

Quarterly Performance Review

U Ethical Enhanced Income Trust - Wholesale

Quarterly highlights March 2022

- The Trust underperformed its benchmark over the quarter by 1.31% as government bond yields rose considerably. However, the Trust continues to be managed in a conservative manner and is well insulated in a rising rate environment. When examined against the bond market specifically, the Trust delivered a -1.03% return for the quarter relative to the Bloomberg Ausbond Composite 0+ Yr index return of -5.88%.
- The Trust's current Yield-to-Maturity (YTM) is 2.30% which represents a higher reinvestment benefit when considering the likely future increases in income yield from an improvement in the 3-Month Bank Bill Swap Rate. Furthermore, the conservative positioning of the Enhanced Income Trust - Wholesale (EIT-W) and its YTM provides a buffer against short-term capital losses over longer investment horizons.
- Close to 50% of the portfolio is allocated to cash and term deposits which are not subject to capital losses, further bolstering EIT-W's insulation against market volatility.

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.

Performance

	3 months %	6 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Since inception* % p.a.
U Ethical Enhanced Income Trust - Wholesale[†]	-1.03	-1.05	-0.61	1.07	1.68	2.78	6.72
Benchmark	0.28	0.55	1.07	1.34	1.68	2.36	5.87
Relative performance	-1.31	-1.60	-1.68	-0.27	0.00	0.42	0.85

Past performance is not indicative of future performance.

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

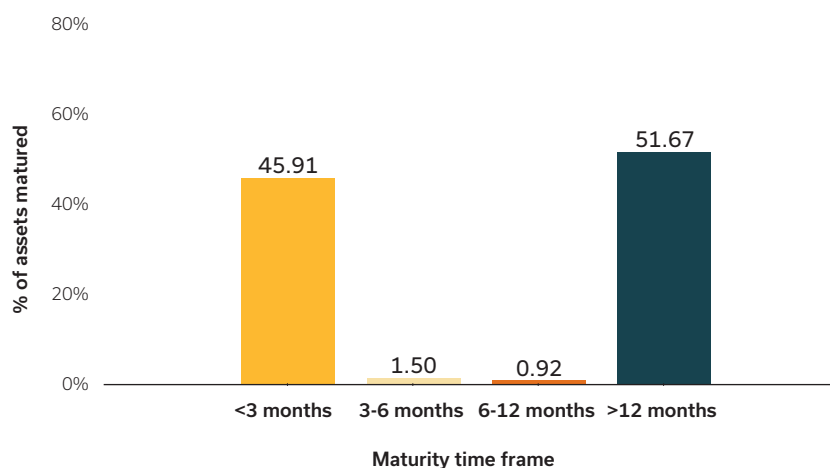
[‡]From March 1990 to 30 June 2020, performance is that of the U Ethical Enhanced Cash Portfolio (the Portfolio), reflecting the reinvestment of distributions quarterly and including franking credits, benchmarked against 50% Bloomberg AusBond Bank Bill Index / 50% AusBond composite 0-3year Index. On 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.

[§]This figure contains \$36,842,278 invested by the U Ethical Growth Portfolio and the U Ethical Funeral Fund products collectively.

Fund information

Inception date	1 July 2020 ¹
Total fund size (\$M)	\$428.27 ²
Management costs	Estimated up to 0.70% p.a. (See Information Memorandum)
Fund benchmark	3 Month Bank Bill Swap Rate + 1.00%
Buy/sell spread	0.05%/0.05%
Portfolio manager	Amanda Lin

Maturity profile



Market commentary

The escalating conflict in Ukraine has raised concerns that inflation will remain elevated for longer and economic growth weaker than expected (particularly in Europe). We have seen GDP forecasts reduced as higher inflation, rising interest rates and weaker economic activity are factored in. While Chinese GDP growth for the December quarter was above expectations, concerns have grown that the country's target 5.5% in 2022 may be challenging to achieve given a covid-zero policy. Headline inflation in the US increased to an annualised rate of 7.9% in February and core inflation (stripping out food and energy) remains substantially above the US Federal Reserve's 2% long-term target. With the unemployment rate dropping to 3.6%, a tight labour market is likely to contribute to inflationary pressures. In March, the US Federal Reserve raised interest rates for the first time since 2018 as it looks to tame inflation and also signalled that it will start reducing its balance sheet. The central bank's "dot plot" shows that officials expect the Federal Funds Rate to reach 2.8% by the end of 2023. While inflation has been more subdued domestically, the Reserve Bank of Australia has changed its tune and indicated that interest rate rises may now start in mid-2022. Fixed income returns have been impacted by rising government bond yields with the Australian 10 year yield reaching 2.8% at the end of the quarter.

Portfolio commentary

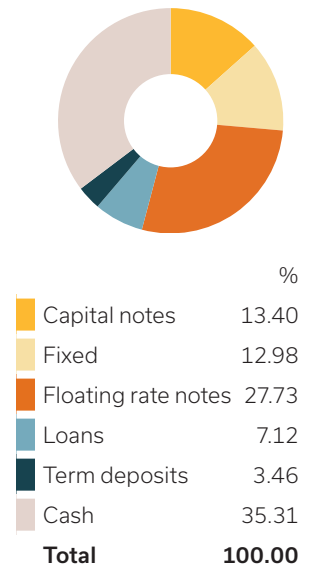
The past quarter has been a challenging time for fixed income investors. The Australian 10-year government bond yield rose from 1.69% to 2.84% (+115 basis points), whilst credit spreads

simultaneously drifted wider with lower rated credits affected to a greater magnitude. This period is likely to go on record as one of the most difficult quarters for the bond market. For context, two of the largest monthly drawdowns in the past 15 years for the Bloomberg AusBond Composite 0+ Yr Index occurred during the Jan - Mar '22 period. When considering the floating rate nature of EIT-W's portfolio, the Trust was well-insulated against these broader market moves when observing the net return of -1.03%. Against the market backdrop, the Trust has been able to protect capital for its investors. The predominant driver of the Trust's negative performance was the selloff (rise) in benchmark yields which affected the Trust's fixed-rate bond allocation - this contributed -0.86% to the aggregate performance result. Furthermore, with broad credit spreads widening this also impacted the Trust's quarter-end return and contributed -0.21% to the figure. Pleasingly though, income ('carry') accounted for +0.20% of the total return for the quarter. The Trust continues to deliver attractive income to investors while navigating through the current volatile period for bonds. The Trust has maintained a relatively conservative duration (sensitivity to interest rates) positioning of approximately 0.78 years. Furthermore, 39% of the portfolio is allocated to cash and term deposits, which have no negative capital movement. The Trust's current YTM is 2.26% versus last December's figure of 1.52% which allows investors to have a yield buffer as a defensive alternative as well as better risk-adjusted returns.

Top 5 issuers*	%
National Australia Bank	4.67
Westpac Banking Corporation	3.18
Suncorp Group	2.96
Macquarie Group	2.72
Australia and New Zealand Banking Group	2.44
Total	15.97

* Only considers fixed income securities

Asset allocation by securities' type



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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This document dated March 2022 is provided by U Ethical (a registered business name of Uniting Ethical Investors Limited ABN 46 102 469 821 AFSL 294147) as Responsible Entity, Issuer, Administrator and Manager of the U Ethical Enhanced Income Trust - Wholesale (the U Ethical Fund). All data within this document is published as at 31 March 2022.

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