

# Quarterly Performance Review

# U Ethical Enhanced Income Trust - Wholesale

## Quarterly highlights September 2022

- The Trust delivered a positive return of 0.31% over the quarter despite government bond yields and credit spreads rising and remaining volatile.
- Approximately 67.95% of the Trust is allocated to interest rate insensitive securities, namely floating rate notes and cash.
- The Trust's Yield-to-Maturity ('YTM') sits at an attractive level of 4.61%. This represents a relatively attractive entry point for investors.
- Furthermore, the Trust's running yield is currently 3.18%, and is expected to increase in the medium term.

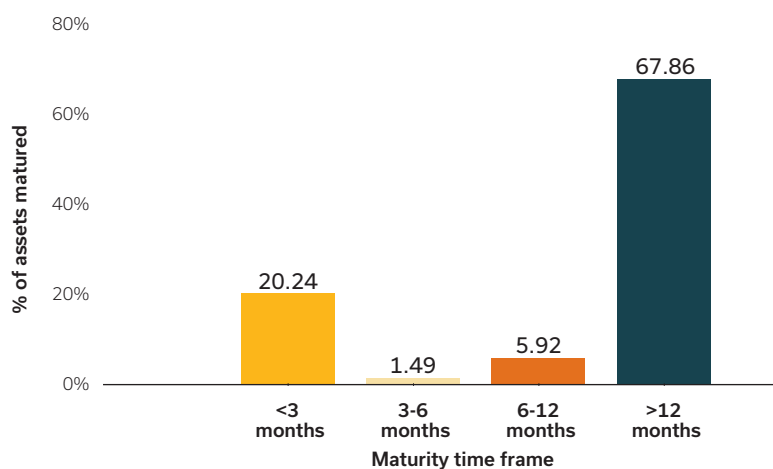
### Investment objective

The U Ethical Enhanced Income Trust - Wholesale aims to generate income and preserve capital, while limiting harm and creating positive impact through the implementation of U Ethical's Ethical Investment Policy. The Trust aims to outperform the benchmark after fees over rolling two-year periods.

### Fund information

Portfolio manager	Amanda Lin
Chief investment officer	Jon Fernie
Inception date	1 July 2020 <sup>1</sup>
Total fund size (\$M)	\$378.79 <sup>2</sup>
Benchmark	3 Month Bank Bill Swap Rate + 1.00%
Buy/sell spread	0.05%/0.05%
Management costs	Estimated up to 0.70% p.a. (See Information Memorandum)

### Maturity profile



### Performance

	3 months %	6 months %	1 year % p.a.	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception* % p.a.
U Ethical Enhanced Income Trust - Wholesale <sup>†</sup>	0.31	-0.89	-1.93	0.36	1.24	2.42	6.60
Benchmark	0.89	1.45	2.01	1.42	1.79	2.23	5.83
Relative performance	-0.58	-2.34	-3.94	-1.06	-0.55	0.19	0.77

Past performance is not indicative of future performance.

<sup>†</sup>Based on exit price with distributions reinvested, and are net of all fees

<sup>1</sup>From March 1990 to 30 June 2020, performance is that of the U Ethical Enhanced Cash Portfolio (the Portfolio), reflecting the reinvestment of distributions quarterly and including franking credits, benchmarked against 50% Bloomberg AusBond Bank Bill Index / 50% AusBond composite 0-3year Index. On 1 July 2020, the Portfolio was transferred into a unit trust, the U Ethical Enhanced Cash Trust - Wholesale, renamed the U Ethical Enhanced Income Trust - Wholesale on 19 May 2021, benchmarked against the 3 Month Bank Bill Swap Rate +1.00% and performance excludes franking credits. Where time horizons require, performance reflects a blend of the products and their benchmarks.

<sup>2</sup>This figure contains \$31,377,143 invested by the U Ethical Growth Portfolio and the U Ethical Funeral Fund products collectively.

### Market commentary

Global equities rallied to start the second half of the year, but this gave way to concerns over elevated inflation, central bank tightening and recession risks. Optimism of a pivot from central banks has proven short-lived, although recent corporate earnings have been better than expected. Headline inflation in the US eased slightly in August to an annualised rate of 8.3%, although core inflation remains a concern with more pressure from services. Contributing to this the US unemployment rate remains low at 3.5%. We also have not had any resolution of the Ukraine conflict or a change in China's covid-zero policy. The Federal Reserve reiterated a hawkish stance and increased interest rates by a further 75 basis points (bps) in September. The Reserve Bank of Australia (RBA) also increased the cash rate by 50bps in September for the fourth consecutive month. Leading global economic indicators have been mixed with an ongoing impact from higher European energy prices and Chinese lockdowns. We expect a weaker economic environment and the risks of a global recession have grown with central banks focussed on taming inflation. Corporate earnings have been better than expected, but we believe that current estimates for 2023 are optimistic. While excess savings from the pandemic have cushioned consumers, higher interest rates and inflation will start to have an impact moving forward. While the economic outlook remains uncertain, investors are benefitting from improved cash and fixed income yields as central banks increase interest rates to tame inflation.

