

SGH High Conviction Fund

31 July 2023

Performance ¹	Total Net Return	Distribution Return	Growth Return	S&P/ASX300 Accum. Index
1 month (%)	3.98	-	3.98	2.98
3 months (%)	1.51	3.78	-2.27	2.03
6 months (%)	1.36	3.77	-2.41	1.02
1 year (%)	7.84	5.04	2.80	11.09
3 years (% p.a.)	9.80	9.42	0.38	11.91
5 years (% p.a.)	5.24	8.89	-3.65	7.46
7 years (% p.a.)	7.63	9.55	-1.92	8.40
10 years (% p.a.)	8.56	10.64	-2.08	8.30
Inception (% p.a.)	9.66	7.52	2.14	8.06

¹ 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.

Past performance is not a reliable indicator of future performance. Returns greater than 1 year are annualised.

- For the month the portfolio returned 3.98% outperforming the benchmark by +1.00%.
- The Australian equity market rose 2.98%, again underperforming the global market. However, positive sentiment was supported by a pause from the RBA which mirrored the Fed in June, and is supporting a soft-landing narrative and markets. The rally in growth stocks broadened out during the month to value, small caps and cyclical stocks.
- In July Woodside Energy, Corporate Travel and Seek contributed strongly, while CSL, Northern Star Resources and Cooper Energy were the major detractors.
- Corporate Travel (CTD) pre-released their earnings for FY23 in-line with consensus. However, they provided a strong pipeline into FY24 which saw the share price jump 16.9%.
- CSL traded down further in July following its trading update in June that included first time guidance for FY24 and increased concerns around competing drugs for CSL's Hizentra IVIG product used for treatment of CIDP. While there is some risk of switching and loss of CIDP volumes, we see strong growth for CSL from the ongoing recovery in its base plasma business with growing contribution from pipeline products (CSL 112, garadacimab) and yield and operational efficiencies.

Key Facts

Investment manager	SG Hiscock & Company Ltd.
Launch date	28 Oct 2004
Benchmark	S&P/ASX300 Accumulation Index
Management fees ²	0.90%
Performance fee ³	15.00%
Fund size	\$20M
Number of holdings	27
Dividends payable	Biannual
Buy/sell spread	+0.25/ -0.25%
Minimum initial investment	\$20,000
Base currency	AUD
APIR	ETL0024AU
mFund code	SHF01
Domicile	Australia

Unit price

Application	\$1.4908
Net Asset Value	\$1.4871
Withdrawal	\$1.4834

Distribution cpu

30-Jun-22	19.8711
31-Dec-22	1.4301
30-Jun-23	5.5247

²Includes estimated GST payable, after taking into account Reduced Input Tax Credits ("RITC").

³Effective 1 Dec 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.

Portfolio Characteristics and Performance

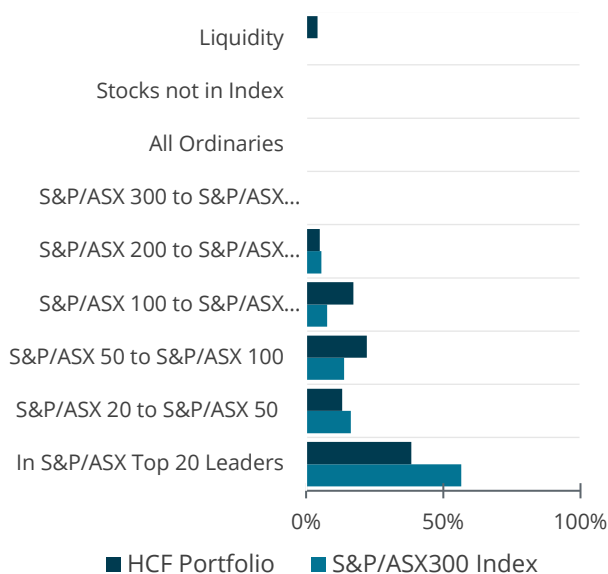
Top 3 Holdings	Portfolio Breakdown	Top 3 Contributors	Top 3 Detractors
Chorus Limited	Financials 18.23%	Woodside Energy	CSL
NextDC	Materials*	Corporate Travel	Northern Star Resources
Qube	Industrials 11.97%	Seek	Cooper Energy

