

# Quarterly Performance Review

# U Ethical Diversified Income Trust - Wholesale

## Quarterly highlights March 2024

- Over the quarter, the Trust outperformed the benchmark by 0.16% after fees, equating to a 1.88% return.
- AT1 credit spreads narrowed by, on average, 32bps across tenors out to 7 years, outperforming similar maturity Tier-2 securities.
- The Trust participated in new issuance, with a line from ANZ being added to the portfolio and some rotation out of CBA.

### Investment objective

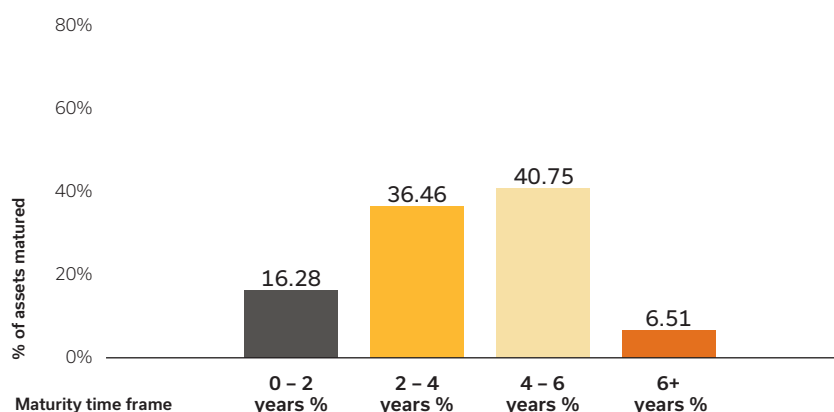
The U Ethical Diversified Income Trust - Wholesale aims to generate income in excess of short-term interest rates, while limiting harm and creating positive impact through the implementation of U Ethical's Ethical Investment Policy.

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

Associate portfolio manager	Joshua Nappa
Chief investment officer	Jon Fernie
Inception date	1 July 2020
Total fund size (\$M)	\$39.379
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 <sup>†</sup>	1.88	2.55	6.06	3.84	4.30
Benchmark <sup>*</sup>	1.72	3.47	6.93	4.91	4.44
Relative performance	0.16	-0.92	-0.87	-1.07	-0.14

Past performance is not indicative of future performance.

<sup>†</sup>Based on exit price with distributions reinvested, and are net of all fees

<sup>\*</sup>3 month Bank Bill Swap Rate +2.5%

### Market commentary

Global equity markets extended their rally in the March quarter with the MSCI World Ex Australia Index (AUD) delivering a total return of 14.0% (partly driven by a weaker Australian dollar). While US inflation has trended lower, expectations for interest rate cuts have been pushed out given stronger economic data.

The US Manufacturing Purchasing Managers' Index (PMI) increased to 50.3 in March ahead of forecasts and up from 47.8 in the prior month. Recent nonfarm payrolls figures have also surprised to the upside. The federal funds target range has remained at 5.25-5.50% since July, although we have seen US 10-year treasury yields rise well above 4% during the quarter.

Australian inflation excluding volatile items declined to 3.9% in February and despite services inflation remaining sticky the trend lower has continued. The Reserve Bank of Australia (RBA) has maintained the cash rate at 4.35% since November, although minutes revealed a shift to more dovish stance. The domestic labour market remains tight with the seasonally adjusted unemployment rate declining slightly to 3.7%.

Corporate earnings were better than expected during the quarter, although stretched equity market valuations leave little room for disappointment. Stronger economic data will likely mean central banks are reluctant to ease monetary policy near-term and we view this as a key driver of equity markets in recent months.

### Portfolio commentary

Over the quarter, major bank credit spreads saw slightly divergent outcomes, with spreads for senior unsecured debt narrowing across the curve, whilst Tier-2 saw the same albeit with some widening at the four and five-year tenor. This saw the ratio of Tier-2/Senior Unsecured spreads at the five-year mark expand to 2.01x up from the start of the quarter 1.82x level. This saw relative value emerge in TLAC (Total Loss Absorbing Capital) versus senior unsecured debt.

Considering Additional Tier 1 (AT1/Hybrid) spreads over the same period, relative value versus Tier-2 and Senior decreased on a spread multiple basis. Five-year AT1 spreads ended the period at 1.34x vs T2, vs the 1.53x level at the start of January. Broadly, spreads across all tenors compressed by an average of 32bps as a wave of bank equity dividends and asset allocation rebalancing flows graced the market.

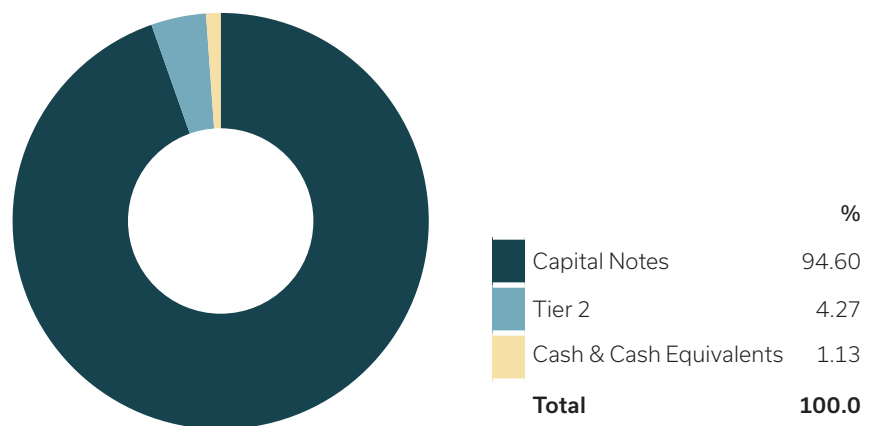
AT1s (in spread terms) outperformed T2 and Senior Unsecured over the period. This was relatively in-line with broader positive risk sentiment in equity markets. Specifically, the financials sector and shares in the four major banks outperformed their respective market benchmark. Spread sentiment was also bolstered by credit rating upgrades by both S&P and Moody's to the Big-4 bank's senior unsecured, and subordinated debt ratings.

Considering the above, the Diversified Income Trust (DIT-W) returned 1.88% over the quarter, outperforming the benchmark (after fees) by 0.16%. With 1.21% of the return attributed to coupon income and 0.66% as a result of movements in capital value.

### Top 5 issuers

	%
Commonwealth Bank of Australia	35.77
Westpac Banking Corporation	23.95
National Australia Bank	13.61
Macquarie Group	12.76
Australia & New Zealand Bank Group	10.71
<b>Total</b>	<b>96.82</b>

### Asset allocation by securities' type



This document dated March 2024 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 31 March 2024.

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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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