Equity Trustees

March 2024
Quarterly Report

EQT RESPONSIBLE INVESTMENT GLOBAL SHARE FUND

FUND OBJECTIVE

The investment objective of Equity Trustees' Responsible Investment Global Share Fund (the Fund) is to provide investors with exposure to a diversified investment in international share markets and strong capital growth over the long-term.

The Fund aims to outperform its Benchmark over a rolling 5-year period, after taking into account Fund fees and expenses

RESPONSIBLE INVESTMENT

A multi-manager offering targeting managers that possess superior capability in investment process and a demonstrated focus on integrating responsible investing principles such as ESG integration, corporate engagement, proxy voting and negative screening.

Sustainable equity funds are viewed favourably in the manager selection process. Higher scores and priority are assigned to managers with a demonstrated and consistent process in selecting sustainable companies that have positive contribution to one or more of the United Nations Sustainable Development Goals (SDGs).

RIAA CERTIFICATION

CERTIFIED BY RIAA

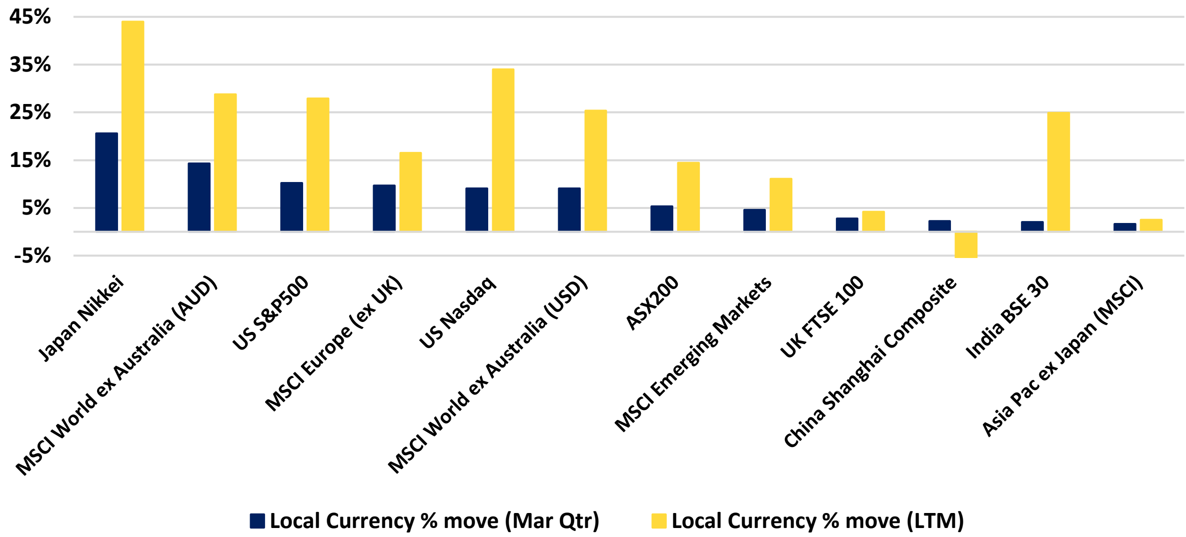
This Fund is certified by the Responsible Investment Association of Australasia (RIAA). The Certification Symbol signifies that a product or services offers an investment style that takes into account environmental, social, governance or ethical considerations.

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

MARKET SUMMARY

The MSCI World ex Australia Index posted a strong gain rising 8.7%. In $A terms, the rally was even stronger jumping 14.3%. The Japanese Nikkei was the standout equity market surging 20%. The US S&P500 also contributed strongly jumping 10.2%, while the MSCI Asia Pacific ex Japan market underperformed (+1.6%). Emerging Markets underperformed Developed Markets by 657bps.

Global equity market performance - March Quarter and last 12 months (LTM)



Source: Equity Trustees

A key theme within equity markets has been the increasing concentration of market leaders. Global equity markets have been driven by a narrow set of companies. This has been particularly noticeable in the US and Europe. The "Magnificent 7" in the US gained 17.1%.

The US S&P500 posted another strong return in the March quarter reaching a new all-time high. Continued strong performance from the mega-tech stocks drove the gains, however market breadth also improved (the equal weighted S&P500 rose 7%). IT is now ~30% of the S&P500 weighting by market capitalisation. Communication Services (+16%), Energy (+14%) and IT (+13%) were the best performing sectors while Real Estate was the only sector to fall (-1%). Nvidia gained a remarkable 82% over the quarter and contributed 252bps of the ~11% index gains.