* Incl. gold

Superior Return on Equity (ROE) to the index with stronger sales growth EPS characteristics

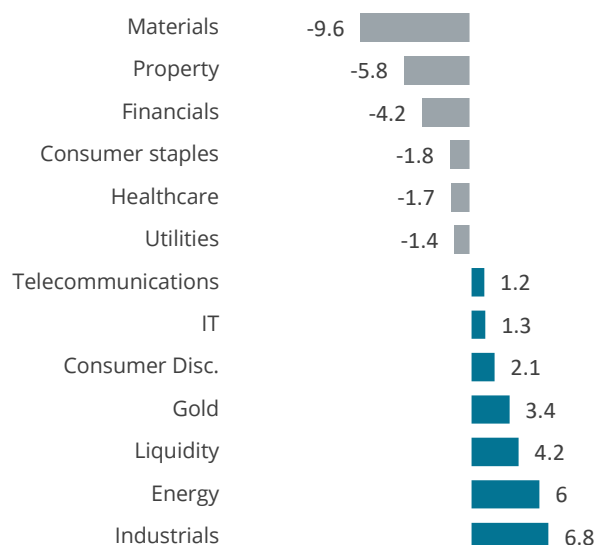
	Sales Growth		EPS Growth		Yield		PER (x)		ROE	
	FY22/FY21	FY23/FY22	FY22/FY21	FY23/FY22	FY22	FY23	FY22	FY23	FY22	FY23
SGH High Conviction	11.8%	6.7%	6.2%	9.0%	2.9%	3.1%	18.9	18.4	13.7%	15.1%
ASX 300 Index	5.6%	1.1%	-0.8%	-1.1%	4.3%	4.1%	17.4	17.2	13.6%	13.6%

Market cap weights relative to ASX300



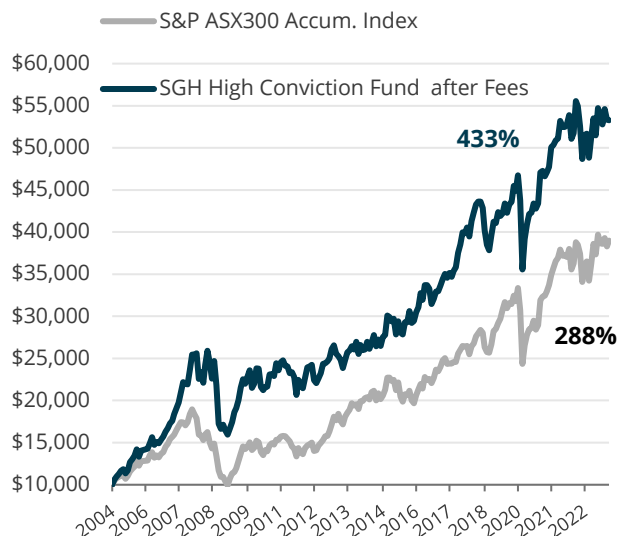
Sector weights relative to ASX300

Our bottom-up stock analysis and structural views is evidenced in our deviation from the index



