

# Quarterly Performance Review

## U Ethical Australian Equities Trust

March 2019

### Quarterly highlights

- > Equity markets rebounded strongly with ASX300 Index gaining 10.9 per cent over the quarter.
- > Top performing stocks for the period included Fortescue Metals, InvoCare and A2 Milk.
- > We maintained higher levels of cash and continued to add to consumer staples company Coles.

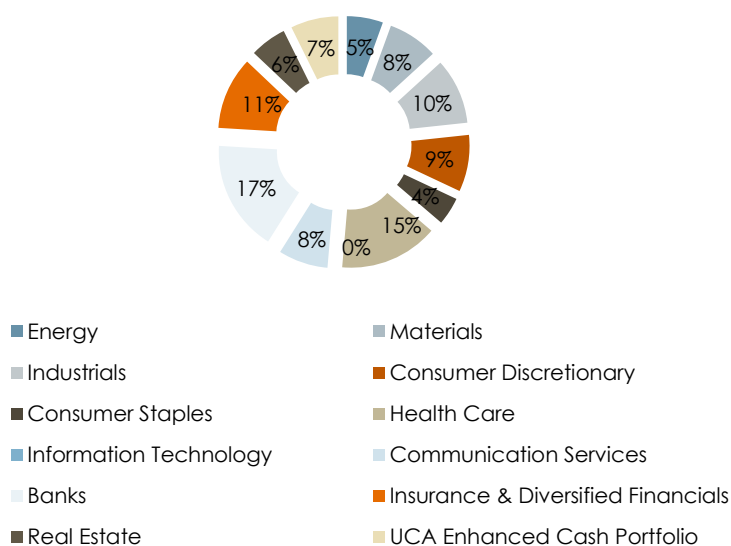
### Investment style and objectives

The U Ethical Australian Equities Trust has been developed for the long-term investor and aims to produce a total return of 3 per cent above the rate of inflation over a rolling five-year period. It invests primarily in Australian shares as well as up to 10 per cent in fixed interest and cash.

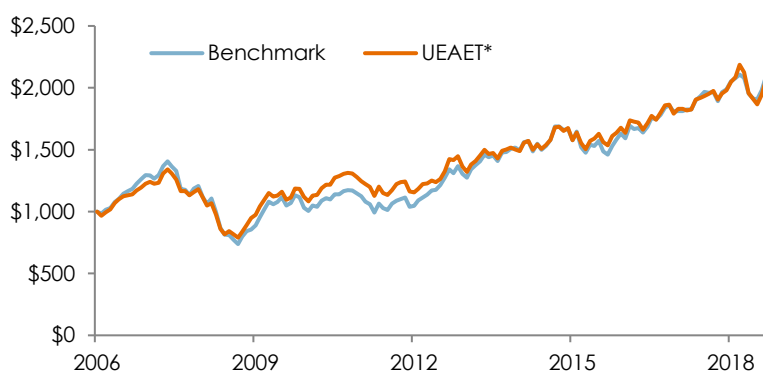
<b>Fund size</b>	\$58.94 million
<b>Benchmark</b>	S&P/ASX 300 Accumulation Index
<b>Buy/sell spread<sup>1</sup></b>	0.30% / 0.30%
<b>Management costs</b>	1.315% p.a. See Offer Document
<b>Inception date</b>	7 July 2003
<b>Portfolio manager</b>	Jon Fernie

Top 10 holdings	(%)
Commonwealth Bank Of Australia	7.19
CSL Limited	6.66
Westpac Banking Corporation	5.32
Australia and New Zealand Banking Group	4.49
Macquarie Group	4.45
Goodman Group	3.67
Wesfarmers	3.58
Transurban Group	3.33
Woodside Petroleum	3.32
Fortescue Metals Group	3.31
<b>Total</b>	<b>45.32</b>

### Sector exposure



### Growth of \$1,000 invested†



\* U Ethical Australian Equities Trust

† Based on exit price with distributions reinvested, and are net of all fees.

	Total returns (net of fees)						
	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 †</b>	10.72	- 2.74	8.38	8.67	6.60	9.47	7.85
<b>Benchmark</b>	10.92	1.59	11.74	11.39	7.39	10.25	9.24
<b>Relative performance</b>	- 0.20	- 4.33	- 3.36	- 2.72	-0.79	-0.78	-1.39

† Based on exit price with distributions reinvested, and are net of all fees. \* Inception July 2003.

From 1 October 2015, the Trust moved to a 100% Australian equities fund from previously having an 80% Australian equities and 20% cash allocation.

### Market commentary

The first quarter of 2019 realised a marked shift across investor sentiment after central banks signalled a more accommodating stance on interest rates as global growth showed signs of continued weakness. The markets are now expecting rate cuts from the US Federal Reserve and the Reserve Bank of Australia (RBA) while the European Central Bank looks set to hold rates at record low levels.

In Australia, the RBA's most recent statement acknowledged for the first time that the housing market downturn is weighing on consumption. The concluding remarks stated "will continue to monitor developments and set monetary policy to support sustainable growth". Continued low interest rates and relatively healthy employment figures remain key factors in thwarting a material downturn in Australian economic conditions.

With U.S. growth remaining robust and a Chinese policy stimulus in play, a key question over the next few months will be if and when to shift our defensive position to allocations in higher risk and more cyclical equity markets. The extent of China's economic stimulation will be closely watched together with monitoring of an outcome to US-China trade talks and the hopeful orderly resolution to the Brexit impasse.

The longer the dramas hold, the deeper the economic impost.

Overshadowing this is Trump's recent warnings to close the border to Mexico which would create an immediate and significant challenge for the current North American growth momentum. Our Australian equities portfolio remains defensive in the interim with relatively high cash levels and a shift to value orientated stocks.

### Portfolio commentary

The portfolio rebounded strongly over the quarter gaining 10.7 per cent, which was slightly below the benchmark. Sector allocation was negative during the quarter due to a large underweight position in materials and higher cash levels. However, this was more than offset by positive stock selection. Fortescue Metals was the top performer benefiting from a strong rise in iron ore prices after competitor mine closures in Brazil. InvoCare (encouraging results from recent investment program) and A2 Milk (strong half year result) also performed strongly during the period. Bingo Industries and Challenger were a drag on performance following downgraded earnings guidance. We continued to add to consumer staples company Coles, while reducing exposure to cyclical stocks such as JB Hi-Fi, Boral and Southern Cross Media.

### About the Manager

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. Over more than three decades, 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 only 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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