US Cyclical stocks fared well as the market priced in a "goldilocks scenario" of ongoing resilient economic growth, falling inflation, and future interest rate cuts. While earnings expectations rose, the 12-month-forward price-earnings multiple of the S&P500 re-rated to 21x, driving the index gains.

Japanese equities surged during the quarter finally reclaiming the highs of 1989. 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%. Japan has been dislocated from the global cycle given meaningfully lower interest rates and is benefiting as deflationary pressures reduce. The depreciation of the yen (against the USD) has supported exporters, while a normalisation of monetary policy by the Bank of Japan lifted financials. The outperformance of tech globally helped Japanese Semi-conductor stocks, while improving macro-economic data and improved wage growth supported the corporate earnings outlook. Improved corporate governance, reasonable valuations, strong balance sheets and increasing buybacks has further lifted the appeal of Japanese equities to offshore investors.

4th Quarter 2023 results during were divergent across US and Europe. US companies strongly beat expectations whereas in Europe corporates slightly disappointed. Earnings growth was sequentially lower (vs Q3) in Europe (-11% year-on-year), but higher in the US (+8% yoy). However, it is important to note that much of the strong US performance was due to the "Magnificent 7".

At an aggregate level, global economic data has been robust with economists raising their 2024 growth forecasts. Global Manufacturing indicators appear to have troughed. The global Manufacturing PMI rose above 50, signalling expansion, for the first time since August 2022, while services PMI remains expansionary (> 50).

Global inflation is easing, and headline rates are now running close to 2019 levels. While core inflation has moderated, there are some signs of stickiness in the services sector where tight labour markets have buoyed wages.

The US Federal Reserve (Fed) kept rates steady at 5.25-5.5%. While the Fed has seemingly reiterated their intention to move forward with rate cuts, investors progressively 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. As at the end of the quarter the market was pricing in ~75bp of rate cuts versus 150bps in December.

The European Central Bank (ECB) indicated they could cut rates in June following lower than expected inflation and subdued economic growth. While growth has been depressed, it appears that indicators may be bottoming.

Chinese economic data looks to have troughed but remains fragile. As the quarter progressed the activity data improved. Manufacturing data is improving; however, property sector investment remains subdued as does consumer confidence. Exports and imports both appear to be picking up. There is policy stimulus but no "big bang" support appears likely.

Global earnings growth for CY2024 is forecast to be 11%. Importantly, this year nearly all major regions and sectors should see earnings grow – which is different to last year. During the March quarter, global earnings expectations for the year ahead were revised up 1.2%. The Nasdaq earnings were revised up a mighty 23.8%, while Indian and Japanese equities were revised up 4.3% and 4.2% respectively.

FUND PERFORMANCE

	EQT RESPONSBILE INVESTMENT GLOBAL SHARE FUND				
PERFORMANCE[1]	3 MONTHS	1 YEAR	3 YEARS (P.A.)	5 YEARS (P.A.)	SINCE INCEPTION (P.A.)[2]
Distribution return	0.00%	4.52%	8.98%	8.36%	5.39%
Growth return	12.87%	17.83%	0.02%	1.96%	1.19%
Total net return	12.87%	22.35%	8.99%	10.32%	6.58%
Benchmark return[3]	13.88%	28.44%	14.36%	14.00%	8.38%
Active return	-1.01%	-6.08%	-5.36%	-3.68%	-1.80%

Table 1

1 Performance: distribution return is the return due to distributions paid by the Fund, growth return is the return due to changes in initial capital value of the Fund, total net return is the Fund return after the deduction of ongoing fees and expenses and assumes the reinvestment of all distributions.

2 The EQT Responsible Investment Global Share Fund was previously known as EQT Core International Equity Fund. The Fund was repositioned in September 2022 to have a Responsible Investment focus, resulting in a change in the investment manager line up. Inception date of the Fund is 31 January 2006.

3 Benchmark return is the MSCI World Index net dividends reinvested (AUD).

Past performances should not be taken as an indicator of future performance. Results greater than one year are annualised.

PERFORMANCE SUMMARY

The Fund recorded a total net return of 12.87% for the March quarter, underperforming the benchmark by 1.01%. Over the last 12 months, the Fund recorded a total net return of 22.35%, underperforming the benchmark by 6.08%.

The underperformance was largely driven by the underweight position to the strong performing "magnificent 7" in the US. As mentioned above, the global markets have been driven higher by a narrow set of companies.

