

# Quarterly Performance Review

# u ethical Australian Equities Trust – Wholesale

## Quarterly highlights March 2020

- Australian equity markets retreated significantly due to the COVID-19 crisis and rising recession risks
- The total return for the trust over the March quarter was -18.7%, outperforming the ASX 300 Accumulation Index by 4.7%
- Defensive positioning, including higher cash levels, overweight healthcare and underweight energy, contributed to relative performance
- Top performing stocks for the quarter included CSL, a2 Milk, ResMed and Fortescue Metals

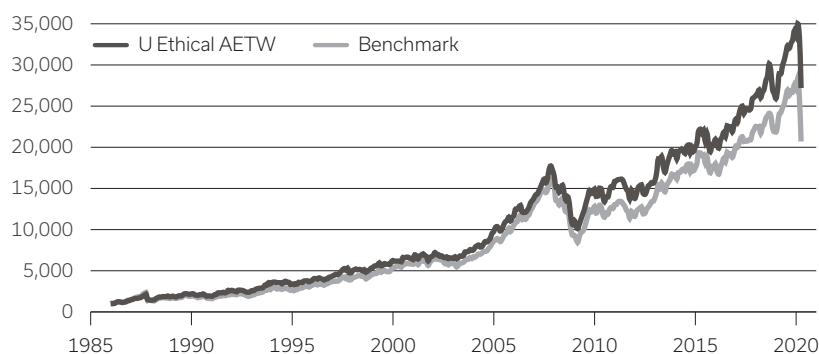
### Fund information

<b>Inception date</b>	1 January 1986 <sup>†</sup>
<b>Fund size</b>	\$351.96 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

### Investment objective

The U Ethical Australian Equities Trust - Wholesale 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, corporate and institutional investors.

### 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>	-18.73	-16.69	-6.03	3.24	4.15	6.11	10.13
<b>Benchmark</b>	-23.41	-22.86	-14.53	-0.59	1.39	4.80	9.25
<b>Relative performance</b>	4.68	6.17	8.50	3.83	2.76	1.31	0.88



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.

Issued by Uniting Ethical Investors Limited ABN 46 102 469 821 AFSL 294147

<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**

Financial markets carried momentum from an unprecedented record breaking 2019 which saw equity and credit markets with little room to accommodate an outbreak of negative news. COVID-19 presented a perfect shock to the system as its impact across global economies pushed equity, bond and money markets into a rapid reversal. Volatility jumped as uncertainty prevailed and nervous investors rushed to liquidate investments in order to bolster cash holdings.

Towards the end of the quarter the depth of ‘fear’ across financial markets started to ease as global central banks cut interest rates to the bottom of any practical ranges. Australia’s cash rate as set by the RBA now stands at 0.25%. Further stabilisation methods were introduced as Central Banks embarked upon unconventional means to maintain liquidity and stability across financial markets. Governments have pledged unprecedented stimulatory packages to alleviate income uncertainty and economic loss as the world entered a global lockdown.

In the interim, corporate guidance on future earnings and dividends has diminished making it difficult to ascertain the relative worth of core asset classes. We entered the downturn defensively positioned, seeking to protect capital rather than chase excessive and risky returns. Until we see an obvious path ahead and clear indications most of the negative impact from COVID-19 has been sufficiently priced into valuations we shall remain defensively positioned.

