



## DMP Enhanced Income Trust

31 March 2022

<b>Investment Manager</b>	SG Hiscock & Company Limited	<b>APIR</b>	ETL6695AU
<b>Sub-Investment Manager</b>	DMP Asset Management Ltd	<b>Minimum Initial Investment</b>	\$20,000
<b>Commencement</b>	01 April 2020	<b>Qualifying Investors</b>	Wholesale clients
<b>Management Costs<sup>1</sup></b>	0.21%	<b>Buy Spread</b>	0.10%
<b>Performance Fee<sup>2</sup></b>	20.50%	<b>Sell Spread</b>	0.10%

### Investment Objective

Manage a diversified portfolio of mainly income producing securities to deliver regular quarterly income in excess of average major bank term deposit rates.

### Investments Held

The Trust will primarily invest in listed and unlisted income securities.

### Performance<sup>3</sup>

	3 mths %	6 mths %	1 year %	Since Inception % p.a (1/4/2020)
Total Net Return after fees	-0.27	0.69	2.65	6.68
Bloomberg AusBond Bank Bill Index (BAUBIL) + 1%	0.26	0.52	1.04	1.08
Total Net Return vs. the Benchmark	-0.53	0.17	1.62	5.61

Past performance is not a reliable indicator of future performance.

### Distributions (cpu)<sup>4</sup>

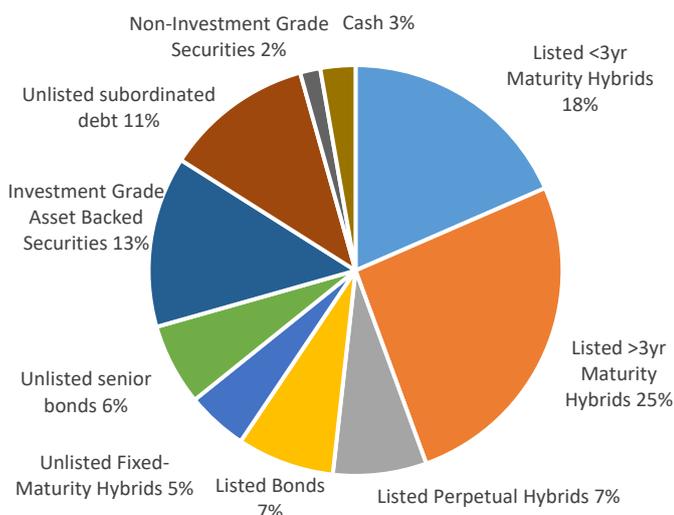
30 June 2021	0.78
30 September 2021	0.35
31 December 2021	0.83
31 March 2022	0.90

### 31 March 2022 Unit Prices \*

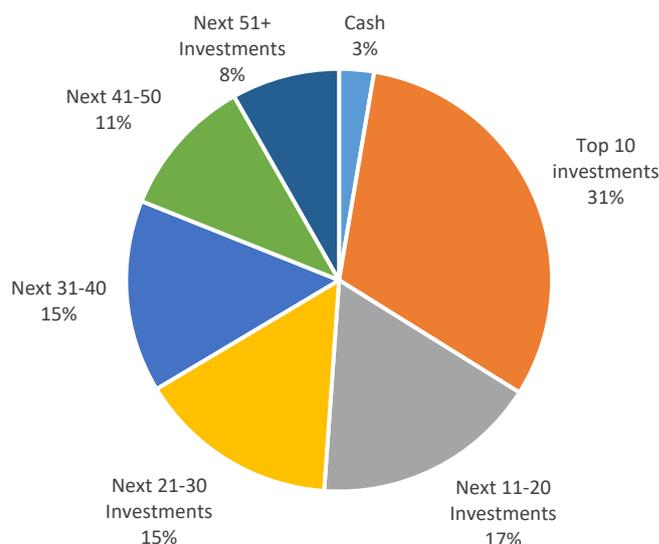
Application	\$1.1198
Net Asset Value	\$1.1187
Withdrawal	\$1.1176

*\*(pre-distribution)*

### Portfolio Asset Allocation\*



### Portfolio Diversification of Investments\*



\* As at 31 March 2022. Current number of Investments is 65 excluding cash

<sup>1</sup> Includes estimated GST payable, after taking into account Reduced Input Tax Credits ("RITC").

