Equity Trustees

March 2024
Quarterly Report

EQT RESPONSIBLE INVESTMENT AUSTRALIAN SHARE FUND

FUND OBJECTIVE

The investment objective of Equity Trustees' Responsible Investment Australian Share Fund (the Fund) is to provide investors with a high-income stream and the potential for capital gain similar to the S&P/ASX 200 Accumulation Index via investment in a diversified portfolio of shares.

RESPONSIBLE INVESTMENT

The Fund invests in Australian companies that are assessed as having strong ESG practices and a positive impact on society by contributing to one or more of the United Nation's Sustainable Development Goals. The Fund applies a negative screen, excluding companies that generate more than 10% of revenues from business activities involved in the manufacture of alcohol, tobacco, military armaments, the provision of adult entertainment and gaming products/services.

EQTAM has a zero-revenue tolerance for manufacturers of tobacco, tobacco-based products, nicotine alternatives, controversial weapons (as defined by MSCI) and nuclear weapons.

FUND PERFORMANCE

PERFORMANCE[1]	EQT RESPONSBILE INVESTMENT AUSTRALIAN SHARE FUND				
	3 MONTHS	1 YEAR	3 YEARS (P.A.)	5 YEARS (P.A.)	SINCE INCEPTION (P.A.)[2]
Income return	0.38%	2.58%	3.10%	3.40%	3.92%
Capital return	5.30%	8.95%	5.66%	5.35%	1.53%
Total net return	5.69%	11.53%	8.76%	8.75%	5.45%
Benchmark return[3]	5.33%	14.45%	9.62%	9.15%	5.39%
Active return	0.36%	-2.91%	-0.86%	-0.40%	0.07%
Franking credit return[4]	0.24%	1.28%	1.32%	1.24%	1.46%
Total gross return[5]	5.85%	12.23%	9.67%	9.31%	5.66%
Total gross return (inc. franking credits)[6]	6.09%	13.50%	10.99%	10.55%	7.12%

Table 1

1 Performance: The longer term returns above are for the Charitable Screened Equities Common Fund 102 which has been operating since 31 Oct 2007. The Fund, since its inception of 04 Nov 2022 employs the same strategy as for the Charitable Screened Equities CF102. For additional information regarding performance please contact via the link on our website.
Income return and total net return are Fund returns after the deduction of ongoing fees and expenses and assumes the reinvestment of all distributions. Results greater than one year are annualised.

2 Inception of EQT Responsible Investment Australian Share Fund – Wholesale Class is 04 November 2022. Inception of the Strategy as denoted by the Charitable Australian Screened Equities Common Fund 102 is 31 Oct 2007.

3 Benchmark return is the S&P/ASX 200 Accumulation Index.

4 Franking credit returns are estimates and calculated at a zero-tax rate.

5 Total gross return is fund return before the deduction of ongoing fees and expenses.

6 Calculated as total gross return plus franking credit return.

Past performances should not be taken as an indicator of future performance.

PERFORMANCE SUMMARY

The Fund recorded a total net return of 5.69% for the March quarter, outperforming the benchmark S&P/ASX 200 Accumulation index by 0.36%. Over the last 12 months, the Fund generated a total net return of 11.53%, underperforming the benchmark by 2.91%.

Over the last 3-years and since inception, the Fund has generated a total net return of 8.76% p.a. and 5.45% p.a., respectively.

On a gross basis and including franking credits the Fund has generated a very robust total return of 10.99% p.a. over the last 3-years, 10.55% p.a. over the last 5-years and 7.12% p.a. since inception (31/10/2007).

The Fund is designed as a core investment offering with a quality and long-term focus. As such it is invested with a predominant focus on larger capitalised stocks and is structured to have defensive characteristics which preserve capital as much as possible in poor market conditions. In the long term, the investment objective is to produce income growth above inflation while also growing capital.

PERFORMANCE DETAIL

At the stock level, the Fund benefited from its overweight positions in Goodman Group (GMG) and Netwealth Group Ltd (NWL). Underweight positions in BHP Group Ltd (BHP), Woolworths Group Ltd (WOW) and Fortescue Ltd (FMG) also benefited the portfolio.

