

Quarterly Performance Review

U Ethical Enhanced Income Trust - Wholesale

Quarterly highlights December 2022

- The Trust delivered a positive return of 0.90% over the quarter despite government bond yields selling off and credit spreads remaining volatile.
- Approximately 62.14% 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 4.55%. This represents a relatively attractive entry point for investors.
- Furthermore, the Trust's running yield is currently 3.89%, and is expected to increase over the medium term.

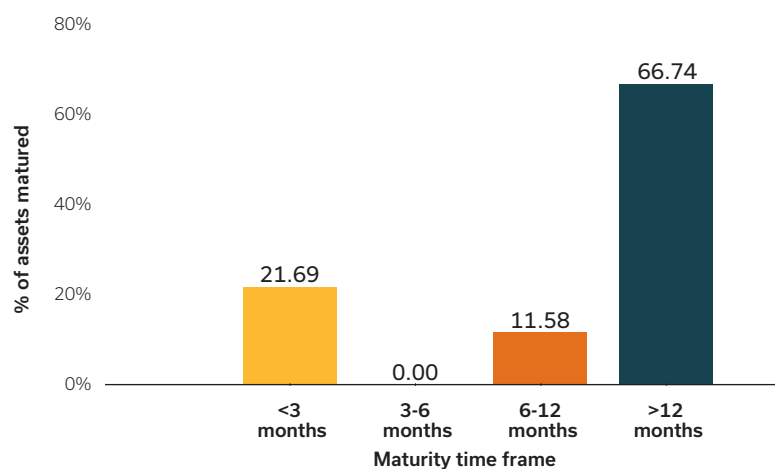
Investment objective

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 ¹
Total fund size (\$M)	\$378.79 ²
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[†]	0.90	1.21	-1.03	0.47	1.29	2.38	6.58
Benchmark	1.04	1.94	2.80	1.73	1.90	2.25	5.81
Relative performance	-0.14	-0.73	-3.83	-1.26	-0.61	0.13	0.77

Past performance is not indicative of future performance.

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

¹From 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.

²This 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 over the December quarter driven by optimism of easing inflation and central bank hikes, as well as resilient corporate earnings. The MSCI World Ex Australia Index (AUD) delivered a total return of 3.9% over the quarter.

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 firms have recently announced job cuts. Inflation in Australia continued to rise to an annualised rate of 7.8% in December.

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%.

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

The Trust delivered a total return of 0.90% over the quarter, minimally underperforming the benchmark by 0.14%. The period was one of notable adjustment for market participants when considering the influx of macroeconomic data. When considering movements in the yield curve, the Trust was insulated to some extent due to the 48% allocation to floating rate notes and 31% allocation to fixed rate, with the majority of the fixed rate allocation having a maturity less than 3 years.

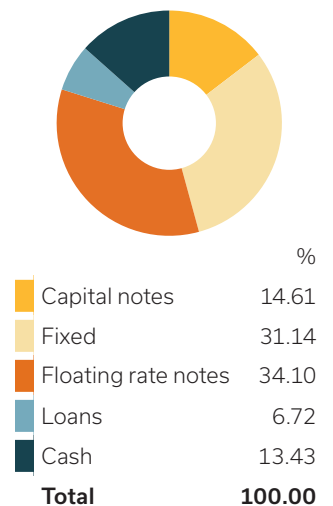
Over the quarter the Trust's performance was primarily driven by two distinct factors: the benchmark yields and positive contribution from carry (income). The performance is attributed to -0.22% from curve (benchmark yields), +0.00% from spread (credit) and +0.68% from carry (income). Pleasingly, the income return generated over this quarter was higher relative to last quarter (0.55%) 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
Total	24.20

*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

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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.