### Portfolio commentary

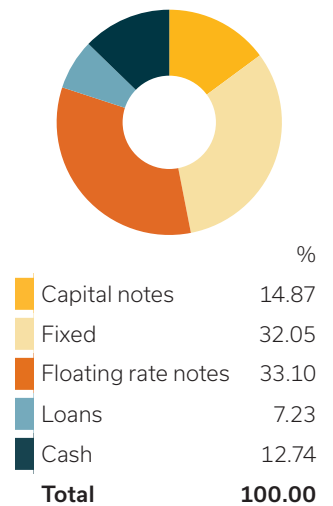
The September quarter, much like the preceding period, was volatile. The Bloomberg AusBond 0+ Year index delivered 3.36% in July, but later fell by -2.54% and -1.36% in August and September respectively, completely unwinding the July gain. Credit spreads were relatively benign over the quarter with the broad index spread widening marginally by 1bps. The current level of credit spread is above its historical average, inclusive of high-quality issuers. This has presented some good investment opportunities in short dated high-quality corporate names. On a cumulative basis, the RBA raised the cash rate by 1.50% across the quarter (50bp per month). Going forward, we expect the RBA to be a likely outlier among central banks by taking a less aggressive approach. Globally the market sees the Fed delivering a 75bps hike in November, 50 bps in December for a terminal rate of 3.88%. The market also revised up its expectations for the BoE's terminal rate to land at 3.75%. Such a market backdrop is likely to trigger volatility in Australian bond market. Over the quarter the Trust's performance was primarily driven by two distinct factors: the rise in benchmark yields (sell off in rates) and positive contribution from carry (income). The performance is attributed to -0.39% from curve (benchmark yields), +0.16% from spread (credit) and +0.55% from carry (income). Pleasingly, the income return generated over this quarter was higher relative to last quarter (0.38%) and is still rising on the back of increasing cash rates. The Trust has also maintained a relatively conservative duration position (sensitivity to interest rates) of approximately 0.7 years.

### Top 5 issuers\*

	%
National Australia Bank	7.30
Westpac Banking Corporation	5.36
Macquarie Group	4.11
Suncorp Group	3.99
Bank of Queensland	3.44
<b>Total</b>	<b>24.20</b>

\*only considers fixed income securities

### Asset allocation by securities' type



\*rounded to the nearest whole

### 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.

### U Ethical

Level 6  
130 Lonsdale Street  
Melbourne VIC 3000

**Email** [info@uethical.com](mailto:info@uethical.com)  
**Freecall** 1800 996 888

This document dated September 2022 is provided by U Ethical (a registered business name of Uniting Ethical Investors Limited ABN 46 102 469 821 AFSL 294147) as Responsible Entity, Issuer, Administrator and Manager of the U Ethical Enhanced Income Trust - Wholesale (the U Ethical Fund). All data within this document is published as at 30 September 2022.

The information provided is general information only. It does not constitute financial, tax or legal advice or an offer or solicitation to subscribe for units in any fund of which U Ethical is the Manager, Administrator, Issuer, Trustee or Responsible Entity. This information has been prepared without taking account of your objectives, financial situation or needs. Before acting on the information or deciding whether to acquire or hold a product, you should consider the appropriateness of the information based on your own objectives financial situation or needs or consult a professional adviser. You should also consider the relevant Information Memorandum (IM) which can be found on our website [www.uethical.com](http://www.uethical.com) or by calling us on 1800 996 888. U Ethical may receive management costs from the U Ethical Fund, see the current IM. U Ethical, its affiliates, and associates accept no liability for any inaccurate, incomplete or omitted information of any kind or any losses caused by using this information. All investments carry risks. There can be no assurance that any U Ethical fund will achieve its targeted rate of return and no guarantee against loss resulting from an investment in any U Ethical fund. Past U Ethical Fund performance is not indicative of future performance. The U Ethical Enhanced Income Trust - Wholesale is issued and managed by Uniting Ethical Investors Limited ABN 46 102 469 821, AFSL 294147 as Responsible Entity.

On 1 July 2020, the U Ethical Enhanced Cash Portfolio was transitioned to the U Ethical Enhanced Cash Trust - Wholesale. On May 19 2021, the name of the Trust was changed to the U Ethical Enhanced Income Trust - Wholesale.