



SG HISCOCK & COMPANY

SGH Australia Plus Fund

31 August 2021

Investment Objective	To outperform the S&P/ASX300 Accumulation Index by 5% on a rolling 3 year basis		
Investments held	Generally within the largest 300 companies listed on the ASX, plus companies listed in Asia with a focus on Asian domestic consumption.		
Investment Manager	SG Hiscock & Company Limited	APIR	ETLo383AU
Commencement	8 October 2013	mFund Product Code	SHFo1
Management costs¹	0.70% p.a.	Buy Spread	+0.25%
Performance Fee²	20% capped at 1.25% in any calendar year, subject to a highwater mark	Sell Spread	-0.25%
Minimum initial investment	\$20,000	Fund Size	\$9.80 million

Unit Prices	Purchase	Net Asset Value	Withdrawal
31 August 2021	\$ 1.6898	\$ 1.6856	\$ 1.6814

Performance ³	1 mth %	3 mths %	6 mths %	1 yr %	2 yrs % p.a.	3 yrs % p.a.	Inception % p.a.
31 August 2021							
Distribution Return	0.00	5.65	5.99	7.25	6.20	4.80	7.49
Growth Return	3.92	-1.12	4.76	12.64	7.19	2.66	6.84
Total Net Return	3.92	4.53	10.75	19.89	13.39	7.45	14.34
S&P/ASX 300 Accumulation Index	2.61	6.08	15.13	28.58	10.63	10.13	9.38
Total Net Return vs. the Index	1.31	-1.55	-4.38	-8.69	2.76	-2.68	4.96

Past performance is not a reliable indicator of future performance.

Top 5 Holdings

CSL Limited
Uniti Group Ltd
National Australia Bank Limited
Chorus Ltd
BHP Billiton Limited

Top 5 holdings represent 21.33% of total fund

Why Australia Plus

1. We want access to the best quality companies in Asia, at the right price. It is the choice, but not the obligation to invest in emerging companies with strong local franchises
2. The strong rise in both the sheer number of Asians entering the middle class and the growth in disposable income, suggests that this is a multi year trend that is very hard to access by restricting the investible universe to Australian listed stocks.
3. Investors appropriately diversify their portfolio by enhancing returns with a focus on the domestic demand thematic within Asia.
4. It offers Australian investors a wider opportunity set without the requirement to have money invested in Asia through a pooled vehicle.
5. By focussing purely on the domestic demand thematic in Asia, our investible universe grows by 40-50 stocks outside the ASX300. This is a very narrow subset of Asian stocks that meet our basic quality filters and would consider owning at the right price.

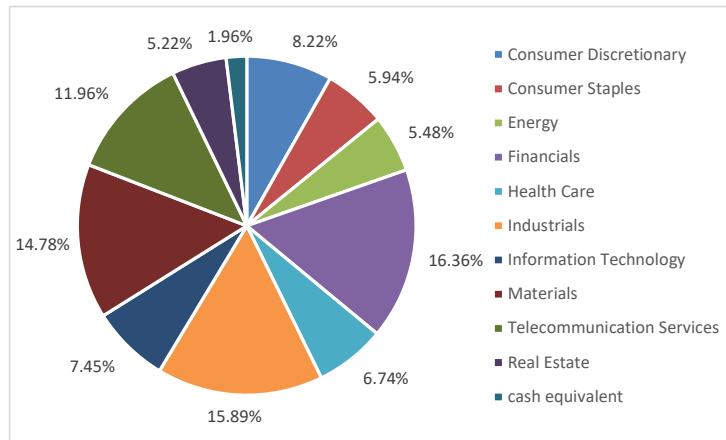
1. Includes estimated GST payable, after taking into account reduced input tax credits (RITC).

2. A performance fee of 20% (net GST and an estimate of RITC) of any investment return above the fund's benchmark may also be payable as an expense of the fund, capped at 1.25% in any year, subject to a highwater mark

3. Performance: Total Net Return is the Fund return after the deduction of ongoing fees and expenses assuming the reinvestment of all distributions.



Asset allocation



Monthly Observations

Equity markets continued to climb higher in August as investors looked through the impact of lockdowns from the Delta strain of the virus to the prospects of reopening on the back of higher vaccinations. The Australian equity market rose 2.6%, taking the year-to-date gain to 17% and the annual return to 28.6%.

The rise in delta cases and extent of the lockdowns in New South Wales and Victoria is expected to impact GDP growth by -2% to -4% in the September quarter. But with the vaccination roll-out gathering pace there is an expectation once things open-up growth will bounce back in Q4/Q1. Around 62% of the eligible population has received one jab, with the 80% double dose target on schedule to be hit in November should current trends continue.