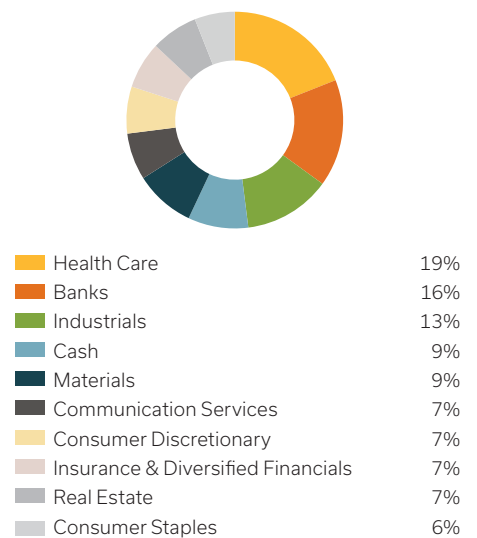
**Portfolio commentary**

Australian equity markets started the quarter strongly before declining almost 40% due to the COVID-19 crisis (although there has been some recovery from lows due to fiscal stimulus measures). The trust delivered a total return of -18.7% during the quarter, outperforming the benchmark return of -23.4% due to our positive sector allocation and stock selection. Healthcare stocks CSL and ResMed were key contributors to the Trust’s performance. Earnings outlook for these companies look strong as they contribute to efforts to combat COVID-19. Given increased recession risks, financials including Macquarie and the major banks were key detractors. A large number of companies have withdrawn earnings guidance and initiated cost reduction programs and undertaken equity raisings to strengthen balance sheets. We expect further capital raisings and significant dividend cuts across the market. We remain defensively positioned with higher levels of cash given ongoing uncertainty and risks.

**Top 10 Holdings**

	%
<b>CSL</b>	10.09
<b>Commonwealth Bank Of Australia</b>	7.36
<b>Fortescue Metals Group</b>	4.02
<b>Wesfarmers</b>	3.54
<b>Goodman Group</b>	3.53
<b>Telstra Corporation</b>	3.51
<b>Transurban Group</b>	3.43
<b>Coles Group</b>	3.29
<b>Westpac Banking Corporation</b>	3.28
<b>Resmed Inc.</b>	3.26
<b>Total</b>	<b>45.31</b>

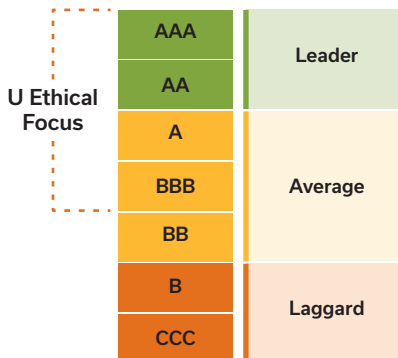
**Sector Exposure\***



\* Numbers are rounded to nearest whole number.

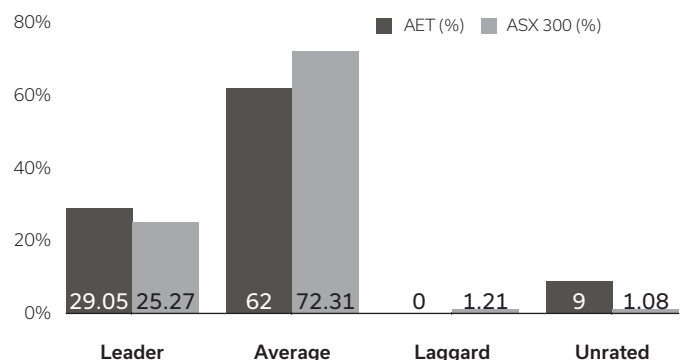
**Ethical Outcomes**

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

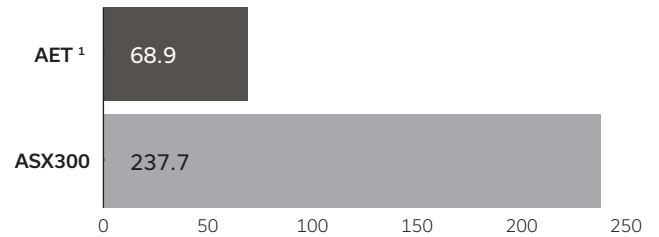
The United Nations Sustainable Development Goals (SDG) have created a clear message that the private sector has a significant role to play in their achievement.

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	10.1%	CSL derived 57% of its revenue (FY2019) from products for treatment and diagnosis of major global diseases.
ResMed	3.3%	Derived 30% of its 2019 revenues from the treatment of respiratory disorders.
Brambles	2.5%	Where most of their peers sell pellets, Brambles rents them and collects them at the end of the chain, promoting reuse of resources.
Lendlease	1.8%	Derived 17% of its revenue (FY2019) from operation and construction of green-certified properties and supplying alternative energy or products.
Dexus	1.7%	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.

### U Ethical

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<sup>1</sup> 72.2% of AETW holdings reported carbon data, remaining estimated by MSCI. 46.1% of the benchmark reported carbon data, 51.5% estimated by MSCI and 2.4% had no data.