



SG HISCOCK & COMPANY

SGH High Conviction Fund

31 May 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 costs¹	0.90% p.a.	Buy spread	+0.25%
Performance Fee²	15%	Sell spread	-0.25%
Minimum initial investment	\$20,000	Fund size	\$14.85 million

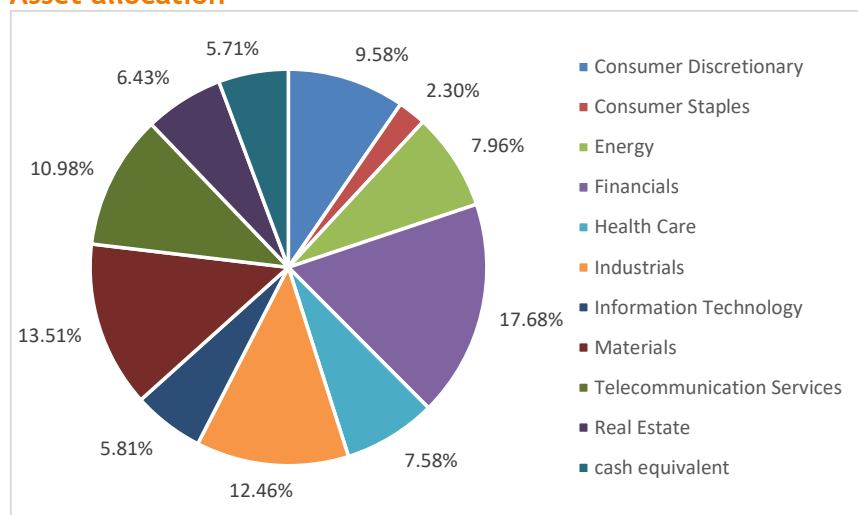
Unit Price	Application	Net Asset Value	Withdrawal
	\$ 1.6935	\$ 1.6893	\$ 1.6851

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	1.71	8.14	8.28	9.36	6.95
Growth Return	-4.30	1.67	-2.02	-3.39	-0.06	-0.32	3.03
Total Net Return	-4.30	1.67	-0.31	4.75	8.22	9.04	9.98
S&P/ASX300 Accumulation Index	-2.76	3.08	1.05	4.71	8.01	8.98	8.19
Total Net Return vs. the Index	-1.54	-1.41	-1.36	0.04	0.21	0.06	1.79

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

National Australia Bank Limited
 CSL Limited
 BHP Billiton Limited
 Woodside Energy Group Ltd
 Chorus Ltd

Top 5 holdings represent 33.06% 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 ASX300 declined -2.76%, underperforming most global indices with the S&P500 broadly flat (-0.2%) and MSCI Global Equity Index (unhedged) -0.8%. Sector performance continued to favour the materials, financials, and energy sectors. Real estate (-8.9%) was the worst performing sector driven by Goodman Group (-14.3%) after Amazon reported slowing e-commerce growth and suggested it was looking to sublease warehouse space. Softer sales reports from US retailers Target and Walmart and suggestion inflation is starting to eat into consumer purchasing also added to concerns around growth expectations and added to the debate around potential for stagflation (higher inflation and rates and slowing economic growth), or worse recession.

In Australia, the decision by the Reserve Bank in May to kick off a new tightening cycle, with a 25bp hike in the cash rate to 3.5%, was a contributing factor to the markets relative underperformance. This is the RBA's first hike since 2010. On the back of this the futures market is now assuming the cash rate is nearly 3.5% in a year.

Acknowledgement by Central Banks that they are now behind the curve and need to move off emergency settings and tighten financial conditions is adding to concerns growth will slow. At the end of the day by tightening rates central banks are seeking to tighten financial conditions and take some heat out of the economy. Tighten too much and economic growth suffers and it raises the spectre of recession. Tighten not enough and inflation becomes entrenched. It is a delicate balance, and the challenge of trying to orchestrate a soft-landing a herculean task given the uncertainty and structural challenges presented by the pandemic, rising geopolitical realignment and climate change.

Domestically, many of these challenges were laid bare in the Federal election contest, which saw the Labour party win enough seats to form a majority government. Rising energy prices, food costs and general cost of living pressures are seeing calls for higher wages, which in an already tight labour market, are adding to inflationary pressures. The reality is monetary policy cannot fill pipelines with gas, clear backlogs at ports, train more lorry drivers or plant more crops, and is a relatively blunt tool for solving the real economic issues we currently face.

More immediately, the issue facing investors is how to position for rising rates and central banks that increasingly look to be "behind the curve" and need to tighten in the face of higher inflation and risk of it becoming more entrenched. The risk as we see it, is until there is clearer signs central banks are getting on top of inflation equity market sector returns dispersion is likely to remain high given the valuation dispersion that's still exists between growth and value/ cyclical stocks.

In this context, we continue to see Australia as relatively well positioned. As a resource rich nation and exporter of both hard and soft commodities, in a relative sense Australia's economic growth stands to benefit versus most other developed countries, and particularly those heavily reliant on commodity and energy imports. Apart from the obvious GDP uplift Australia stands to benefit from, its geographic remoteness and political stability make it an attractive partner to do business with, and also place in which to invest.

Portfolio positioning and performance

For the month the portfolio returned -4.30% underperforming the S&P/ASX300 Accumulation Index by -1.54%.

The top contributors during the month were Qube, Treasury Wine Estates and Aristocrat Leisure which reported a solid result and upgrade guidance. The main detractors were Corporate Travel, James Hardie and Lendlease which were dragged down on broader economic growth concerns, rather than company specific news.

While the energy sector strength continued, Woodside Petroleum underperformed following approval of its merger with BHP Petroleum and concerns around a stock overhang from BHP shareholders looking to sell Woodside shares inherited through the deal. Once this liquidity event passes, we expect the stock fundamentals to reassert themselves and stock rerate. The bank sector was also in the news reporting their six monthly results, including National Australia Bank and ANZ Bank. The results were generally well received, with signs the sector is growing its pre provision earnings as margins stabilise amidst a more favourable lending mix and supported by the best levels of housing growth for some years. In absolute terms the sector is closer to fully valued but stands to be a beneficiary of short-term changes in official interest rates in the months ahead. This needs to be weighed up against the long-term risk posed by central banks tightening too aggressively.

For more information visit www.sghiscock.com.au

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