

Quarterly Performance Review

U Ethical Enhanced Cash Portfolio

Quarterly highlights June 2020

- The COVID-19 pandemic wrought havoc across financial markets in March 2020 calling on unprecedented fiscal and monetary stimulus to offset the dramatic economic impact emerging as a consequence
- The June 30 2020 distribution was at the rate of 2.05% p.a. following on from the December 31 2019 distribution at 2.25% p.a.
- The relatively strong distribution was maintained against a historically low cash rate of 0.25%, most Term Deposit rates sitting sub 1.00% and the benchmark 10 year Australian Government Bond yield sitting below 0.9%

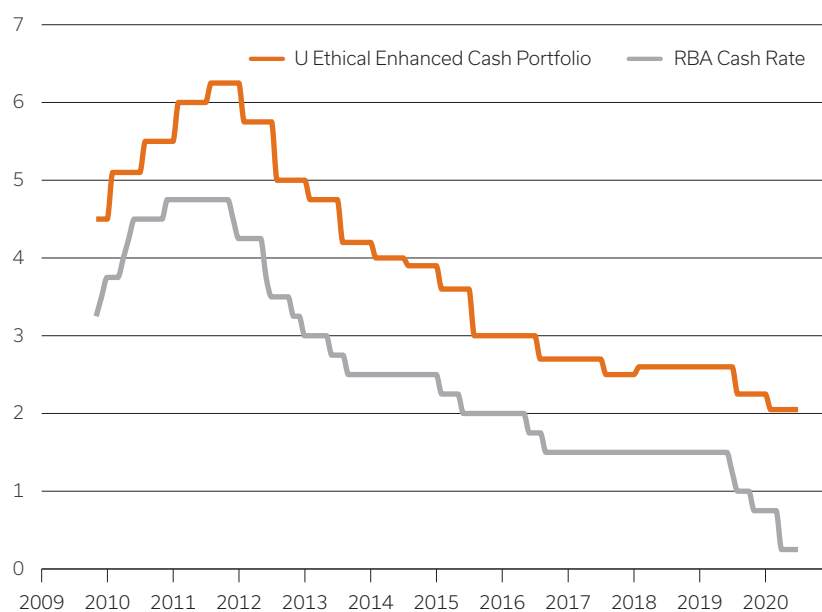
Investment objective

The U Ethical Enhanced Cash Portfolio aims to produce a competitive income return while maintaining a high level of capital stability. The Portfolio is diversified by a combination of cash, fixed interest securities, first mortgages and other loans. As the portfolio is a low-risk investment option it is suitable for short-to-medium term investment or as a cash management facility. It is available to not-for-profit organisations that are registered for charity tax concessions.

Fund information

Inception date	1 July 1985
Fund size	\$681.17 million
Management costs	Estimated up to 0.70% p.a. ¹ See Information Memorandum
Portfolio manager	James Cook

Enhanced Cash Portfolio distribution yield[†] vs. Cash Rate



Distribution yield

	3 months %	6 months %	1 year %	3 years %	5 years %	10 years %	Since inception %
U Ethical Enhanced Cash Portfolio[†]	0.51	1.03	2.17	2.46	2.63	3.80	7.05
RBA Cash Rate	0.06	0.23	0.69	1.22	1.43	2.43	NA



U Ethical has been certified by the Responsible Investment Association Australasia (RIAA) according to the strict disclosure requirements under the Responsible Investment Certification Program. The Certification Symbol signifies that an investment product or service takes environmental, social, ethical or governance considerations into account along with financial returns. Developed in response to investor requests for help in making informed choices, the Symbol and Certification Program promotes consistent, standardised disclosure and education about responsible investment products and services. The Symbol does not constitute financial advice by RIAA. See www.responsibleinvestment.org for details.

¹ No fees for establishment, contributions, redemptions or exit. Management costs includes fees and expenses.

[†] Based on exit price with distributions and franking credits reinvested, and are net of all fees. Past performance is not an indicator of future performance.

Market commentary

By late June we saw a gradual easing of global lockdown measures combined with unprecedented financial support and accommodative monetary policy. While the Reserve Bank of Australia's actions served as a backstop for the both the economy and bond markets, it was not a case of a rising tides floating all boats. Major banks' senior unsecured notes were the sought-after safe haven for institutional investors and superannuation funds requiring liquidity. By contrast, Australian government and semi-government bonds were weighed down in performance by a large increase in bond issuance to help fund various fiscal programs. Across credit markets, subordinated debt under-performed listed equity hybrids, commonly held by retail investors, despite being lower risk. This was indicative of retail investor demand for a higher yield and risk tolerance than most institutional investors who remained wary of carrying additional risk across their portfolios at a time of heightened uncertainty. Over recent months we've seen conflicting noise from economic indicators and corporate earnings data, increasing global rates of COVID-19 infections and rising geo-political tensions. Hopes are still pinned on a breakthrough vaccine development, but the timeline remains uncertain.

Portfolio commentary

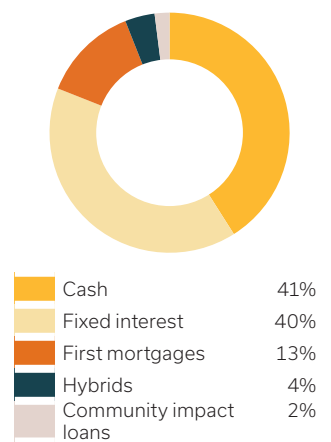
In Q1 2020, the fund generated income at an annualised rate of 2.05 per cent against the backdrop of Australia's first out-of-cycle rate cut and the commencement of unprecedented financial stimulus.

The commercial and community impact loan book held up well after Australian lockdowns raised the risk of borrowers defaulting and underlying tenants requesting mortgage payment relief.

The portfolio continued to adopt a conservative profile with an overweight position in cash and term deposits, taking advantage of the few higher yielding opportunities remaining. Whilst the portfolio locked in some relatively attractive rates, it will ultimately experience a yield drop as current holdings mature and funds are reinvested across a lower interest rate regime. Banks are currently discouraging deposits, offering a zero percentage rate on large deposits, whilst term deposit rates continue to fall to unprecedented lows. Consequently, the portfolio remains defensive while we navigate this environment, monitoring ensuing opportunities that present higher yields. The portfolio traded through the volatile period where we rebalanced it to lower the overall risk profile. As a result the portfolio finished the fiscal year delivering the targeted distribution rate of 2.05% and in relatively sound shape before the transition to the newly formed **U Ethical Enhanced Cash Trust – Wholesale** on 1 July 2020.

Top 5 exposures	%
National Australia Bank	35.75
Bank of Queensland	13.87
Bendigo and Adelaide Bank	5.73
Macquarie Group	4.27
ME Bank	3.67
Total	63.29

Asset allocation²



² Asset allocation for the U Ethical Enhanced Cash Portfolio as at 30 June 2020. Funds from the U Ethical Enhanced Cash Trust are invested into this portfolio. Cash includes cash accounts, call accounts and term deposits maturing within 90 days. Term deposits maturing greater than 90 days are included in Fixed Interest.

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With the creation of our first funds in 1985, we have become one of the largest ethical investment managers in Australia with over \$1 billion in funds under management. We are also one of the few investment businesses in Australia to have been certified as a B Corporation. As a not-for-profit social enterprise, we grant the majority of our operating surplus to community programs.

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