



SG HISCOCK &amp; COMPANY

## SGH Australia Plus Fund

**28 February 2022**

<b>Investment Objective</b>	To outperform the S&P/ASX300 Accumulation Index by 5% on a rolling 3 year basis		
<b>Investments held</b>	Generally within the largest 300 companies listed on the ASX, plus companies listed in Asia with a focus on Asian domestic consumption.		
<b>Investment Manager</b>	SG Hiscock & Company Limited	<b>APIR</b>	ETL0383AU
<b>Commencement</b>	8 October 2013	<b>mFund Product Code</b>	SHF01
<b>Management costs<sup>1</sup></b>	0.70% p.a.	<b>Buy Spread</b>	+0.25%
<b>Performance Fee<sup>2</sup></b>	20% capped at 1.25% in any calendar year, subject to a highwater mark	<b>Sell Spread</b>	-0.25%
<b>Minimum initial investment</b>	\$20,000	<b>Fund Size</b>	\$8.65 million

<b>Unit Prices</b>	<b>Purchase</b>	<b>Net Asset Value</b>	<b>Withdrawal</b>
<b>28 February 2022</b>	\$ 1.5998	\$ 1.5958	\$ 1.5918

<b>Performance<sup>3</sup></b>	<b>1 mth %</b>	<b>3 mths %</b>	<b>6 mths %</b>	<b>1 yr %</b>	<b>2 yrs % p.a.</b>	<b>3 yrs % p.a.</b>	<b>Inception % p.a.</b>
<b>28 February 2022</b>							
Distribution Return	0.00	1.82	1.80	7.66	6.13	4.91	7.22
Growth Return	0.97	-4.30	-5.33	-0.82	2.13	3.45	5.74
Total Net Return	0.97	-2.48	-3.53	6.84	8.25	8.36	12.95
S&P/ASX 300 Accumulation Index	2.09	-1.97	-4.24	10.25	8.65	8.68	8.24
Total Net Return vs. the Index	-1.12	-0.51	0.71	-3.41	-0.39	-0.32	4.71

Past performance is not a reliable indicator of future performance.

### Top 5 Holdings

Woodside Petroleum
CSL Limited
National Australia Bank Limited
BHP Billiton Limited
Chorus Ltd

Top 5 holdings represent 22.80% 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.

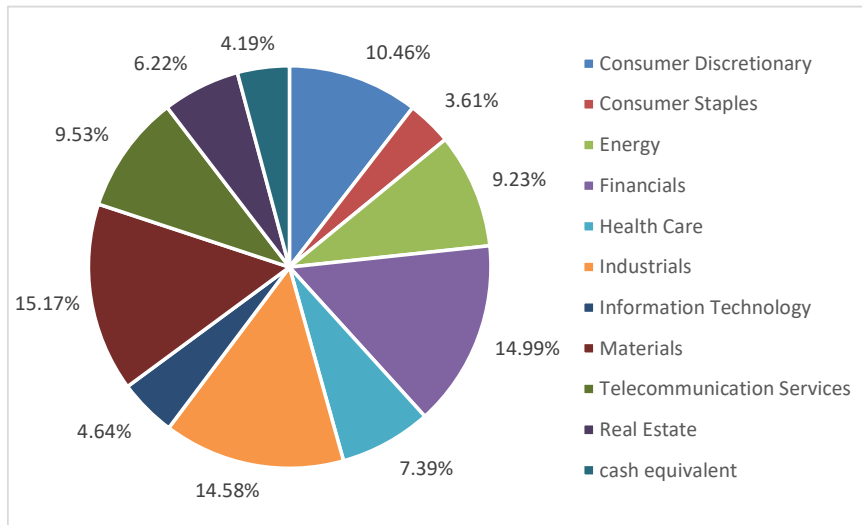
1. Includes estimated GST payable, after taking into account reduced input tax credits (RITC).

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 their volatile start to the year in February. The invasion of Ukraine by Russian forces late in the month added to existing concerns around rising inflation and interest rate expectations and impeding monetary policy tightening that has consumed the market since the start of the year. Despite this the ASX300 Accumulation Index finished up 2.09%, outperforming the MSCI Global Index (-5%) and global indices. The consumer staples (+5.8%) and energy (+5.6%) were strong performers for the month, whilst the technology sector underperformed (-4.6%),

The Australian February reporting season provided the opportunity to gain a broad insight into the underlying economy and operating environment. By and large the results season was solid with around 90% of companies reporting top line revenue growth in-line or better than consensus and 49% of companies beating earnings expectations. Aggregate earnings for the ASX200 for FY22 were revised upwards by approximately 2% with earnings growth now expected to be close to 13-14% for the 2022 financial year.

Unsurprisingly, cost inflation, supply chain disruption and labour shortages were issues universally sighted by almost all management. To date, there has been good evidence most companies have been able to pass on rising cost pressures. However, whether this will continue to be the case is the question. The pricing power of many businesses, and elasticity of demand to higher prices hasn't yet really been fully tested. The risk is, if inflation proves more persistent, it could start to see shifting and thrifting in consumer behaviour and weigh on economic growth. This could have broader implications for margins and earnings, and is something to watch closely.

Higher inflation supports calls for higher interest rates which will have an impact on asset prices, suggesting lower valuations and returns going forward.

Valuations have already clearly started to adjust. This is being felt most acutely in the growth and long duration stocks, which have dramatically underperformed cyclical/ value stocks over recent months.

This is providing better opportunities in some quality growth names at more reasonable prices. Any fading in inflation expectations or reprieve in the current heightened level of geopolitical risk is also likely to be positive for growth stocks given their sharp sell-off.

However, we are also conscious that historically when real oil and commodity prices have risen as sharply as they have it has led a slowdown in economic growth, and generally a recession. The added complication is given where inflation is currently at, the Federal Reserve is still likely to want to raise rates at least until the economic data suggests otherwise.



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Both scenarios are plausible, and support the argument to be active and selective, whilst maintaining some exposure to both quality growth and quality cyclicals

## Portfolio positioning and performance

For the month the portfolio returned 0.97% underperforming the ASX300 Accumulation Index by -1.12%.

The portfolio came through reporting season in good shape with no real result disappointments. In fact, it was one of the cleanest reporting seasons we can remember for a while in terms of results delivering relative to expectations. As a consequence, we have made few changes to the portfolio.

The top contributors during the month were Woodside Petroleum, Northern Star and National Australia Bank. Uniti Group, Aristocrat Leisure and Seek were the main detractors.

### For more information visit [www.sghiscock.com.au](http://www.sghiscock.com.au)

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