

# Ethical Investment Australian Equities Portfolio

*A portfolio of predominantly small and medium sized Australian companies which meet strict environmental and socially responsible standards.*

## Quarterly Performance Update

30 September 2023

The Ethical Investment Australian Equities Portfolio fell 2.85% during the past quarter through a particularly volatile period. Strong performance in July was followed by the market falling more than 3.5% in August and September, erasing all of the previous gains.

The market performance was largely due to stubbornly high inflation figures, rising oil prices, and soft economic growth and property woes in China. Bond yields also soared with US treasury yields jumping to 16-year highs and Australian government bond yields ending the quarter above 4%, putting further pressure on growth assets.

While inflation levels in Australia are still too high at 5.2%, it is much lower than the peak of around 8% earlier in the year, and the Reserve Bank of Australia (RBA) has now kept rates on hold for the past four months. Markets are now expecting an 'extended pause' by the RBA due to policy lag concerns, but 'higher for longer' interest rates.

Detracting to performance were the large allocations to Technology, Telecommunications and Healthcare companies in the portfolio, which were among the worst performing sectors of the market, falling 4.85%, 6.91% and 8.96% respectively. The Energy (fossil fuels) sector, which this portfolio has no allocation to, was the top performing sector, gaining 11.63% for the quarter thanks to the 28.52% rise in the price of oil.

At a company level, the main detractor to performance was the -32% return from **Calix** which had a minor setback recently with a delay in constructing a new pilot plant. The pilot plant will demonstrate the companies' Leilac technology which re-engineers the existing process flows of a traditional calciner, enabling carbon dioxide to be captured as it is released from hard to abate processes in industries such as lime, cement, and steel.

Calix also has many other exciting projects underway including a joint venture with Pilbara Minerals to improve lithium downstream processing; and a partnership with a direct air capture company, Heirloom, to help improve the approach to directly removing excess carbon dioxide from our atmosphere.

Other detractors to performance included healthcare companies **Sonic Healthcare** (-14%), **Integral Diagnostics** (-11%), **Capitol Health** (-19%) and **CSL** (-9%), while the top performing investments for the quarter included the technology company **Megaport** (+62%), and the electrical services company **IPD Group** (+15%) which is involved in the rollout of electric vehicle charging solutions in Australia.

The overall performance of the portfolio compared with various benchmarks is outlined below:

Performance as at 30 September 2023	Since Inception	5 years	3 years	1 year	3 months
<b>Ethical Investment Australian Equities</b>	<b>+6.11%</b>	<b>+5.92%</b>	<b>+4.76%</b>	<b>+5.76%</b>	<b>-2.85%</b>
<b>Benchmark</b> (All Ordinaries Accumulation Index)	+7.23%	+6.81%	+10.78%	+13.09%	-0.66%
<b>Relative Performance</b>	-1.12%	-0.89%	-6.02%	-2.19%	-2.19%
<b>Alternative Benchmark</b> (Small Ordinaries Accumulation Index)	+5.32%	+1.63%	+2.57%	+6.85%	-0.54%
<b>Relative Performance</b>	+0.79%	+4.29%	+2.19%	-1.09%	-2.31%

Inception date :25 May 2015. Returns great than one year are annualised.

## Portfolio News

During the quarter the portfolio changed its name from the Ethical Investment Mid-Cap Portfolio to the **Ethical Investment Australian Equities Portfolio**. The name change better reflects the investments held and intention of the fund. Importantly, there have been no changes to the investment team or investment process as part of this change. The fund will continue to invest in predominantly small and medium sized Australian companies which meet our ethical charter.

We also released our [Annual Report](#) which is an assessment of sustainability for the Ethical Investment Australian Equities Portfolio, as we continue our commitment to responsible investment by thoroughly researching and evaluating companies' environmental, social, and governance credentials within the realm of ethical investing.

Mark Forstmann, an independent member of our Investment Committee, recently featured in the wonderful podcast, [The Green Dream](#), which is absolutely worth a listen. Mark discusses three companies in the portfolio, Calix, Megaport and NextDC, as well as a new documentary he wrote and produced, Climate Changers, which follows Tim Flannery's search for leadership on climate change.

Ethical Investment Funds Management was also recognised as a **Responsible Investor** by the Responsible Investment Association Australasia (RIAA). This acknowledges 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.



## Portfolio Changes

One new company was added to the portfolio during the quarter, **IperionX**, a titanium metal and critical materials company.

