SGH Australia Plus Fund

SG HISCOCK & COMPANY

31 October 2018

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**	$7.99 million

Unit Prices as at 31 October 2018	**Purchase**	**Net Asset Value**	**Withdrawal**
	1.4231	1.4196	1.4161

Performance as at 31 October 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	6.38	8.09	7.65	6.69	8.77
Growth Return	-6.79	-8.53	-11.31	-5.93	5.62	6.30	7.18
Total Net Return	-6.79	-8.53	-4.93	2.15	13.27	12.99	15.96
S&P/ASX 300 Accumulation Index	-6.16	-5.98	-0.54	2.88	9.20	8.24	7.01
Total Net Return vs. the Index	-0.63	-2.55	-4.39	-0.73	4.06	4.75	8.95

Top 5 holdings as at 31 October 2018
Macquarie Group Limited
Australia & New Zealand Banking Group Limited
CSL Limited
National Australia Bank Limited
Saracen Mineral Holdings Ltd

Top 5 holdings represent 28.31% 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.

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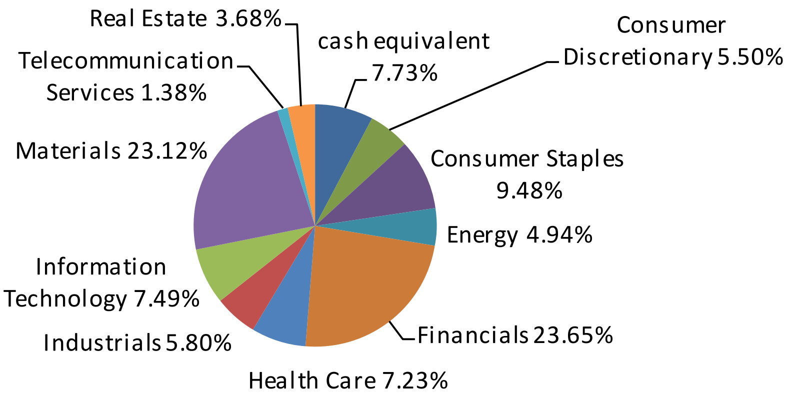
Asset allocation as at 31 October 2018



Commentary

October left global equity markets battered and bruised. Rising bond yields, political tensions and concerns that companies are past peak profits drove markets down sharply. Developed markets (-6.8%), Emerging markets (-7.8%), Asia (ex-Japan) (- 9.9%) all fell hard. Domestically, the ASX300 (-6.2%) fared marginally better with defensive sectors including REITs (- 3.8%), Utilities (- 4.0%) and Consumer Staples (- 4.9%) performing relatively better than growth/higher PE sectors: Information Technology (-11.4%), Energy (-10.3%) and Consumer Discretionary (-8.6%).

Bond yields moved higher in October. The US 10-year Treasury peaked at 3.23%, the highest since May 2011, before finishing at 3.14%. Despite these moves, the usual correlation where bonds rally as equities correct was muted, providing further weight to the argument this not a usual cycle and juxtaposition of the weakest economic recovery in history versus the strongest of all bull markets.

Surprise also continued in geopolitics. During the month the US/China trade tensions escalated with the US preparing a new round of tariffs against remaining Chinese imports. The growing trade rift has seen China move decisively into easing mode as it looks to help insulate any potential fallout; interest rate cuts, less pressure on shadow banks, CNY depreciation and reinvigorated emphasise on infrastructure spending has occurred. In Europe, Brexit flared again as EU and UK negotiators failed to reach an agreement on the Northern Ireland border issue and fears of a 'hard' Brexit gripped markets. This weighted on our holdings in Clydesdale Bank and Lendlease given their UK exposures. Compounding the EUs woes has been the Italian right-wing leadership: the Five Star Movement and the League, pushing back on budget austerity measures imposed by Brussels.

The third quarter US reporting season reaffirmed the current strength in the underlying economy with 77% of companies 'beating' consensus earnings expectations and only 15% 'missing'. However, concern focused on evidence we have passed peak earnings this cycle with rising cost pressures, stronger USD and slowing housing market common themes from company reports.

US third quarter economic data remained supportive; 3.5% real GDP growth, unemployment falling to 3.7% (the lowest rate since 1969) and industrial production indicators mildly positive.

This should continue to be positive for equities. However, against a backdrop of positive but more modest growth, margins starting to come under pressure from higher costs, and interest rates continuing to rise, there is growing caution this cycle is mature and valuations elevated.

Portfolio Performance & positioning

Recalibrations in market trends and shifts in momentum have historically been important turning points for markets. In this context the indiscretion around the sell-off in strong momentum and high P/E growth stocks in October was notable. Whilst the stock prices of many companies now look more attractive, more than ever there is a need to exercise caution and focus on the underlying quality of the businesses we are buying.

In the words of Benjamin Graham, of "the Intelligent Investor' fame and Warren Buffett's pupil, "the chief losses to investors come from the purchase of low-quality securities at times of good business conditions. The purchasers view the good current conditions as equivalent to 'earnings power' and assume that prosperity is equivalent to safety".

It is particularly now, at times like this following a market correction, and a mature cycle, that it is important to heed these words. We continue to focus on quality companies that are reinvesting in their businesses and growing earnings in a sustainable way.

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In September the portfolio returned -6.79% after fees, underperforming the ASX300 Accumulation Index by -0.63%. During the month we added to Clydesdale Bank and Seven Group Holdings on weakness and took some profits in Macquarie Group and Saracen Holdings following recent strong performance. The fund held 7.9% in Asian stocks at month end.