SG HISCOCK & COMPANY

SGH High Conviction Fund

28 February 2022

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**	$15.05 million

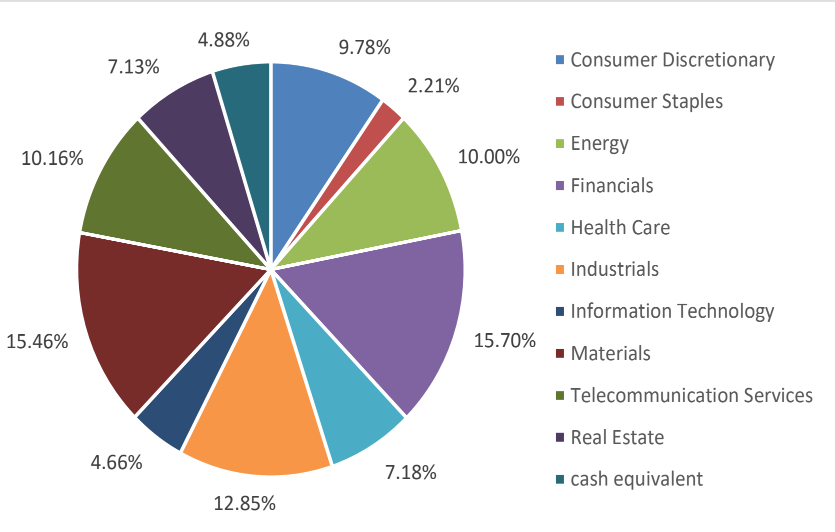
Unit Price	Application	Net Asset Value	Withdrawal
	$ 1.6658	$ 1.6616	$ 1.6574

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	1.68	1.67	8.57	8.28	9.38	7.04
Growth Return	1.35	-3.63	-4.21	1.77	-0.03	-0.14	2.98
Total Net Return	1.35	-1.95	-2.54	10.34	8.25	9.24	10.02
S&P/ASX300 Accumulation Index	2.09	-1.97	-4.24	10.25	8.68	8.63	8.13
Total Net Return vs. the Index	-0.74	0.02	1.70	0.09	-0.43	0.61	1.90

Past performance is not a reliable indicator of future performance.

Distribution Period	30-Jun-20	31-Dec-20	30-Jun-21	31-Dec-21
Distribution rate (cents per unit)	9.7956	0.7331	10.8854	3.0211

Asset allocation



Top 5 holdings

Woodside Petroleum

National Australia Bank Limited

BHP Billiton Limited

CSL Limited

Chorus Ltd

Top 5 holdings represent 34.87% 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.

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.

The spike in food and energy prices on the back of the Ukraine crisis is of particular concern given their essential nature and limited ability for central banks to control these prices through traditional policy tools. The UN Food and Agricultural index is up 20% in February year-on-year and energy prices gone parabolic. It is highly uncertain where prices will stabilise. Much will depend on how the Ukraine situation evolves and ongoing sanctions, trade restrictions and spillover effects. It seems inevitable prices will be higher, the question is just by how much.

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.

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 1.35% underperforming the ASX300 Accumulation Index by -0.74%.

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. As is often the case share price reactions didn't necessarily reflect fundamentals, and at times seemed more a function of market positioning and the broader macro issues at play. This provided the opportunity to add to some existing positions where results reaffirmed our conviction.

The top contributors during the month were Woodside Petroleum, Northern Star and National Australia Bank. The more growth orientated names in the portfolio Uniti Group, Aristocrat Leisure and Seek were the main detractors. Both Uniti and Seek reported good results showing strong growth in their underlying businesses and excellent free cashflow generation. All three companies in our view have emerged in a stronger competitive position post Covid. Cash was 4.9% at month end.