

Quarterly Performance Review

u ethical Enhanced Income Trust - Wholesale

Quarterly highlights December 2023

- The Trust delivered a positive return of 1.80% over the quarter, outperforming the benchmark by 0.45%.
- Approximately 73% of the Trust is allocated to interest rate insensitive securities, namely floating rate notes, term deposits and cash.
- Over the quarter, the Trust's gross yield to maturity remained relatively attractive as an entry point for investors, ending the period at 5.14%.
- Furthermore, the Trust's gross income yield remained high, finishing the quarter at 5.09%, as some benefit from floating rate benchmark resets took hold.

Investment objective

The U Ethical Enhanced Income Trust - Wholesale aims to generate income and preserve capital. The Trust aims to outperform the benchmark after fees over rolling two-year periods.

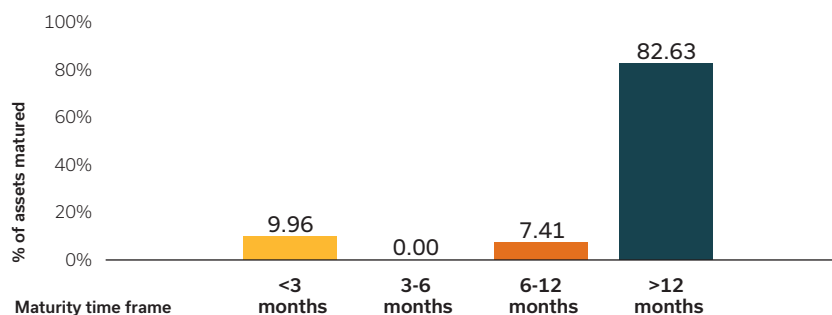
Fund information



Out of 101 Australia & New Zealand Equity Funds as of 31/08/2023. Based on 100 percent of eligible corporate AUM and 0 percent of eligible sovereign AUM. Data is based on long positions only

Portfolio manager	Amanda Lin
Chief investment officer	Jon Fernie
Inception date	1 July 2020 ¹
Total fund size (\$M)	\$250.30
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 %	5 years % p.a.	10 years % p.a.	Since inception % p.a.
U Ethical Enhanced Income Trust - Wholesale[†]	1.80	3.10	5.25	1.61	1.80	2.45	6.54
Benchmark	1.35	2.66	5.14	2.98	2.49	2.45	5.80
Relative performance	0.45	0.44	0.11	-1.37	-0.69	0.00	0.74

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.

Market commentary

Global equity markets rallied over the December quarter with the S&P 500 Index rising more than 11%. Contributing to the momentum has been inflation trending lower and optimism central banks will cut interest rates in the first half of 2024. Economic growth has remained more resilient than expected with a 'soft landing' now expected for the global economy.

US core inflation remained steady in November at 4.0% and the federal funds target range has been maintained at 5.25-5.50% since July. On the back of more dovish commentary and forecasts, the US yield curve shifted down over the quarter with 10-year treasury yields dropping below 4%.

In Australia, inflation eased to 4.9% in October and remains above target levels driven by stickier services components. The Reserve Bank of Australia (RBA) increased the cash rate to 4.35% in November and next meets again in February. A tight labour market will remain a concern with the unemployment rate at 3.8%, but we are close to the interest rate peak domestically.

Corporate earnings have remained solid, although we expect more pressures to emerge as economic growth slows. While domestic consensus forecasts have declined over the last 12 months (excluding resources), globally we still see expectations as too high. Equity market valuations also look more stretched given the rally at the end of 2023.

Portfolio commentary

The Trust delivered a total return of 1.80% over the quarter, outperforming the benchmark by 0.45%. The period saw a considerable quantity of economic data, with some surprising to the upside and driving the RBA to increase the cash rate by 25 basis points (bps) to 4.35%.

Despite the rise in the RBA cash rate, Australian government bond yields rallied across all tenors to finish the quarter considerably lower. This was in light of the likely realised peak in inflation, terminal level of cash rates and the beginning of marginally dovish rhetoric from foreign central banks. Notably, the 10-year yield rallied by 53bps, the 5-year yield rallied by 51bps and 3-year by 47bps. This was a notable reversal considering the selloff of similar magnitude the prior quarter.

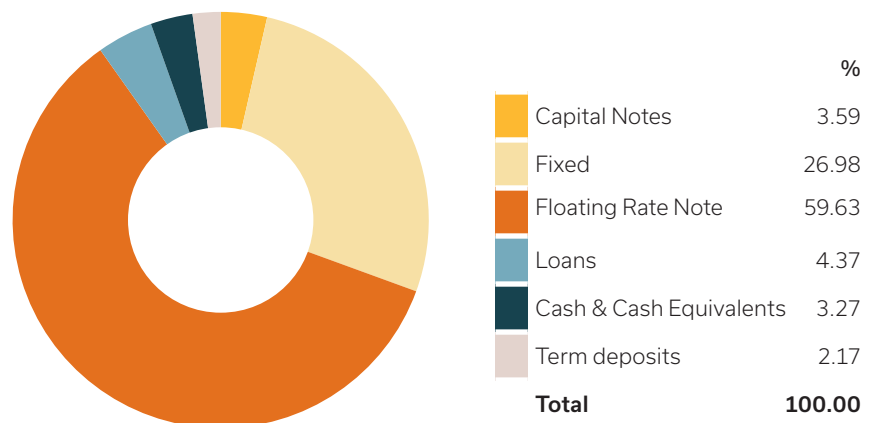
On the back of the bond rally and a marginal credit spread compression, the Trust delivered a strong return for the quarter. This can be attributed to +0.47% from yield changes, +0.25% from credit spread, +1.09% from income (post fees).

The Trust continues to maintain a conservative duration position of 0.97y, up from 0.92y at the start of the quarter. Whilst duration increased, this was tactical in nature and saw the Trust benefit considerably from the rally in benchmark yields.

Top 5 issuers*	%
National Australia Bank	11.42
Bank of Queensland	7.53
Westpac Banking Corporation	6.80
Suncorp Group	5.16
Commonwealth Bank of Australia	3.77
Total	34.68

*only considers fixed income securities

Asset allocation by securities' type



This document dated December 2023 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 December 2023.

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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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