

Investing in a world of change

The world is undoubtedly changing and examples of political, technological, and climate effects are visible. However, it remains difficult to assess in real time what developments are truly important with most headlines identified as noise only in retrospect. Over the past year alone, AI was declared “over” more than once if you followed daily news flows. Episodes such as the launch of DeepSeek or high-profile academic studies questioning AI’s near-term usefulness triggered sharp, but temporary, market reactions. Investors who looked past this noise and focused on underlying fundamentals were ultimately rewarded as AI-exposed companies recovered and continue to grow.

Commentators overplaying events is of course nothing new. Recall Tesla’s impending bankruptcy predictions between 2017 and 2019, or the supposed end of growth for tech giants after job cuts at Meta, Amazon, Google and Microsoft in 2022, or the next systemic banking crisis after the failure of Silicon Valley Bank in 2023. At the time, it was easy to be drawn into the prevailing doomsday narrative, but beneath the surface, the companies or the wider systems were fundamentally resilient. For investors, this creates a challenge: how do you position for long-term structural changes without being whipsawed by disruptions that may prove irrelevant? This tension between long-term structural change and short-term disruption sits at the heart of our investment philosophy.

A natural output of our approach results in exposure to structural high-growth opportunities alongside

defensive core holdings – typically essential domestic services. We recognise that investing in a world of change requires ambition to take advantage of emerging opportunities and humility about what we cannot know.

Change is constant, and the relatively smooth period of globalisation that characterised the post-Cold War decades has been replaced by something fundamentally different: local exceptionalism, strategic competition, and the willingness of governments to intervene aggressively in priority areas. The US CHIPS Act and China’s Made in China initiative illustrate this point.

Political stability, as investors once understood it, began to unravel in 2016 with Brexit and the election of Donald Trump. The years since - marked by escalating US-China trade tensions, COVID’s exposure of supply chain vulnerabilities, and Russia’s invasion of Ukraine - have been transitional.

We believe this transition has now crystallised. Strategic competition between major powers is the operating environment. Countries are racing to be winners in key domains: artificial intelligence, space, advanced manufacturing, and energy infrastructure. Increasingly, outcomes will be determined by strength and capability rather than diplomacy.



The AI race and the energy bottleneck

Nowhere is this shift more apparent than in artificial intelligence, where technological competition has exposed energy as a fundamental physical constraint.

For decades, innovation has flourished wherever capital and talent are concentrated - predominantly the United States. If you had funding, engineers, and computational resources, you could compete, and Silicon Valley came to dominate as a result. Today, training frontier AI models and running inference at scale requires enormous amounts of electricity, introducing physical constraints that capital alone cannot overcome.

China's position has become strategically significant. In energy infrastructure, China has established clear advantages in keystone technologies: battery technology, solar manufacturing dominance controlling 80-90% of global production¹, and the ability to build massive energy projects at speed. China has already surpassed 1 terawatt of installed solar capacity, adding capacity at a pace that exceeds the total solar build-out of many developed markets.

The United States has attempted to constrain China's AI development through export controls on advanced semiconductors. Restrictions on NVIDIA's high-end chips aim to limit China's access to the computational resources necessary for frontier AI training. Yet if China can power more data centers more cheaply through superior energy infrastructure, semiconductor restrictions become less decisive. This is further reinforced by China's rapidly improving domestic semiconductor manufacturing capabilities. In 2025, China's leading chip manufacturer, SMIC, successfully produced advanced 5nm chips despite restrictions on advanced machinery. China's capability is still behind the world's most advanced 2nm chips and operates at a smaller scale than other manufacturers. However, this signals an important step forward for Chinese technology and demonstrates its ability to overcome sanctions designed to limit its progress.

¹ International Energy Agency, Solar PV Global Supply Chains, 2022.

Critical materials: the physical constraints

Coupled to energy demand is the critical minerals required for electrical infrastructure, as well as advanced machinery and high-tech industry. Efficient electric motors or wind turbines cannot exist without rare earth magnets, energy infrastructure relies on copper to distribute power through the grid, and rare earth elements are essential to semiconductor manufacturing and data center infrastructure.

Across all plausible scenarios - whether technological leadership remains concentrated, shifts toward China, or fragments across blocs - the physical build-out of infrastructure is unavoidable and demands copper, rare earths, and other critical materials. Our portfolio positioning provides exposure to this structural inevitability.

“With a concentrated portfolio of 20 to 40 stocks, every holding must earn its place”

Lynas Rare Earths plays a critical role in diversifying global rare earth supply. With China controlling approximately 70% of mining² and 90% of processing capacity³, Lynas is one of the few scaled producers outside China and benefits from strong strategic and government support. **Sandfire Resources**, a copper producer, addresses the demand that upgrading grids will require to handle data center loads, deploying renewable infrastructure and building EVs and battery storage. A supply-demand mismatch is emerging, and Sandfire is positioned to grow. **NextDC**, operating data center infrastructure in Asia-Pacific, is directly exposed to growing compute demand and the strategic imperative for regional digital infrastructure.

These holdings are upstream of technological competition. Regardless of who leads in AI development or EV adoption, the physical buildout requires these inputs.

Defensive anchors in an uncertain world

Despite our conviction in critical materials and energy infrastructure, uncertainty about timing, policy shifts, or competitive outcomes remains. The world continues to

evolve, and it would be unwise to think transformation has concluded.

The portfolio therefore includes a core of high-quality businesses with solid earnings to provide stability and long-term compounding. Australian domestic champions such as banks, consumer staples, and essential services generate stable cash flows in a changing landscape. **Telstra**, Australia's leading telecommunications provider, continues to demonstrate strong operational performance. Telstra's investments in 5G, low orbit satellites, and subsea cables mean Telstra has a strong competitive position that is difficult for other companies to rival. **Charter Hall** is a real estate investment group supporting Australian business and industry by deploying capital and investing in areas core to Australia's growth.

This defensive core, alongside a selection of structural growth holdings, means that competitive long-term returns need not come at the expense of excessive volatility. This approach has delivered lower volatility than the broader market - the fund's beta is typically below 1.0⁴ - while maintaining exposure to structural growth opportunities. Our barbell approach acknowledges that growth opportunities are not linear and share prices can move independently of fundamentals over short and medium time periods, but the core of resilient companies backed by strong balance sheets can help smooth the ride. With a concentrated portfolio of 20 to 40 stocks, every holding must earn its place.

The long view

The world is changing, but it is challenging to identify which changes matter until we zoom out and look back. What we can say with confidence: the world will look different 10 years from now, and we aim to capitalise on this by investing in opportunities tied to structural growth. News flow will continue to overwhelm company fundamentals over short periods, but exposure to essential domestic services helps to diversify the magnitude of such impacts at the portfolio level.

Taylor Halliday
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² Mining Technology, China Currently Controls Over 69% of Global Rare Earth Production, 2025

³ Rare Earth Exchanges, Rare Earth Processing 2025: Global Capacity and Key Players, 2025.

⁴U Ethical Australian Equities Trust - Wholesale, 5 years to 30/11/2025.

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