

Quarterly Performance Review

U Ethical Diversified Income Trust - Wholesale

APIR UGF8935AU

December 2024

A diversified portfolio of income generating investments including cash, short-dated deposits, bonds, hybrid securities, mortgages and impact loans.

Benefits and risks

- Exposure to income generating investments
- Suggested minimum investment horizon - 3 to 5 years
- Medium-risk profile

Investment objective

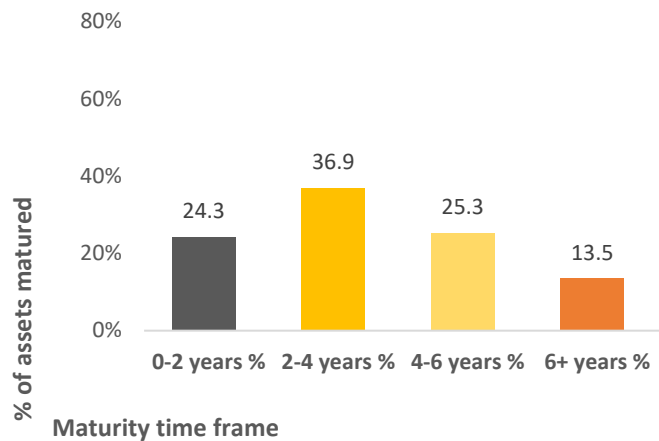
The U Ethical Diversified Income Trust - Wholesale aims to generate income in excess of short-term interest rates, while limiting harm and creating positive impact through the implementation of U Ethical's Ethical Investment Policy.

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)	\$38.60
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†	1.07	2.97	6.35	4.10	4.56
Benchmark*	1.74	3.52	7.12	6.06	4.88
Relative performance	-0.67	-0.55	-0.78	-1.96	-0.33

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%

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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

Over the quarter, major bank credit spreads saw mixed performance, with Tier 2 (T2) seeing the largest amount of compression as yield investors adjusted allocations in the wake of APRA's decision to phase out the Additional Tier 1 (AT1) market.

5-year T2 spreads tightened by 18bps whilst 5-year Senior Unsecured tightened by 1bp. This saw the T2/Snr multiple compress to 1.74x from 1.93x at the end of September. Comparing the AT1/T2 multiple over the same period showed an expansion from 1.32x to 1.43x, with the average major bank 5-year AT1 spread narrowing by 2.3bps to ~205bps.

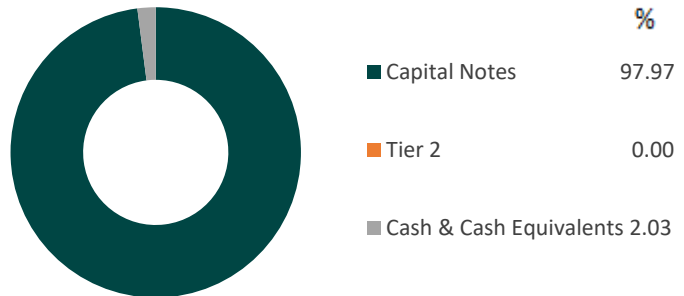
Despite a narrowing in spreads, movements in capital value as investors rotated into increasingly attractive Tier 2 debt in light of the AT1 phase out, impacted the Trust's performance negatively.

Considering the above, the Diversified Income Trust (DIT-W) returned 1.07% (after fees) over the quarter, underperforming the benchmark (after fees) by -0.67%. With 1.40% of the return attributed to coupon income and -0.15% as a result of movements in capital value.

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Top 5 issuers	%
Commonwealth Bank Of Australia	23.18
National Australia Bank	21.49
Macquaire Group	18.98
Westpac Banking Corporation	16.48
Australia & New Zealand Bank Group	15.76
Total	95.89

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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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 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 December 2024.

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