

Quarterly update

Investment commentary for the Australian Equities strategy to 30 June 2025

Quarterly highlights

- Equity markets experienced a volatile but ultimately positive quarter. Early uncertainty was driven by the unwinding of key political and trade frameworks. However, sentiment improved as events unfolded.
- The macroeconomic landscape remains finely balanced. Policy makers globally continue to weigh inflation risks against the need to support growth.
- Within the portfolio, several holdings have benefitted from structural tailwinds; particularly in climate-related materials, health care, and digitisation.

Overview

The U Ethical Australian Equities Trust (Institutional) delivered a total return of 9.4% (net of fees) in the quarter ending 30 June, marginally underperforming the market by 0.1%. The Australian Equities Trust (Wholesale) returned 9.3% (net of fees).

Global equity markets rallied as the US government paused the implementation of tariffs whilst trade negotiations continued with several countries including China and the UK. Although providing reason for some optimism, effective tariffs remain substantially higher than at the start of 2025 and look set to increase as tariff pauses come to an end.

Geopolitical tensions escalated, particularly in the Middle East, where the US directly targeted Iranian nuclear facilities. This initially drove energy prices higher, though prices eased following an agreed ceasefire.

Post quarter end, US Congress passed Trump's One Big Beautiful Bill Act extending tax cuts, while reducing healthcare spending and clean energy incentives, and

increasing defense and border spending. This shift in fiscal policy reignited concerns around rising US federal debt and deficits (as well as trade war concerns), leading to volatility in long-term bond yields, which have stabilised at 4.2%.

The US Federal Reserve maintained the cash rate at a target range of 4.25-4.50% amid ongoing uncertainty around tariff impacts. Market expectations suggest potential rate cuts over the next year, although the speed and size of changes will be contingent on inflation and economic data.

In Australia, the Reserve Bank of Australia (RBA) cut the cash rate to 3.85% in May, the second cut this year, as inflation eased to 2.4%. Q1 GDP growth was soft at 1.3% annualised, and recent retail sales data points to weakening consumer spending. Despite this, corporate earnings remain broadly resilient, and looser monetary policy may be supportive of equities. However, we continue to approach markets cautiously given ongoing trade tensions, a challenging geopolitical backdrop, and relatively high equity valuations.

Portfolio commentary

The U Ethical Australian Equities strategy navigated the quarter's uncertainty with a defensive tilt.

Amid a rapidly evolving political and economic landscape, the portfolio benefitted from its exposure to the Materials sector. Critical minerals producer **Lynas Rare Earths**, and copper producer **Sandfire Resources** performed well, supported by a growing global demand for clean energy inputs whilst global companies sought to diversify their supply chains away from China. Mining company, **BHP**, a large position in the index, but not held in our portfolio, share price fell during the quarter, contributing positively to overall relative performance of the portfolio. **Telstra**, Australia's leading telecommunications provider, saw its share price rise as it continues to provide defensive earnings to shareholders. Hearing implant device company, **Cochlear** and commercial and industrial property group, **Goodman**, contributed positively to performance as their share prices rebounded from macro-related falls in the previous quarter. **Brambles**, a logistics and supply chain partner, performed strongly benefitting from favourable currency moves and despite softer volumes in the third quarter which are considered cyclical rather than structural in nature.

On the downside, the largest detractor from performance was **Commonwealth Bank** due to our underweight position, given it is now considered to be the most expensive bank in the world. As a major benchmark constituent, its strong share price detracted from relative returns. We continue to view the stock as overvalued and believe the share price has become detached from its underlying fundamentals. Our latest article '[Investing with discipline](#)' provides further insight into our underweight allocation. The share price of car parts manufacturer and distributor, **Amotiv**, fell as the market digested short-term pressures which may affect discretionary spending. Our relative underexposure to the Technology sector which surged 27% during the quarter, also detracted from relative performance.

Markets staged a sharp recovery, rallying 17.5% from trough to peak during the period as investors dismissed the initial market sell off following The Trump administration's announcement of country tariffs on 2nd April. Shrugging off tariff impact concerns and with further interest rate cuts expected, the market reached a new record high largely driven by the Technology sector. We remain alert to the unpredictable nature of current US policy under the Trump administration. Its radical approach continues to drive market volatility and policy surprises. We are actively monitoring these developments to assess both risks and opportunities across our portfolio holdings and broader investable universe.

Performance

Australian Equities Trust (Institutional)

	Fund %	Benchmark %
Since inception*	14.77	13.37
1 year	13.94	13.74
3 months	9.36	9.48

As at 30/06/2025. Benchmark: S&P/ASX Accumulation Index.

