DMP ASSET MANAGEMENT

DMP Enhanced Income Trust

31 March 2021

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**	Wholesale 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.

Performance[3]

	3 mths %	6 mths %	1 year %	Since Inception % p.a (1/4/2020)
Total Net Return after fees	1.15	2.22	10.86	10.86
Bloomberg AusBond Bank Bill Index (BAUBIL) + 1%	0.25	0.52	1.11	1.11
Total Net Return vs. the Benchmark	0.90	1.70	9.75	9.75

Past performance is not a reliable indicator of future performance.

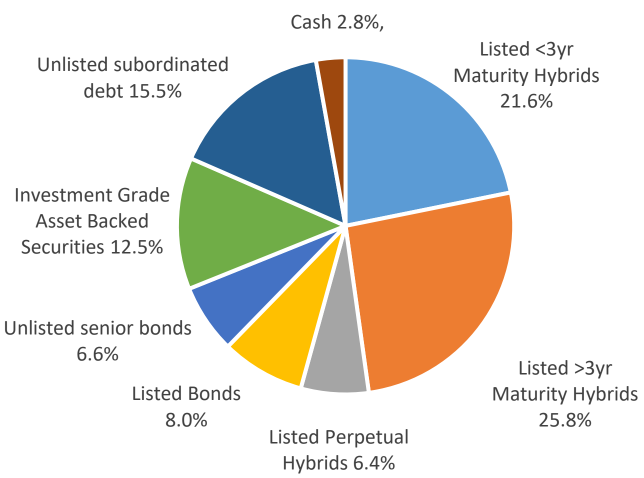
Distributions (cpu)[4]

30 June 2020	0.22
30 September 2020	0.22
31 December 2020	0.34
31 March 2021	0.34

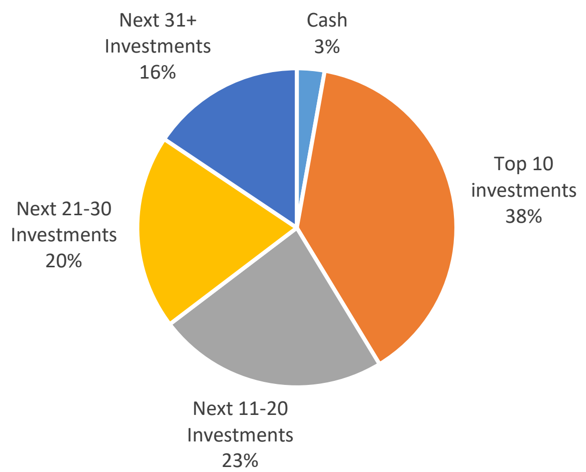
31 March 2021 Unit Prices

Application	$1.1146
Net Asset Value	$1.1179
Withdrawal	$1.1113

Portfolio Asset Allocation*



Portfolio Diverisifcation of Investments*



* As at 31 March 2021. Current number of Investments is 47 excluding cash

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[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 (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).
[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

Performance Commentary

Over the quarter, the Trust returned +1.35% (gross of fees) vs the benchmark of +0.25%, delivering an excess return of +1.10% over the period. The Bloomberg AusBond Bank Bill Index remained at subdued levels and finished the quarter at ~3.5bp. It's amazing to contemplate that at these low levels, this is a rise from the previous quarter.

Dovish comments from all central banks, including the RBA, continue to place downward pressure on yields coupled with the central banks' bond buying program. Investors became excited about the possibility of inflation, which appears to be breaking out in limited areas of the economy mainly due to supply side constraints. However, the RBA all but committed to maintaining the cash rate at present levels until 2024. For interest rates to rise materially from here, inflation would need to spread to more sectors of the economy and trickle through to wages. Although, the labour market, both the US and Australia, would need to considerably tighten further in order see any material wage inflation.

Again, credit spreads tightened further back to the Feb 2020 levels before the market selloff In March 2020. Most industries are returning to some "normal" levels excluding the obvious headwinds still facing the travel and leisure sectors. Despite the disappointing vaccine rollout in Australia, the US and EU are progressing at very fast rates – the market is heavily focused on this rollout in anticipating a return to pre-covid levels. While there are risks to further domestic lockdowns, they are likely to be short and sharp (a.k.a. Brisbane snap lockdown) given the backdrop of higher vaccination penetration.

The portfolio has continued to reduce its weight to hybrid instruments and more towards quality listed and unlisted bonds. While this does come at the cost for a lower return, it reduces volatility, thus equating to an improved risk and return profile for the portfolio. The portfolio is well diversified with the top 10 and 20 securities accounting for 38% and 62% of the portfolio, respectively, with a total of 47 securities. We still see further opportunities in the both the listed and unlisted space despite the tightening credit spreads and low interest rates. All of the investments in the portfolio are floating rate instruments, and therefore, is primed to benefit from the possibility of higher interest rates in the future.

Outlook

The economy continues to shift from 'hope' to 'growth'. Critical in shifting to the 'growth' phase is evidence of earnings revisions taking over from valuation expansion in sustaining the recovery. This was evident in the Australian February result season which saw circa 60% of companies beat consensus earnings per share estimates, making it one of the most broad-based earnings surprises over the last two decades. Strong margin expansion was a feature of many results, as sales recovered on lower costs, providing strong operating leverage.

Banks saw one of the best reporting seasons for over a decade with consensus earnings upgraded 24% on expectations of lower provisioning and improving credit growth. This is encouraging, but earnings are still 9% below pre-COVID levels, reflecting the unbalanced nature of the recovery and fact activity levels in some of the more service based and COVID affected sectors remain depressed.

The inflation debate and implications for interest rates arguably remains the central issue for investors and markets. It is generally understood, the supply shock from mandated COVID lockdowns and subsequent sharp rebound in demand on the back of economies reopening and Government stimulus is a recipe for a pick-up in inflation. The degree to which this is cyclical and temporary versus more structural and permanent is the question. The Federal Reserve and Reserve Bank have maintained the line that any pickup in inflation on a reopening will prove to be transitory and exaggerated by the base effect.

The Fed's favoured inflation measure, the core personal consumption expenditure (PCE) inflation, hit a low of 0.9% year-on-year last April and was 1.4% year-on-year in February. It is generally expected this will be above the 2% target in the April data, but could conceivably come in above 3%.

All this suggests there is growing likelihood of an inflation scare over coming quarters. However, the broader and more systemic risk for markets is if the rebound in growth and liquidity spawns a more sustained overheating in the economy and inflation surprise, which is more than just the year-on-year base effect acknowledged by the Fed and RBA so far.

The last 30-year deflationary trend and absence of inflation in the developed markets provides good reason to be rightfully sceptical of longer-term inflation fears. The forces of deflation have proved to be powerful and persistent. The combination of extreme monetary policy, technology disruption and aging population have been highly influential in contributing to the economic circumstances and disinflationary setting.

While there is evidence to suggest these forces remain in place, a risk we see is remaining too anchored to the recent past. Extreme positions generally don't hold for ever and the pendulum generally moves back to equilibrium at some point. Predicting the timing and speed is difficult. But like a rolling stone once they start, they can build momentum and become a more powerful force.

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.dmpam.com.au