

Quarterly Performance Review

U Ethical Diversified Income Trust - Wholesale

Quarterly highlights June 2024

- Over the quarter, the Trust underperformed the benchmark by 0.36% after fees, equating to a 1.38% return.
- AT1 credit spreads narrowed by, on average, 16bps across tenors out to 7 years, broadly underperforming similar maturity Tier-2 securities.
- The Trust tactically trimmed securities at 'rich' levels, securing gains over the quarter as spreads narrowed.

Investment objective

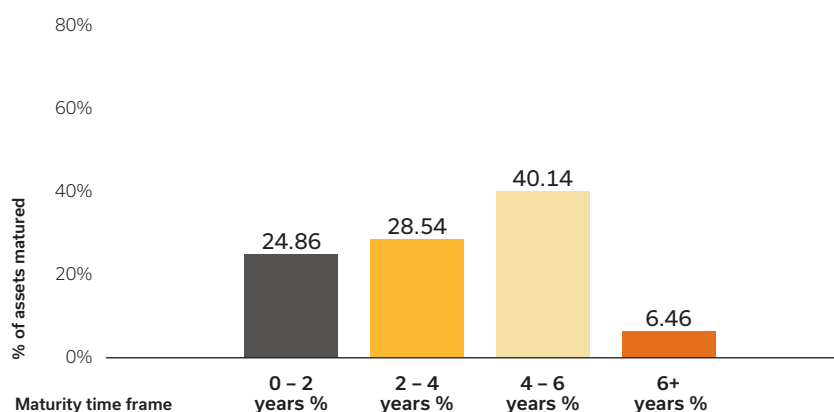
The U Ethical Diversified Income Trust - Wholesale aims to generate income in excess of short-term interest rates, while limiting harm and creating positive impact through the implementation of U Ethical's Ethical Investment Policy.

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 managers	Joshua Nappa & Dandan Huang
Chief investment officer	Jon Fernie
Inception date	1 July 2020
Total fund size (\$M)	\$36.208
Benchmark	3 Month Bank Bill Swap Rate + 2.5%
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[†]	1.38	3.28	6.67	3.46	4.38
Benchmark[‡]	1.74	3.49	7.04	5.29	4.61
Relative performance	-0.36	-0.21	-0.37	-1.83	-0.23

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 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

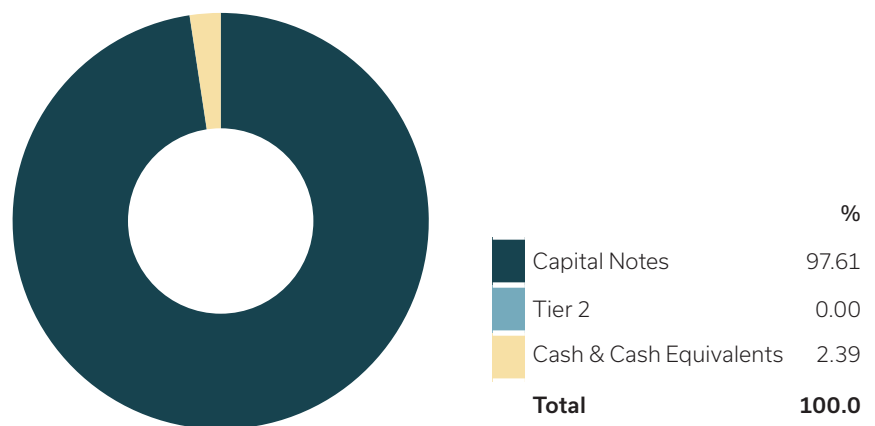
Over the quarter, major bank credit spreads tightened albeit with Tier 2 (T2) outperforming Additional Tier 1 (AT1) and Senior Unsecured on a spread basis. This saw the Tier-2/Snr Unsecured spreads at the five-year mark contract to 1.98x down from the start of the quarter 2.0x level. Comparing the AT1/T2 multiple over the same period showed an expansion from 1.35x to 1.44x indicating a lower compression in spreads for AT1 vs T2.

Considering outright AT1 levels, spreads across all tenors compressed by an average of 16bps as continued buying and a rally in Tier 2 debt as well as bank stocks saw AT1 'pulled along' via equity beta. Specifically, the ASX 200 Financials sector and shares in Westpac, National Australia Bank and Commonwealth outperformed their respective market benchmark.

Considering the above, the Diversified Income Trust (DIT-W) returned 1.38% over the quarter, underperforming the benchmark (after fees) by 0.36%. With 1.36% of the return attributed to coupon income and 0.02% as a result of movements in capital value.

Top 5 issuers	%
Commonwealth Bank of Australia	31.08
Westpac Banking Corporation	23.92
Macquarie Group	13.83
Australia & New Zealand Bank Group	11.65
National Australia Bank	14.87
Total	95.35

Asset allocation by securities' type



This document dated 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 Diversified Income Trust – Wholesale (the U Ethical Fund). All data within this document is published as at 30 June 2024.

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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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