



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 approximately 20 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	\$17.79 million

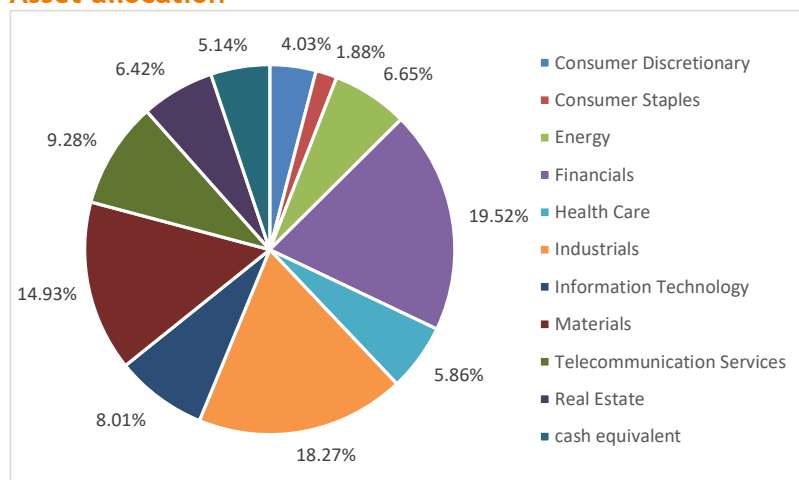
Unit Price	Application	Net Asset Value	Withdrawal
	\$ 1.7530	\$ 1.7486	\$ 1.7442

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	0.48	8.27	10.49	11.50	6.87
Growth Return	0.62	7.10	6.66	15.41	-4.22	-2.29	3.43
Total Net Return	0.62	7.10	7.14	23.68	6.27	9.21	10.30
S&P/ASX300 Accumulation Index	2.31	8.53	11.95	28.72	10.10	10.22	8.40
Total Net Return vs. the Index	-1.69	-1.43	-4.81	-5.04	-3.83	-1.01	1.90

Past performance is not a reliable indicator of future performance.

Distribution Period	30-Jun-19	31-Dec-19	30-Jun-20	31-Dec-20
Distribution rate (cents per unit)	12.0728	2.5463	9.7956	0.7331

Asset allocation



Top 5 holdings

- National Australia Bank Limited
- CSL Limited
- Australia & New Zealand Banking Group Limited
- Rio Tinto Limited
- Uniti Group Ltd

Top 5 holdings represent 31.57% 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

Inflationary pressures and economic recovery remained the core narratives across markets in May with equity markets rising across the board. The Australian equity market rose 2.3% taking the year to date gain to 10.4%. Over 12 months, Australia is lagging hedged developed markets (+35.6%) but exceeding global markets in AUD term (+20.4%).

At the sector level in Australia Banks (+7.3%) were the best performer in May lead by CBA (+12%) and WBC (+5.8%) along with Consumer Discretionary (+3.5%) and Healthcare (+3.5%). Technology was the laggard (-9.8%), led by Afterpay (-21%)

The broader Australian market continues to be supported by very accommodative fiscal and monetary policy settings and a strong recovery in earnings. Trailing earnings have risen more than 20% since September while consensus forward EPS growth is currently 15%. With a heavy weighting to banks and materials, two of the best performing sectors globally (up 72.9% and 55.9%, respectively), the Australian market has benefitted from the global rotation to value and cyclical stocks.

After such a strong recovery, given the low starting point, it is to be expected that growth momentum will start to slow at some point. This raises the question whether we have passed 'peak' growth this cycle.

We note forecast revisions for global growth have plateaued of late and this has coincided with economic data continuing to rebound but underwhelm versus expectations. In May the US data "surprise" index was at its lowest level since late 2018 with payrolls growing "only" 266,000 compared with expectations of close to 950,000 while retail sales, consumer confidence, housing starts, and sales and durable goods orders all came in below expectations. Chinese growth has also disappointed of late as policy makers grapple to calibrate policy normalisation.

It would seem premature to assume the cycle is going to be cut short. Business confidence and conditions are at or close to all-time highs in most developed countries, including Australia, and labour markets are still recovering, with central banks, including the RBA, adopting a broader measure of full employment before considering policy normalisation. Further government fiscal policies are unlikely to be a pre-emptively withdrawal. If anything as shown in the Australian Federal Budget handed down in May, the politics of the day is leaning towards extending existing programs and new initiatives targeted at infrastructure and more vulnerable and low-middle income groups.

Whilst the rate of change in many economic indicators is likely to slow as they come down from elevated levels in the second half of year, economic growth should continue above trend. This remains generally constructive for earning and equities.

After such a strong period of returns, and with a change in the level of growth it is important to be alive to the fact markets can experience drawdowns even against the supportive broader economic outlook. The catalyst is not always obvious, but elevated valuations, the potential for delayed vaccine roll-outs and supply chain disruptions constraining growth (through higher prices or activity being crowded out), and the potential for policy surprise if central banks see a need, or desire, to manage inflation or temper the ultra-easy policy settings could be triggers.

Portfolio positioning and performance

For the month the portfolio returned 0.62%, underperforming the S&P/ASX300 Accumulation Index by 1.69%.

Uniti Group (UWL) was top contributor during the month. The company is currently benefiting from difficulties NBN is experiencing in transitioning its work force to a new management system which is impacting their connections and service works. The near-term

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benefits for UWL are likely limited, but it opens the door to helping Uniti secure longer term contracts with larger developers (like Stockland and Mirvac) and increase market share and network penetration.

Carbon Revolution (CBR) was the main detractor from performance for the month. Following raising capital for the expansion of its factory expansion in April, the company announced in May that one of its customers had requested to suspend production of contracted wheels in FY21 (approximately 10-15% of revenue) because of ongoing shortage in semi-conductor chips limiting car production. It is expected production of these wheels will recommence in July.

During the month we participated in the Carsales (CAR) entitlement equity raising to fund the acquisition of 49% of US business, Interactive Traders, for approx. A\$800m. Traders Interactive is a leading US digital platform provider of non-auto (cars) solutions including trucks, bikes, boats, and other recreational vehicles. Consistent with CAR's other international operations in South Korea and Brazil, the acquisition is an opportunity for CAR to leverage its global expertise in online vehicle sales into the US market.

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