

Quarterly Performance Review

U Ethical Australian Equities Trust - Retail

Quarterly highlights December 2022

- After starting the quarter from close to the 12-month low on 30 September, the ASX 300 Accumulation Index ended the quarter up 9.1%. The months of October and November saw the market rally over 12%, only to give up over 3% in December.
- The total return for the Trust over the quarter was 4.92%, underperforming the ASX 300 Accumulation Index by 4.21%.
- The under-performance was driven by stock selection and sector allocation, with the biggest detractors being underweight Materials and Utilities sectors.
- During the quarter we exited our positions in JB Hi-Fi, Cleanaway and GPT Group. We also added Charter Hall Group to the portfolio and reduced our position in Pilbara Minerals following its strong performance.

Investment objective

The U Ethical Australian Equities Trust - Retail has been developed for the long-term investor and aims to outperform the benchmark after fees over rolling 5-year periods. It invests primarily in Australian shares as well as up to 10 per cent in fixed interest and cash.

Fund information

Portfolio manager	Cam Hardie
Chief investment officer	Jon Fernie
Inception date	7 July 2003
Total fund size (\$M)	\$73.6
Benchmark	S&P/ASX 300 Accumulation Index
Buy/sell spread¹	0.25%/0.25%
Management costs	Estimated up to 1.315% p.a. See Product Disclosure Statement
Holdings range	Typically hold 20-40
Number of holdings	32

Growth of \$1,000 invested[†]



Performance

	3 months %	6 months %	1 year % p.a.	3 years %	5 years % p.a.	10 years % p.a.	Since inception % p.a.
U Ethical Australian Equities Trust[†]	4.92	6.74	-6.68	5.36	7.47	8.18	6.74
Benchmark	9.13	9.62	-1.77	5.51	7.10	8.61	8.90
Relative performance	-4.21	-2.88	-4.91	-0.15	-0.37	-0.43	-100

Past performance is not indicative of future performance.



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 for details.

[†] Based on exit price with distributions reinvested and are net of all fees. From 1 October 2015, the Trust moved to a 100% Australian equities fund from previously having an 80% Australian equities and 20% cash allocation.

¹ The buy/sell spread is set at 0.25 per cent unit and is rounded to the nearest cent.

Market commentary

Global equities moved higher over the December quarter driven by optimism over easing inflation, central banks slowing the pace of interest rate hikes and relatively resilient corporate earnings. The MSCI World Ex Australia Index (AUD) delivered a total return of 3.9% over the quarter, although this was higher in US dollar terms. Headline US inflation eased to an annualised rate of 6.5% at year-end, although core inflation remains well above target levels. The US labour market continues to be strong with the unemployment rate at 3.5%, although a number of large technology firms and banks have recently announced job cuts. Inflation in Australia has continue to rise to an annualised rate of 7.8% in December, but we expect that we are close to the peak. While there has been no resolution to the Ukraine conflict, China started easing Covid-19 restrictions late in the year. Softening inflation data has allowed central banks more flexibility on monetary policy, although we expect further interest rate rises in the first half of 2023. The Federal Reserve raised interest rates by 50 basis points (bps) in December, which stepped down from recent 75bps increases. The Reserve Bank of Australia (RBA) took an even more cautious approach and increased the cash rate by 25bps in each month over the quarter to 3.1%. Leading global economic indicators have continued to deteriorate and risks remain around a global recession. Corporate earnings have been better than expected, although we believe that consensus earnings estimates for 2023 are optimistic given a weaker economic environment as higher interest rates and inflation pressures start to bite.

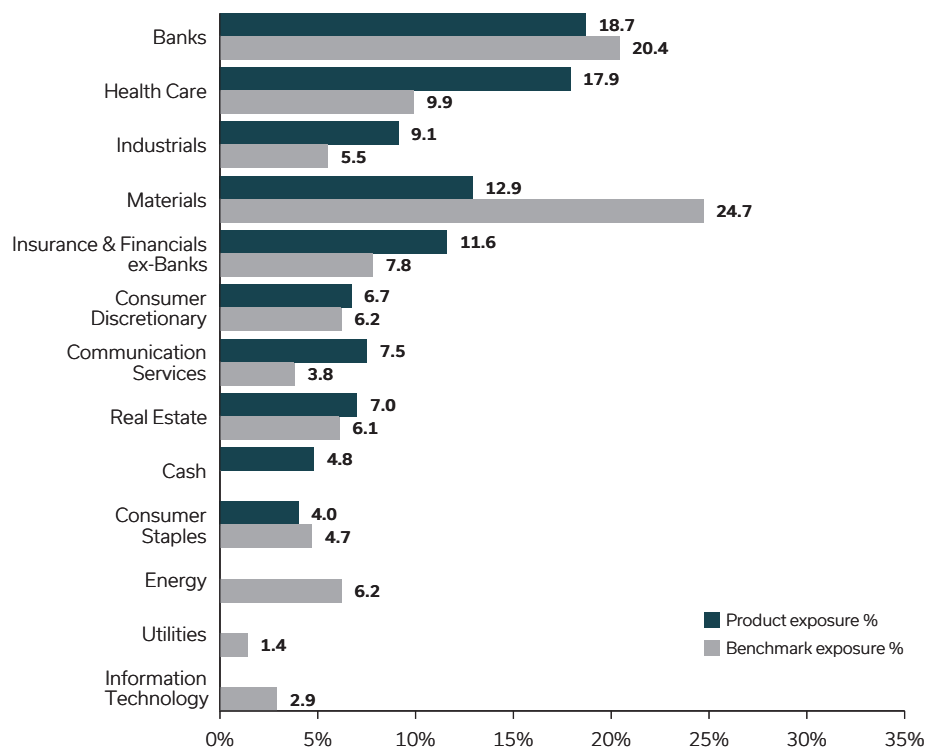
Despite positive signs on inflation and central banks being potentially closer to the end of the tightening cycle, we remain cautious on equities due to earnings risks over the next 12 months. Given higher interest rates globally, fixed income opportunities have also become more attractive.