The main detractors to Fund performance were overweight positions in Nine Entertainment Co Holdings Ltd (NEC), South32 Ltd (S32) and Rio Tinto Ltd (RIO). Underweight positions in Wesfarmers Ltd (WES) and Commonwealth Bank of Australia (CBA) also detracted the portfolio.

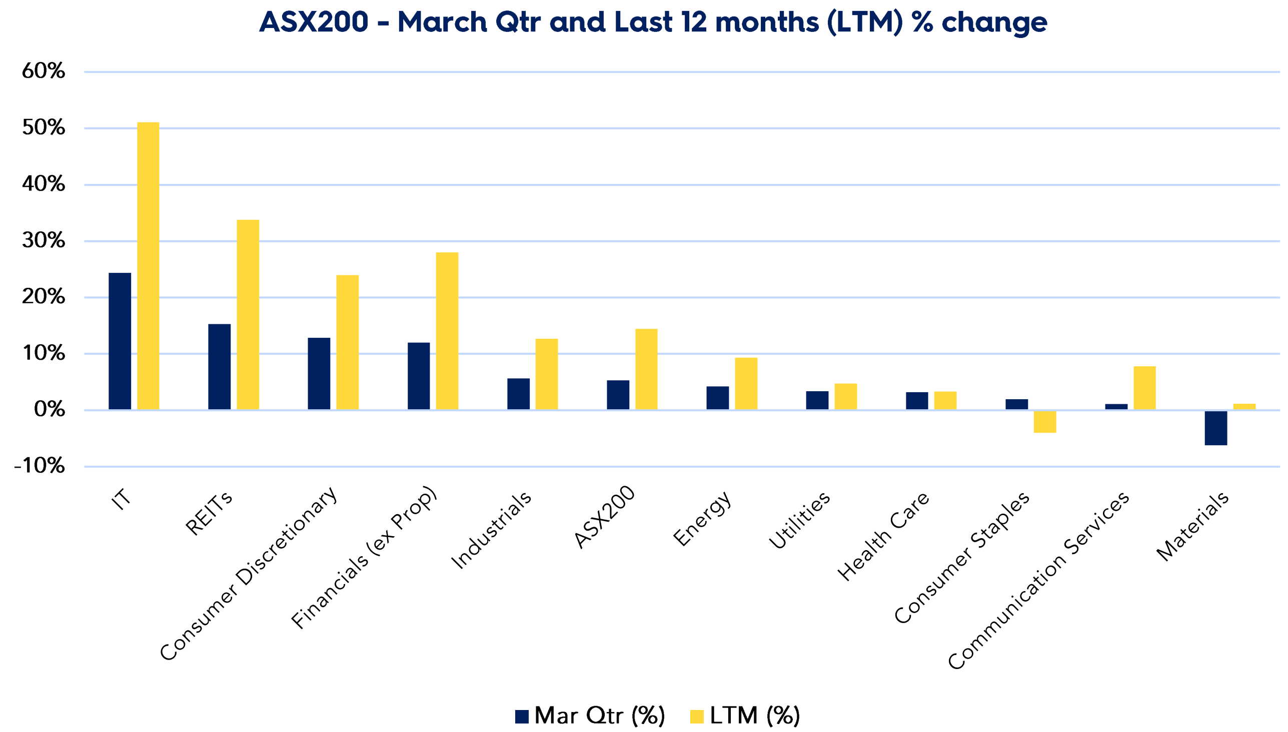
ATTRIBUTION SUMMARY

MARCH 2024 QUARTER	TOTAL ATTRIBUTION
Top five contributors	
Goodman Group	0.44%
BHP Group Ltd	0.37%
Netwealth Group Ltd	0.34%
Woolworths Group Ltd	0.30%
Fortescue Ltd	0.28%
Bottom five contributors	
Wesfarmers Ltd	-0.47%
Nine Entertainment Co Holdings	-0.35%
South32 Ltd	-0.29%
Commonwealth Bank of Australia	-0.29%
Rio Tinto Ltd	-0.26%

