

# Quarterly Performance Review

## u ethical Diversified Income Trust - Wholesale

APIR UGF8935AU

March 2025

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

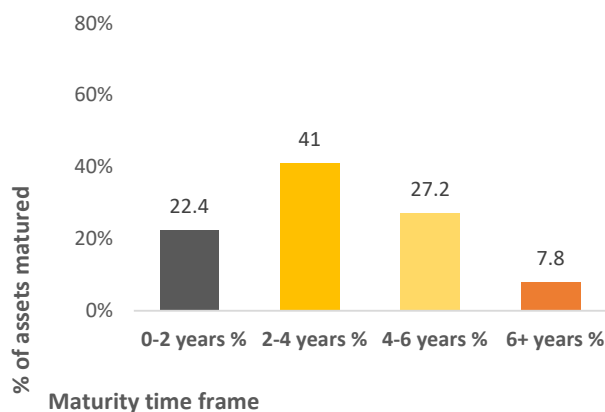
The U Ethical Diversified Income Trust - Wholesale aims to generate income in excess of short-term interest rates, while limiting harm and creating positive impact through the implementation of U Ethical's Ethical Investment Policy.

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)	\$37.52
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†	0.74	1.82	5.15	4.50	4.47
Benchmark*	1.68	3.44	7.08	6.41	4.99
Relative performance	-0.94	-1.62	-1.93	-1.91	-0.52

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

Since finalising this quarter's performance reports, markets have experienced extreme volatility largely driven by uncertainty surrounding proposed tariffs from President Donald Trump. Market reaction reflected concerns over potential trade disruptions and inflationary pressures. However, in recent days, a pause in tariffs for most trading partners contributed to a rebound across equity markets. Our portfolios have participated in this recovery, with several positions regaining ground lost earlier in the period.

Global equity markets were weaker in the March quarter as the US announced trade tariffs for China, Canada and Mexico increasing the risks of a global economic slowdown. In early April, 'Liberation Day' escalated this with a minimum 10% tariff on countries and additional measures where the US has large trade deficits such as the European Union and China. This led to the S&P 500 Index suffering its largest weekly drawdown since the pandemic. President Trump subsequently paused the additional tariffs on most trading partners for 90 days, although increased China duties to 125%. This in turn has seen China also raise tariffs significantly on US goods.

While certain companies will be more impacted, we view Australia as relatively well-placed given a 10% tariff level and the US only represents 5% of total exports. However, Australia will not be immune to a broader global slowdown and weaker Chinese activity is a concern given they are our largest trading partner.

Longer-term US bond yields have been volatile given fears of an increasing fiscal deficit and inflationary pressures. Given a significant rise in the 10-year yield to 4.4% in early April, this may have contributed to the pause in tariffs. The Federal Reserve has left interest rates in a target range of 4.25-4.50% since December, although will face a difficult balancing act if the US economy weakens and inflation rises. In Australia, the Reserve Bank of Australia (RBA) cut interest rates to 4.10% in February as domestic inflation continued to come down.

A pause in tariffs for most trading partners means the situation is not resolved and a slowdown in US and Chinese growth is a concern for the global economy. While a broad market sell-off may create longer-term opportunities for investors, earnings uncertainty means some caution is warranted. We expect markets will remain volatile near-term unless there is significant headway made in trade negotiations.

## Portfolio Commentary

Over the quarter, major bank spreads widened along with broad credit beta as the sharp rally into February lost steam, and markets priced in increasing risks of a global slowdown due to an unquantified trade war.

5-year T2 spreads widened by ~19.30bps whilst 5-year Senior Unsecured widened by ~3bps. This saw the T2/Snr multiple compress to 1.92x from 1.74x at the end of December. Comparing the AT1/T2 multiple over the same period showed a compression from 1.43x to 1.21x, with the average major bank 5-year AT1 spread narrowing by 8bps to ~192bps.

Despite the unintuitive spread movements in AT1 given T2 and Snr spread widening, hybrid spreads moved out considerably as equity markets incorporated a risk-off tone immediately post quarter-end.

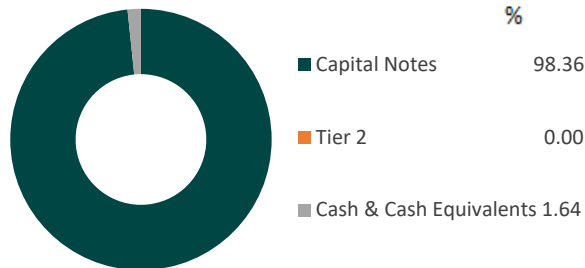
Considering the above, the Diversified Income Trust (DIT-W) returned 0.74% (after fees) over the quarter, underperforming the benchmark by -0.94%. With 1.13% of the return attributed to coupon income and -0.39% as a result of movements in capital value.

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## Top 5 issuers

	%
Commonwealth Bank Of Australia	23.10
National Australia Bank	21.98
Macquaire Group	19.39
Westpac Banking Corporation	16.89
Australia & New Zealand Bank Group	14.88
<b>Total</b>	<b>100.00</b>

## 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.



### U Ethical

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This document dated March 2025 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 2025.

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