

Quarterly Performance Review

U Ethical Cash Management Trust - Wholesale

Quarterly highlights December 2022

- Whilst delivering a stable return, the Trust remains conservatively positioned and continues to offer high levels of liquidity.
- Over 1 year period, the Trust has generated an annualised return of 1.47%, outperforming the benchmark by 0.15%.
- Over the quarter, the portfolio continued to rotate into better funding opportunities, ultimately increasing portfolio yield by 0.76% from the end of the prior quarter.

Investment objective

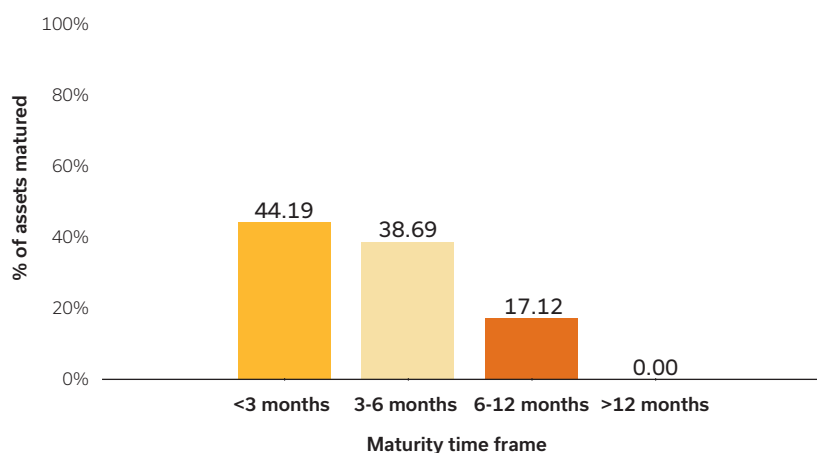
The U Ethical Cash Management Trust - Wholesale aims to compare favourably with comparable cash management trusts through a combination of cash and cash equivalent investments.

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

Portfolio manager	Amanda Lin
Chief investment officer	Jon Fernie
Inception date	1 July 2020
Total fund size (\$M)	\$56.42 ¹
Benchmark	The Reserve Bank of Australia (RBA) cash rate
Buy/sell spread	N/A
Management costs	Estimated up to 0.30% p.a. (See Information Memorandum)

Maturity profile[†]



Performance

	3 months %	6 months %	1 year % p.a.	Since Inception % p.a.
Cash Management Trust - Wholesale[†]	0.80	1.26	1.47	0.70
Benchmark[‡]	0.72	1.19	1.32	0.61
Relative performance	0.08	0.07	0.15	0.09

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.

Market commentary

Global equities moved higher over the December quarter driven by optimism over easing inflation, central banks slowing the pace of interest rate hikes and relatively resilient corporate earnings. The MSCI World Ex Australia Index (AUD) delivered a total return of 3.9% over the quarter, although this was higher in US dollar terms. Headline US inflation eased to an annualised rate of 6.5% at year-end, although core inflation remains well above target levels. The US labour market continues to be strong with the unemployment rate at 3.5%, although a number of large technology firms and banks have recently announced job cuts. Inflation in Australia has continue to rise to an annualised rate of 7.8% in December, but we expect that we are close to the peak. While there has been no resolution to the Ukraine conflict, China started easing Covid-19 restrictions late in the year.

Softening inflation data has allowed central banks more flexibility on monetary policy, although we expect further interest rate rises in the first half of 2023. The Federal Reserve raised interest rates by 50 basis points (bps) in December, which stepped down from recent 75bps increases. The Reserve Bank of Australia (RBA) took an even more cautious approach and increased the cash rate by 25bps in each month over the quarter to 3.1%. Leading global economic indicators have continued to deteriorate and risks remain around a global recession. Corporate earnings have been better than expected, although we believe that consensus earnings estimates for 2023 are optimistic given a weaker economic environment as higher interest rates and inflation pressures start to bite.

Despite positive signs on inflation and central banks being potentially closer to the end of the tightening cycle, we remain cautious on equities due to earnings risks over the next 12 months. Given higher interest rates globally, fixed income opportunities have also become more attractive.

Portfolio commentary

Over the December quarter, the Bank Bill Swap Curve (BBSW) saw material shifts upwards again, similar to the prior quarter albeit, some distinct changes in its shape occurred. Overall, across tenors on average, saw added yield of 20-30bps whilst the term premia previously present in the curve, decreased by 10-11bps. This has seen the relative risk/reward for investing in longer-dated instruments, shrink. This has likely been spurred as banks revise their funding requirements heading into a period of slowing lending growth.

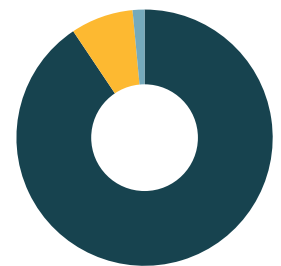
The gross yield of the portfolio saw its second largest increase quarter-on-quarter (+0.76%) as previously deposits matured enabling the fund to rotate a larger amount of capital into newer, higher interest terms. Over the same period, the Trust's benchmark rose considerably although, bank term deposit premiums were still relatively healthy, enabling the Trust to quickly adapt to the higher yielding environment.

Performance for the quarter saw the Trust marginally outperform the benchmark by 0.08%, which was attributed to higher term deposit rates and term premium at the back of the rate hikes by the Reserve Bank of Australia (RBA). We expect the Trust to continue outperforming in 2023.

Top 5 issuers

	%
National Australia Bank	37.8
Bendigo Bank	22.3
Bank of Queensland	17.7
Westpac	13.5
Bank of Victoria	5.2
Total	96.5

Asset allocation by security type



	%
Term deposits	90.6
Call deposits	7.9
Cash	1.5
Total	100

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
Freecall 1800 996 888

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