It is important to remember this is an event driven crisis, and different in many respects from a cyclical economic recession. Policy support remains highly accommodative and has helped reduce the scarring and adds weight to a bounce back. Households savings have risen, and households been compensated for loss of income. Covid payments are currently more than \$1bn a week, on par with what was paid last year during Jobkeeper, although more directly targeted at households reducing the risk of largesse and overcompensation. Further interest rates remain low with generous incentives encouraging businesses and prospective homeowners and investors to spend. The prospects of a bounce back on reopening, is also encouraging businesses to hold on to staff, resulting in the labour market being tighter now than this time last year, and more loss of hours than jobs.

The impact of the radical pivot to fiscal policy and emergency stimulus was laid bare in the August reporting season. Locally, Australian companies enjoyed one of their strongest reporting seasons in recent history, capitalising on pent up demand, closed international borders and a second half of the financial year largely unencumbered by lockdowns. The key theme of the reporting season was strength of corporate balance sheets. Management teams and treasurers have been quick to return cash in higher ordinary and special dividends and share buybacks. With rates at record lows and a lack of alternative investment opportunities much of this cash may find its way quickly back into equity markets.

Too much cash chasing too few goods has in some respects been the punchline of the last 12 months. Resurgent demand colliding with supply disruption and capacity constraints has seen a surge in prices and profits for those companies able to meet demand. Reporting season reaffirmed this through the bifurcation in results between Covid winners and losers, and consistent message around rising input and labour costs because of border closures, reduced mobility and higher freight and commodity prices.

Reporting season also highlighted how the last 12 months has shone the light on the 'S' in ESG (Environmental, Social and Governance) and companies' digital resilience. COVID has tested companies' relationships with employees, customers, suppliers and regulators and their ability to pivot and adapt, and in turn had a large bearing on whether they have survived or thrived. Covid has tested every businesses' digital fitness. Technology and on-line capabilities have been a critical enabler for staff to work remotely and customer service and fulfilment. In the spirit of never wasting a crisis, it has provided the opportunity for some companies to restructure (like Flight Centre who have closed shops and invested heavily online). More generally, it has caused every business to double down and review its digital capability, and in many instances accelerate technology investment plans.



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Against the backdrop of reporting season there is growing concerns growth has peaked and US and global growth surprises are rolling over. As the cycle matures beyond the 'hope' recovery phase this is not unexpected. However, we think it is premature to assume the usual mid-cycle slow down yet given the unique nature of this crisis and policy support.

The risk is with vaccines becoming more universally available and more people jabbed, policy makers are looking to scale back emergency measures. In many countries fiscal support is already being wound back and central banks are either tightening policy or considering doing so. The Federal Reserve has confirmed again they are set to taper. With a reprieve from the Delta spread, a turn towards tightening could bring a gentle decline in inflation and continued recovery. The alternative is tapering, and higher real yields create a headwind for equity valuations and a market pullback.

Another consideration is that past this current lockdown Australia is likely to be 'living with the virus'. This is something that to this point we haven't experienced, and it's uncertain how it will impact on confidence and behaviour. We also face a Federal election in the first half of next year. This all paves the way for a potentially higher level of volatility in coming months and requires an active approach to managing risk and capitalising on opportunities as they emerge

Portfolio positioning and performance

In positioning for the prospects of reopening and tapering we continue to actively manage the portfolio and weight it to our highest conviction ideas.

During the month we exited Reliance Worldwide and initiated a position in Corporate Travel.

Corporate Travel is leveraged the reopening and post the recent acquisition of Travel and Transport is well positioned in the US and UK markets where vaccinations are more progressed and skews to domestic travel which is positive at a time when there is still significant uncertainty around the opening up of international travel and borders remain closed.

Reliance Worldwide has been a Covid winner benefiting from the strong recovery in the US housing market and increased demand as homeowners have remodelled and renovated. The recent result beat the top of market earnings expectations, but we see the upcoming year will challenge the business with rising input costs and supply chain issues and assumed non-recurrence of benefits from the US freeze event this year.

We also exited Rio Tinto, switching into BHP which we see as having a more diversified commodity exposure and better leverage to soft commodities production through potash, and future-facing commodities (used in batteries and electrification) through its nickel business. The decision to collapse the DLC structure and demerge the energy business to Woodside Petroleum has the potential to create some short term volatility in the share price, but longer term we see value creation through the reallocation of capital to potentially higher returning projects with the energy assets better suited within a dedicated oil and gas vehicle.

We also added to Chorus Ltd (CNU) following an update in August that goes towards providing a degree of regulatory certainty that we expect will underpin an attractive yield in the years ahead. Our analysis suggests the current share price implies an expected dividend yield of between 7-10%. By way of comparison Transurban and Sydney Airports have historically traded on dividend yields of around 4-5%, and Telstra is currently trading on 4.6%. As the regulatory setting becomes clearer and the business transitions from network construction to operatorship, we expect capex to decline materially and free cashflow and dividends to increase significantly resulting in a strong re-rating in the share price and yield. On finalisation of the regulatory setting over the next 6-12 months Chorus will occupy a near monopoly position in NZ fibre telecommunications (the NZ equivalent of NBN) and be able to increase prices in line with CPI.



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For more information visit www.sghiscock.com.au

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