*Inception date: 24/01/2024. Performance based on exit price with distributions reinvested and is net of fees. Past performance is not indicative of future performance.

Australian Equities Trust (Wholesale)

	Fund %	Benchmark %
Since inception**	10.71	9.76
20 year p.a	8.60	7.89
10 year p.a.	10.27	8.85
5 year p.a.	11.92	11.77
1 year	13.87	13.74
3 months	9.26	9.48

As at 30/06/2025. Benchmark: S&P/ASX Accumulation Index.

**Inception date: 01/01/1986. Performance based on exit price with distributions reinvested and is net of fees. From inception to 31 October 2019, performance is that of the U Ethical Australian Equities Portfolio (the Portfolio) which includes franking credits. Past performance is not indicative of future performance.

Contributors and detractors

Top 3 contributors	Total return %	Attribution %
BHP*	-3.80	1.06
Lynas Rare Earths	24.60	0.52
Goodman Group	20.97	0.32
Bottom 3 contributors	Total return %	Attribution %
Commonwealth Bank	22.41	-0.53
Amotiv	-9.90	-0.45
CSL	-3.93	-0.40

Source: Bloomberg. Attribution shown is for the 3 month period to 30/06/2025. Relative to the S&P/ASX Accumulation Index.

*Not held in portfolio.

Portfolio changes

During the quarter we made two new additions to the portfolio and adjusted several existing positions. We initiated a position in **NextDC**, a leading data centre provider, offering exposure to growing demand for AI and cloud computing. NextDC operates co-location data centres which offer solutions to hyperscalers (such as Microsoft, Google, and Amazon) as well as enterprises seeking to benefit from proximity to stakeholders and high-end technology. We took advantage of a compressed share price and have continued to build our position as the valuation remains attractive.

Xero was the second new addition to the portfolio, purchased in June. Xero is a cloud based accounting software provider which has a strong market position in Australia, New Zealand, UK and is growing in the USA. Xero is in a good position to leverage its practical solutions for customers to grow in different verticals. Its recent acquisition of a US based business should assist with Xero's international growth ambitions and a capital raise provided an opportunity for us to invest at a favourable price.



Xero Wellington office. Image credit: © Xero

During the quarter, we sold our position in **Pilbara Minerals**. Pilbara is a lithium miner which is a key component in batteries for electric vehicles, smart devices, and other renewable technologies. The company has suffered as the price of lithium has fallen, and while we remain positive on the long-term outlook for lithium, we have opted to watch from the side as we build conviction around the sectors recovery trajectory.

We have increased our holdings in **Transurban**, **Computershare**, **Woolworths** and **Coles** reflecting our view that these companies are well placed to navigate the current economic environment and offer attractive risk adjusted returns.

Conversely, we have trimmed our positions in **Telstra**, **Brambles** and **QBE** following strong share price performance, rotating capital into areas where we see greater upside potential.

Theme focus: data centres

Data centres are the unseen powerhouse behind the cloud, supporting everything from streaming and banking to artificial intelligence.

As global digitisation accelerates, companies like NextDC are playing a pivotal role by providing the physical infrastructure that underpins this transformation. As essential enablers of the modern economy, data centres are experiencing sustained demand driven growth driven by cloud migration, AI development, and the exponential rise in data generation.

However, as reliance on data centres, grows so too does scrutiny, particularly around their energy use and environmental impact. While challenges remain, innovations in cooling, energy efficiency, and infrastructure design are helping mitigate their impact.

Learn more about how data centres are evolving and why they present a compelling long-term investment opportunity in our recent article '[Data centres: the infrastructure driving digitisation](#)'.

Engagement & ESG update

At U Ethical, we engage with portfolio companies for a number of reasons, including to gain greater insight on ESG-related issues, communicate our preferences for best practice management of ESG risks and opportunities, and seek commitments for enhanced performance on ESG matters. We see active stewardship and engagement as core to our responsibilities as ethical investors.

During the quarter, we had discussions with **Wesfarmers**, **NextDC** and **Seek** on key ESG topics relevant to their operations. We also continued to step up activity within collaborative engagement groups covering portfolio companies in the Australian and International Equities Trusts. This quarter, U Ethical became the lead investor in the collaborative engagement with **Woolworths** via Climate Action 100+. U Ethical also joined the Climate Action 100+ engagement group with **Wesfarmers**, a new addition to the list of companies covered by the initiative.

These collaborations allow us to amplify our voice and work with like-minded investors to drive meaningful change on climate and broader ESG issues at scale.

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