

Quarterly Performance Review

U Ethical Enhanced Income Trust - Wholesale

Quarterly highlights June 2024

- The Trust returned 1.11% for the quarter, underperforming the benchmark by 0.25%.
- Strong income yield and credit spread compression over the quarter drove the majority of performance.
- The Trust continues to remain well positioned, with exposure to high quality conservative credit names and 0.82y of interest rate duration.

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.

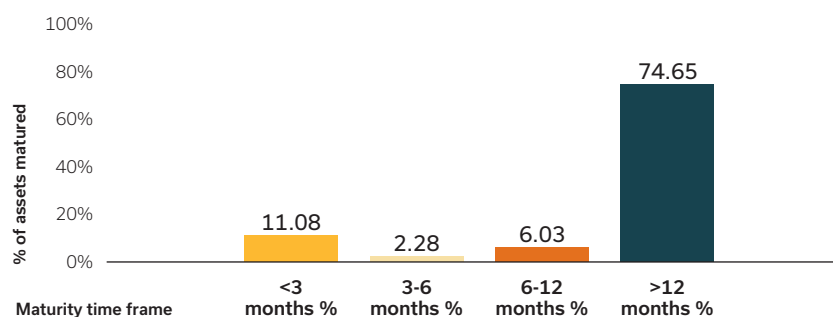
Fund information



Out of 102 Australia & New Zealand Equity Funds as of 30/04/2024. Based on 80.28 percent of eligible corporate AUM and 0 percent of eligible sovereign AUM. Data is based on long positions only.

| | |
|---------------------------------|------------------------------------------------------------|
| Portfolio managers | Dandan Huang & Joshua Nappa |
| Chief investment officer | Jon Fernie |
| Inception date | 1 July 2020 ¹ |
| Total fund size (\$M) | \$266.094 |
| 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[†] | 1.11 | 2.48 | 5.67 | 2.24 | 2.04 | 2.50 | 6.53 |
| Benchmark | 1.36 | 2.72 | 5.45 | 3.72 | 2.71 | 2.56 | 5.79 |
| Relative performance | -0.25 | -0.24 | 0.22 | -1.48 | -0.67 | -0.06 | 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 finished the June quarter slightly higher after pulling back in April. Contributing to this was global inflation trending lower and some central banks starting easing cycles.

We saw a divergence in monetary policy with the European Central Bank (ECB) cutting interest rates, while the Federal Reserve maintained its target at 5.25-5.50% for almost 12 months. However, US economic indicators weakened with Q1 GDP growth, retail sales, and recent employment figures below expectations, providing optimism that interest rates would be cut later this year. Geopolitical tensions and elections in developed economies added to uncertainty over the global outlook.

In Australia, inflation remained above target levels with the annual trimmed mean rising to 4.4% in May and the services component remaining elevated. While we saw a drop in job vacancies, the unemployment rate remained low at 4.0%. The Reserve Bank of Australia (RBA) has maintained the cash rate at 4.35% since November, although there is an increased likelihood the next move will be a hike depending on upcoming unemployment and inflation data.

While corporate earnings growth was robust, outlook statements were more cautious. The US equities rally this year has been driven by technology stocks, with other sectors facing more headwinds. We continue to see global equity valuations as stretched, given high earnings growth expectations and slowing economic growth.

Portfolio commentary

The Trust delivered a total return of 1.11% over the quarter, underperforming the benchmark by 0.25%. Shifts upward in the Australian yield curve and compression in credit spreads saw largely offsetting outcomes for the Trust. Overall performance for the quarter was bolstered by the strong running yield of the portfolio (5.23% p.a at quarter end).

Upside surprises in inflation and unemployment data across April and May prompted markets to reconsider rate hikes from the RBA in the lead up to the August meeting. This sentiment was further bolstered by hawkish adjustments to the RBA's Monetary Policy Decision statement, which indicated a less-tolerant central bank with respect to inflation data.

On average across the curve, Australian government bond yields rose by +38 basis points (bps), with yields in the 'belly' increasing by +45bps. This saw a flattening whereby the 3s10s shed -11.5bps and 2s10s by -5.5bps, ending the quarter at 22.8bps and 14.4bps respectively. This 'bear flattening' move was indicative of an increasingly restrictive policy rate and slower economic growth.

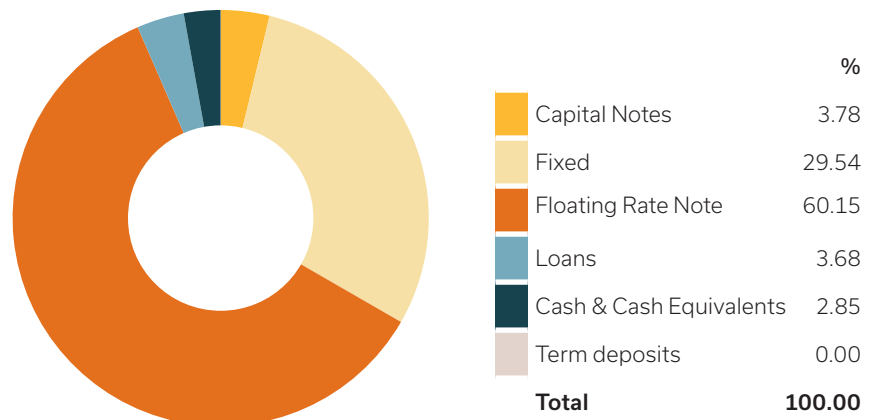
Following this, domestic credit spreads tightened by the most in the A- bucket by 10.5bps, whilst spreads in the AAA and A+ buckets tightened by 8.9bps and 9.2bps respectively. Whilst BBB spreads underperformed, only tightening by 5.4bps, showing a flight to quality as investors rotated into more conservative lines.

The Trust benefitted from both its positioning in 'high carry' (income) lines and 'barbelled' exposure to credit (allocations in AA- and BBB+ buckets). Attribution for the quarter showed most of EIT-W's 1.11% return arising from income (+1.12% net of fees) with the remainder from credit spread compression (+0.30% and duration (-0.31%) positioning.

| Top 5 issuers* | % |
|----------------------------------|--------------|
| National Australia Bank | 10.18 |
| Westpac Banking Corp | 7.23 |
| Bank Of Queensland Ltd | 6.77 |
| Aust & New Zealand Banking Group | 4.60 |
| Bendigo And Adelaide Bk | 3.99 |
| Total | 32.78 |

*only considers fixed income securities

Asset allocation by securities' type



This document dated 30 June 2024 is provided by U Ethical (a registered business name of Uniting Ethical Investors Limited ABN 46 102 469 821 AFSL 294147) as 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 30 June 2024.

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Sustainability Rating as of 30/04/2024. Corporate and Sovereign Sustainability Score and Investment Style as of 30/04/2024 Morningstar's Sustainability Score incorporates Sustainalytics' company and country-level analysis.

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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.

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