



DMP Enhanced Income Trust

31 December 2020

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

Performance³

	1 mth %	3 mths %	6 mths %	Since Inception % p.a (1/4/2020)
Total Net Return after fees	0.79	1.05	2.47	9.60
Bloomberg AusBond Bank Bill Index (BAUBIL) + 1%	0.09	0.27	0.55	0.86
Total Net Return vs. the Benchmark	0.70	0.78	1.92	8.74

Past performance is not a reliable indicator of future performance.

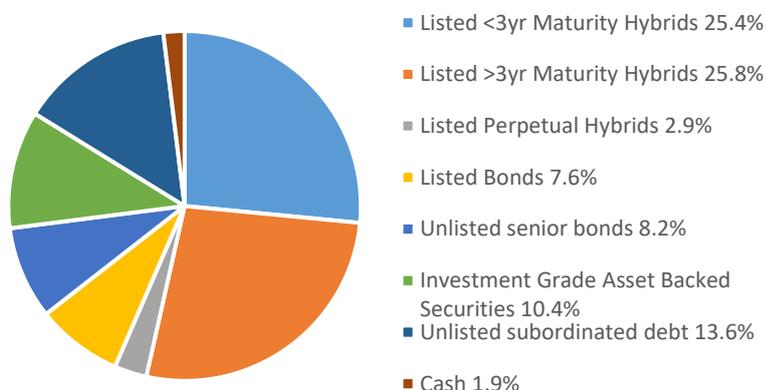
Distributions (cpu)⁴

30 June 2020	0.22
30 September 2020	0.22
31 December 2020	0.34

31 December 2020 Unit Prices

Application	\$1.1053
Net Asset Value	\$1.1020
Withdrawal	\$1.0987

Asset Allocation as at 31 December 2020



Top 10 Exposures as at 31 December 2020 (in alphabetical order)

AMP Limited
Bendigo & Adelaide Bank Limited
Challenger Limited
Commonwealth Bank of Australia
Insurance Australia Group Limited
Liberty Financial Limited
Macquarie Group Limited
National Australia Bank Limited
Qube Holdings Limited
Suncorp Group Limited

Top 5 & 10 holdings represent 23.0% and 37.4% of the total Trust, respectively.

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

² Performance Fee: 20.50% of the amount by which the Trust's performance exceeds the performance hurdle (S&P/ASX Small Ordinaries Accumulation Index). Any underperformance from a prior period must be recouped before a fee can be taken (we call this the High-Water Mark).

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

⁴ Cents per unit

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Performance Commentary

Over the quarter, the Trust returned +1.05% (net of fees) vs the benchmark of +0.27%, delivering an excess return of 0.78% over the period. The Bloomberg AusBond Bank Bill Index fell from 9bp to 1.5bp – that is an 83% decrease! However, the percentage change will always seem great while we hover around these historically low levels. Central banks, not only in Australia, continue to put pressure on the short end of the curve and we expect this trend to continue for the foreseeable future. Despite our belief that interest rates will remain lower for longer, we are well placed in the event of interest rate rising, with all current securities paying floating rates of interest.

Credit spreads continued to improve through the period, albeit experiencing some volatility during the December period with risk of COVID-19 lockdowns in Australia as well as overseas. With the rollout of the vaccine, markets are looking through many of the negative headlines. While many corporates haven't returned to a "normal" level, many have quickly adjusted to this "new world". Corporate balance sheets are in a healthy state. Unless there is a major stumbling block to returning to this "normal" level, we don't see material capital raisings and expect the resumption of dividends for many companies.

Again, we made some further purchases of high-quality unlisted securities – we will continue to acquire these over the coming period as the size of the Trust grows larger. Given the current climate and outlook, our target allocation to listed securities is ~35%, therefore the majority of future additions in the portfolio are likely to be in unlisted assets. We are committed to investing in high quality securities that should generate a suitable return over the investment horizon, both in the listed and unlisted space.

Outlook

The magnitude and speed with which drove the largest global co-ordinated policy response in history has happened is easy to gloss over, but unprecedented. In Australia alone in excess of \$350bn has been provided in stimulus and relief to bolster household and business cashflow at a time when interest rates and bond yields have declined to historical lows.

The result is household savings has risen, unemployment and business failures have been suppressed and economic activity and stock markets have roared back close to or above pre-COVID levels. All most unusual in a recession. Excess liquidity and investor confidence monetary and fiscal policy will remain accommodative. Moreover, it is the expectation rates will remain low for a long time (or ever!) and belief that the 'Policy Put' - that central banks and government will intervene if the economy or markets splutter, is alive and well.

We believe the market is transitioning from 'hope' to 'growth', and as the vaccine becomes more readily available and economies open-up and repair economies and earnings will continue to recover. Key in determining the sustainability and ongoing strength of the recovery will be the degree to which confidence and animal spirits bounce back and consumers start spending and businesses investing. Ongoing positive policy support and vaccine news will also be important.

The announcement in November of two successful vaccine candidates and start of mass vaccination is a big step forward. However, as we are learning, the pure scale of the vaccination task will take time and until herd immunity is achieved the ever-present threat of outbreaks and further quarantine restrictions is a reality. Mutation of the virus and a new strain which is incompatible to the vaccine would clearly be a bigger problem and set back. This is the biggest tail risk to the continual recovery.

We are also alive to the fact economic scarring from the COVID crisis could still be masked by fiscal support measures. As they are scaled back and withdrawn over the coming quarter, and pent-up demand from lockdown normalises, it is likely to reveal the underlying real level of unemployment and economic activity.

However, for now Australia is in the fortunate position of a domestic economy able to operate with relative openness and policy makers willing to support the economy returning to full employment. We see this as providing good potential for an ongoing economic recovery, and transition from 'hope' to 'growth'.

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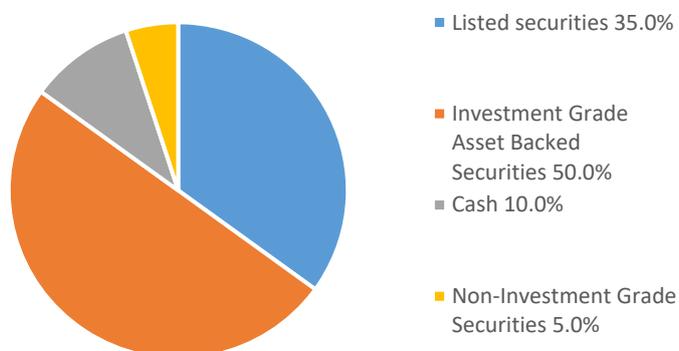
Investment Guidelines

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.

Target asset allocation

In order to achieve its objective, the Trust will typically be invested as shown in the chart below once it reaches scale (however, this can change materially depending on market prices).



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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For more information visit www.dmpam.com.au

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