Quarterly Performance Review

u ethical Enhanced Income Trust - Wholesale

Quarterly highlights June 2022

- The Trust underperformed its benchmark over the quarter by 1.76 per cent as government bond yields rose further. However, the Trust continues to be managed in a conservative manner when considering the low interest rate risk present in the portfolio. This ensures that the Trust is well-insulated in a rising rate environment. When compared to the broader bond market, as represented by the Bloomberg Ausbond Composite Index +0 Yr, the Trust delivered a -1.20 per cent return for the quarter versus the index return of -3.81 per cent.
- The Trust's Yield-to-Maturity ('YTM') sits at an attractive level of 3.47 per cent. This is compelling from a reinvestment benefit point of view, when considering the likely future increase in income (carry) benefit from improvements in the 3-Month Bank Bill Swap rate.
- The ~26 per cent allocation to cash equivalents and ~46 per cent allocation to floating rate notes has helped the portfolio weather notable volatility over the quarter. This is expected to further protect the portfolio going forward.

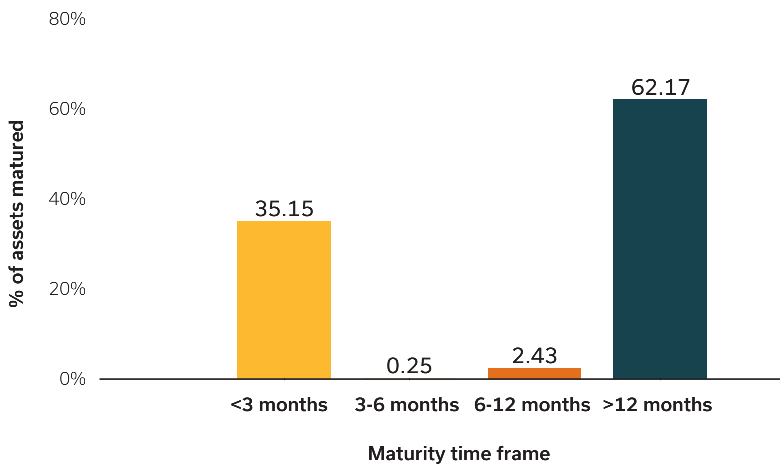
Investment objective

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)	$398.99[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†	-1.20	-2.21	-2.11	0.45	1.30	2.51	6.64
Benchmark	0.56	0.84	1.37	1.27	1.69	2.25	5.84
Relative performance	-1.76	-3.05	-3.48	-0.82	-0.39	0.26	0.80

Past performance is not indicative of future performance.

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

1 * 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.

2 This figure contains $36,370,237 invested by the U Ethical Growth Portfolio and the U Ethical Funeral Fund products collectively.

u ethical

Market commentary

Global equities remained volatile over the quarter and the MSCI World Ex Australia Index (in AUD) has delivered a total return of -16.1 per cent year-to-date. Contributing to this has been inflation remaining elevated, central banks across the globe starting to hike interest rates, fears of a looming recession and valuations coming into sharper focus. In Australia, inflation has become more broad-based and hit 5.1 per cent in March. The Reserve Bank of Australia (RBA) surprised the market by increasing the cash rate by 50bps in June/July and signalled that it expects inflation to hit 7 per cent by the end of the year. This saw the 10 year Australian government bond yield briefly push above 4 per cent. There are signs that we may be getting closer to "peak inflation," however, uncertainty remains high given the conflict in Ukraine, a tight US labour market and China's covid-zero policy. Global Purchasing Manager Indices (PMIs) generally remain in expansionary territory, although Chinese lockdowns and higher European energy prices have had a negative impact. We see a stagflation scenario as unlikely given we expect inflationary pressures to ease towards the end of the year. Corporate earnings are expected to grow strongly this year, although forecasts are for a contraction in 2023-24 and we see these estimates as optimistic. While equity market valuations look more attractive, we expect continued market volatility and remain cautious on the outlook given inflation uncertainty, hawkish commentary from central banks and an expectation that corporate earnings will weaken.

Portfolio commentary

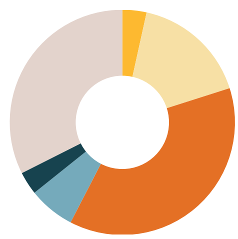
The past quarter eventuated to be a challenging time for fixed income investors as bond yields continued to rise on the back of rapidly changing inflation expectations. The Australian 10-year government bond yield rose from 2.84 per cent to 3.69 per cent (+85 basis points). With yields continuing to trend higher, credit spreads have followed suit on both lower market liquidity and recession fears, with lower-rated credits affected to a greater magnitude than higher-rated credits. Currently, bonds in the AA-rated band sit at a spread of +57, 17bps above their historical average of 40 and A-rated spreads sit at +158, 56bps above their historical average of 102. Having observed all of the above, we believe that the 'short' (front) end of the yield presents good value considering the magnitude of rate hikes priced in, which we see as excessive. On this, we therefore see the majority of investment opportunity in short dated high-quality corporate names. Noting the above, over the quarter the Trust's performance was primarily driven by two distinct factors: the rise in benchmark yields (sell off in rates) and credit spread widening. Both of these factors contributed negatively to the Trust's return, detracting -0.85 per cent and -0.73 per cent respectively. Pleasingly though, the income return generated over the same time period added +0.38 per cent to performance. The Trust continues to deliver attractive income to investors whilst carefully navigating current market volatility. The Trust has maintained a relatively conservative duration position (sensitivity to interest rates) of approximately 0.25 years. Furthermore, 26 per cent of the portfolio is allocated to cash and term deposits, which are not subject to capital value fluctuations. Furthermore, the Trust's current YTM of 3.47 per cent allows investors to have a better meaningful return.

Top 5 issuers*

Issuer	%
National Australia Bank	6.98
Commonwealth Bank of Australia	4.31
Westpac Banking Corporation	4.15
Bank of Queensland	3.31
Australia and New Zealand Banking Group	2.59
Total	**21.34**

* Only considers fixed income securities

Asset allocation by securities' type



	%
Capital notes	15.27
Fixed	20.26
Floating rate notes	30.95
Loans	7.50
Term deposits	3.76
Cash	22.26
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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