SG HISCOCK & COMPANY

SGH High Conviction Fund

31 October 2021

Investment objective	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).		
Investments held	A portfolio of 15 to 30 stocks that are listed on the Australian Securities Exchange.		
Investment Manager	SG Hiscock & Company Limited	**APIR**	ETL0042AU
Commencement	28 October 2004	**mFund Product Code**	SHF01
Management costs[1]	0.90% p.a.	**Buy spread**	+0.25%
Performance Fee[2]	15%	**Sell spread**	-0.25%
Minimum initial investment	$20,000	**Fund size**	$16.14 million

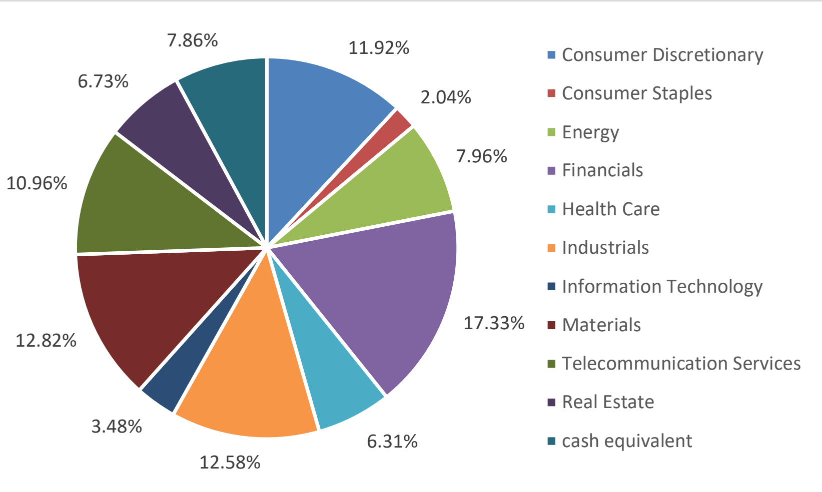
Unit Price	Application	Net Asset Value	Withdrawal
	$ 1.7161	$ 1.7118	$ 1.7075

Performance[3]	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	6.47	7.99	8.43	9.54	7.10
Growth Return	-0.02	2.78	-1.50	13.40	1.23	1.48	3.21
Total Net Return	-0.02	2.78	4.97	21.39	9.66	11.02	10.31
S&P/ASX300 Accumulation Index	0.10	0.77	6.59	28.57	12.26	11.03	8.45
Total Net Return vs. the Index	-0.12	2.01	-1.62	-7.18	-2.60	-0.01	1.86

Past performance is not a reliable indicator of future performance.

Distribution Period	31-Dec-19	30-Jun-20	31-Dec-20	30-Jun-21
Distribution rate (cents per unit)	2.5463	9.7956	0.7331	10.8854

Asset allocation



Top 5 holdings

National Australia Bank Limited

CSL Limited

Woodside Petroleum

Uniti Group Ltd

Aristocrat Leisure Limited

Top 5 holdings represent 30.13% of the total Fund.

1. Includes estimated GST payable, after taking into account Reduced Input Tax Credits ("RITC").
2. 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
3. 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

The Australian Equity market underperformed global equities in October with the ASX300 accumulation Index return returning 0.1%. The focus has shifted from the impact of lockdowns and restrictions to the pace of vaccination, reopening, economic recovery, inflation, and interest rate implications.
The decision by the Reserve Bank of New Zealand to start raising rates during the month has magnified the focus around central bank tightening, and more particularly whether the US Federal Reserve is underestimating the persistence of inflation and will be forced to raise rates more aggressively.

Supply disruption and bottlenecks have been exacerbated by the Delta strain and lockdowns, broadening inflationary pressures out to food, energy and wages. Brent oil finished the month at US$84.38 per barrel, up a further 7.5% while natural gas in Europe continued to squeeze higher based on supply constraints and expectations of a cold winter ahead. How persistent and sticky these increases prove to be remains the question?
Domestically, the Australian September quarter CPI number saw a meaningful increase, coming in at 2.1%. This is the first time the Reserve Bank of Australia (RBA) has met its 2 to 3% objective since late 2015, and it breaks the narrative that this target would not be met until 2023.
The September quarter CPI print caused the bond market to challenge the RBA's resolve to continue with its Yield Curve Control (YCC) policy and transitory inflation thesis, with the three-year Australian bond yield surging to 1.4% at the end of month. This resulted in the ASX300 selling off 1.4% on the last day of the month.

Similar trends played out across several other government bond markets globally with 2-year government yields in Brazil and Italy more than doubling in the month.

While increases in shorter maturity yields typically indicate a stronger economy with the associated prospect of rate hikes brought forward, the ferocity of these moves and shift in expectations intensifies the debate around how transitionary

inflation will be and timing around lift off in raising interest rates.
Nominal bond yields and interest rates remain low by historical standards, but it is the change at the margin which drives markets.
Higher interest rates have a range of implications for portfolios. Equity markets are always sensitive to rising rates as long-term bond rates are correlated with market Price-Earnings (PE) ratios. There is scope for a correction in valuations if bond yields rise further, which tends to impact longer duration (companies with longer term growth prospects) more. Higher bond yields also have a major impact on sector and stock performance favouring financial, cyclicals, resources, and commodities.

Portfolio positioning and performance

We continue to position the portfolio for the prospects of reopening, tapering and more persistent inflationary pressures, whilst seeking to live with the ongoing uncertainty of Covid through identifying companies experiencing positive tailwinds and which we believe will merge stronger.

The top contributors during the month were Macquarie Bank, Uniti Group and Northern Star while Marley Spoon, Chorus and Carbon Revolution were the main detractors.

During the month Macquarie bank reported its first half 2022 result which came in slightly ahead of expectations driven by strong growth across all of its business and saw return on equity of 17.8%, close to double that of the Major domestic banks. The result was accompanied by a $1.5bn placement to fund ongoing opportunities. We continue to see Macquarie benefiting from structural industry tailwinds in infrastructure and renewable energy through its Green Investment Group and more broadly a favourable operating environment with strong levels of transaction activity, opportunities to realise investments and volatility in energy markets.

For more information visit www.sghiscock.com.au