

SGH Enhanced Income Trust

31 December 2023

Performance ¹	Total Net Return	Bloomberg AusBond Bank Bill Index +1%	Total Net Return vs. the Index
3 months (%)	1.95	1.31	0.64
6 months (%)	4.05	2.66	1.39
1 year (%)	6.07	4.92	1.14
2 years (% p.a.)	4.18	3.59	0.59
3 years (% p.a.)	4.16	2.73	1.43
Inception (% p.a.)	5.87	2.41	3.46

Past performance is not a reliable indicator of future performance.

Outlook

The Trust is well positioned for a relatively stable interest rate environment over the next 12 months. Global central banks' disposition has shifted to a slight easing in monetary policy that should manifest in marginally lower interest rates. Inflation, while showing signs of improvement, shouldn't be ignored and could cause some short-term fluctuations in rates. Corporate balance sheets remain very strong, with gearing at low levels and banks' capital adequacy ratios near all-time highs. At this stage, the banks have shown only a mild uptick in mortgage stress, which hasn't flowed through to losses. These factors are supporting current security pricing.

We maintain our preference for floating-rate securities but have been and will continue to invest in selected fixed-rate issuances.

Future performance should be driven by consistent and sustainable returns derived predominantly from income. The portfolio is well diversified across a broad range of securities, maturity profiles, sector exposures, and instrument type. We maintain a positive outlook on all holdings within the portfolio and the Australian economy in general.

¹ Performance: Total Net Return is the Trust return after the deduction of ongoing fees and performance fees and assumes the reinvestment of all distributions.

² Includes estimated GST payable, after taking into account Reduced Input Tax Credits ("RITC").

³ 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).

Key Facts

Investment manager	SG Hiscock & Company Limited
Inception date	01 April 2020
Qualifying investors	Retail and Wholesale clients
Benchmark	Bloomberg AusBond Bank Bill Index (BAUBIL) +1%pa
Management fee ²	0.21%pa
Performance fee ³	20.50%
Distributions	Quarterly
Buy/sell spread	+0.10/-0.10%
Minimum initial investment	\$20,000
Base currency	AUD
APIR	ETL6695AU
Domicile	Australia
	Unit price*
Application	\$1.1270
Net Asset Value	\$1.1259
Withdrawal	\$1.1248
	Distribution cpu
31-Mar-23	1.32
30-Jun-23	1.90
30-Sep-23	1.62
31-Dec-23	1.16

* Pre-distribution

Investment Objective

Manage a diversified portfolio of mainly income producing securities to provide a quarterly income stream and seek to outperform the Bloomberg AusBond Bank Bill Index (BAUBIL) plus 1% after fees over a rolling 12-month period.

Investment Held

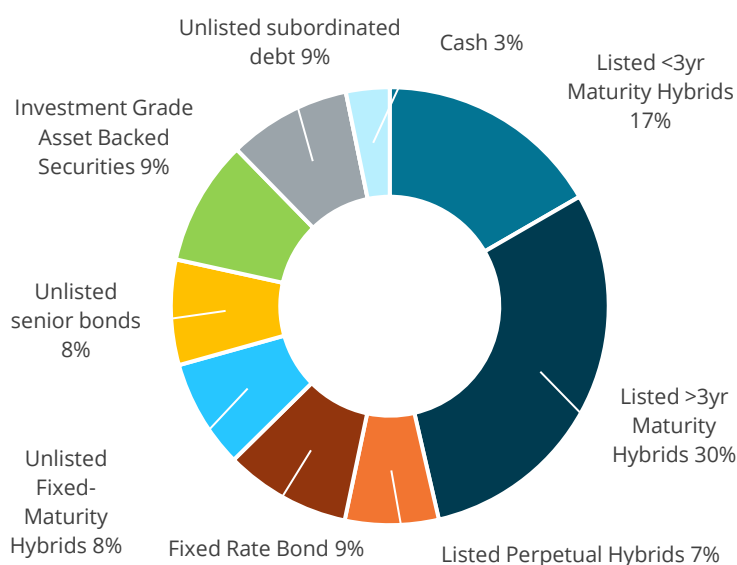
The Trust will primarily invest in listed and unlisted income securities.

Fund Returns (Net) (%)*

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2020	-	-	-	5.00	0.81	1.05	0.27	0.74	0.38	0.20	0.06	0.79	9.30
2021	0.36	0.63	0.15	0.42	0.24	0.43	0.12	0.16	0.57	0.30	0.20	0.46	4.12
2022	(0.21)	0.05	(0.12)	0.03	(0.53)	(0.76)	0.68	0.70	0.60	(0.15)	0.81	1.22	2.32
2023	0.35	0.33	(0.22)	0.62	(0.02)	0.87	0.99	0.50	0.55	0.24	0.73	0.97	6.07

* Total Net Return is the Trust return after the deduction of ongoing fees and performance fees and assumes the reinvestment of all distributions

Portfolio Asset Allocation



Portfolio Diversification of Investments

Cash	3.2%
Top 10 investments	31.2%
Next 11-20 Investments	20.7%
Next 21-30 Investments	13.7%
Next 31-40	12.9%
Next 41-50	9.9%
Next 51-60	5.8%

Performance Commentary

Over the quarter, the Trust returned 1.95% (net of fees) vs the benchmark of 1.31%, outperforming by 0.64% over the period. For the second consecutive quarter, all months have recorded positive absolute performance.

