



SG HISCOCK & COMPANY

SGH High Conviction Fund

31 August 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	\$21.14 million

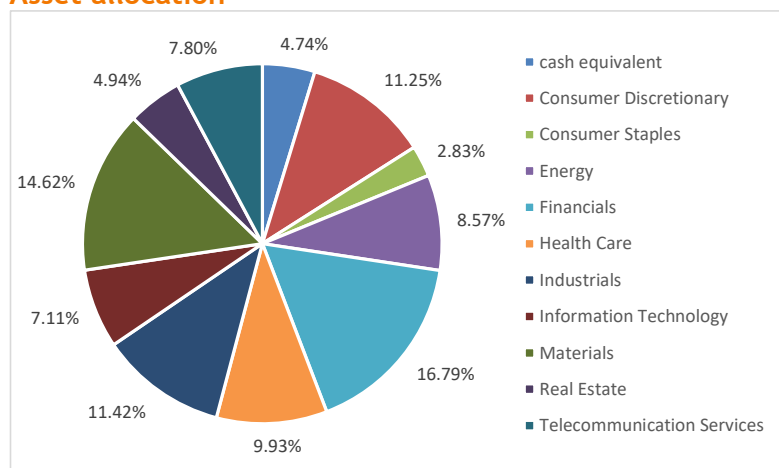
Unit Price	Application	Net Asset Value	Withdrawal
	\$ 1.4547	\$ 1.4511	\$ 1.4475

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	12.50	12.70	13.84	10.25	11.15	7.62
Growth Return	0.31	-14.10	-12.66	-16.34	-2.93	-2.98	2.11
Total Net Return	0.31	-1.60	0.04	-2.50	7.32	8.17	9.73
S&P/ASX300 Accumulation Index	1.18	-2.41	0.59	-3.67	5.64	8.24	7.92
Total Net Return vs. the Index	-0.87	0.81	-0.55	1.17	1.68	-0.07	1.81

Past performance is not a reliable indicator of future performance.

Distribution Period	31-Dec-20	30-Jun-21	31-Dec-21	30-Jun-22
Distribution rate (cents per unit)	0.7331	10.8854	3.0211	19.8711

Asset allocation



Top 5 holdings

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

Top 5 holdings represent 36.22% 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

August saw global equity markets lose ground on more hawkish commentary from the US Fed Reserve Chair, Jerome Powell, around the preparedness to continue to fight inflation and raise rates. As a result, real bond yields moved higher with the US 10-year +52bp to 3.60% and Australian 10-year +54 basis points to 3.13%, weighing on equity markets.

The S&P500 finished down -4.1% for the month. Domestically the ASX300 outperformed closing up 1.2%, driven by a resilient reporting season and strength in energy (+7.8%) and resources (+4.1%) sectors. Contributing to this was BHP's bid for OZ Minerals (+36%) and US Senate passing the Inflation reduction legislation to invest around US\$370bn in a variety of low carbon energy technologies over the coming decade, which drove 20-30% gains in many of the battery metal/ lithium stocks.

Despite growing concerns around slowing growth the August reporting season results were mainly positive, with two thirds of companies beating versus consensus earnings expectations. The broad based strength in demand continued to see top line sales growth remain resilient as companies have pushed through price increases to absorb higher input costs and manage inflation and supply side challenges. There were some signs costs pressures are starting to bite with aggregate margins modestly lower, but little signs of any material broad based weakening in demand and the consumer proving more resilient than feared.

Higher working capital from rising inventory costs and stock holdings, and resulting impact on cashflow, was an area of focus particularly across the retail, manufacturing and industrial services sectors. There is a general expectation this will unwind and improve as supply chain issues ease and trading conditions normalise, but how this will ultimately play out against expectations of tighter financial conditions and shifting consumer spending patterns remains a question. The risk is, as we started to see across a number of US retailers in the recent second quarter results, companies will have to discount to clear stock. We continue to remain cautious on discretionary retail.

The tight labour market, rising wages pressures and difficulty in filling vacancies was a recurrent theme highlighted by many companies. Whilst covid and immigration restrictions continue to see higher levels of absenteeism and shortage of workers, we worry this stays the case for the indefinite future and covid has only exacerbated the broader structural demographic issues of rapid aging and declining population growth, and will weigh on productivity and inflation. This raises the importance of the Government's Jobs and Skills summit initiative and need for genuine labour market policy reform.

Portfolio positioning and performance

For the month the portfolio returned 0.31% underperforming the S&P/ASX300 Accumulation Index by -0.87%. Cooper Energy (COE) and Woodside Petroleum (WPL) were the best performers for the month, continuing to benefit from the favourable energy macro backdrop and improving stock specific fundamentals. After a disappointing couple of years, following the recent raising capital to acquire the Orbus processing plant from APA, we see multiple catalysts for Cooper Energy to continue to re-rate including commissioning of Orbus plant polishing unit in September, signing of term contracts and announcement of drilling campaign for OP3D.

Other stocks that contributed positively to performance were Treasury Wines Estates (TWE), Qube Holdings (QUB) and Seven Group Holdings (SVW). Treasury's result highlighted the tremendous job management has done over the last two years in managing the China trade restrictions and Covid. We now see the business starting to get some 'clearer air' and able to benefit from the strategic plan its implemented to reposition the business which is expected to deliver further margin expansion and acceleration in earnings growth into FY23 and FY24. Qube's result again highlighted its product and customer diversity and strategic and privileged nature of its assets, which are hard to replicate and have strong pricing power. Despite the challenges of Covid, floods, supply chain restrictions and China lockdowns over the last 12 months the company delivered 25% underlying earnings growth in FY22 and expects strong growth into FY23 with minimal impact from inflation given its ability to recover costs.

During the month we added IDP Education (IEL) to the portfolio. IDP is leading provider of international student placement and English testing services with a strong competitive advantage in large addressable end market. While international studies have faced a challenging time over the last few years, we believe a strong recovery is underway, and IDP has undertaken the opportunity to launch several new strategic initiatives (including the acquisition of India ELTS from British Council) which has enhanced its competitive position.

For more information visit www.sghiscock.com.au

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