Quarterly Performance Review

u ethical Cash Management Trust - Retail

Quarterly highlights December 2021

- Whilst delivering a stable return, the Trust remains conservatively positioned and continues to offer high levels of liquidity
- Since inception on 1 July 2020, the Trust has generated a return of 0.10 per cent, marginally under performing the benchmark by 0.03 per cent
- Periods of ultra-low deposit rates have impacted the Trust's short-term returns, however, it is expected that future relative performance will be positive
- Over the quarter, new funding opportunities emerged which allowed the Trust to take advantage of higher deposit rates, ultimately increasing overall portfolio yield by 7 basis points

Investment objective

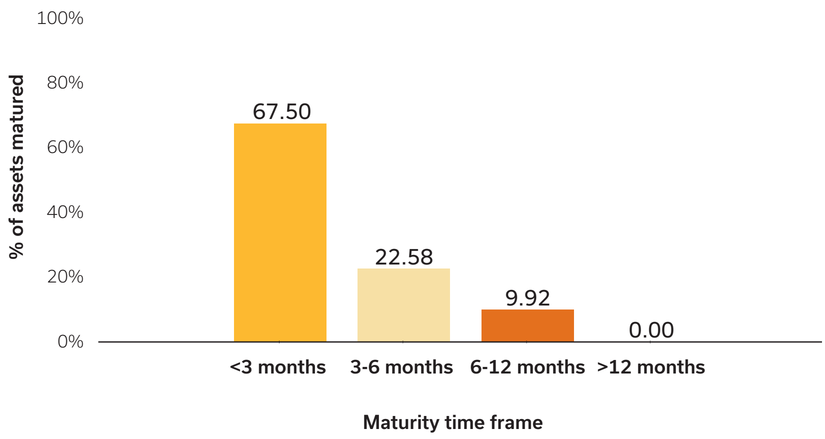
The U Ethical Cash Management Trust - Retail aims to compare favourably with comparable cash management trusts through a combination of cash and cash equivalent investments.

As the Trust is a very low risk investment option it is suitable for short term investment, while aiming to maintain a high level of capital stability. It also aims to outperform the benchmark after fees over a rolling one-year period.

Fund information

Inception date	1 July 2020
Fund size	$109.41 million
Management costs	Estimated up to 0.45% p.a. (See Product Disclosure Statement)
Benchmark	The Reserve Bank of Australia (RBA) cash rate
Portfolio manager	Amanda Lin

Maturity profile[†]



Performance

	3 months %	6 months %	1 year %	Since Inception %
Cash Management Trust - Retail[†]	0.01	0.04	0.04	0.10
Benchmark[*]	0.03	0.05	0.10	0.13
Relative performance	-0.02	-0.01	-0.06	-0.03

Past performance is not indicative of future performance.

Performance figures stated within reporting for the 6 months ending 31 December 2020 were overstated by 0.21% due to a calculation error. These have now been corrected in the above table.

[†]Based on exit price with distributions reinvested, and are net of all fees.

[*]Reserve Bank of Australia cash rate.

u ethical

Market commentary

Global equity markets finished the year strongly with the MSCI World Ex Australia Index (in AUD) delivering a total return of 7.2 per cent over the December quarter and 29.6 per cent over 2021. Robust economic growth and corporate earnings offset concerns over higher inflation and central banks tightening monetary policy. Australian equity markets lagged in comparison, although still provided a total return of 17.5 per cent for the year. During the year we have seen global GDP growth above trend as economies rebound, but this is expected to moderate moving forward. The US labour market continues to show strength with the unemployment rate improving to 4.2 per cent. Global Purchasing Manager Indices (PMIs) remain in expansionary territory despite easing at the end of the year with the rise of Omicron Covid-19 cases. Chinese GDP growth for the September quarter was below expectations, although risks from the failure of property developer Evergrande appear to be contained. While we expect supply chain disruption to gradually ease in 2022 there continues to be pressure on certain raw commodities, components, labour and logistics. Further improvement will also depend on Covid-19 cases and government policy responses. These issues contributed to headline inflation in the US rising to an annualised rate of 7.0 per cent in December. Core inflation (stripping out the more volatile food and energy factors) also increased to 5.5 per cent adding to concerns that higher inflation is more than transitory. US 10 year government bond yields finished 2021 below recent highs at 1.5 per cent, although this was up significantly from the prior year. The Federal Reserve has accelerated tapering its bond purchases and set expectations for several interest rate hikes in 2022. The Reserve Bank of Australia has also brought forward its expectations of interest rate rises to 2023. While economic growth is forecast to be solid, we retain a defensive bias given pandemic uncertainty, inflation risks, relatively high equity market valuations and expectations that central banks will continue to increase interest rates over the next 12 months.

Portfolio commentary

Over the quarter, central banks across the globe shifted from their usual rhetoric to instead prime markets for sooner than anticipated rises in policy rates. This was brought on by stronger than expected unemployment and inflation data. Yield curves responded by shifting upwards with short-end rates also climbing. This also saw parts of the interbank market begin to reprice upwards and funding premiums emerge at the longer end of the Bank Bill curve. The Trust took advantage of favourable longer-dated deposit rates, ultimately increasing the portfolio yield whilst continuing to maintain good liquidity. The breadth of issuers within the Trust also increased, with Australian Unity seeking medium-term funding at attractive levels. Whilst parts of the economy are showing some weakness due to surging Covid-19 cases, we continue to remain confident with respect to the future upward path of domestic rates albeit at a slower pace than the US and UK.

Top 5 issuers

Top 5 issuers	%
National Australia Bank	36.97
Bank of Queensland	22.59
Members Equity Bank	19.13
Macquarie Bank	15.40
Australian Unity	2.75
Total	**96.84**

Asset allocation by security type

	%
Term deposits	58.40
Call deposits	40.09
Cash	1.51
Total	**100.00**

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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