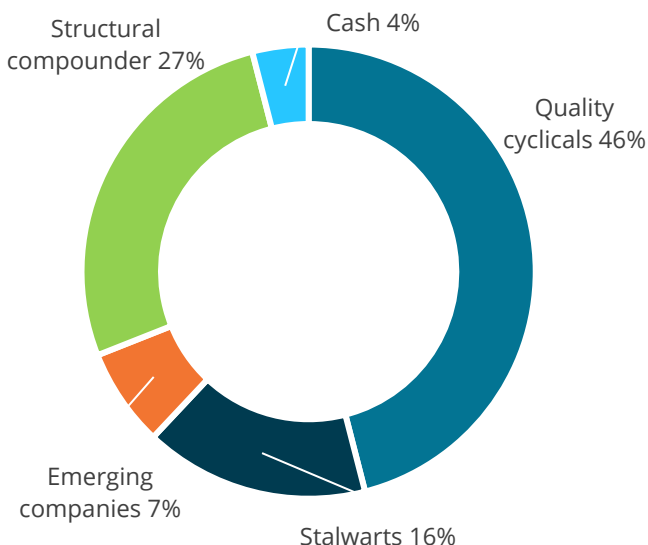
\$10,000 invested since inception

Long track record of adding alpha



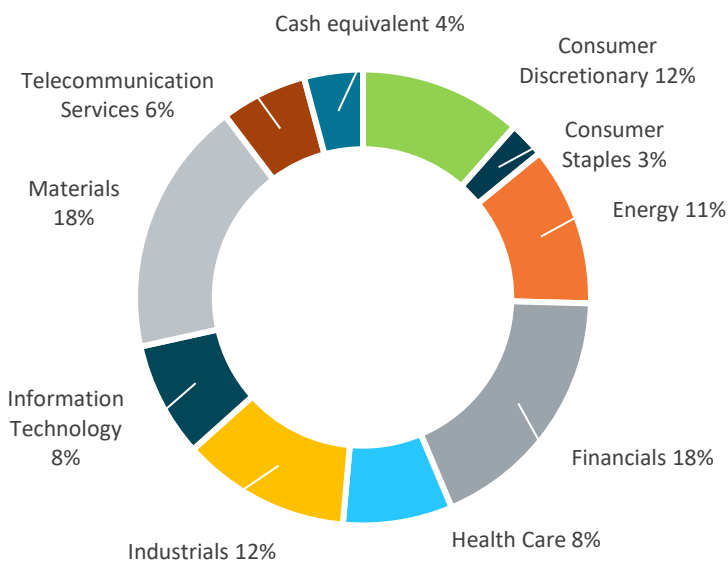
Portfolio lifecycle exposure

Portfolio diversification by lifecycle, sector and size



Asset Allocation

Sector	Fund (%)
Consumer Discretionary	11.54%
Consumer Staples	2.55%
Energy	11.32%
Financials	18.23%
Health Care	7.77%
Industrials	11.97%
Information Technology	8.15%
Materials	18.14%
Telecommunication Services	6.15%
Cash equivalent	4.18%
Total	100.00%



Commentary & Outlook

In July the ASX300 Accumulation rose 2.98% after rallying 5.8% from intra-month lows. Energy (+8.8%) and Financials (+4.9%) led the way while healthcare (-1.5%) was the worst performing sector for a second month in a row (weighted down by CSL continuing to underperform following its lower-than-expected FY24 guidance in July) and Staples (-1%) lagged.

Softer inflation prints both in the US and Australia during the month supported the narrative that monetary tightening is working, central banks are close to being done in raising rates and there is a lower risk of central banks overtightening and potential soft landing (no recession).

The decision by the RBA to keep rates on hold at 4.10% at its July and August meetings adds weight to the view there is sufficient tightening in the system, and it will take an accumulation of economic surprises to force the RBA back to the table.

Sifting through the economic noise, one thing that has been consistent is the strength of the labour market, which has been incredibly resilient. In June Australia's employment-to-population growth hit record highs with the unemployment rate remaining steady at 3.5%. Strong rises in full-time employment and hours worked further suggests Australians looking for more hours work to meet rising costs of living pressures are still able to do so.

While softening in the leading economic indicators is yet to show up the economic data, there are signs the household sector is finally starting to feel the pinch from 12 rate hikes in short order. Retail sales in June fell 0.8% month-on-month and credit growth showed a material slowdown increasing only 0.2% month-on-month.

We continue to believe consumer resilience will be tested over the second half of this calendar year. However, we expect it won't be universal and be uneven across the economy, felt more by households experiencing higher rents and rates and cost of living pressures.

To this end, the up-and-coming reporting season will be important in providing a bottom-up perspective of where the economy is at, and better read on consumer and business trends. Outlook statements are likely to prove more important than actual results. As always there will be a lot of focus on sales and margin trends, but this is likely to take on an ever-greater focus than usual as investors seek to better understand how the earnings impact of the last few years from Covid, supply chain distortions, changes in customer behaviour and inflationary pressures are changing and sustainability of recent earnings and valuation moves.

