

Quarterly Performance Review

U Ethical Diversified Income Trust - Wholesale

Quarterly highlights September 2023

- Bank hybrid spreads widened significantly from June to August then narrowed by quarter end. The portfolio added securities as spreads were deemed attractive compared to historical level.
- Over the quarter, the Trust delivered a return of 2.61% (net of fees), outperforming the benchmark by 0.93%.
- AT1s over the quarter saw mostly positive performance in capital terms, with carry in the September coupon period buoyed by higher Bank Bill Swap rates.

Investment objective

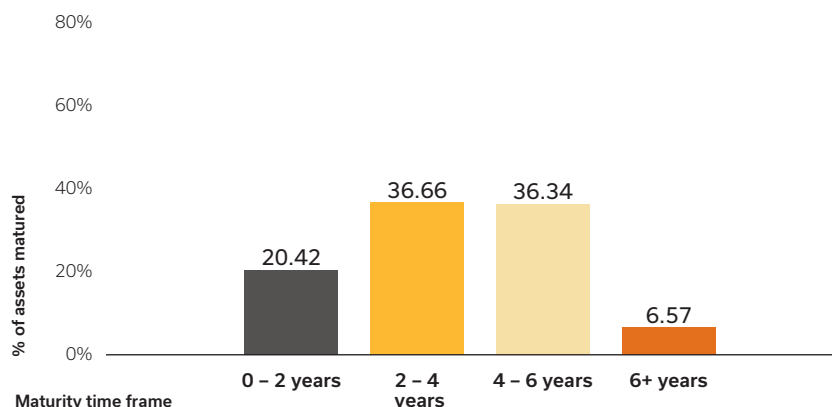
The U Ethical Diversified Income Trust - Wholesale aims to generate income in excess of short-term interest rates, while limiting harm and creating positive impact through the implementation of U Ethical's Ethical Investment Policy.

The Trust is a medium-risk investment option with a suggested minimum investment horizon of 3 to 5 years. It aims to outperform the benchmark after fees over a rolling three-year period.

Fund information

Portfolio manager	Amanda Lin
Chief investment officer	Jon Fernie
Inception date	1 July 2020
Total fund size (\$M)	\$38.91
Benchmark	3 Month Bank Bill Swap Rate + 2.50%
Buy/sell spread	0.20%/0.20%
Management costs	Estimated up to 0.70% p.a. (See Information Memorandum)

Maturity profile



Performance

	3 months %	6 months %	1 year % p.a.	3 year % p.a.	Since Inception % p.a.
U Ethical Diversified Income Trust - Wholesale [†]	2.61	3.43	4.25	3.91	4.16
Benchmark [‡]	1.68	3.34	6.40	4.16	4.04
Relative performance	0.93	0.09	-2.15	-0.25	0.12

Past performance is not indicative of future performance.

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

[‡]3 month Bank Bill Swap Rate +2.5%

Market commentary

Global equities retreated over the quarter with central banks signalling interest rates may remain higher for longer. While economic growth has been more resilient than expected, inflation remains in focus. After a solid start to the quarter, the MSCI World Ex Australia Index (AUD) finished down 0.4% with September notably weaker.

US (United States) inflation increased to 3.7% in August in line with expectations given energy price pressures. The Federal Reserve maintained interest rates at 5.5% in September and is committed to returning inflation to target levels. The yield curve has shifted up in recent weeks and 10-year government bond yields are more than 1% higher than 12 months ago.

Headline inflation in Australia rose to 5.2% in August, although core inflation continued to ease. The Reserve Bank of Australia (RBA) has kept the cash rate at 4.1% since June. Tight labour markets, sticky services inflation and Australian dollar weakness may mean interest rates need to be tightened further.

Australian corporate earnings have remained solid despite relatively weak consumer confidence. However, specific guidance was lacking during reporting season and the outlook is more challenging. Consensus forecasts in Australia have declined substantially over the last 12 months with more moderate negative revisions overseas. We are cautious on the near-term outlook for equities given earnings uncertainty and interest rates may remain higher for longer.

Portfolio commentary

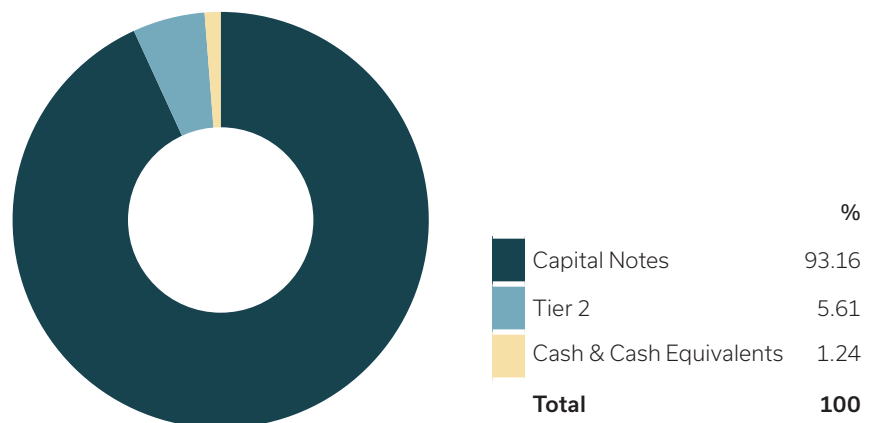
Over the quarter, broad credit spreads compressed across all rating bands, as inflationary pressures began to abate and headline figures showed signs of peaking providing some reprieve for corporates. The Australian banks continue to show resilience and strong balance sheets despite borrowers are experience stress from mortgages due to higher interest rates.

Average major bank spreads, particularly Tier 2 debt and hybrids, both compressed by 21bps and 33bps respectively. The spread move in hybrids has contributed positive performance to the portfolio. On a relative value basis, this saw both Tier 2 and AT1 debt trade less attractively compared to historical spread levels as denoted by the multiple.

Over the quarter, the portfolio delivered 2.61% after fees, outperformed the benchmark by 0.93%. The absolute performance is attributed to 0.96% from spread and 1.65% from Income.

Top 5 issuers	%
Commonwealth Bank of Australia	37.21
Westpac Banking Corporation	24.23
Macquarie Group	12.90
Australia & New Zealand Bank Group	11.24
National Australia Bank	11.11
Total	96.69

Asset allocation by securities' type



This document dated September 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 Diversified Income Trust - Wholesale (the U Ethical Fund). All data within this document is published as at 30 September 2023.

The information provided is general information only. It does not constitute financial, tax or legal advice or an offer or solicitation to subscribe for units in any fund of which U Ethical is the Manager, Administrator, Issuer, Trustee or Responsible Entity. This information has been prepared without taking account of your objectives, financial situation or needs. Before acting on the information or deciding whether to acquire or hold a product, you should consider the appropriateness of the information based on your own objectives financial situation or needs or consult a professional adviser. You should also consider the Information Memorandum (IM) which can be found on our website www.uethical.com or by calling us on 1800 996 888. U Ethical may receive management costs from the U Ethical Fund, see the current IM. U Ethical, its affiliates, and associates accept no liability for any inaccurate, incomplete or omitted information of any kind or any losses caused by using this information. All investments carry risks. There can be no assurance that any U Ethical fund will achieve its targeted rate of return and no guarantee against loss resulting from an investment in any U Ethical fund. Past U Ethical Fund performance is not indicative of future performance.

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.

U Ethical

Level 6
130 Lonsdale Street
Melbourne VIC 3000

Email info@uethical.com

Frecall 1800 996 888