IperionX uses patented technologies to produce high performance titanium alloys from titanium minerals or scrap titanium, at lower energy, cost and carbon emissions.

The company has the potential to lead the way for critical material extraction, processing, and recycling to create a first-of-its-kind closed-loop, low-to-zero carbon, resource efficient and socially inclusive green metal economy.

Titanium is currently a required metal in many advanced industries including aerospace, consumer electronics, hydrogen and electric vehicles. The current global titanium supply chain is complex, costly, and environmentally unsustainable.

One standout benefit of this technology is that IperionX can offer a closed-loop circular process for titanium, allowing for 100% recyclability, which is not possible with incumbent titanium manufacturing processes.

The portfolio also participated in the \$15 million capital raise by **Hazer Group**, a Perth-based renewable energy company that is focused on building a low emissions hydrogen technology. Money raised will be used to assist with the start-up of its commercial demonstration plant later this year.



CERTIFIED BY RIAA

## Key Facts

### Platform Availability

Hub24 (Super & IDPS)

Praemium (Super & IDPS)

Dash (Super & IDPS)

### Portfolio Fee

0.66% pa

### Top 10 Holdings

NextDC

Bendigo and Adelaide Bank

Sonic Healthcare

Meridian Energy

Mercury NZ

Technology One

CSL Limited

Charter Hall Social Infrastructure

Pilbara Minerals

Hub24 limited

## Company News

**Mercury NZ's** construction of the Kaiwera Downs 1 wind farm is on track for completion in October this year, adding enough renewable energy to power around 21,000 households or run 66,000 electric vehicles. Mercury has also announced a long-term Corporate Power Purchase Agreement with Amazon for renewable energy for their Auckland data centres, planned for launch in 2024. The deal supports Mercury's strong pipeline of renewable development.

**Wide Open Agriculture** has received a \$5 million grant from the Western Australian Government to establish a production facility for Buntine Protein enhanced oat milk, underlining the company's dedication to sustainable plant-based beverage innovation. The facility will be constructed by June 2025 in Western Australia, a region globally recognised for high-quality oat production, and will initially produce oat milk in various formats using the company's proprietary lupin-based plant protein, Buntine Protein.

A joint venture project between two of the companies in the portfolio, **Calix** and **Pilbara Minerals**, was officially given the go-ahead to build a \$105 million demonstration processing plant. The plant will convert lithium spodumene concentrate into a lighter, intermediate product containing three times more lithium and offering significant transport savings and environmental benefits.

The processing plant will use Calix's patented electric kiln technology to strip out silica and alumina waste and produce a lithium phosphate product which is 90% lighter, leading to less transportation, lower costs and a higher sale price. Calix managing director Phil Hodgson said his company's technology had the potential to "dramatically reduce the carbon footprint of Australian lithium".

According to Pilbara chief executive Dale Henderson "The industry is evolving, and we think there has to be better products in the market than spodumene concentrate. If we can get the right intermediate product, it should deliver the trifecta of increased value-add onshore, a drop in carbon energy intensity and the stripping out of most of the alumina and silica waste".

## Negative and Positive Screening

### Positive Investments

#### Who We Choose



Clean Energy



Healthcare



Education



Innovation



Aged Care



Clean Transport



Responsible Banking



Recycling



Energy Efficiency

### Negative Investments

#### Who We Seek to Avoid



Tobacco



Gambling



Weapons



Coal



Logging



Fossil Fuels



Human Abuse



Oil



Heavy Polluters

## Disclaimers

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The performance table sets out the investment performance returns (AFTER investment management fees, but BEFORE administration fees, performance based fees and taxes) for the Portfolio. The performance returns have been calculated on a daily basis taking into account brokerage costs, and are accumulated for the period shown. Returns are shown as annualised if the period is over 1 year, or as total returns otherwise. Inception date is 25 May 2015.

The Ethical Investment Australian Equities Portfolio has been certified by the Responsible Investment Association Australasia according to the operational and disclosure practices required under the Responsible Investment Certification Program. See [www.responsiblereturns.com.au](http://www.responsiblereturns.com.au) for details.<sup>1</sup>

The Investment Management Fee shown includes GST and is net of any Reduced Input Tax Credits (RITC). Please also refer to the IDPS Guide/Super PDS and the relevant disclosure document for the managed portfolio for more information on the fees and other costs.

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