SGH Australia Plus Fund

31 July 2018

SG HISCOCK & COMPANY

Fact Sheet

Investment objective	To outperform the S&P/ASX300 Accumulation Index by 5% on a rolling 3 year basis		
Investments held	Generally within the largest 300 companies listed on the ASX, plus companies listed in Asia with a focus on Asian domestic consumption.		
Investment Manager	SG Hiscock & Company		
APIR	ETL0383AU	**Buy spread**	+ 0.25%
Commencement	8 October 2013	**Sell spread**	- 0.25%
Management costs[1]	0.70% p.a.	**Performance Fee**[2]	20% capped at 1.25% in any calendar year, subject to a highwater mark
Minimum initial investment	$20,000	**Fund size**	$8.61 million

Unit Prices as at 31 July 2018	**Purchase**	**Net Asset Value**	**Withdrawal**
	1.5559	1.5520	1.5481

Performance as at 31 July 2018[3]	**1 mth %**	**3 mths %**	**6 mths %**	**1 yr %**	**2 yrs % p.a.**	**3 yrs % p.a.**	**Incept' % p.a.**
Distribution Return	0.00	6.98	7.17	9.71	7.80	6.93	9.46
Growth Return	0.29	-3.04	-0.35	12.96	7.79	9.99	9.58
Total Net Return	0.29	3.93	6.81	22.67	15.59	16.92	19.04
S&P/ASX 300 Accumulation Index	1.31	5.78	6.05	14.70	10.80	8.09	8.77
Total Net Return vs. the Index	-1.02	-1.85	0.77	7.96	4.79	8.83	10.27

Top 5 holdings as at 31 July 2018
Australia & New Zealand Banking Group Limited
Macquarie Group Limited
CSL Limited
National Australia Bank Limited
NextDC Ltd

Top 5 holdings represent 28.71% of the total Fund.

Why Australia Plus?

1. We want access to the best quality companies in Asia, at the right price. It is the choice, but not the obligation to invest in emerging companies with strong local franchises
2. The strong rise in both the sheer number of Asians entering the middle class and the growth in disposable income, suggests that this is a multi year trend that is very hard to access by restricting the investible universe to Australian listed stocks.
3. Investors appropriately diversify their portfolio by enhancing returns with a focus on the domestic demand thematic within Asia.
4. It offers Australian investors a wider opportunity set without the requirement to have money invested in Asia through a pooled vehicle.
5. By focussing purely on the domestic demand thematic in Asia, our investible universe grows by 40-50 stocks outside the ASX300. This is a very narrow subset of Asian stocks that meet our basic quality filters and would consider owning at the right price.

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1. Includes estimated GST payable, after taking into account reduced input tax credits (RITC).
2. A performance fee of 20% (net GST and an estimate of RITC) of any investment return above the fund's benchmark may also be payable as expense of the fund, capped at 1.25% in any year, subject to a highwater mark
3. Performance: Total Net Return is the Fund return after the deduction of ongoing fees and expenses assuming the reinvestment of all distributions.

For more information visit www.sghiscock.com.au

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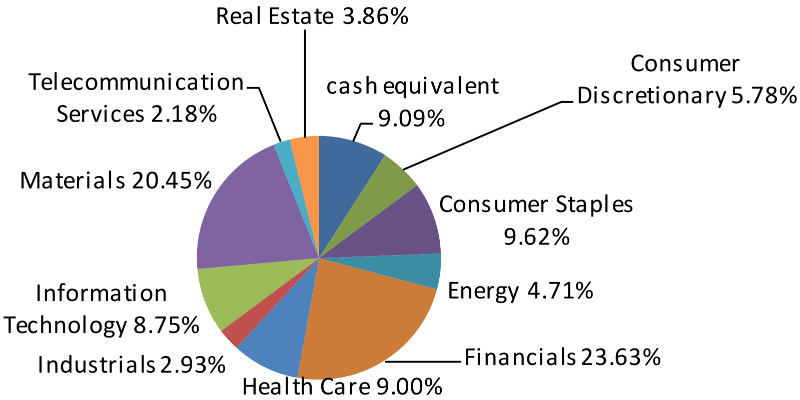
Asset allocation as at 31 July 2018



Commentary

Global equities markets were positive in July with developed markets (+3.2%) outperforming emerging markets (+1.8%). European and US equity markets were the strongest performers up 3.9% and 3.7% respectively, with the ASX300 Accumulation Index up 1.3%.

The strength in global equities has been buoyed by the acceleration in US growth on the back of tax reform changes. The US GDP growth figures released in late July were impressive and surprised to the upside with an annual increase of 4.1% (driven by private consumption up 2.7%). There were also significant revisions to the personal income data suggesting that income growth has been running ahead of consumption growth in the past five quarters. This implies the savings rate is almost double the level it was previously estimated to be, and US households are in much ruder health than previously suggested.

The risk is this adds to inflation and results in US 10-year bond yields testing, and potentially breaching, their recent upper limits. In turn it raises concerns the Fed accelerate plans to lift interest rates.

A critical question for investors is whether the current surprise in US growth is a “sugar hit” from the tax reforms or can be sustained? If it marks the peak in growth this cycle and retraces in the second half of calendar 2018, then bonds may be close to peaking along with the US dollar. This would seem to be what credit markets are currently implying given the long bonds did not respond more post the recent strong economic data releases. However, if the current growth momentum continues then the risk is credit markets recalibrate and bonds move higher. This would provide another test for equity markets and potentially see the US dollar continue to appreciate placing renewed pressure on emerging markets, and in particular China if combined with any further escalation in trade tensions.

The strength in the US economy and broader global growth trends are being reflected in corporate earnings. The global reporting season has been strong, particularly in the US. More than 60% of companies have now reported in the US and Europe, with double digit earnings growth in both regions. According to JP Morgan 86% of the S&P500 companies have beat consensus EPS estimates.

However, where companies have missed on earnings they have been punished. Facebook’s share price fell 20% in one day on weaker than expected active user growth and lower expected revenue growth. The decline was the largest ever loss of value in one day for a US traded company, approximately $120bn.

Domestically, we are set to launch into the Australian reporting season in August. Consensus is for ASX200 earnings to grow modestly at mid-single levels in keeping with an environment where the economy has been resilient, but is growing below trend with wages growth at 30-year lows and inflation still below the RBA's official target range. In the June quarter Australia's CPI increased by less than expected (0.4%) with annual core inflation sitting at 1.9%. This is unlikely to inspire the RBA to increase interest rates any time soon.

Importantly earnings revisions of late for the Australian listed market have remained positive, buoyed by higher commodity prices. However, valuations are above average, consistent with a low interest rate environment, but the spread between 'value' and 'growth' is at historical highs implying the market is paying up for a select group of stocks offering above average growth opportunities. This adds an elevated level of risk coming into this reporting season. These companies will need to deliver strong earnings growth to justify their elevated PE multiples or run the risk of a 'Facebook' de-rate.

Portfolio Performance & positioning

In July the Plus Fund returned 0.29% after fees, underperforming the ASX300 Accumulation Index by 1.02%. For the month ANZ Banking Group, Treasury Wine Estates and National Australia Bank all contributed to performance. Saracen Minerals was the largest detractor in the month pulling back post its recent strong run and gold price weakness. The fund held 7.9% invested in Asian companies.