

# Quarterly Performance Review

# u ethical Cash Management Trust - Wholesale

## Quarterly highlights September 2022

- 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 an annualised return of 0.42%, outperforming the benchmark by 0.06%.
- Deposit rates have continued to rise over the quarter in tandem with revisions upward in the RBA Cash rate.
- Over the quarter, the Trust continued to rotate into better funding opportunities, ultimately increasing Trust yield by 167 basis points from the end of the prior quarter.

### Investment objective

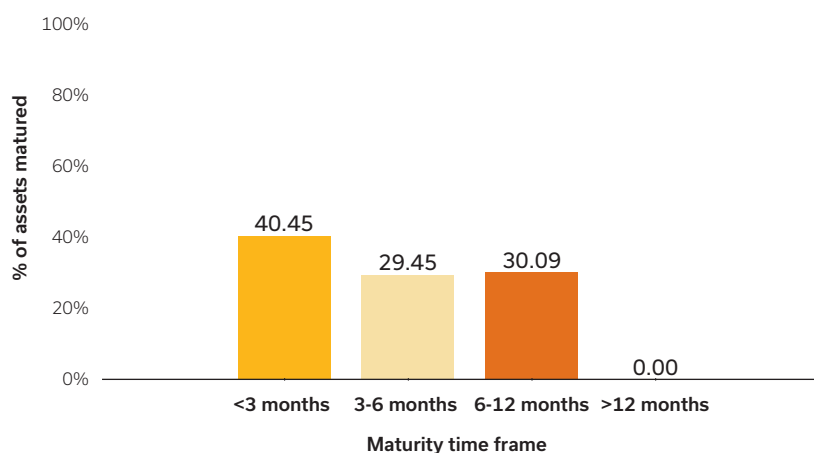
The U Ethical Cash Management Trust - Wholesale aims to compare favourably with comparable cash management trusts through a combination of cash and cash equivalent investments.

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

<b>Portfolio manager</b>	Amanda Lin
<b>Chief investment officer</b>	Jon Fernie
<b>Inception date</b>	1 July 2020
<b>Total fund size (\$M)</b>	\$171.50 <sup>1</sup>
<b>Benchmark</b>	The Reserve Bank of Australia (RBA) cash rate
<b>Buy/sell spread</b>	N/A
<b>Management costs</b>	Estimated up to 0.30% p.a. (See Information Memorandum)

### Maturity profile<sup>†</sup>



### Performance

	3 months %	6 months %	1 year % p.a.	Since Inception % p.a.
<b>Cash Management Trust - Wholesale<sup>†</sup></b>	0.45	0.61	0.68	0.42
<b>Benchmark<sup>‡</sup></b>	0.47	0.57	0.62	0.36
<b>Relative performance</b>	-0.02	0.04	0.06	0.06

#### 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.

<sup>1</sup>This figure contains \$100,002,096.00 invested by the Cash Management Trust - Retail

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

<sup>‡</sup>Reserve Bank of Australia cash rate.

**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**

Over the September quarter, rates markets gyrated, namely due to changes in expectations of the magnitude of rate hikes to be delivered by the RBA as well as Consumer Price Index (CPI) (Inflation) and GDP data releases. This saw some market volatility and further funding premiums emerge as markets attempted to plot out revised paths to the RBA's terminal (ending) cash rate in the current hiking cycle.

The Bank Bill Swap Curve (BBSW) continued to shift upwards as the 3-month rate reached its highest level in 10 years. This saw the Trust being able to take advantage of higher, revised deposit rates as Authorised Deposit Taking Institutions (ADIs) continued to show their appetite for funding. This was also driven by forecast continued growth in bank mortgage books.

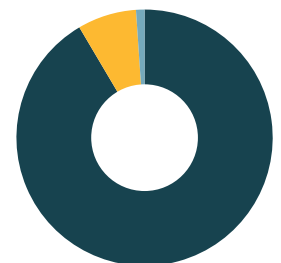
The gross yield of the portfolio saw its largest increase quarter-on-quarter (+1.67%) as previously longer-dated deposits matured enabling the fund to rotate a larger amount of capital into newer, higher interest terms. Notably, the major banks provided competitive rates during the period, enabling the Trust to maintain a relatively high credit quality when considering issuer credit ratings.

Performance for the quarter saw the Trust marginally underperform the benchmark by 0.02%, this was due to the magnitude of rate hikes by the RBA and the time lag of deposits maturing to roll into newer, higher interest deals. We expect the Trust to outperform as the RBA slows down the rate hike path.

**Top 5 issuers**

	%
National Australia Bank	37.76
Bank of Queensland	22.77
Westpac	21.80
Bendigo Bank	14.71
Macquarie Bank	1.88
<b>Total</b>	<b>98.93</b>

**Asset allocation by security type**



	%
Term deposits	91.50
Call deposits	7.43
Cash	1.07
<b>Total</b>	<b>100</b>

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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.

**U Ethical**

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