

# SGH Enhanced Income Trust

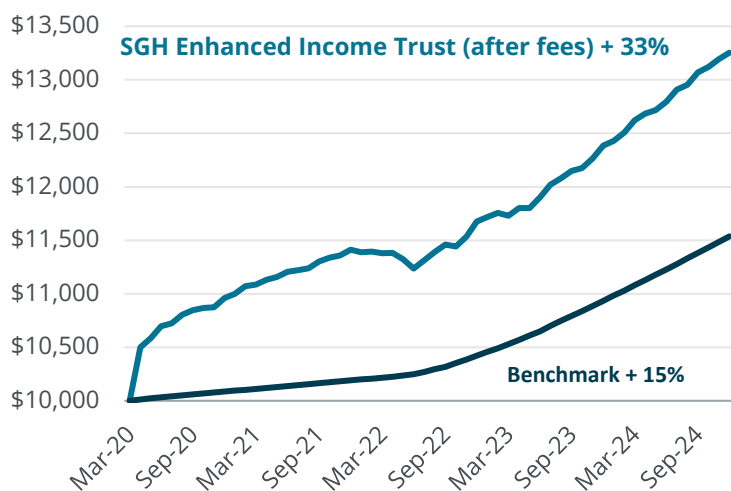
31 December 2024

Performance <sup>1</sup>	Total Net Return	Bloomberg AusBond Bank Bill Index +1%	Total Net Return vs. the Index
3 month (%)	1.41	1.37	0.04
6 month (%)	3.60	2.76	0.85
1 year (%)	7.02	5.51	1.51
2 years (% p.a.)	6.54	5.22	1.33
3 years (% p.a.)	5.12	4.22	0.89
4 years (% p.a.)	4.87	3.42	1.45
Inception (% p.a.)	6.11	3.05	3.06

*Past performance is not a reliable indicator of future performance.*

## SGH Enhanced Income Cumulative Total Return

(since inception, after fees)



<sup>1</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>2</sup> Includes estimated GST payable, after taking into account Reduced Input Tax Credits ("RITC").

<sup>3</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).

## 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 <sup>2</sup>	0.21%pa
Performance fee <sup>3</sup>	20.50%
Distributions	Quarterly
Buy/sell spread	+0.10/-0.10%
Minimum initial investment	\$20,000
Base currency	AUD
APIR	ETL6695AU
Domicile	Australia
	<b>Unit price*</b>
Application	\$1.1269
Net Asset Value	\$1.1258
Withdrawal	\$1.1247
	<b>Distribution cpu</b>
31-Mar-24	1.16
30-Jun-24	1.19
30-Sep-24	0.88
31-Dec-24	2.05

\* 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.

## Trust Outlook

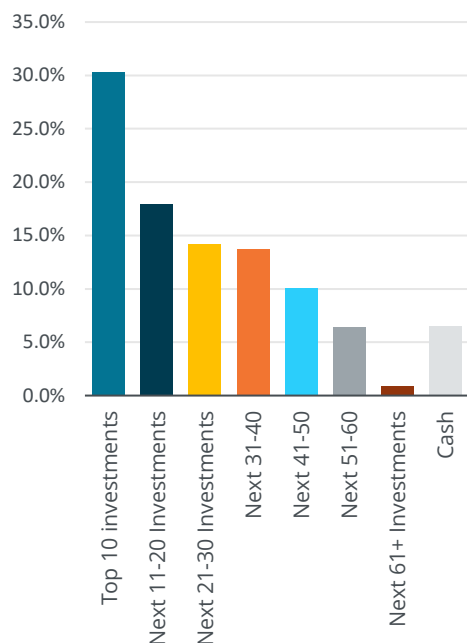
- The Trust is strategically positioned to benefit from a gradual decline in interest rates over the next 12 months. The domestic central bank is forecasted to begin loosening monetary policy with an initial rate cut in April, followed by a total of three rate reductions by year-end (down from earlier expectations of four cuts).
- While progressively increasing its allocation to fixed-rate investments, the Trust continues to maintain a majority of its portfolio in floating-rate securities, aligning with the anticipated measured pace of rate adjustments.
- Future performance is expected to be underpinned by steady and sustainable returns, driven primarily by income generation. In the absence of significant credit disruptions, portfolio capital fluctuations are projected to remain minimal.