<sup>2</sup> Performance Fee: 20.50% of the amount by which the Trust's performance exceeds the performance hurdle (Bloomberg AusBond Bank Bill Index (BAUBIL) + 1%). Any underperformance from a prior period must be recouped before a fee can be taken (we call this the High-Water Mark).

<sup>3</sup> Performance: Total Net Return is the Trust return after the deduction of ongoing fees and performance fees and assumes the reinvestment of all distributions

<sup>4</sup> Cents per unit

## DMP Enhanced Income Trust Fact Sheet

### Performance Commentary

Over the quarter, the Trust returned -0.27 % (net of fees) vs the benchmark of +0.26%, underperforming the benchmark by 0.53% over the period. The Bloomberg AusBond Bank Bill Index remained at subdued levels during the quarter despite the expectation of higher rates.

The volatility surrounding equity markets from the Ukraine crisis spilt over to the credit market, with credit spreads widening over the quarter – this was the main driver of underperformance. Interestingly, credit spreads marginally widened leading up to the invasion on the 24<sup>th</sup> of February 2022. Pleasingly, listed hybrids have now basically returned to their pre-Ukrainian crisis levels. The sell-off in hybrids and the early stages of the subsequent recovery are illustrated in Figure 1.

**Figure 1: All Hybrid & Bond Index**



The notion of inflation being 'transitory' was still being entertained by the market only six months ago. Fast forward to today and the question consuming investors' minds is how long and how high after the US printed the highest annual rate of inflation since 1981 of 8.5% for the year to 31 March 2022. Energy was the major driver, with supply chain pressures remaining stubbornly elevated coupled with possible embargos forced on Russian energy. The Fed responded preemptively to the issue last month, stating that they would raise rates a further six times in 2022. Historically during a tightening cycle, the Fed has lifted rates multiple times in quick succession – we don't expect them to act any different this time.

For several reasons, inflation in Australia isn't as high as the US, however, we expect inflation to rise from current levels. To combat higher prices, we expect the RBA to act quickly to cool down the economy. We think the market is getting slightly ahead of itself with the Cash Rate Futures Implied Yield rising to 3.29% by August 2023 – that represents a staggering 13 rate rises of 25 basis points in less than 18 months. We do not believe that rates need to rise to these levels to achieve a meaningful slowdown in the inflation. The high levels of household debt is likely to stall the prospect of rates increasing at this pace.

### Outlook

There has been little change in the strategic composition of the portfolio. We are quite positive on corporate Australia due to the low level of gearing. Despite the low level of interest rates, corporates have failed to significantly increase leverage to worrying levels as they have done in the past. We maintain our preference for floating-rate securities that will benefit from the inevitable increase in interest rates post the federal election. We believe the market is overestimating the level of interest rate rises over the next 24 months, nevertheless, investors will benefit from higher distributions from these instruments. Rising interest rates are unlikely to trigger any further widening in credit spreads and any improvement in the outlook for the Ukraine crisis should see spreads reduce to prior levels. We are observing several new investment opportunities, but feel there is no urgency to invest at the moment.

Future performance should be driven by consistent and sustainable returns derived predominantly from income rather than capital movements. We have increased the total number of securities to further diversify the portfolio's maturity profile and sector exposures. This leads us to maintain a positive outlook for investor returns.

## DMP Enhanced Income Trust Fact Sheet

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### Investment Guidelines

To achieve its investment objective, the Trust will:

- Invest in a group of securities comprising:
  - Securities listed on the Australian Securities Exchange including:
    - Australian equities that meet a yield criteria
    - Corporate Bonds
    - Hybrid securities
    - Subordinated debt
- Unlisted securities issued in the Australian market that pay a fixed or floating rate of interest
- Have no minimum weighting to cash. In the event there is considered material downside risk cash can increase to 100%.
- Hold an individual security limit of no more than 15%.
- Have a maximum weighting of 15% to Australian equities
- Specific consideration is not given to sector diversification, however the portfolio is suitably diversified at all times.
- The Trust may use derivatives for risk management purposes, as substitutes for physical securities, but the Trust will not be geared.

### Environmental Social & Governance (ESG)

#### Environmental

- No coal mining
- No direct uranium

#### Social

- No tobacco
- No direct gambling
- No predatory or pay day lending
- No weapons manufacturing
- No live animal exports
- No adult industries

#### Governance

- No poor occupational health and safety records
- No undisclosed related party transactions
- No excessive use of non-executive options

For more information visit [www.sghiscock.com.au](http://www.sghiscock.com.au)

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