oil Search and Woodside Petroleum. From an ethical perspective, as we approach voting season we have seen a rise in the number of shareholder resolutions tabling environmental and social issues.

| Top 10 Holdings                                | Make up %    |
|--|--------------|
| <b>Commonwealth Bank of Australia</b>          | 8.10         |
| <b>CSL</b>                                     | 7.13         |
| <b>Westpac Banking Corporation</b>             | 4.46         |
| <b>Macquarie Group</b>                         | 4.07         |
| <b>Wesfarmers</b>                              | 3.67         |
| <b>Australia and New Zealand Banking Group</b> | 3.42         |
| <b>Goodman Group</b>                           | 3.33         |
| <b>Transurban Group</b>                        | 3.32         |
| <b>Fortescue Metals Group</b>                  | 3.28         |
| <b>National Australia Bank</b>                 | 3.25         |
| <b>Total</b>                                   | <b>44.03</b> |

### Portfolio commentary

The portfolio gained 3.8 per cent over the quarter outperforming the benchmark return of 2.6 per cent. Reporting season was disappointing with the number of earnings misses outweighing earnings beats. Outlook commentary and guidance was soft resulting in consensus earnings



### 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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