MANAGER SUMMARY

MANAGER PERFORMANCE[1]	1 MONTH RETURN	3 MONTHS RETURN	1 YEAR RETURN
Vontobel Global Equity Fund	0.4%	10.1%	20.5%
Alphinity Global Sustainable Equity Fund	3.3%	19.1%	27.9%
Orbis Global Equity Fund	6.0%	15.3%	34.1%
Cooper Investors Global Endowment Fund[2]	1.8%	8.9%	13.8%
Benchmark Return[3]	3.0%	13.9%	28.4%

Table 2

[1] Manager returns are total gross returns before the deduction of ongoing fees and expenses.
[2] Coopers was a hedged strategy prior to 1 November 2022.
[3] Benchmark is the MSCI World Index net dividends reinvested (AUD).

FUND HOLDINGS

MANAGER ALLOCATION

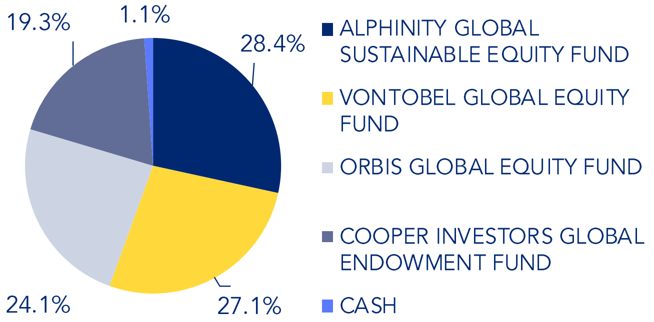


Chart 1

RESPONSIBLE INVESTMENT SPOTLIGHT – INSIGHTS FROM THE MANAGER

VONTOBEL

Equity Trustees Asset Management view active ownership as a key element of the responsible investment process and a valuable tool in generating long term value for our clients. The underlying investment managers within the EQT Responsible Investment Global Share Fund share the same view and each quarter we highlight the stewardship activities undertaken by one of the managers. During the quarter, Vontobel had the opportunity to engage with several companies on single use plastics and below we have shared a summary of their engagement discussions with Coca-Cola.

Single Use Plastic Engagement (Coca-Cola)

Of all companies whose businesses are heavily dependent on plastics to deliver their products to the customer, beverage companies stand out and are often cited as some of the largest contributors to plastic waste. While the need to reduce the use of plastics as a use-it-once-and-toss-it solution has been long acknowledged, solutions have been slow to evolve. We've been increasing our focus on and engaging with companies that have significant exposure to single-use plastic to determine potential risks and possible solutions. Within our global equity strategy, the company that has been front and center to criticism around single-use plastic is Coca-Cola.

During the period our analysts met with company management; including the CEO, to discuss their response to criticism out of the EU with regard to marketing claims that their plastic bottles are "100% recyclable". Studies suggest that far less than 100% of the plastic the company generates is actually recycled, and there are still portions of the packaging, such as the removable plastic labels, that are not currently made from recyclable materials. In their defence, Coca-Cola pointed to developments in plastic bottle design, which does away with the plastic label, and caps that remain connected to the bottle so the entire unit can be disposed in its entirety. They also spoke to efforts the company is making to educate consumers. The main barrier to a world where all recyclable plastic is reused rests on the shoulders of consumers to dispose of waste in a location that will allow it to be recycled. In certain markets, such as Germany and Mexico, consumer behaviour has been shaped over decades through both education and investment in recycling infrastructure. Surprisingly, the U.S lags in both areas, which is why Coca-Cola is investing heavily in consumer education as well as partnering with waste management companies in a number of test markets to improve the ease of collection.

During the period we also spoke with a number of waste management companies (some that Coca-Cola is working with as well as several with whom they are not) to better understand the challenges faced by the recycling industry and to cross-check what we're hearing from Coca-Cola themselves. Our conclusion is that there is still a considerable way to go before the plastic problem has been solved and over the short to medium-term companies like Coca-Cola that rely on single-use plastic packaging will face scrutiny from both regulators and the public, which could translate into share price volatility. We are, however, comfortable that Coca-Cola in particular is directing an appropriate level of resources to the problem and that it is a subject that senior management has made a strategic priority for the company. We do not consider this engagement by any means over and will continue to monitor and evaluate the progress being made by the company.

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 overweights to cash and sector positioning as follows:

Equities – 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.

Fixed Income – Recent repricing of yield curves and moves in the 10-year-bonds to ~4.5% represents an opportunity to add to this asset class and increase duration within portfolios.

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.