



SG HISCOCK & COMPANY

## SGH High Conviction Fund

31 May 2023

<b>Investment objective</b>	The Fund invests in a concentrated portfolio of Australian stocks that aims to offer long-term returns in excess of the S&P/ASX 300 Accumulation Index (after fees).		
<b>Investments held</b>	A portfolio of 15 to 30 stocks that are listed on the Australian Securities Exchange.		
<b>Investment Manager</b>	SG Hiscock & Company Limited	<b>APIR</b>	ETL0042AU
<b>Commencement</b>	28 October 2004	<b>mFund Product Code</b>	SHF01
<b>Management costs<sup>1</sup></b>	0.90% p.a.	<b>Buy spread</b>	+0.25%
<b>Performance Fee<sup>2</sup></b>	15%	<b>Sell spread</b>	-0.25%
<b>Minimum initial investment</b>	\$20,000	<b>Fund size</b>	\$20.00 million

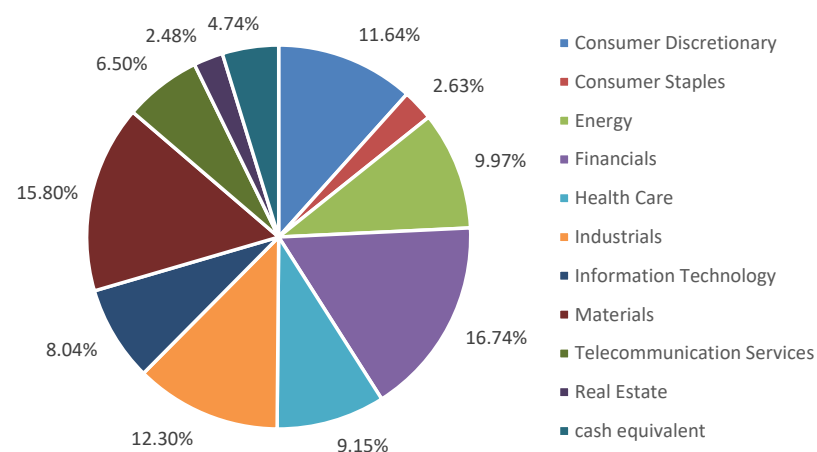
Unit Price	Application	Net Asset Value	Withdrawal
	\$ 1.4905	\$ 1.4868	\$ 1.4831

Performance <sup>3</sup>	1 mth %	3 mths %	6 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	Inception % p.a.
Distribution Return	0.00	0.00	0.99	13.82	10.30	10.72	7.36
Growth Return	-2.29	-0.64	-1.13	-11.99	-0.63	-5.66	2.16
Total Net Return	-2.29	-0.64	-0.14	1.83	9.67	5.06	9.52
S&P/ASX300 Accumulation Index	-2.53	-0.96	-0.80	2.37	11.33	7.43	7.87
Total Net Return vs. the Index	0.24	0.32	0.66	-0.54	-1.66	-2.37	1.65

Past performance is not a reliable indicator of future performance.

Distribution Period	30-Jun-21	31-Dec-21	30-Jun-22	31-Dec-22
Distribution rate (cents per unit)	10.8854	3.0211	19.8711	1.4301

### Asset allocation



### Top 5 holdings

CSL Limited
BHP Billiton Limited
Chorus Ltd
Woodside Energy Group Ltd
NextDC Ltd

Top 5 holdings represent 34.00% of the total Fund.

- Includes estimated GST payable, after taking into account Reduced Input Tax Credits ("RITC").
- Effective 1 December 2018, a performance fee of 15% (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, subject to a highwater mark
- Performance: Distribution Return is the return due to distributions paid by the Fund, Growth Return is the return due to changes in initial capital value of the Fund, Total Net Return is the Fund return after the deduction of ongoing fees and expenses and assumes the reinvestment of all distributions.



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## Monthly Observations

In May the S&P/ASX300 Accumulation Index fell 2.5% underperforming most global indices (S&P 0.3%, MSCI Global Equity ex Aust Unhedged \$A 1.2%).

Banks (-4.0%) and Materials (-4.4%) were a drag on the Australian equity market as recessionary concerns and weaker commodity prices on softer Chinese manufacturing data weighed on sentiment. Mid-cap resources, and more specifically lithium and rare earth stocks were the outlier and outperformed the majors on signs of stabilisation in the lithium carbonate price and Chinese restocking.

May provided further evidence that whilst inflation appears to have peaked it remains sticky raising the spectre central banks may have to do more in raising rates. The RBA's surprise rate hike taking the official rate to 3.85% and hawkish accompanying statement added to these concerns.

