

# Quarterly Performance Review

# u ethical Enhanced Income Trust - Wholesale

APIR UGF1128AU

December 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

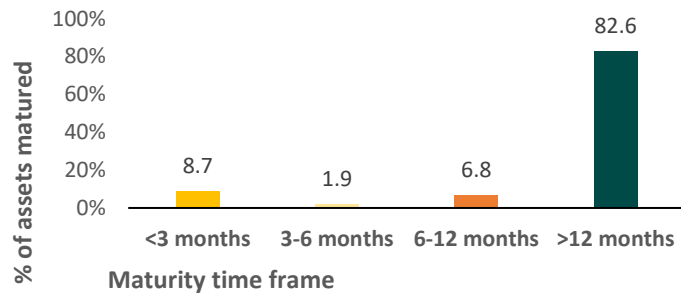
Morningstar Sustainability Rating™



Out of 112 Australia & New Zealand Equity Funds as of 30/11/2024. Based on 87.34 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 <sup>1</sup>
<b>Total fund size (\$M)</b>	\$242.39
<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†	1.27	2.93	5.49	3.19	2.40	2.59	6.53
Benchmark	1.36	2.75	5.53	4.48	3.16	2.67	5.79
Relative performance	-0.10	0.18	-0.05	-1.30	-0.76	-0.08	0.74

Past performance is not indicative of future performance.

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

<sup>1</sup> 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.

# u ethical Enhanced Income Trust - Wholesale

## Market Commentary

Global equity markets moved higher during the December quarter as central banks further eased monetary policy and corporate earnings remained solid. A Trump presidential victory in the US buoyed markets given scope for deregulation and lower corporate taxes. However, the re-escalation of trade tensions and potential implications for inflation and economic growth remains a concern.

The Federal Reserve reduced interest rates for a third consecutive time in December to a target range of 4.25-4.50%, although signalled a slower pace of easing moving forward. While US inflation has significantly lowered over the last 12 months, we saw a tick up in November to 2.7%. The European Central Bank also continued to cut interest rates during the quarter with growth remaining subdued in the region.

In Australia, the Reserve Bank of Australia (RBA) maintained interest rates at 4.35%, although market expectations are for an interest rate cut in the first half of 2025. Domestic headline inflation continued to decline during the quarter, although benefitted from various subsidies and rebates. The labour market also remains robust with seasonally adjusted unemployment declining to 3.9% in November.

Further stimulus measures were announced in China during the quarter and the country looks set to hit its target of 5% GDP growth for 2024. However, the potential for increased trade tensions under Trump clouds the outlook for the region and also has implications for the Australian economy.

Despite expectations for strong earnings growth in aggregate, we continue to see global equity market valuations as stretched. While further central bank easing may be supportive for equity markets, the pace of cuts will likely to be slower than previously forecast. Uncertainty over the impact of a second Trump presidency also remains high.

## Portfolio Commentary

The Trust delivered a total return of 1.27% over the quarter, underperforming the benchmark by 0.09%. A strong selloff in yields across the curve saw the Trust benefit from its relative short duration positioning. Additionally, robust running yield contributed significantly to performance, complemented by some gains from credit spread tightening.

Australian government bond yields rose by 20 to 40 basis points (bps) on average across the curve, with the belly experiencing the largest increases. This led to a steepening of the curve, as the 3s10s spread widened by 10bps and the 2s10s spread by 17.5bps, closing the quarter at 54bps and 50bps, respectively. The 'bear steepening' was primarily driven by expectations of pro-growth policies under the incoming US administration and concerns over government deficits.

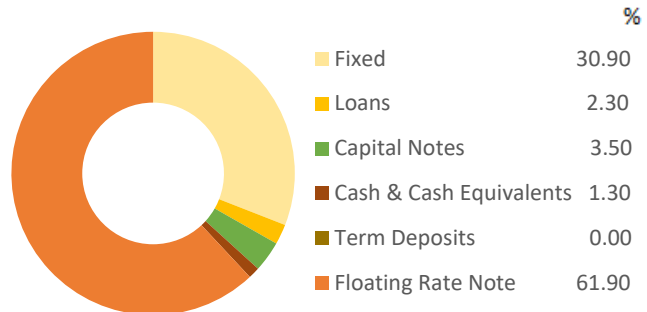
Domestic credit spreads tightened further, averaging a reduction of 12 bps. However, spreads in the AAA and AA- categories lagged, tightening by 6.84 bps and 9.76 bps, respectively. The credit curve has now reached its tightest levels in recent history.

The Trust benefited from its focus on high-yielding (income) securities and higher exposure to lower-rated credit, which has delivered strong performance. The Trust maintained a relatively short duration in light of recent sell-offs and anticipated volatility, with a view to adjust if the domestic market shows further signs of weakness.

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Top 5 issuers	%
National Australia Bank	11.41
Westpac Banking Corporation	7.61
Bank Of Queensland	5.33
Australia and New Zealand Bank Group	5.18
Toyota Finance Australia	4.62
<b>Total</b>	<b>34.16</b>

## Asset allocation by securities' type



\*only considers fixed income securities

## 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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This document dated December 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 31 December 2024.

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Sustainability Rating as of 30/11/2024. Corporate and Sovereign Sustainability Score and Investment Style as of 30/11/2024 Morningstar's Sustainability Score incorporates Sustainalytics' company and country-level analysis.

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