

# Quarterly Performance Review

# u ethical International Equities Trust - Wholesale

## Quarterly highlights September 2023

- It was a volatile quarter for international equities markets with the MSCI World Ex Australia Index ending the quarter down 0.4%.
- Company results were better than expected in the quarterly reporting season. However, markets turned negative in September following global central banks either increasing rates - or talking to potential for further hikes - coupled with an almost unanimous view of a higher for longer rate environment in global economies.
- The Trust provided a return of -0.9% for the quarter, underperforming the benchmark by 0.4%. Key detractors were underperformance of some Industrial sector stocks, weakness in semi-conductor manufacturer TSMC's share price and significant headwind from a strong Energy sector. These detractors were partially offset by good stock selection in the Financials and Health Care sectors.
- During the quarter we exited our position in Ecolab and added Visa Inc to the portfolio.

### Investment objective

The Trust seeks to achieve competitive market returns over the long term, while limiting harm and creating positive impact through the implementation of U Ethical's Ethical Investment Policy. The Trust is an actively managed high-conviction fund that's designed for investors who seek exposure to international equities aligned to UN SDGs and positive ESG ratings. Through a focus on high quality companies with strong fundamentals that are trading at acceptable valuations the Trust aims to outperform the benchmark over a rolling 5-year period.

### Fund information

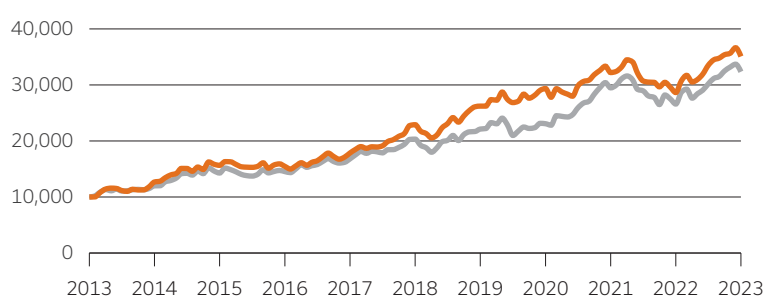


Out of 6,531 Australia & New Zealand Equity Funds as of 31/08/2023. Based on 94.82 percent of eligible corporate AUM and 0 percent of eligible sovereign AUM. Data is based on long positions only.



<b>Portfolio manager</b>	Cam Hardie
<b>Chief investment officer</b>	Jon Fernie
<b>Inception date</b>	1 August 2019 <sup>1</sup>
<b>Total fund size (\$M)</b>	\$30.25 <sup>2</sup>
<b>Benchmark</b>	MSCI World Ex Australia TR Index (AUD)
<b>Buy/sell spread</b>	0.25%/0.25%
<b>Management costs</b>	Estimated up to 0.90% p.a. See Information Memorandum <sup>3</sup>
<b>Holdings range</b>	20-50
<b>Number of holdings</b>	30
<b>Targeted ESG rating</b>	BBB

### Growth of \$10,000 invested<sup>†</sup>



### Performance

	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 International Equities Trust - Wholesale<sup>†</sup></b>	-0.88	4.69	22.45	6.12	8.88	13.36	13.36
<b>Benchmark</b>	-0.44	6.96	21.64	11.92	9.74	12.46	12.46
<b>Relative performance</b>	-0.44	-2.27	0.81	-5.80	-0.86	0.90	0.90

Past performance is not indicative of future performance. <sup>†</sup>Based on exit price with distributions reinvested, including franking credits and net of all fees.

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

<sup>1</sup>On 1 August 2019, the Portfolio was transferred from a sub-account of the U Ethical Growth Portfolio into a unit trust, the U Ethical International Equities Trust (Trust). The Trust retains the same investment manager and investment strategy, and charges management cost of up to 0.90% p.a.

<sup>2</sup>This figure contains \$24.290 million invested by the U Ethical Growth Portfolio product.

