

U Ethical Enhanced Income Trust - Wholesale

Quarterly Performance Review | September 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	\$156.80m
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.

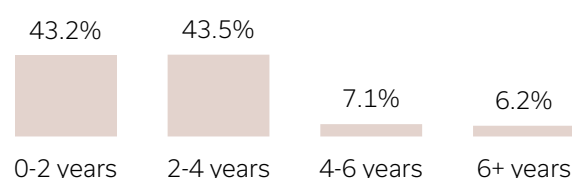
Investment objective

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	0.88%	2.35%	3.71%	4.91%	3.38%	6.48%
Benchmark	1.11%	2.20%	4.06%	4.81%	4.25%	5.72%
Relative	-0.23%	0.15%	-0.35%	0.10%	-0.87%	0.76%

As at 30/09/2026. 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

Global equity markets remained volatile, although ultimately moved higher for the quarter ending 30 September 2026 with the MSCI ACWI Ex Australian TR Index (AUD) returning 1.2%. The S&P/ASX 300 Accumulation Index provided a total return of 1.3%. Global equities were supported by continued AI investment and resilient earnings expectations, although renewed energy price pressures, higher bond yields and tighter monetary policy created a more challenging backdrop towards quarter-end. US market gains became increasingly concentrated in large technology companies, with weaker participation across the broader market. Markets also began to position ahead of the November US mid-term elections, with investors increasingly considering the potential implications for fiscal policy, regulation and the broader policy agenda.

Geopolitical developments in the Middle East remained a major influence on markets. The easing in oil prices during the prior quarter proved temporary with Brent crude trading above US\$100 per barrel in late September as uncertainty surrounding US-Iran negotiations and shipping through the Strait of Hormuz persisted. Higher energy costs renewed concerns about inflation, household spending and corporate margins, particularly for energy-intensive businesses.

AI-related investment continued to support global equity markets, although performance became more differentiated. Investor attention increasingly focused on companies demonstrating tangible revenue growth from AI adoption, alongside those supplying computing capacity and infrastructure. Enterprise software attracted renewed interest, while some infrastructure suppliers faced scrutiny over margins, capacity constraints and the returns on rapidly expanding capital expenditure. The investment cycle also became increasingly reliant on debt financing, adding funding costs and balance sheet discipline to the risks investors were assessing.

Monetary policy shifted towards renewed tightening. The Federal Reserve raised its policy rate by 0.25 percentage points in September to a range of 3.75-4.00%, its first increase under new Chair Kevin Warsh. The European Central Bank also raised its key policy rate by 0.25 percentage points, citing persistent inflationary pressures from the Middle East conflict. US government bonds came under significant pressure, with the 10-year Treasury yield rising to 5.3% at the end of the quarter.

In Australia, inflation has remained persistent as there are signs of slowing economic activity. The Reserve Bank of Australia (RBA) raised the cash rate to 4.60% in late September, its fourth increase of the year. Trimmed mean inflation for July at 3.6% annualised, which remains well above the RBA's 2-3% target. GDP growth for the June quarter came in at 0.4% and 2.1% over the year, while unemployment rose to 4.6% in August. This highlighted a difficult domestic backdrop, with underlying inflation remaining elevated even as higher interest rates weighed on economic activity.

China's economic activity remained uneven, with resilient exports and manufacturing contrasting with softer domestic demand and ongoing property weakness. Towards quarter-end, authorities signalled additional fiscal and credit support aimed at stabilising housing, employment and household incomes. For Australia, the effectiveness of these measures remained important to the outlook for commodity demand and resources earnings.

Overall, the quarter highlighted the tension between strong AI-related investment and earnings, and a less supportive inflation and interest rate environment. Renewed energy pressures and rising bond yields constrained the scope for valuation expansion, while there were signs of slowing economic activity domestically.

Portfolio commentary

The Trust returned 0.88% (after fees) for the quarter ending September, underperforming the benchmark by 0.23 %. Gross of fees, the relative underperformance for the quarter was largely attributable to duration exposure, which detracted -28 basis points (bps). This was partially offset by carry, which added +9bps, and security selection, which added +3bps, while credit positioning was broadly flat. The benchmark returned 1.11% for the quarter.

Government bond yields rose sharply in August, with the 3-year yield increasing by 57bps and the 10-year by 64bps, while the 1s3s curve steepened materially, by 22bps. The move reflected a growing threat of sticky inflation, with the focus shifting beyond the Middle East and oil prices towards pressures that were becoming more domestic in nature. However, record investment in AI infrastructure, data centres, the energy transition and public works supported growth, jobs and corporate earnings, and cushioned much of the usual drag from higher interest rates.

Duration detracted -28bps from the Trust's return relative to the benchmark over the quarter. The Trust's outright duration positioning bore the brunt of the rise in yields, with most of the pain concentrated in the 3 to 4 year and 7-to-8-year segments, which cost 12bps and 11bps in return respectively.

Carry of +142bps remained the largest contributor to the Trust's return, +9bps ahead of the benchmark, and provided a meaningful offset to the rise in yields.

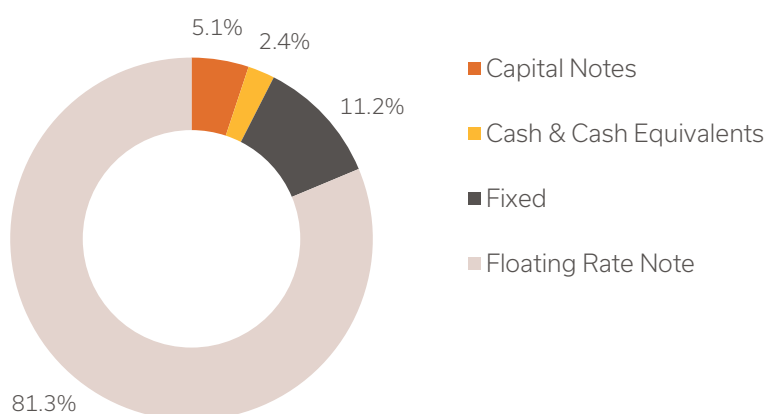
Credit spreads continued to widen over the quarter, though the moves were modest, ranging from 1bp in AAA to 5bps in the A- bucket. The Trust's credit positioning had a marginal drag of 7 bps on fund performance over the quarter. Security selection added +6bps.

As a result, the Trust's curve positioning in a quarter of sharply higher yields was the main driver of underperformance, with carry providing a partial offset. The Trust underperformed the benchmark by 0.23% after fees.

Top 5 issuers

National Australia Bank Ltd	12.7
Commonwealth Bank of Australia	8.1
Westpac Banking Corp	6.3
Australia & New Zealand Banking Group Ltd	5.3
Bendigo & Adelaide Bank Ltd	3.8

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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