Table 2

MARKET SUMMARY

- **Equities rallied** – Strong corporate results, resilient economic data and hopes of rate cuts continued to support global equity markets. In local currency terms, the ASX200 (+5.3%) underperformed the US S&P500 (+10.2%) and the MSCI World ex Australia Index (+8.7%) but outperformed the MSCI Asia Pacific ex Japan Index (+1.6%) during the quarter. The Japanese Nikkei was the standout equity market surging 20%. In $A terms, the MSCI World ex-Australia Index rose 14.3%.
- **Bonds steady in Australia but fell in the US** – The Bloomberg AusBond Composite 0+Y index gained 1.03% outperforming global peers. Australian 10-Year bond yields were broadly unchanged at 3.96%, while US 10-Year bond yields rose by 31bps to 4.20%. The market has adjusted their view on the number of US rate cuts expected this year from six to three given resilient economic data and sticky services inflation. Resilient economic conditions continue to support credit markets.
- **Growth and interest rate sensitive sectors rebounded** – The best performing sectors for the quarter were IT (+24.4%), Property (+16.8%) and Consumer Discretionary (+12.9%). Lower bond yields supported all three sectors along with better-than-expected consumer spending and strong technology/AI trends. Laggards included Materials (-6.2%), Communication Services (1.1%) and Consumer Staples (+2.0%). Major miners suffered from lower commodity (iron ore) prices, cost headwinds, sluggish developed market manufacturing activity and slower than expected improvement in Chinese construction activity. Consumer staples were impacted by a soft Woolworths result, cost pressures, falling food inflation, trading down, and regulatory concerns.



Source: Equity Trustees

- **Best performing stocks** - The top five performers from the S&P/ASX 200 for the quarter were Life360 Inc. (+73.1%), Megaport (+62.9%), Alumina (+56.9%), The A2 Milk Company (+46.7%) and Altium (+39.9%). The bottom five performers were Strike Energy (-45.8%), Arcadium Lithium Plc (-39.5%), Nanosonics (-37.5%), Liontown Resources (-29.1%) and Coronado Global Resources (-28.7%).
- **Goodman Group and the major banks lifted the index** – Once we take market capitalisation (size) into account, the top five contributors to the ASX200 were Goodman Group (+49.4bps), Commonwealth Bank (+48.1bps), Wesfarmers (+43.3bps), National Australia Bank (+41.4bps) and Westpac (+37.7bps). The banks rallied on strong asset quality trends indicative of a soft economic landing scenario and less competition in mortgages and deposits. The bottom five contributors were BHP (-104.5bps), Fortescue (-18.9bps), Rio Tinto (-17.3bps),

Woolworths (-16.5bps) and Newmont Corp (-10.2bps). BHP, RIO and Fortescue were all negatively impacted by the falling iron ore price.

- Solid Reporting Season – February reporting season delivered a reasonable set of numbers relative to expectations. Resilient economic data, strong cost management and low analyst expectations led to more earnings beats than misses. Despite the solid set of results, future earnings growth forecasts were marginally revised down. Our review on the reporting season can be read here.
- Australian Economic activity – The Reserve Bank of Australia (RBA) held the cash rate steady at 4.35%. Labour market was solid, but is slowing, and inflation data was softer than expected. The RBA reacted with a less "hawkish" tone on monetary policy. Retail sales data was soft, but consumer confidence edged up from low levels. Building approvals have weakened and undersupply issues have led to national house prices rising to be up 9.7% year-on-year by the end of March.
- Global economic activity – Global Manufacturing indicators appear to have troughed. The US Federal Reserve (Fed) kept rates steady at 5.25-5.5%. Investors wound back their expectations for US rate cuts in 2024 due to resilient economic indicators along with signs of sticky inflation in the services sector pricing in ~75bp of rate cuts versus 150bps in December. The Bank of Japan ended their "Negative interest rate policy" (NIRP) raising short term rates for the first time since 2007 to 0-0.1%. The European Central Bank (ECB) indicated they could cut rates in June following lower than expected inflation and subdued economic growth. Chinese economic data looks to have troughed. Manufacturing data is improving; however, property sector investment remains subdued.
- Commodities: Steel-making commodities fell – Subdued Chinese construction activity along with seasonal weakness hurt steel and steel making commodities. Steel prices (US Hot rolled coil -24% and Chinese HRC -8.1%) fell impacting iron ore (-26.8%) and Hard Coking Coal (-24.5%). Conversely oil (brent) rose 13.5%, gold shone rallying 8.1% and base metals edged higher.
- USD strength – The US dollar rose against most major currencies. The $A dropped 4.27% against the US Dollar to close at 65.21c. Lower commodity prices and a reappraisal of interest rates cuts in the US impacted the $A. The lower $A helped unhedged returns in international equities, however.
- Earnings revisions – ASX200 earnings revisions were marginally negative for the ASX200 (-0.6%) impacted by downgrades to the Energy and Communication Services sectors. Consensus earnings are forecast to fall 5.9% in FY24 before rebounding 4.8% in FY25. Given the lack of positive earnings revisions this indicates the market rally has been driven by multiple expansion. The ASX200 Price-Earnings (PE) multiple re-rated to 16.7x (12-month-forward) versus its longer-term average of 14.8x.

