

U Ethical Enhanced Income Trust - Wholesale

Quarterly Performance Review | March 2026

A diversified portfolio of cash and fixed-income securities designed to provide consistent income

Fund information

Portfolio Manager	Joshua Nappa & Dandan Huang
Chief Investment Officer	Jon Fernie
Inception date	1 July 2020*
Fund size	\$168.76m
Benchmark	Bloomberg Ausbond Bank Bill Index
Buy/sell spread	0.05% / 0.05%
Management costs	Estimated up to 0.70% p.a.**
APIR code	UGF1128AU
Risk level	Low
Suggested minimum investment horizon	2 years

*See performance and benchmark notes below.

**See Information Memorandum.

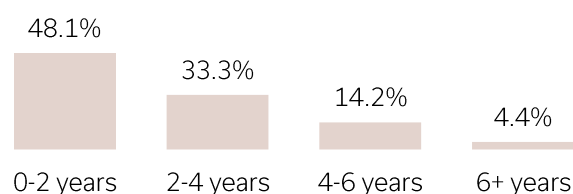
Investment objective

The U Ethical Enhanced Income Trust – Wholesale aims to generate income and preserve capital, in accordance with our Ethical Investment Policy and Ethical Investment and Stewardship Approach.

The Trust aims to outperform the benchmark after fees over rolling two-year periods.

Maturity profile

% of assets matured



Performance summary

	3 Months	6 Months	1 Year	3 Years p.a.	5 Years p.a.	Since Inception p.a.
Fund	0.61%	1.33%	3.85%	4.77%	3.00%	6.50%
Benchmark	0.91%	1.82%	3.98%	4.94%	3.90%	5.73%
Relative	-0.30%	-0.49%	-0.13%	-0.17%	-0.90%	0.77%

As at 31/03/2026. Benchmark: Bloomberg Ausbond Bank Bill Index. From March 1990 to 30 June 2020, performance is that of the U Ethical Enhanced Cash Portfolio (the Portfolio) calculated upon distributions reinvested quarterly, including franking credits and benchmarked against 50% Bloomberg AusBond Bank Bill index / 50% AusBond composite 0-3year index.

On 1 July 2020, the Portfolio was transferred into a unit trust, the U Ethical Enhanced Income Trust (Wholesale) benchmarked against the 3 month Bank Bill Swap Rate +1.00% index, excluding franking credits.

On 1 July 2025, the benchmark was changed to the Bloomberg AusBond Bank Bill Index. Where time horizons require, performance reflected is a blend of the two products and benchmarks stated.

Inception date: 01/07/2020. Based on exit price with distributions reinvested, including franking credits and net of all fees Australian dollars. **Past performance is not indicative of future performance.**

Market commentary

Volatility in global equity markets rose over the March quarter driven by conflict in the Middle East. Higher energy prices and the potential flow on effects for inflation, monetary policy and global economic growth remain key concerns for investors. The MSCI World Ex Australia TR Index (AUD) declined 6.2% over the quarter and the ASX 300 Accumulation Index retreated 2.0%.

In late February, there were joint US-Israeli strikes on Iranian nuclear and military infrastructure, which led to retaliation from Iran. Since that time there have been intense air campaigns, regional attacks by Iran (including on Saudi Arabia and Qatar) and an important energy shipping corridor, the Strait of Hormuz, has been largely closed. This has seen energy prices spike with Brent crude oil peaking close to US\$120/barrel at the end of March. A fragile ceasefire was negotiated in early April with ongoing negotiations taking place as the US has increased its military presence in the region. The impact on global economic growth will depend on the duration of the war and the time to normalise energy production and supply chains afterwards.

Monetary policy over the quarter remained stable within major economies with the Federal Reserve, European Central Bank and Bank of Japan leaving target rates unchanged. However, the Reserve Bank of Australia (RBA) increased the cash rate by 25 basis points (bps) at both the February and March meetings with inflation remaining above target levels. Trimmed mean inflation in Australia remained steady in February rising 3.3% year-on-year with housing, recreation and food continuing to be key drivers. The market is currently pricing in two further cash rate hikes this year. Australian GDP growth over 2025 lifted to 2.6% supported by solid private and public demand, while the unemployment rate remains relatively low at 4.3%.

In the US, the federal funds rate target range was maintained at 3.50-3.75% during the quarter. The Federal Open Market Committee (FOMC) statement continued to highlight elevated economic uncertainty including from the conflict in the Middle East. Kevin Warsh is expected to take over as Federal Reserve Chair in mid-May and has more recently advocated for further easing despite a "hawkish" reputation during his previous stint as a Federal Reserve Governor. Core inflation (excluding food and energy) in the US rose to 2.6% over the 12 months to March. US GDP growth for the December quarter was below expectations, leading to 2025 growth below prior years at 2.1% supporting the case for further easing if inflation can be contained.

