SGH Australia Plus Fund

31 October 2017

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**	$8.76 million

Unit Prices as at 31 October 2017	**Purchase**	**Net Asset Value**	**Withdrawal**
	1.5130	1.5092	1.5054

Performance as at 31 October 2017[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	4.88	7.00	5.84	10.09	8.95
Growth Return	5.44	9.84	6.12	18.59	13.00	9.94	10.68
Total Net Return	5.44	9.84	10.99	25.59	18.84	20.02	19.63
S&P/ASX 300 Accumulation Index	4.02	4.83	2.20	15.92	11.02	7.03	8.05
Total Net Return vs. the Index	1.43	5.01	8.80	9.68	7.81	12.99	11.58

Top 5 holdings as at 31 October 2017
National Australia Bank Limited
Australia & New Zealand Banking Group Limited
Macquarie Group Limited
CSL Limited
James Hardie Industries SE

Top 5 holdings represent 28.84% of the total Fund.

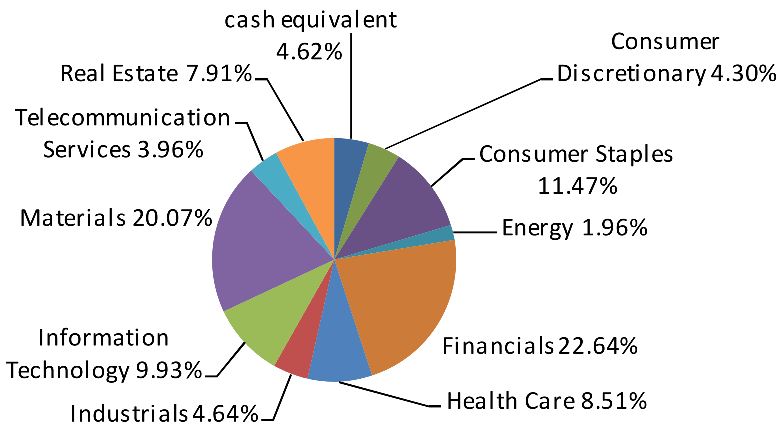
Why Australia Plus?

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

Asset allocation as at 31 October 2017



Commentary

October saw most global equity markets post strong gains. After five months of directionless trading the ASX 300 returned 4.02%, one of the strongest months in the last two years. However, it continues to materially lag nearly all major international equity markets calendar year to date.
We attribute Australia's equity market underperformance to the relatively weak earnings growth backdrop (4-5% EPS growth 1-year forward) relative to global benchmarks. This in part reflects the weaker domestic economic outlook, but is also a function of the market's composition which has little exposure to IT, and large bank sector weighting (c.24%).

The market rally has been driven largely by multiple expansion. The Asx300 is trading on 16x and ASX300 Industrials ex Financials on 19.6x, with the small caps trading at a 4% premium to large caps - something only seen on three sustained occasions since 2000.

Small caps outperformed in the month (+6.02% total return) with stocks centred on IT, electric vehicles/ battery demand and Asian export (dairy related) surging. Whilst the long term growth prospects for many of these themes is arguably better than most domestic consumer plays, the business models in many cases are still emerging or untested. Our concern is how far the market is pushing valuations for perceived structural growth. Whilst this may persist for longer, particularly if inflation remains benign, it makes the market vulnerable to any back-up in long bond yields or earnings disappointment.

As highlighted in our recent quarterly, we have been surprised the yield curve has not steepened more on the Fed quantitative tightening and recent global growth data. Late in the month the US 10-year Treasury yield hit its highest level (2.46%) since March on news of the revival of President Trump's US tax plans and, the ECB announcing it will reduce its purchase of bonds to €30bn (from €60bn currently) a month. However, the US 10-year fell by month end to 2.38% on speculation Federal Reserve Governor Jerome Powell is most likely to be elected the next Fed Reserve Chairman and, inflationary pressures remaining benign.

Globally, markets largely looked through the political risks in North Korea and the Catalonian crisis during the month and, embraced the strengthening economic data, which saw major PMI's in the US, Europe and China continuing to expand. Europe's industrial sector is now running at its highest level in 17 years. Not surprisingly, this saw base and industrial metals (copper and nickel) continue to rise. Oil prices (Brent +6.7% and WTI 4.7%) also rallied on expectations around further OPEC production cuts into 2018. The strong US economic data and increased hopes of tax reform also saw the US dollar rally strongly against most major currencies, including the Australian dollar, which closed down -2.1% to 0.769.

Politically, a major focus during the month was the 19th China Party Congress meeting which saw Xi Jinping consolidate his powerbase. This was more about politics than economics, with a strong focus on maintaining political stability. Consistent with the change in the party propaganda from the "China Dream" to "Beautiful China" there was a strong emphasis on the quality of growth and not just the quantity. We expect this to be reflected in continuing supply side reforms targeted at industry consolidation, deleveraging, anti-corruption and pollution measures (like the winter steel production cuts to improve air quality announced in October).

Domestically, the labour numbers were the major news in the month. September employment grew 20k m/m or 3.1% y/y – the strongest rate since 2008. Business surveys also highlighted a tightening labour market, but this jars with wage growth, which remains elusive, and slowing retail conditions. Annualised wage growth in the new Federal Enterprise Bargaining Agreement slowed in 2Q to its weakest on record, whilst retail sales declined 0.6% in August after a 0.2% decline in July and, CPI rose +0.6% q/q or 1.8% y/y (still stubbornly below the RBA's '2-3% band').

Portfolio Performance & Positioning

The portfolio continues to be overweight companies with offshore earnings, reflective of their better relative growth prospects. In October we made no changes to the portfolio outside existing positions. The SGH Australia Plus portfolio returned 5.44% in the month outperforming the ASX300 Accumulation Index by +1.43%.

For more information visit www.sghiscock.com.au