

Quarterly Performance Review

u ethical Enhanced Cash Trust

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 30 June 2020 distribution was at the rate of 1.7% p.a. following on from the December 31 2019 distribution at 1.9% 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%

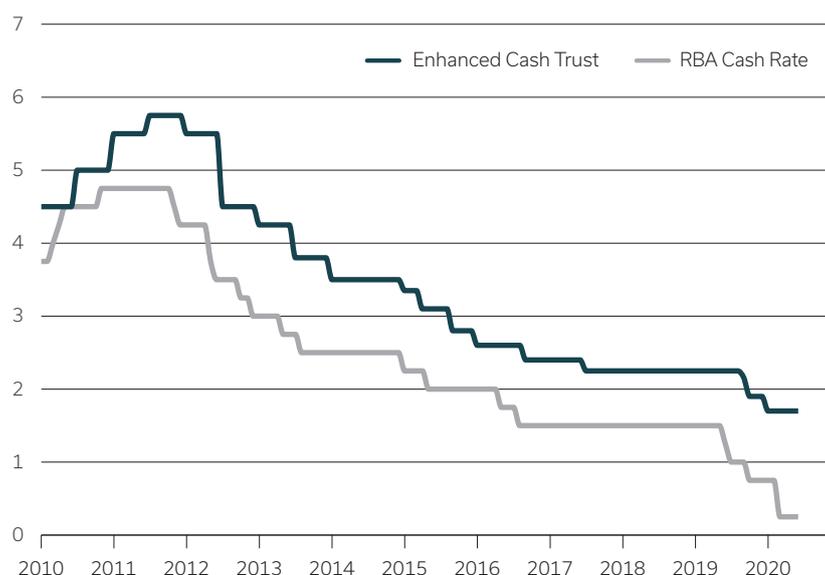
Investment objective

The U Ethical Enhanced Cash Trust invests wholly in the U Ethical Enhanced Cash Portfolio, which is diversified by a combination of cash and fixed interest securities, first mortgages and community impact loans. As the Trust is a low-risk investment option, it is suitable for short to medium-term investment. The Trust aims to outperform the fund benchmark over a rolling one-year period. On 1 July 2020, the U Ethical Enhanced Cash Trust was transitioned to the U Ethical Cash Management Trust. It is now wholly invested in the U Ethical Cash Management Trust (Wholesale). Please refer to our website for more information.

Fund information

| | |
|--------------------------|---|
| Inception date | 1977 |
| Fund size | \$154.75 million |
| Management costs | Estimated up to 1.15% p.a. ¹ See Product Disclosure Statement |
| Portfolio manager | James Cook |

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



Distribution Yield

| | 3 months % | 6 months % | 1 year % | 3 years % p.a. | 5 years % p.a. | 10 years % p.a. | Since inception % p.a. |
|--|------------|------------|----------|----------------|----------------|-----------------|------------------------|
| U Ethical Enhanced Cash Trust[†] | 0.43 | 0.85 | 1.88 | 2.14 | 2.33 | 3.42 | 5.80 |
| 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.

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¹ No fees for establishment, contributions, redemptions or exit. From 4 July 2019, management fees are estimated up to 1.15% p.a and recoverable expenses are 0.05% p.a. The Trust's investment in the U Ethical Enhanced Cash Portfolio is not charged any management costs.

[†] 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 stimulatory action served as a backstop for the both the economy and the 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 financial support programs across the economy.

In the credit markets, subordinated debt under-performed the riskier listed equity hybrids which are commonly held by retail investors. This was indicative of retail investor demand for higher yield and a higher 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

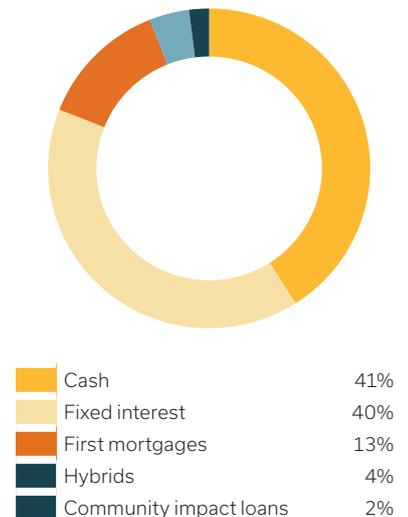
In Q1 2020, the Trust generated income at an annualised rate of 1.70 per cent against the backdrop of Australia's first out-of-cycle rate cut and the commencement of unprecedented financial stimulus.

The commercial and community impact loan book held up well after COVID-19 lockdown raised the risk of borrowers defaulting and underlying tenants requesting mortgage payment relief, although the risk remains heightened the longer any Australian lockdowns run.

The Trust 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 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 Trust remains defensive while we navigate this environment, monitoring ensuing opportunities that present higher yields. The Trust traded through the volatile period where we rebalanced the portfolio to lower its overall risk profile. As a result the Trust finished the fiscal year delivering the targeted distribution rate of 1.70% and in relatively sound shape before the transition to the newly formed **U Ethical Cash Management Trust** 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



U Ethical is an investment manager with a difference. We believe in creating a better world by investing with purpose—today and into the future.

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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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.