Underlying interest rates rose during the quarter, but have since slipped from their November peak. The above table of Net Fund Returns illustrates the consistency of returns, with an absolute negative return of -0.25% occurring in only two months since inception.

The fight against inflation appears to be won, especially in the USA where inflation continues to drift closer the Federal Reserve's ("Fed") preferred inflation measure of the core personal consumption deflator. The Fed began raising rates in 2022 and is now contemplating reducing rates as early as June 2024. Other major economies appear to be in a similar situation – inflation appears to be dampening towards acceptable levels.

In Australia, we are uncertain whether the RBA has finished their monetary tightening stance, however, our view is that they are at, or very close to the peak. Markets are pricing in slightly lower rates in the December 2024 quarter. However, the USA is in a different position than Australia.

Firstly, the Fed acted earlier and harder on rates compared to Australia, with the current Fed rate of 5.5% higher than the RBA's cash rate of 4.35%. Secondly, US households hold less than half of the debt of Australian households, with the US household ratio of debt to net disposable income at 102% vs Australia at 211%.

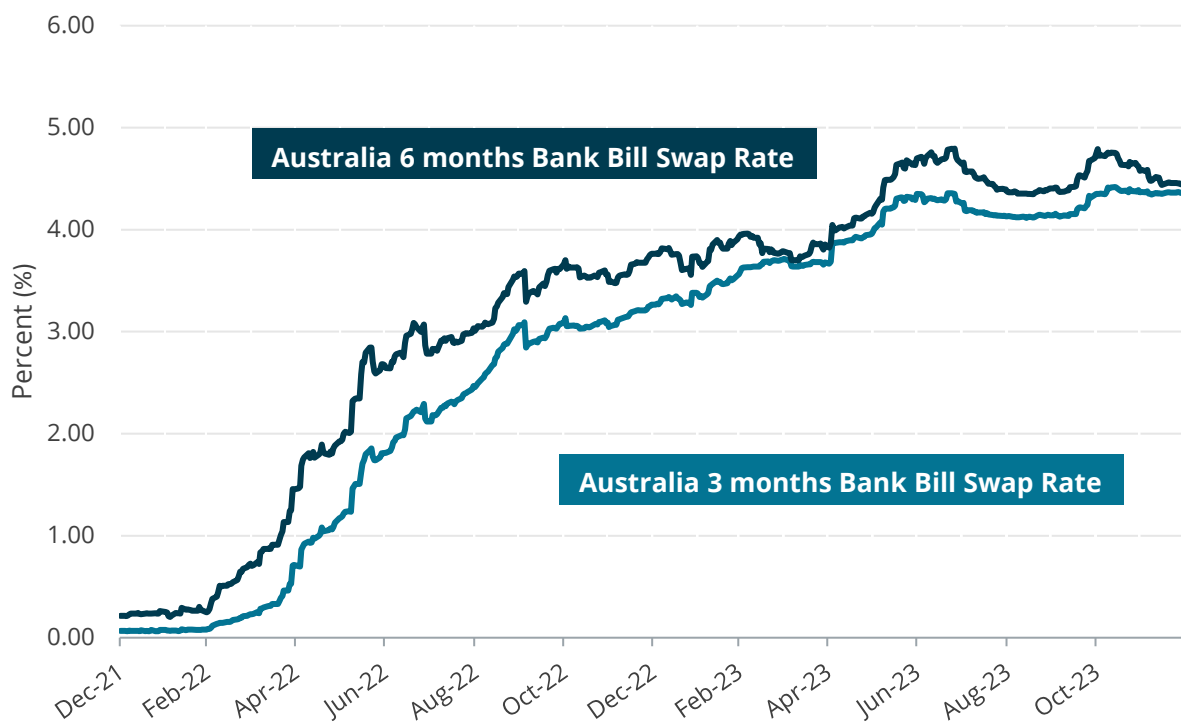
Finally, the majority of US mortgages are 30-year fixed rate loans, compared with Australia's predominantly variable rates structure. Thus, US interest rate rises have less impact on households with mortgages than they do in Australia which explains the RBA's more cautious approach. Our expectation is that domestic rates shall hold around current levels, rather than increasing to approach rates in the USA.

The general message of Central banks' is now more about protecting economic growth as inflation falls. Markets can change very fast as they did in the first half of 2023 in contemplation of a US recession. This prospect of recession has been continuously pushed out and with a US election in November 2024, it may be pushed out even further, if indeed it eventuates at all. MIT Professor Paul Samuelson was famous for his quip "the stock market (and economists) has predicted nine out of the last five recessions".

The Australian short term yield curve rose by 22bp and 4bp in the 90-day and 180-day, respectively. In November inflation figures suggested further interest rate increased may be required. Subsequent inflation and employment data suggested that inflation is in fact falling, and the market tempered its expectations of rate rises. This explains the sharp rise in rates during the month of November, and the subsequent pull back.

Underlying interest rates fell last month; this month they rose; with the Trust outperformed in both periods. We believe this should continue over the next 12 months in the absence of any aggressive movements in rates. The market is forecasting current rates to remain at elevated levels until late 2024. This implies a return of above 6%pa (net of fees) based on current interest rate margins and credit spreads.

Short Term Interest Rates



Source: Iress

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 broadly 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.

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