Many companies have benefited from strong top line growth over the last few years driven by price and volume. In a softer demand environment, the risk is sales growth slows at a time when employee wages pressures are increasing and general cost pressures for essential services are showing no signs of easing.

The linkage between wage growth and inflation and potential wage-price spiral is a further emerging risk for margins. In the last 12 months the increase in the minimum wage by 5.75%, 4-6% increases in awards across several sectors and 4% public sector wage increase is putting upward pressure on wages more generally. However, it is also important to recognise this is happening largely based on CPI (inflation) not productivity gains which is a break from Australia's recent industrial relations past. The risk is wage growth without productivity growth exacerbates the inflation problem and increases the need for interest rates to still move higher, undermining the soft-landing narrative.

Ultimately, it's important to realise that monetary policy is an imprecise tool, and the economic outlook remains uncertain. This reinforces the need to remain focused on company fundamentals and identify quality businesses with observable tailwinds and a compelling competitive advantage, rather than trying to be too prescriptive about trying to forecast the unknown.

We continue to favour companies:

- With positive rates leverage and have a preference for insurers (QUB Insurance and AUB Group) over banks at this point of cycle.
- Leveraged to the energy transition thematic including exposure to future facing metals like copper (through BHP), as well as service providers (like Worley) and asset owners of these assets (like Cleanaway). We also continue to believe gas is important in the transition to a lower carbon economy and continue to hold positions in Woodside Energy and Cooper Energy, and
- Benefiting from the rebound in immigration and travel including IDP Education, Corporate Travel and Seek.

SGH High Conviction Fund - Overview

What makes us different?

- High conviction benchmark unaware portfolio holding 15 – 30 stocks
- Focus on quality businesses that are sustainably growing free cash flow and improving returns
- Focus on capital preservation and absolute returns for shareholders
- Disciplined repeatable process to stock selection and portfolio construction

Investment Philosophy

The core premise of our philosophy is to invest in companies that deliver absolute returns for investors, with a strong focus on capital preservation. In our view this is best achieved by investing in quality businesses that can deliver sustainable value creation over the medium term, rather than simply investing in companies because they are a significant part of an index.

We allocate capital only to high quality ideas where we have conviction, believing only a few quality ideas are required to build a good portfolio. We do this through investing in quality companies which are sustainably growing free cash flow and returns and are mispriced. We believe price is what you pay, and value is what you get, and valuation discipline is fundamental to investing and creating longer term shareholder value.

Investment Strategy & Process

SGH High Conviction is a concentrated portfolio holding 15-30 stocks. Our focus is on identifying businesses with 'quality sustainable growth' that are mispriced. We do this through a disciplined and repeatable process that seeks to identify companies which are:

- Sustainably growing free cash flow and returns
- Well-positioned in attractive end markets with a source of competitive advantage
- Appropriately structured and have a sound balance
- Led by engaged, focused and innovative management Where we are satisfied companies meet these criteria, they are eligible for portfolio consideration subject to valuation. A range of valuation methodologies are used depending on the nature of the business.

As part of our process, we undertake an extensive company visitation program which is important in providing 'insight' in developing and testing our thinking, understanding and investment thesis. We seek to know as much about our companies as possible, with a view to mitigating permanent capital loss.

The portfolio construction process is determined by our confidence and conviction in the underlying quality of the business and margin of safety to valuation. It is also influenced by top-down economic considerations and industry and company life cycle risk characteristics.

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Disclaimer: Equity Trustees Limited ("Equity Trustees") (ABN 46 004 031 298), AFSL 240975, is the Responsible Entity for the SGH High Conviction Fund ("the Fund"). Equity Trustees is a subsidiary of EQT Holdings Limited (ABN 22 607 797 615), a publicly listed company on the Australian Securities Exchange (ASX: EQT).

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The Fund's Target Market Determination is available on the [SGH website here](#). A Target Market Determination is a document which is required to be made available from 5 October 2021. It describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.

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