# SGH Australia Plus Fund

31 January 2019

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** | $8.08 million |

| **Unit Prices as at 31 January 2019** | **Purchase** | **Net Asset Value** | **Withdrawal** |
|---|---|---|---|
| | 1.3957 | 1.3922 | 1.3887 |

| **Performance as at 31 January 2019**[3] | **1 mth %** | **3 mths %** | **6 mths %** | **1 yr %** | **2 yrs % p.a.** | **3 yrs % p.a.** | **Incept' % p.a.** |
|---|---|---|---|---|---|---|---|
| Distribution Return | 0.00 | 1.65 | 1.51 | 8.04 | 7.68 | 7.07 | 8.64 |
| Growth Return | 4.88 | -1.93 | -10.30 | -10.61 | 2.91 | 5.92 | 6.44 |
| Total Net Return | 4.88 | -0.29 | -8.79 | -2.58 | 10.59 | 12.99 | 15.08 |
| S&P/ASX 300 Accumulation Index | 3.87 | 1.38 | -4.68 | 1.08 | 6.58 | 10.04 | 6.94 |
| Total Net Return vs. the Index | 1.01 | -1.67 | -4.11 | -3.66 | 4.01 | 2.94 | 8.14 |

| **Top 5 holdings as at 31 January 2019** |
|---|
| Macquarie Group Limited |
| CSL Limited |
| Australia & New Zealand Banking Group Limited |
| Saracen Mineral Holdings Ltd |
| Rio Tinto Limited |

Top 5 holdings represent 28.12% 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**

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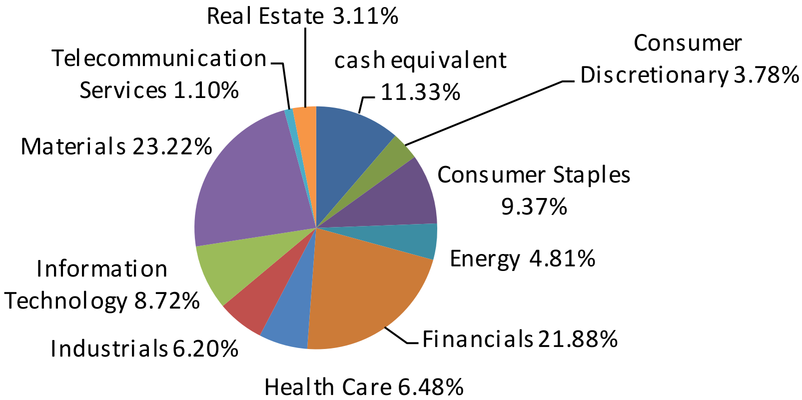
### Asset allocation as at 31 January 2019




### Commentary

2019 started in complete contrast to the way 2018 ended as fear receded and global equity markets rallied strongly. The S&P 500 returned 8.0% after declining 9.2% in December, whilst developed markets returned 7.3%. The ASX300 lagged, finishing up just 3.9%.

The trigger for the relief rally was the twin issues of tightening and trade. In early January, the Fed Chairman's change in language and comments the Federal Reserve is prepared to be "patient" and data dependent alleviated investor concerns quantitative tightening is on autopilot. The market is now implying there will be a pause in Fed rate tightening over the next few quarters, whilst we wait to see whether there is further evidence if the US economy is really slowing.
Markets also reacted positively to China's latest easing measures and signals progress is being made on the US-Sino trade talks. The slowdown in Chinese growth in the final quarter of 2018 has been met with an assortment of stimulus measures, including tax cuts, additional government spending and the People's Bank of China announcing in January it will cut the reserve requirement ratio by 100bps to 13.5% for large banks.

This aided a strong recovery in commodity prices and in the Energy (+11.5) and Materials (+7.0%) sectors. Brent oil price was up 13% and iron ore increased 18% on supply concerns as Vale reported a dam failure impacting supply. The Financials sector was the only sector to record a negative return (-0.2%) as Banks (- 1.3%) underperformed ahead of the Royal Commission final report release in early February.

In the UK, the Brexit saga continued to play out. Prime Minister Theresa May lost the parliamentary vote on her Brexit deal by a large margin. In the aftermath, she has opened up cross-party discussions to try and gain the required backing to negotiate a revised deal.

Domestically, financial and economic data released was generally softer. The consumer confidence survey fell approximately 5% t0 99.6, whilst the NAB business conditions survey experienced a decline of 9 points to +2, the largest decline since late 2008.

Heading into the February reporting season there is a general air of caution, no doubt amplified by a number of company downgrades in the early New Year. The recent strong bounce in share prices means delivery on earnings will be critical, and disappointments are likely to be disproportionately sold off.

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### Portfolio Performance & positioning

Given how shaken and stirred markets were entering 2019 we would not be surprised to see a further rally over the coming few months. A trade deal between US and China could provide a further catalyst for an equity rally led by Asia. However, the risk is it will take more negative market news and economic data to cause the Fed to stop increasing rates, even if it has effectively paused for the time being. The other issue is whilst rates may be on hold the Fed balance sheet continues to shrink by US$50bn per month, and liquidity continues to be withdrawn, which is overall negative for financial assets.

This, combined with the fact we are late cycle, is causing us to approach the recent rally with a degree of caution whilst remaining alive to the fact that in the final 'euphoria' phase of the equity market cycle market returns can be strong.

In January we took the opportunity to take some profits in Saracen Minerals and Northern Star Resources which have performed strongly in the recent sell-off and with a higher gold price. We also reduced our position in ResMed post a slightly disappointing fourth quarter result and strong run in the share price. Whilst the core business continues to perform well additional colour around the US$1bn invested in recent acquisitions revealed there will be a period of indigestion and losses incurred initially. We believe the longer term strategy of investing in cloud based software as a service businesses is sound, and supported by the success ResMed has already experienced in its Brightree business. We also exited our position in JB Hi-Fi given growing concerns around earnings headwinds in a more difficult consumer environment and growing maturity of the businesses. In taking advantage of recent share price weakness, we added to Unibail-Rodamco-Westfield. The fund held 8.8% in Asian stocks at month end.