In China, a GDP growth target range of 4.5% to 5.0% has been set for 2026 as the country continues to navigate a challenging property market and weak domestic consumption. European Union GDP growth was modest at 1.6% for 2025 with Germany, France and Italy economic activity remaining subdued. Global longer-term government bond yields were volatile over the quarter although generally finished higher. US 10-year Treasury yields ranged from 3.9% to 4.4% during the period and finished at 4.2%.

Corporate earnings growth has been solid with AI investment remaining strong from large tech companies. Earnings revisions have been positive over the quarter, despite companies perceived to be at risk of AI disruption continuing to selloff. The recent pullback in equity markets has seen valuations moderate, although a prolonged and/or escalating conflict in Iran remains a risk for earnings and will likely mean further central bank easing is pushed out. While markets have generally brushed off geopolitical events historically, given this backdrop we are slightly more cautious on the near-term outlook for equities.

Portfolio commentary

The Trust returned 0.61% (after fees) for the quarter to the end of March, underperforming the benchmark by 0.30%. Gross of fees, the relative underperformance for the quarter was largely attributable to the Trust's duration positioning which detracted -27bps, whilst allocations to lower-rated credit also detracted as spreads widened in the face of a global oil shock. These factors combined detracted 39bps from the Trust's quarterly return, offset by the Trust's strong carry (+124bps). The benchmark (AusBond Bank Bill Index) returned 0.91% for the quarter.

The March quarter proved challenging for the Trust, with both credit and curve positioning acting as headwinds to performance. Ongoing geopolitical tensions in the Middle East cast a broad risk-off tone across markets, one that proved difficult to navigate, with few areas of the market left unaffected. This was due to markets grappling with an oil shock which sent government yields soaring, as well as spreads wider in credit markets. Typically, in risk-off events credit and rates will move in opposite directions.

Overweight positioning in higher carry, lower-rated credit in the A- to BBB- bucket detracted -8bps from the Trust's return over the quarter. In aggregate, credit detracted -12bps from the Trust's absolute return. The credit beta sell off was broad based, reflecting a general widening in credit spreads across sectors as the risk-off environment weighed on bond prices throughout the quarter.

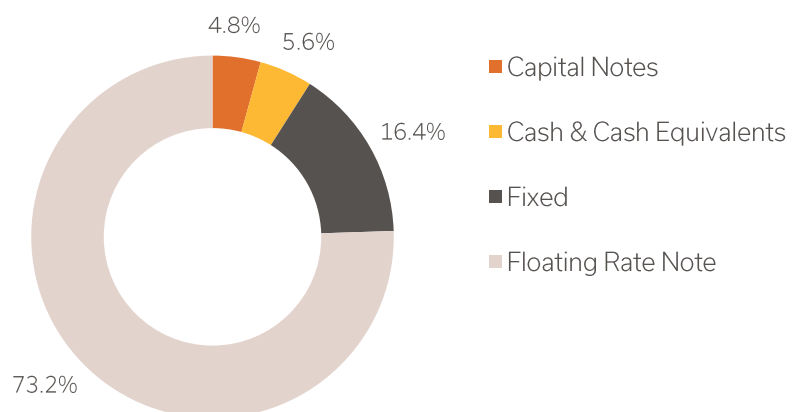
Curve positioning detracted -27bps from the Trust's return over the quarter. The curve bear flattened, with yields across the 1-3 year part of the curve rising on average by +59bps versus the 8-10 year part of the curve (+28bps) as markets priced in increased inflation expectations and a more aggressive hiking path by the RBA. The Trust's positioning in the 1-5 year tenors detracted -19bps from returns, with the remaining curve deduction attributable to broader duration exposure across the portfolio. The Trust maintained the majority of its key rate duration exposure at the shorter end of the curve, reflecting the higher price volatility associated with longer dated position and the preference for higher carry breakeven tenor points.

As a result, the combination of broad-based spread widening and the pervasive risk-off sentiment weighed on the Trust's absolute return, albeit strong carry of +124bps provided a meaningful offset over the quarter. Despite this, the headwinds from credit and curve positioning were sufficient to see the Trust underperform the benchmark after fees.

Top 5 issuers

National Australia Bank Ltd	11.0
Commonwealth Bank of Australia	7.0
CNH Industrial Capital Australia Pty L	3.7
Bendigo & Adelaide Bank Ltd	3.6
Bank of Queensland Ltd	3.4

Asset allocation by securities' type



About U Ethical

Founded in 1985, U Ethical is one of Australia's first not-for-profit ethical fund managers. For over 40 years, our mission has remained the same: to invest with purpose. Today we manage over \$1.5 billion in funds under management, and our flagship Australian Equities strategy is a multi award-winner.

As a not-for-profit, we contribute our operating surplus to the Uniting Church to indirectly fund community and outreach programs. It is a powerful formula we call 'compounding good' – the better we do, the more we give.


Ratings and affiliations



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