<sup>3</sup>From inception to 30 June 2019, performance is that of the U Ethical International Equities Portfolio (the Portfolio) with management costs adjusted from 0.80% to 0.90%.

### Market commentary

Global equities retreated over the quarter with central banks signalling interest rates may remain higher for longer. While economic growth has been more resilient than expected, inflation remains in focus. After a solid start to the quarter, the MSCI World Ex Australia Index (AUD) finished down 0.4% with September notably weaker.

US (United States) inflation increased to 3.7% in August in line with expectations given energy price pressures. The Federal Reserve maintained interest rates at 5.5% in September and is committed to returning inflation to target levels. The yield curve has shifted up in recent weeks and 10-year government bond yields are more than 1% higher than 12 months ago.

Headline inflation in Australia rose to 5.2% in August, although core inflation continued to ease. The Reserve Bank of Australia (RBA) has kept the cash rate at 4.1% since June. Tight labour markets, sticky services inflation and Australian dollar weakness may mean interest rates need to be tightened further.

Australian corporate earnings have remained solid despite relatively weak consumer confidence. However, specific guidance was lacking during reporting season and the outlook is more challenging. Consensus forecasts in Australia have declined substantially over the last 12 months with more moderate negative revisions overseas. We are cautious on the near-term outlook for equities given earnings uncertainty and interest rates may remain higher for longer.

### Portfolio commentary

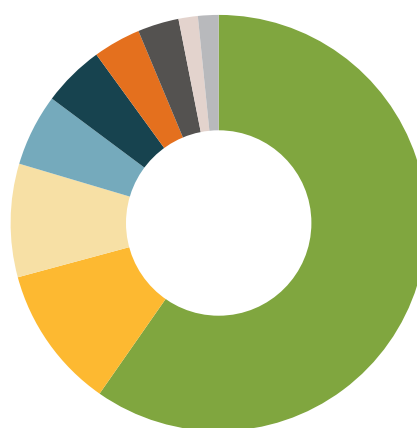
The Trust delivered a total return of -0.9% over the quarter underperforming the benchmark by 0.4%. Key detractors were: (1) underperformance of some Industrial sector companies, including DHL Group and Vestas Wind Systems; (2) weakness in semi-conductor manufacturer TSMC's share price; and (3) significant headwind from a strong Energy sector. These detractors were partially offset by good stock selection in the Financials and Health Care sectors.

The reality of interest rates staying higher for longer are finally dawning on investors as bond yields start to price in this outlook. The outcome is the risk-reward in equities is now not as attractive relative to fixed income alternatives. In addition, while earnings forecasts have been revised down over the last 12 months, we believe they still have further to go. Given this outlook, we remain cautious on equities markets, and the Trust remains defensively positioned with overweight positions in the Health Care, and Consumer Staples sectors.

The Trust is also skewed to hold a more overweight position in the European market where we continue to see better value and opportunities compared to the US where we are underweight relative to the benchmark.

Company	Weight %
TJX Companies	6.6
Alphabet Inc.	5.4
Apple Inc.	5.1
Mercedes Benz Group	4.9
Unilever	4.8
Microsoft Corporation	4.4
Bank of New York Mellon	4.1
Mastercard	4.0
Union Pacific Corporation	4.0
GSK	3.8
<b>Total</b>	<b>47.2</b>

### Geographic exposure



North America	59.7
United Kingdom	11.1
Germany	8.8
Denmark	5.6
France	4.8
Taiwan	3.7
Finland	3.2
Japan	1.5
Other	1.6
<b>Total</b>	<b>100</b>

Note: Total may not add due to rounding

\* The asset allocation breakdown relates to investment in underlying trusts and is not on a look-through basis. Cash represents cash held at bank.

