SGH Australia Plus Fund

31 March 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**	$7.93 million

Unit Prices as at 31 March 2018	**Purchase**	**Net Asset Value**	**Withdrawal**
	1.5447	1.5408	1.5369

Performance as at 31 March 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	0.00	1.41	6.63	6.21	9.72	8.40
Growth Return	-2.79	-0.63	7.65	11.20	12.17	4.72	10.16
Total Net Return	-2.79	-0.63	9.06	17.83	18.37	14.43	18.55
S&P/ASX 300 Accumulation Index	-3.73	-3.78	3.67	2.86	11.21	3.92	7.20
Total Net Return vs. the Index	0.94	3.14	5.38	14.97	7.16	10.52	11.35

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

Top 5 holdings represent 27.17% 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.

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

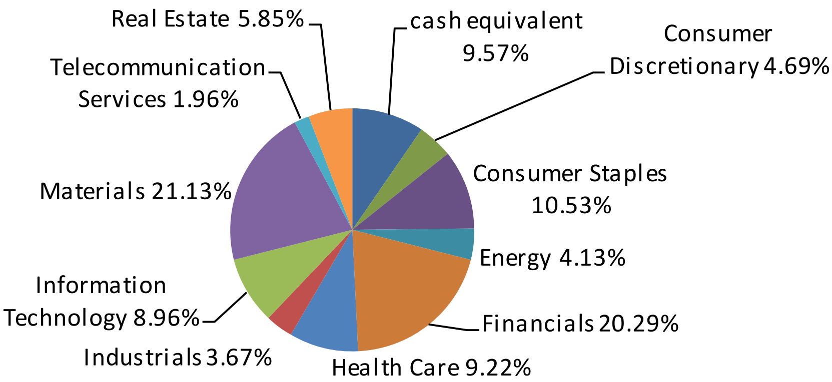
SGH Australia Plus Fund

31 March 2018

SG HISCOCK & COMPANY

Fact Sheet

Asset allocation as at 31 March 2018



Commentary

March was another volatile month for equities hovering in modest negative territory before selling off aggressively in the final days. Tariff protectionism, stirring trade war developments, White House personnel changes, Facebook woes, talk of pending regulatory action and weaker PMIs all coincided to weigh on markets. The ASX300 Accum. Index declined 3.7%, the worst monthly performance since January 2016, with all sectors except property finishing in the red. Globally, all major indices also ended the month down with the MSCI Global Equity (ex Aust) Hedged -2.3% and US S&P500 down 2.7%.

A growing question is whether the January top in the S&P500 marked the peak in US equity markets this cycle, or is the current sell off just another short correction. The fact the January top was characterised by multiple expansion on overwhelming bullish sentiment on the back of US tax cuts has the hallmarks of the final ‘euphoria’ phase of a bull market cycle, before the downturn. However, this needs to be considered against the fact global industrial production growth is running at just under 4%, and whilst momentum may have peaked, there is little evidence this is about to turn down sharply.

A key risk to the global growth outlook is whether the current tit-for-tat tariff moves between the US and China materialises into a fully blown trade war. President Trump as a candidate pledged if elected he would “use every lawful tool to combat unfair trade, protect American workers, and defend our national security”. Despite the chaos in Washington, he would appear to be fulfilling his promise. Our working assumption is his objective is to reduce the US trade deficit with China and deliver a better deal through a negotiated outcome, rather start an all-out war. However, this is something we are watching closely, and we expect further volatility as the posturing and negotiations play out.

The other reason a potential top in markets may have been reached is US monetary tightening. In March the Fed raised the funds rate target range 25bps to 1.50-1.75% and released a somewhat more hawkish forecast for the path of policy rates over the 2018 to 2020 period. The closely-watched median expectations for 2018 continues to look for a total of three hikes, and in addition to this the Fed is on course to shrink its balance sheet by 9% (0r US$420bn) over 2018.

Inflation remains critical to the Fed’s tightening, and interest rate expectations. The recent US tax reform and US February payroll print sparked an inflation scare and sell off in the US 10-year bonds, with the yield up 33bps calendar YTD and closing the month at 2.74%. For the moment bonds have not breached the critical 3% level many technical observers see as the threshold that would signal the end of the deflationary era that started in the early 1980’s.

For more information visit www.sghiscock.com.au

Adding to the market uncertainty was a significant widening in the Libor-OIS spread towards 2.5% during the month. Often seen as a measure of financial sector stress, the blow-out in the spread has been discounted to some extent on the belief that it reflects an increase in US Treasury bill issuance in the aftermath of the run down in cash balances. If it proves more sustained it could start to raise greater concerns around the sustainability and serviceability of the US deficit.

In China the PBOC followed the FED's 25bp hike in March with a rise in the reserve repo rate by 5bp. This is the first policy announcement under newly appointment PBOC governor Yi Gang. Premier Li also delivered the government work report at the National People's Congress (NPC) during the month. The 2018 growth target was maintained at "around 6.5%".

Portfolio Performance & positioning

In March the portfolio returned –2.79% outperforming the ASX300 Accumulation Index by 0.94%. We made no changes to the portfolio outside reweighting existing positions during the month.
Ongoing commitment by China to deleveraging and reform, coupled with poor sentiment around US-China trade and global technology news saw Asian/ China equities underperform during the month, and give up some of their prior 12 month gains. Despite this we view the Chinese economy as being more balanced as a result of supply side reform, and the middle income growth to which the portfolio is leveraged an attractive longer term investment thematic. At the end of March we held 9.9% in Asian equities.