Domestically the Federal Budget took the headlines early in the month. Overall, it was relatively restrained with the Government seemingly conscious of not wanting to further inflame inflation whilst providing cost of living relief to lower income cohorts.

A growing debate and economic issue facing the Australian economy is the decline in productivity, which the budget did little to address, but which the Reserve Bank has flagged as a growing risk. If productivity growth doesn't accelerate, consistent with lifting wages growth, inflation, particularly services inflation, will continue to be a problem. Such an outcome would require higher (or higher-for-longer) interest rates until wages growth slows to a lower, more sustainable level – implying higher unemployment, weaker consumption and economic growth.

Information Technology (+11.6%) was the best performing sector surging on the back of the new wave of sentiment around the take up in ChatGPT and comments from the CEO of Nvidia, the US producer of Graphical Processing units (GPUs) instrumental to the computational processing power behind AI, that AI represents the biggest reinvention of computing since IBM's 360 system 60 years ago, and surging demand for its chips.

In simple terms AI is the simulation of human intelligence by machines. Computer programs that leverage copious amounts of data and compute are trained to perform tasks such as decision making and problem solving with minimum human interaction.

The evolution in technology, including the cloud and big data processing has been instrumental in making AI cheaper and more accessible. However, the recent excitement around AI has been driven by the breakthrough in generative AI applications, like the recently launched OpenAI made ChatGPT.

While it is still early days, the take up in ChatGPT has been nothing short of phenomenal, hitting over 100 million users since launching in November 2022. It is hard to predict how transformational generative AI could be, but even in the short period of time since the launch of ChatGPT there are ample use cases spanning a wide range of applications that suggest it represents a huge step change in the way we might live and work and be highly disruptive.

## Portfolio positioning & performance

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

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For the month the portfolio returned -2.29% outperforming the benchmark by +0.24%.

NextDC (+11.1%) was the largest contributor to performance during the month after it announced a \$618m 1:8 underwritten entitlement and details around its plans to expand regionally outside Australia into the Malaysian and New Zealand markets. As part of the announcement NextDC also announced the acceleration of the fit out of its existing Sydney S3 data centre and upgraded FY23 guidance with revenue now expected to be between \$350-360m (previously \$340-355m) due to higher power utilization, with EBITDA to be in the range of \$192m to 196m (previously \$190m to \$198m).

After years of preparing the market for offshore expansion it is little surprise to see NextDC move offshore. Entering new markets is not without risk, but we see it as a credible strategic move given the attractive fundamentals of these markets and demand being led by existing customer growth.

Worley (+7.9%) held its annual investor day during the month focusing on the opportunity it has in Energy Transition to support a double-digit medium term earnings growth target.

We increasingly see a natural adjacency for Worley to leverage its skills, client relationships and project experience in helping solve the challenges in transitioning to more sustainable lower carbon technologies. This includes planning and supporting the development of industrial hubs, decarbonising existing assets, green hydrogen, carbon capture and storage, offshore wind, power networks, sustainability advisory and environmental consulting.

To capitalise on this opportunity Worley has made an early strategic shift to invest \$100m in scaling up and building out its sustainability consultancy capability and capacity, with the aim of 75% (currently 32%) of its sales being from sustainability projects by 2026.

Importantly, there is also growing evidence Government policies and regulations are starting to create the right environment for Worley's customers to invest. The US Inflation Reduction Act (IRA) has been instrumental in seeing a shift in attitude and behaviour by many of Worley's customers to commit to lower carbon technology projects. The European New Green Deal, UK Energy Security Plan and Canadian renewable tax credit initiative show further commitment that Governments are becoming more serious in funding the energy transition.

If the latest estimate by the Global Energy Transitions Commission in their 'Financing the Transition' report, that around \$3.5 trillion a year of capital will be needed on average between now and 2050 to build a net-zero global economy, we see strong tailwinds and opportunity for Worley given its global scale and competitive advantages.

The growth in sustainable work for Worley is coming off a low base and it is still relatively early days. But the Investor Day highlighted there is growing momentum in the key operating indicators around growth in headcount, backlog and sales pipeline. Sustainability work is also outpacing work in traditional markets, and now represents 40% of the backlog, and supports the target of having 75% of its sales coming from sustainability work by 2026.

We see the combination of better market growth through a potential four-fold increase in global energy investment and decarbonisation projects, ability to take share and fixed cost leverage driving a 10-year earnings per share compound annual growth of around 10%.

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In a lower growth environment, and where increased spending on transitioning to lower emissions energy technologies seems an undeniable trend in an uncertain world, we believe Worley looks an attractive proposition, with plenty more upside.

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