



SG HISCOCK &amp; COMPANY

## SGH Australia Plus Fund

**30 April 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>	ETLo383AU
<b>Commencement</b>	8 October 2013	<b>mFund Product Code</b>	SHFo1
<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>	\$9.14 million

<b>Unit Prices</b>	<b>Purchase</b>	<b>Net Asset Value</b>	<b>Withdrawal</b>
30 April 2022	\$ 1.6921	\$ 1.6879	\$ 1.6837

<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>
30 April 2022							
Distribution Return	0.00	0.00	1.94	7.67	6.57	4.95	7.11
Growth Return	-0.85	6.80	1.83	-0.75	9.47	4.21	6.32
Total Net Return	-0.85	6.80	3.77	6.92	16.04	9.16	13.42
S&P/ASX 300 Accumulation Index	-0.84	8.22	3.36	10.17	20.40	9.65	8.81
Total Net Return vs. the Index	-0.02	-1.42	0.41	-3.25	-4.36	-0.49	4.61

Past performance is not a reliable indicator of future performance.

### Top 5 Holdings

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

Top 5 holdings represent 22.58% 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.

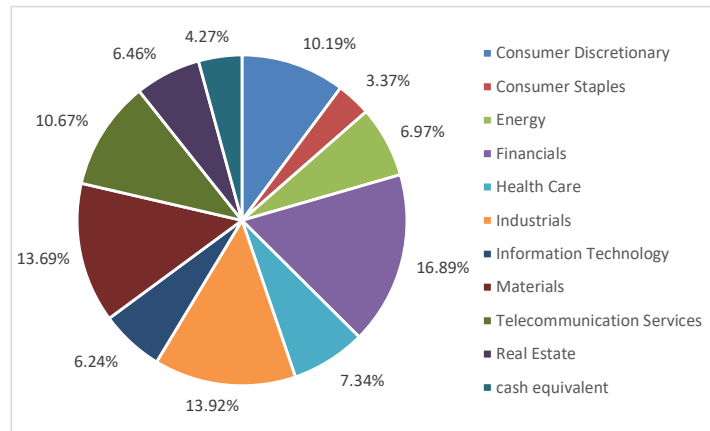
1. Includes estimated GST payable, after taking into account reduced input tax credits (RITC).

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

In April the ASX300 declined -0.8%, but relatively outperformed US equities with the S&P500 down -8.7% and NASDAQ falling 13.2%. The main driver was a more hawkish Federal Reserve, which hiked its official cash rate 50 basis points to 1%, indicated additional 50 basis point increases were be "on the table" at the next couple of FOMC meetings, and formally announced the start of quantitative tightening and decision to shrink its balance sheet from 1 June. This has had the impact of pushing up real yields and putting more pressure on valuations. This was most evident in the derating in growth and technology stocks, but also felt in interest rate sensitive sectors like housing and REITs.

There is no set playbook for returns when rates start to rise, but looking back at periods when this has been the case the common thread is valuations typically fall. The price earnings ratio of the ASX200 has fallen considerably since the start of the year and is now back close to its 20-year average of 14x. However, it reflects more the contraction in resource company multiples on higher (peak) earnings than necessarily the derating in high growth stocks. Growth stock valuations are still around 30% above 2018 levels, whilst nominal rate expectations are now close to 2018 peak hawkishness. This suggests there is potential for further contraction in valuations.

The Fed's more hawkish stance has also raised concerns Central Banks will be tightening into a slowing cycle and raised the spectre of stagflation (higher inflation and rates and slowing economic growth) and mid cycle slowdown, or worse recession.

Global growth estimates have been coming down over recent months with the Russia-Ukraine crisis and Chinese lockdowns. The risk Europe goes into recession seems increasingly probable. We see US and particularly Australia as overall better placed to absorb higher rates.

In raising rates and managing inflation ultimately Central Banks are trying to tighten financial conditions. If higher short-term rates undermine economic growth too much, the prevailing consensus view seems to be Central Banks will pause, or even reverse course. It is these expectations that have been preventing the tightening of financial conditions.

Acknowledgement by Central Banks that they are now behind the curve and need to move off emergency settings and tighten financial conditions means they are now likely to keep raising rates until there is a clear sign the economy cannot handle it or there is a financial shock.

We continue to favour selective reopening trades and higher cyclical exposure which not only stand to benefit as demand recovers from the pandemic but also as rates tighten. We also think it's important to maintain a diversified portfolio and retain a healthy position to quality stalwart stocks with a defensive bias and exposure to quality growth stocks that have a strong competitive advantage and attractive margin of safety.



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## Portfolio positioning and performance

For the month the portfolio returned -0.85% underperforming the S&P/ASX300 Accumulation Index by -0.02%.

During the month we added a position in network services provider Megaport Group (MP<sub>1</sub>). MP<sub>1</sub> provides cloud connectivity solutions and virtual routing for cloud networking, a high growth service area for data sharing and enhancing computing power. Like most growth stocks in the technology sector valuations have been volatile in recent months in light of rising interest rate expectations however we are attracted to the long term strategic nature of the assets and maturing business model and cash flows in the 12 months ahead.

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

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