Portfolio commentary

The Trust delivered a total return of 4.92%, 4.21% below the benchmark due to stock selection and sector allocation, with the biggest detractors being underweight Materials and Utilities sectors which impacted returns by a combined 0.9%. Stock selection was also negative for the quarter due to strong performance in the resource stocks. Within the portfolio we had good outperformance in the Financials and Communication Services sectors, but that was not enough to offset underperformance in a handful of stocks, including Resmed, Pilbara Minerals and APM Human Services. The market has reacted positively to the news of China reopening and hope that inflation may have turned a corner, however we continue to maintain a defensive position as we believe further interest rate increases will be required to bring inflation under control and the impact of last years' rate rises is still yet to be fully felt by consumers. We are also of the view that market earnings estimates need to be revised down which should ultimately impact share prices. During the quarter we exited our position in JB Hi-Fi as we considered it fully priced and we expect weaker retail data will eventually flow through to its revenues. We also exited Cleanaway due to ESG concerns with its New Chum landfill. We also exited GPT Group, and added Charter Hall Group, preferring its lower exposure to Retail Property. We have also reduced our position in Pilbara Minerals following its strong performance.

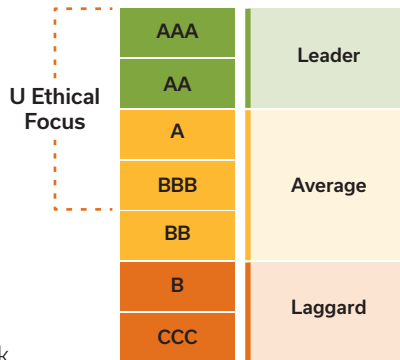
Top 10 holdings	%
CSL	8.67
National Australia Bank	5.47
Commonwealth Bank of Australia	5.02
Pilbara Minerals	4.69
Telstra	4.68
Macquarie Group	4.63
Westpac Banking	4.30
Coles Group	4.05
Fortescue Metals Group	3.53
QBE Insurance	3.43
Total	48.47

Sector exposure



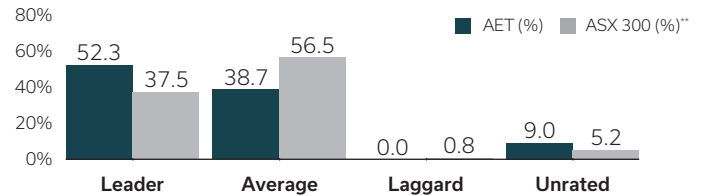
Ethical Outcomes

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.



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.



*based on AETW holdings and weights.
**Constituent-level scores might be affected by MSCI ESG Research's ESG Rating model enhancements introduced on the 10th of November 2020.

SDG Champions

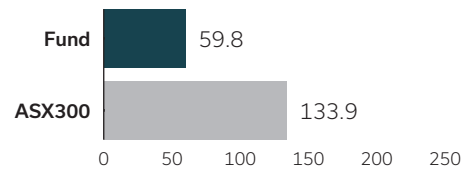


The United Nations Sustainable Development Goals (UN SDGs) were adopted by the United Nations in 2015 as a universal action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity. The goals identified the significant role that the private sector has to play in their achievement.

By assessing how aligned a company is to achieving specific goals, our investment team can tailor our portfolio according to U Ethical's values. Using the goals as a guideline for ethical investing helps maintain our vision of doing well while doing good.

Carbon footprint¹

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



Top pick for sustainable impact this quarter

Company: Coles Group Limited
Weight: 3.98%
Industry classification: Food Retail
ESG Rating: AA
Company SDG alignment:

Coles is a leading food retailer, deriving approximately 20% of revenue through the selling of nutritious foods. With the release of its recent Modern Slavery Statement 2022 and engagement through Investors Against Slavery and Trafficking (IAST) APAC, it is clear Coles have increased transparency of its relationships and due diligence of suppliers and is committed to continuous improvement.



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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¹ Based on Portfolio investment of \$416,575,626 and Benchmark investment of \$1,000,000,000. 90.1% of AET holdings reported carbon data, remaining estimated by MSCI. 75.0% of the benchmark reported carbon data, remaining estimated by MSCI. Certain information ©2021 MSCI ESG Research LLC. Reproduced by permission.