### Ethical view

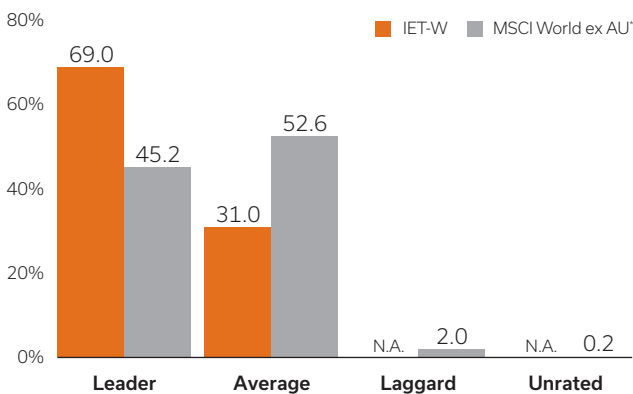
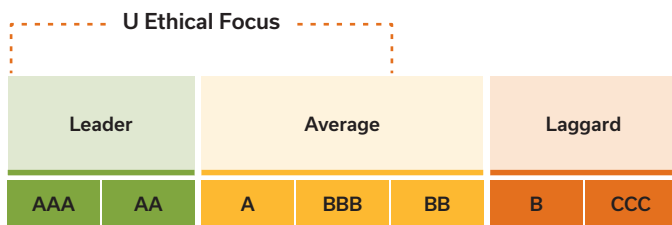
Environmental, Social, and Governance (ESG) refers to the central factors in measuring and tracking the sustainable and societal impact of an investment. These factors include climate risk management and preparedness, human rights considerations, and modern slavery risk.

U Ethical pursues a values-based, risk-adjusted and, where possible for equities, SDG-aligned approach to investing. Our investment process seeks to ensure that our portfolio holdings are aligned with our clients' financial and ethical expectations.

U Ethical's investment process integrates ESG considerations with the aim of minimising investment risk and identifying investment opportunities. Informed by our ethical investment philosophy, we seek out companies producing goods or providing services that appropriately manage their impact on society and the environment according to industry best-practice, industry standards and/or voluntary frameworks.

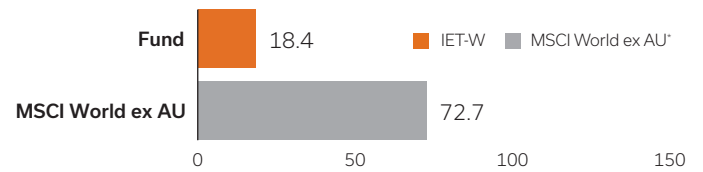
### ESG ratings

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.



### Carbon footprint<sup>4</sup>

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



Carbon Metrics as of 31/08/23. Based on 81.05 percent of eligible portfolio covered. Data is based on long positions only.

### Top pick for sustainable impact this quarter

**Company:**  
GSK PLC

**Weight:** 0.4%

**Industry classification:**  
Pharmaceuticals

**ESG Rating:** AA

**Company SDG alignment:**



GSK is an ESG leader in the pharmaceutical sector and has shown continued commitment to improving access to medicine in developing markets, ranking 1st in the 2022 access to medicine index. With the recent release of the Task Force on Nature Related Financial Disclosures (TNFD), we were pleased to see GSK taking a proactive approach on nature. Inclusion in the portfolio was also due to having 65% of revenue contributing to sustainable impacts and Science Based Targets Initiative (SBTi) approved emissions targets.

<sup>3</sup>This is based on a combination of company reported and MSCI estimated carbon data. Certain information ©2021 MSCI ESG Research LLC. Reproduced by permission.

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

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Sustainability Rating as of 31/08/2023. Corporate and Sovereign Sustainability Score and Investment Style as of 31/08/2023. Morningstar's Sustainability Score incorporates Sustainability's company and country-level analysis.

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U Ethical is recognised as a Responsible Investment Leader 2023 by the Responsible Investment Association Australasia (RIAA). We are placed in the top 20% of organisations assessed, demonstrating leading practice in our commitment to responsible investing; our explicit consideration of environmental, social and governance factors in investment decision making; our strong and collaborative stewardship; and our transparency in reporting activity, including the societal and environmental outcomes being achieved.

**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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