

# Quarterly Performance Review

# u ethical Enhanced Income Trust - Wholesale

APIR UGF1128AU

September 2024

A diversified portfolio of cash and fixed-income securities designed to provide consistent income.

### Benefits and risks

- Suggested minimum investment horizon - 2 years
- Low-risk profile

### 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.

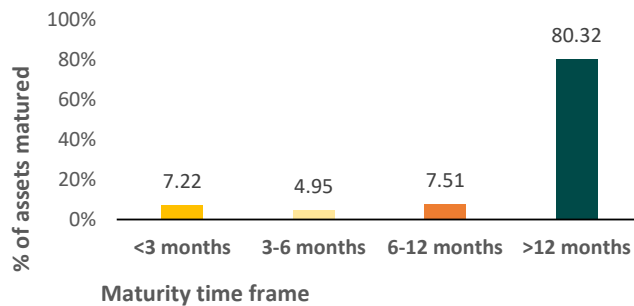
### Fund information



Out of 120 Australia & New Zealand Equity Funds as of 31/08/2024. Based on 84.08 percent of eligible corporate AUM and 0 percent of eligible sovereign AUM. Data is based on long positions only

<b>Portfolio managers</b>	Dandan Huang & Joshua Nappa
<b>Chief investment officer</b>	Jon Fernie
<b>Inception date</b>	1 July 2020
<b>Total fund size (\$M)</b>	\$262.46
<b>Benchmark</b>	3 Month Bank Bill Swap Rate Rate + 1.00%
<b>Buy/sell spread</b>	0.05%/0.05%
<b>Management costs</b>	Estimated up to 0.70% p.a. (See Information Memorandum)

### Maturity Profile



### Performance

	3 months	6 months	1 year	3 years	5 years	10 years	Since inception
	%	%	% p.a.	% p.a.	% p.a.	% p.a.	% p.a.
U Ethical Enhanced Income Trust - Wholesale†	1.64	2.77	6.04	2.75	2.26	2.56	6.53
Benchmark	1.37	2.74	5.52	4.11	2.91	2.63	5.79
Relative performance	0.28	0.03	0.52	-1.36	-0.65	-0.07	0.74

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.

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## Market Commentary

Global equity markets continued to rally in the September quarter with inflation trending lower and more central banks starting easing cycles to engineer a 'soft landing'.

US inflation declined to 2.5% in August and recent economic data has been mixed. This led the Federal Reserve to reduce interest rates by 50 basis points at their September meeting ahead of the upcoming US election. The European Central Bank has also cut interest rates several times since June as growth remains challenging in the region.

In Australia, the Reserve Bank of Australia has maintained interest rates at 4.35% since November and trimmed mean inflation in August remained above target levels at 3.4% annualised. We expect that domestic monetary policy will remain on hold for 2024 as the labour market has remained relatively robust.

China continues to deal with a troubled property sector and subdued consumer activity, although recent stimulus measures have provided more reason for optimism. Rising tensions in the middle east remain a risk for markets including potential inflation impacts from supply chain disruption and higher energy prices.

Corporate earnings results have remained solid in Australia and overseas. However, outlook statements were more cautious and earnings expectations have been revised lower. We also note increased concentration in a US market dominated by a handful of large information technology stocks. We continue to see equity market valuations as stretched given relatively optimistic earnings growth forecasts, although acknowledge central bank easing will be positive for sentiment.

## Portfolio Commentary

The Trust delivered a total return of 1.64% over the quarter, outperforming the benchmark by 0.27%. A strong rally in yields across the curve saw the Trust benefit from its duration positioning, predominantly in the 3-6yr key rates. Strong running yield also added considerably along with some benefit from credit spread compression.

On average across the curve, Australian government bond yields fell by -35 basis points (bps), with yields in the 'belly' decreasing by -49bps. This saw a steepening whereby the 3s10s spread added 20.2bps and 2s10s added -18.1bps, ending the quarter at 43bps and 32.5bps respectively. This 'bull steepening' move was indicative of an increasing expectation that the RBA would cut rates in the face of slowing inflation momentum.

Following this, domestic credit spreads continued to tighten by the most in the BBB bucket by -8.81bps, whilst spreads in the AA+ and AA- buckets tightened by -7.05bps and -6.67bps respectively. Considering the rally in short-end yields, the BBB bucket saw the largest amount of outperformance as forecast rate relief drove risk-positive sentiment.

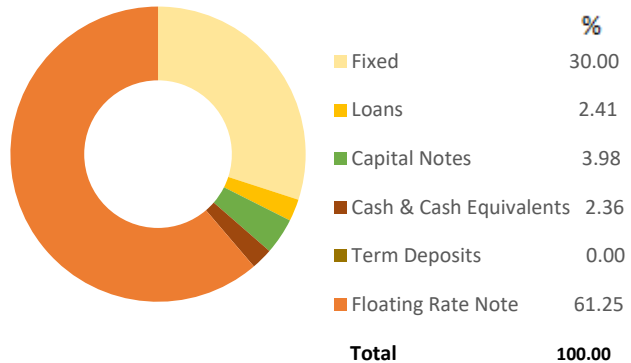
The Trust benefitted from both its positioning in 'high carry' (income) lines and exposure to lower-rated credit. Attribution for the quarter showed EIT-W's 1.64% return arising from income (+1.13% net of fees) with the remainder from duration positioning (+0.51%) and credit spreads (+0.01%).

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Top 5 issuers	%
National Australia Bank	10.37
Westpac Banking Corporation	7.53
Bank Of Queensland Limited	6.89
Australia and New Zealand Bank Group	5.18
Toyota Finance Australia	4.54
<b>Total</b>	<b>34.51</b>

\*only considers fixed income securities

## Asset allocation by securities' type



## About U Ethical and your team

**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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Sustainability Rating as of 31/08/2024. Corporate and Sovereign Sustainability Score and Investment Style as of 31/08/2024 Morningstar's Sustainability Score incorporates Sustainalytics' company and country-level analysis.

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