PORTFOLIO ACTIVITY

Some adjustments to stock holdings were made in the Fund during the quarter.

STOCKS BOUGHT FOR THE FUND

ORICA LIMITED (ORI)

Orica (ORI) is one of the world's leading mining and infrastructure solutions providers. From the production and supply of explosives, blasting systems, mining chemicals and geotechnical monitoring to its digital solutions and comprehensive range of services, Orica sustainably mobilises the earth's resources. We have owned Orica previously, as its position as the dominant explosives company globally with significant geographic and commodity diversification appeals. However, we had become concerned they were too exposed to a potentially declining coal mining industry. Additionally, their principal product Ammonium Nitrate was in surplus, and margins were under pressure.

As part of our "Quality at a Reasonable Price" process, we pay a lot of regard to management and strategy. We think that CEO Sanjeev Gupta and his team have outlined, and are now executing, on a sensible long-term value accretive strategy that adequately addresses some of the concerns we previously had. Further, ORI have made several acquisitions in blast equipment (expanding their product suite from just explosives), blast and non-blast services and sodium cyanide manufacture and distribution to further diversify their product suite and customer proposition. As a result, the earnings outlook appears attractive. We opportunistically used the recent placement to re-enter the stock at an attractive discount to our valuation.

RESPONSIBLE INVESTMENT SPOTLIGHT

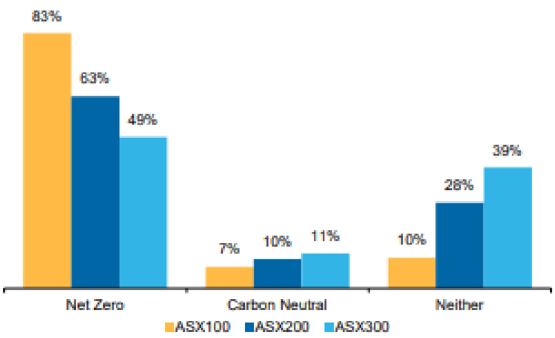
ESG Takeaways from Reporting Season

ESG (Environmental, Social & Governance) was a key part of the narrative during the February 2024 reporting season, continuing the trend from 2023. Below we have summarised some of the key takeaways.

Environment: Decarbonisation progress

Most ASX100 companies have committed to net zero or carbon neutral by 2050 so the focus is now on reporting their progress towards meeting these targets. Renewable energy is a key feature of many decarbonisation plans, particularly in the resources sector. One of the more notable environmental commitments announced during reporting season was from RIO who have signed Australia's largest renewable energy contract to power their Gladstone Aluminium operations in Queensland. RIO will buy2.2 80% of the electricity from Windlab's planned 1.4GW Bungaban wind farm. This adds to the 1.1GW power purchase agreement (PPA) from European Energy's Upper Calliope solar farm. Once developed, the combined 2.2GW will have the potential to lower RIO's carbon emissions by about 5 million tonnes per year and will go a long way to achieving RIO's climate goal of halving its global Scope 1 & 2 carbon emissions by 2030.