## Fund Returns (Net) (%)\*

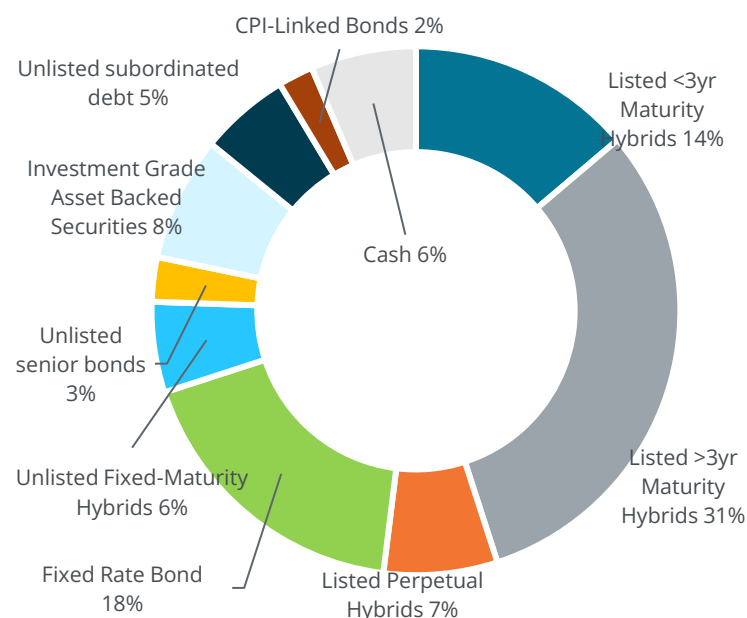
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
<b>2020</b>	-	-	-	5.00	0.81	1.05	0.27	0.74	0.38	0.20	0.06	0.79	<b>9.30</b>
<b>2021</b>	0.36	0.63	0.15	0.42	0.24	0.43	0.12	0.16	0.57	0.30	0.20	0.46	<b>4.12</b>
<b>2022</b>	(0.21)	0.05	(0.12)	0.03	(0.53)	(0.76)	0.68	0.70	0.60	(0.15)	0.81	1.22	<b>2.32</b>
<b>2023</b>	0.35	0.33	(0.22)	0.62	(0.02)	0.87	0.99	0.50	0.55	0.24	0.73	0.97	<b>6.07</b>
<b>2024</b>	0.37	0.62	0.91	0.49	0.27	0.61	0.90	0.34	0.91	0.39	0.55	0.47	<b>7.02</b>

\* 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



## Performance Commentary

Over the quarter, the Trust delivered a net return of 1.41%, outperforming the benchmark return of 1.37% by 0.04%. Notably, the Trust has maintained positive absolute performance for the past 19 consecutive months. The accompanying table of Net Fund Returns highlights the consistency of these returns, with negative absolute performance of less than -0.25% occurring in only two months since inception.

