



SG HISCOCK & COMPANY

SGH High Conviction Fund

30 September 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	\$19.97 million

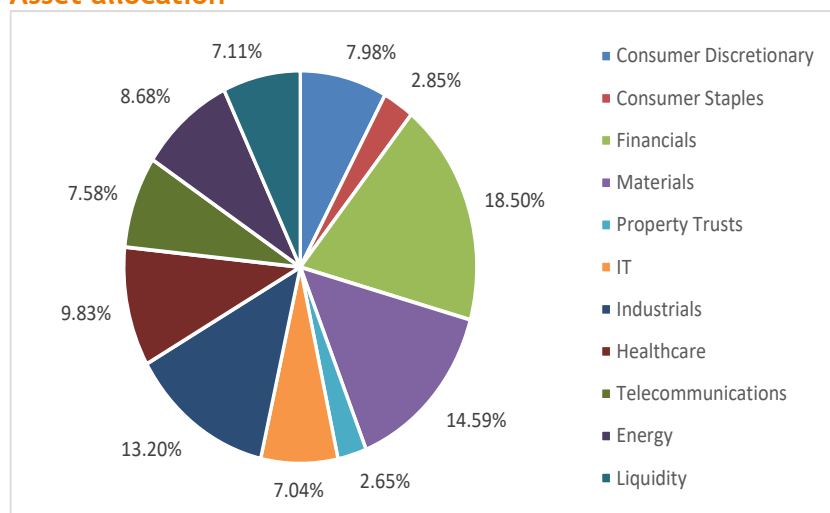
Unit Price	Application	Net Asset Value	Withdrawal
	\$ 1.3752	\$ 1.3718	\$ 1.3684

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	11.19	13.26	9.98	10.99	7.56
Growth Return	-5.46	0.50	-23.11	-19.87	-5.49	-4.30	1.78
Total Net Return	-5.46	0.50	-11.92	-6.61	4.49	6.69	9.34
S&P/ASX300 Accumulation Index	-6.29	0.45	-11.82	-8.00	2.73	6.83	7.50
Total Net Return vs. the Index	0.83	0.05	-0.10	1.39	1.76	-0.14	1.85

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 36.06% 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

Markets were notably weaker throughout September as inflation and central bank hawkishness remained in the spotlight. While the overall market narrative was broadly unchanged compared to August with major central banks staying hawkish to tame inflation, fears on global recession escalated with above-consensus US CPI data. All the above drove long term bond yields higher sending the US dollar to a new record high against its peers and the Australian dollar down 6.5% to US 64c.

Rising interest rate forecasts and a fall in longer term inflation expectations resulted in real yields rising close to 100bps which undermined all asset valuations. Also contributing to weaker risk appetite was the announcement by Russian President Vladimir Putin that Russia was “annexing” four regions in the Ukraine which raised fears of an escalation in the war. This occurred alongside the announcement by new leadership in the UK of a pro-growth fiscal policy which ultimately required intervention from the Bank of England to restore calm to the UK bond market and confidence to the currency.

Equity market sentiment soured significantly with MSCI World Index (USD) dropping 9% to below the levels reached in June, with all major regional markets seeing material declines. Asian equity markets however were the weakest with MSCI Asia Pacific down 12% on the month, followed by European equities which ended the month 6% lower dragged down significantly by a sharp rise in UK political/economic uncertainty post the new government’s radical fiscal policies’ announcements, adding to existing recession concerns, gas risks, and still elevated inflation across the region.

The Australian equity market followed suit plummeting 6.3% for the month, with all sectors finishing the month lower. Utilities and Real Estate were the laggards, losing -14.9% and -13.7% respectively while Materials (-2.3%) and Energy (-3.8%).

Portfolio positioning and performance

For the month the portfolio returned -5.46% outperforming the S&P/ASX300 Accumulation Index by +0.83%. BHP, Megaport and Northern Star were the best performers for the month as real yields rose. This weighed on long duration stocks and banking and REIT sectors as concerns of the impact of higher rates on valuations and bad debts came to the fore. As a result, Macquarie Bank, NextDC and National Australia Bank all weighed on performance. Resources and energy stocks tend to see less of a valuation derating on rising real yields. Earnings risk from lower commodity prices is the greater risk. Whilst commodity prices have retraced on growing recession fears, and in the case the oil price is now below levels when Russian first invaded Ukraine, they remain in the upper band of their historical range resulting in strong margins and cashflow generation. The record dividend paid by BHP in September is a reminder of that.

During the month we sold our residual position in Carbon Revolution (CBR). This has been disappointing investment. We remain attracted to the carbon wheel technology and global market opportunity, but we underestimated the challenges in scaling the business and capital required. This was clearly not helped by Covid and disruption to the automotive manufacturing market, but also technical challenges in the manufacturing process which have plagued the business getting to free cashflow, increasing the risk the business needs to be recapitalised and/or find a strategic investor.

In a relative sense we continue to see Australia as better positioned than most economies and markets given business conditions remain relatively robust and inflation has proven more constrained to date. But it is not immune to growing earnings risk. Rising inflation and rates will pinch on household cashflow and we expect this to eventually show up with a lag in lower activity and earnings downgrades. We remain cautious on consumer discretionary sectors and are favouring companies providing essential infrastructure type services (e.g. Chorus, TPG Telecom), essential services (Cleanaway, Qube), structural growth stories with a covid recovery angle and price power (CSL, IDP Education) and benefiting from rising rates. Cash held at the end on month increased to 7%.

For more information visit www.sghiscock.com.au

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