83% of ASX100 companies have net zero targets



Source: Company data, Macquarie Research, March 2024

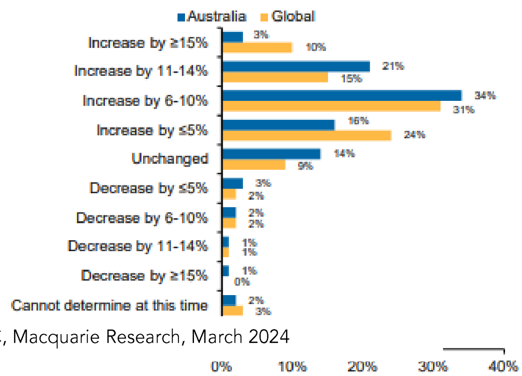
Social: Indigenous Relations

Indigenous engagement persisted as a key theme. Many companies provided updates on their progress towards Reconciliation Action Plans (RAPs) commitments, while some companies are taking action above and beyond employment and procurement spend. NAB have developed a program to improve access to capital for Indigenous business customers and Seek (SEK) have finalised its First Nations Strategy which is aimed at helping Indigenous job seekers and business owners.

Governance: Cyber Security

Unsurprisingly, cybersecurity remains front of mind for many companies post the high-profile incidents in FY23 as well as was a notable increase in cybercrime reports. As a result, companies are spending a lot of money to defend against cyber-attacks, as well as making enhancements to cybersecurity governance and training. CBA made a significant investment of $750m over the year in cybersecurity, preventing and recovering more than$100m in scams in 1H24. Companies across the board are increasing their cyber budgets in 2024.

Global cybersecurity budgets to step up in 2024



Source: PWC, Macquarie Research, March 2024

Looking Ahead

Climate change and decarbonisation will continue to be in focus with mandatory climate reporting kicking off for some of Australia's largest companies in early 2025. We see this as a positive step forward in providing investors with more transparency and comparable information about a company's exposure to climate-related financial risks and opportunities and how they are being managed.

Corporate Engagement

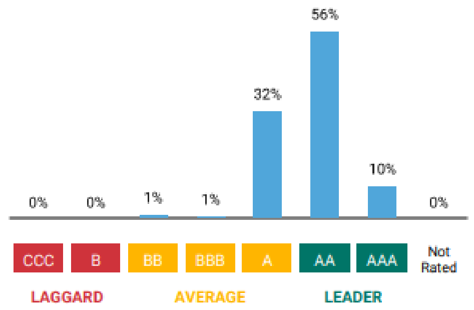
Examples of specific company engagements undertaken during the March quarter are listed below.

Company	ESG Topics	Engagement Focus
Qantas Airways (QAN)	Social Licence	• Customer satisfaction

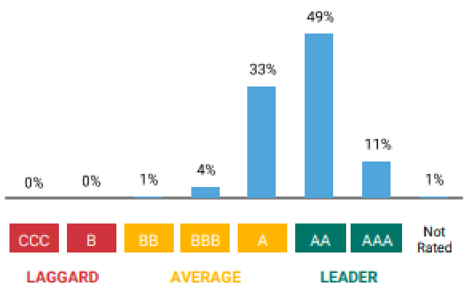
RESPONSIBLE INVESTMENT AUSTRALIAN SHARE FUND ESG METRICS – 31 MARCH 2024*

	PORTFOLIO	ASX 200
MSCI ESG Scores		
MSCI Weighted Average ESG Score (10 = highest, 0 = lowest)	7.64	7.57
Proportion (market value) from companies classified as ESG leaders (AAA and AA)	65%	59%
Governance Metrics		
Proportion (market value) from companies classified as governance leaders	86%	84%
Proportion (market value) from companies where women comprise at least 30% of the board of directors	90%	93%
Proportion (market value) from companies with a majority independent board	98%	99%
Carbon Metrics		
Companies with GHG emission reduction targets	90%	88%
Companies with targets across all scopes (Scope 1,2 & 3)	53%	53%
Carbon Footprint (Scope 1 & 2) tonnes C02e/$USm invested	178	112

Portfolio ESG Rating Distribution



Benchmark ESG Rating Distribution



Strongest SDG Alignment

*Data sourced from MSCI as at 31 March 2024

Strongest SDG Alignment

OUTLOOK AND STRATEGY

As we reflect on market conditions and outcomes over the first quarter of 2024, it is fair to say that much has played out to expectations albeit that market sentiment seems stubbornly skewed to the upside. The late 2023 rally in both equity and bond markets was fuelled by expectations of multiple interest rate cuts in 2024 (for example, the US yield curve had the US Federal Reserve cutting 6 to 7 rate times in 2024) whereas we felt that persistent services inflation and solid nearer term economic growth would render rate cuts to be fewer and later.