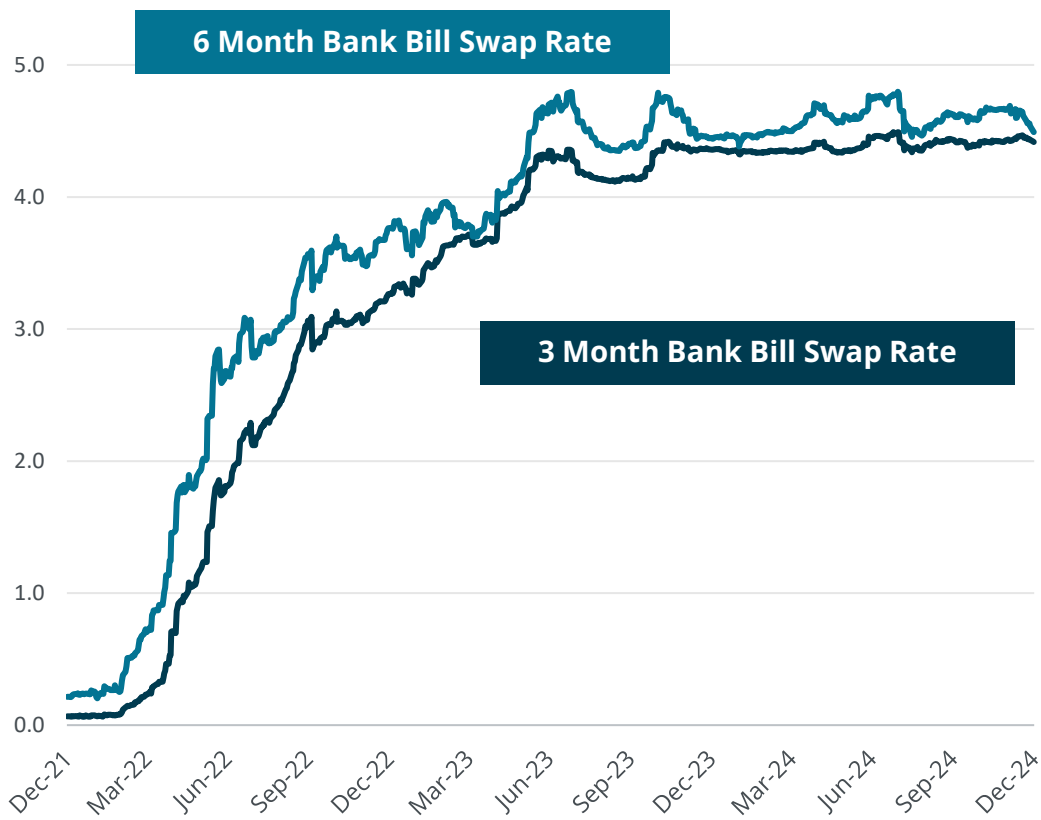
In the U.S., bond markets encountered mixed dynamics. Following the Federal Reserve's earlier rate cuts, December saw the central bank hold rates steady, signalling a "higher for longer" stance to anchor inflation expectations. This tempered earlier optimism in bond markets, causing short-term bond yields to rise slightly while long-term yields remained subdued, reflecting persistent uncertainty over economic growth trajectories. Inflation showed resilience, with core CPI stabilising at levels slightly above the Fed's 2% target. Labour market indicators were mixed; while unemployment ticked up marginally, wage growth remained robust, suggesting the economy retains some momentum despite tightening credit conditions. Looming tariffs on several countries add to inflationary pressures, making it unlikely for CPI to fall materially below the Fed's target.

European bond markets experienced a rally during the quarter, driven by heightened concerns over economic stagnation. The European Central Bank's dovish rhetoric, coupled with weakening industrial output and subdued consumer confidence, pushed bond yields lower across the eurozone. Investors increasingly priced in the potential for further monetary easing in 2025, despite the ECB's cautious messaging on inflation risks. Government bonds from peripheral eurozone economies outperformed, as demand for higher-yielding assets grew amid declining risk sentiment.

The Australian bond market remained relatively steady, reflecting the Reserve Bank of Australia's measured approach to monetary policy. Despite clear signs of a slowing economy—including declining retail sales and weaker property market activity—the RBA opted to maintain its cash rate at 4.35%. Inflation continued its downward trajectory, with quarterly CPI data reflecting subdued price pressures in key sectors such as housing and transport. Australian 10-year government bond yields edged slightly higher, reflecting global risk-off sentiment, while shorter-duration yields declined as markets priced in rate cuts in the second half of 2025. Mortgage delinquencies, while slightly up compared to earlier in the year, remained well within manageable levels. This stability underscores the resilience of Australian households despite high levels of household debt.

The Australian short-term yield curve shifted downward during the quarter, with 90-day and 180-day interest rates falling by 2 and 13 basis points, respectively. These rates are comparable to levels observed six months ago and only slightly higher than 18 months ago. Despite these shifts, the Trust has consistently outperformed expectations. We anticipate this positive trend to continue over the next 12 months, assuming no significant rate adjustments. Current forecasts suggest interest rates may decline by < 1% over the next year, supporting potential annual returns of over 6% (net of fees) based on prevailing 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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