This has proven to be the case with the market now expecting somewhere between 1 to 2 interest rate cuts in the US and commencing in 4Q24. Expectations of domestic interest rate cuts from the RBA are somewhat similar. This changing narrative has largely been due to ongoing resilience in consumer spending in most developed markets, particularly the US, as strong employment and a supportive wealth affect from rising asset prices outweigh cost of living pressures and higher interest rates.

While corporate earnings revisions for CY24 have continued to be flat to down, equity markets have risen strongly over 1Q24 due to a positive re-rating of earnings being reflected in higher price to earnings (PE) multiples.

We have felt that economic growth would weaken in many developed markets into the back half of the year as the cumulative impact of higher cost of living and interest rates crimp consumer spending. This may prove to be too pessimistic and possibly reflects an underestimation of the enduring post COVID “live now” philosophy. However, it does still seem a reasonable outcome and one which is seemingly not priced into the current “soft landing” PE multiples of the market.

Geopolitical risks not only remain but appear at risk of elevating with the potential expansion of the Israel/Hamas conflict in the Middle East and Ukraine/Russia at a pivotal stage. The Chinese economy is still having to carry ongoing weakness in the important (albeit increasingly less so) property market.

Consequently, in the face of this market optimism we are somewhat curmudgeonly sticking to our assessment that market conditions will get increasingly difficult over the remainder of 2024, skewed to the second half. Our asset allocation positioning is therefore somewhat defensive with modest overweight to cash.

We remain modestly underweight equity markets from a tactical asset allocation perspective due to the perceived asymmetry between the current positive sentiment versus the crystalising of any or all the risks identified above. While portfolio holdings are all assessed on our fundamentally driven Quality at a Reasonable Price (QARP) process we would consider the portfolio overall to be “defensively” positioned.

We continue to note that while macro factors are important, in more challenging economic conditions it is beneficial to focus on basic micro factors as to what makes a good business and investment. In Australian equities, our QARP investment philosophy is a sound fit for current conditions as we are looking for well managed businesses with strong balance sheets, good market position that can ideally demonstrate pricing power. We look for these attributes in the philosophy of external managers as well.

FUND HOLDINGS

TOP 10 HOLDINGS
CSL Ltd
BHP Group Ltd
National Australia Bank Ltd
Westpac Banking Corp
Goodman Group
ANZ Group Holdings Ltd
Telstra Group Ltd
Rio Tinto Ltd
Coles Group Ltd
Origin Energy Ltd

SECTOR ALLOCATION

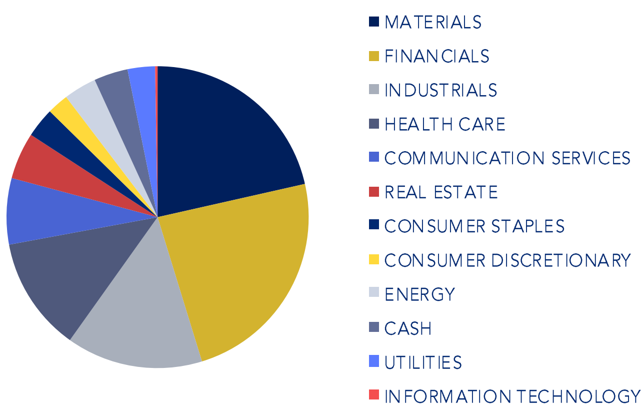


Table 3

CERTIFIED BY RIAA

RIAA's RI Certification Symbol signifies that a product or service offers an investment style that takes into account environmental, social, governance or ethical considerations.

The Symbol also signifies that adheres to the strict operational and disclosure practices required under the Responsible Investment Certification Program for the category of Product. The Certification Symbol is a Trademark of the Responsible Investment Association Australasia (RIAA). Detailed information about RIAA, the Symbol and the Fund's methodology, performance and stock holdings can be found at www.responsiblereturns.com.au, together with details about other responsible investment products certified by RIAA.

The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Appropriate professional advice should be sought prior to making an investment decision. RIAA does not hold an Australian Financial Services Licence.

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The Fund's Target Market Determination is available here https://www.eqt.com.au. A Target Market Determination is a document which describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.
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