# SGH ICE

31 March 2018

SG HISCOCK & COMPANY

## Fact Sheet

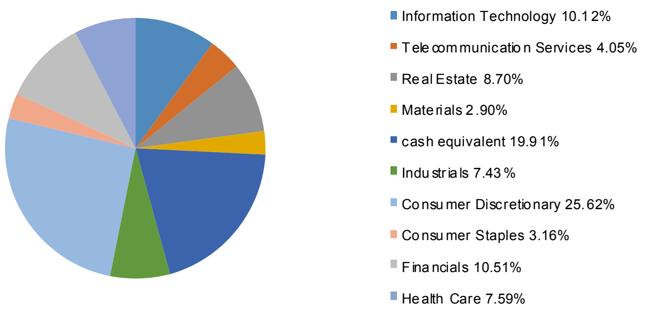
| | | | |
|---|---|---|---|
| **Investment objective** | Aims to deliver superior medium to long term returns by investing in listed companies which possess a sustainable competitive edge. Companies can create that by owning/operating assets that are difficult to replicate.<br>The Investment Manager believes that key intangible assets (such as Brands, Licenses, Patents, Logistical capability, a Captive client base) are the most difficult to replicate and that these key assets enable companies to entrench their products/services in the marketplace. | | |
| **Investments held** | A portfolio of approximately 30-50 predominantly ASX listed securities (a minimum of 15 and generally no more than 80); cash and derivatives. | | |
| **Investment Manager** | SG Hiscock & Company | | |
| **Commencement** | 13 February 2006 | | |
| **APIR** | ETL0062AU | **mFund Product Code** | SHF02 |
| **Minimum initial investment** | $20,000 | **Buy Spread** | +0.35% |
| **Management costs**[1] | 1.180% p.a. | **Sell Spread** | -0.35% |
| **Performance Fee**[2] | 15.375% | **Pool size** | $715.90 million |

| **Unit Prices** | **Application** | **Net Asset Value** | **Withdrawal** |
|---|---|---|---|
| 31 March 2018 | $ 2.1205 | $ 2.1131 | $ 2.1057 |

| **Performance as at 31 March 2018**[3] | **1 mth %** | **3 mths %** | **6 mths %** | **1 yr %** | **3 yrs % p.a.** | **5 yrs % p.a.** | **Inception % p.a.** |
|---|---|---|---|---|---|---|---|
| Total Net Return | -0.32 | -0.77 | 7.33 | 13.15 | 7.03 | 12.01 | 11.35 |
| S&P/ASX Smallcap Industrial Index | -1.73 | -2.23 | 8.10 | 10.93 | 8.72 | 8.85 | 4.27 |
| S&P/ASX 300 Accum. Industrials Index | -3.59 | -3.66 | 2.20 | -0.02 | 3.09 | 8.81 | 6.61 |
| S&P/ASX 300 Accumulation Index | -3.73 | -3.78 | 3.67 | 2.86 | 3.92 | 7.62 | 5.80 |

| **Distribution Period** | **30-Jun-16** | **31-Dec-16** | **30-Jun-17** | **31-Dec-17** |
|---|---|---|---|---|
| Distribution rate (cents per unit) | 11.0518 | 0.7943 | 1.3505 | 1.3919 |

### Asset allocation as at 31 March 2018




| **Top 5 holdings as at 31 March 2018** |
|---|
| Bapcor Limited |
| Ooh! Media Ltd |
| Bravura Solutions Limited |
| Star Entertainment |
| Speedcast International Limited |

Top 5 holdings represent 16.97% of total fund.

1. Includes estimated GST payable, after taking into account Reduced Input Tax Credits ("RITC").
2. A performance fee of 15.375 (inclusive of GST and an estimate of RITC) of any performance in excess of the performance hurdle (the daily percentage movement in the S&P/ASX 300 Accumulation Index plus 1.20 p.a. calculated on a daily basis) may also be payable.
3. Performance: Distribution Return is the return due to distributions paid by the Fund, Growth Return is the return due to changes in initial capital value of the Fund, Total Net Return is the Fund return after the deduction of ongoing fees and expenses and assumes the reinvestment of all distributions.

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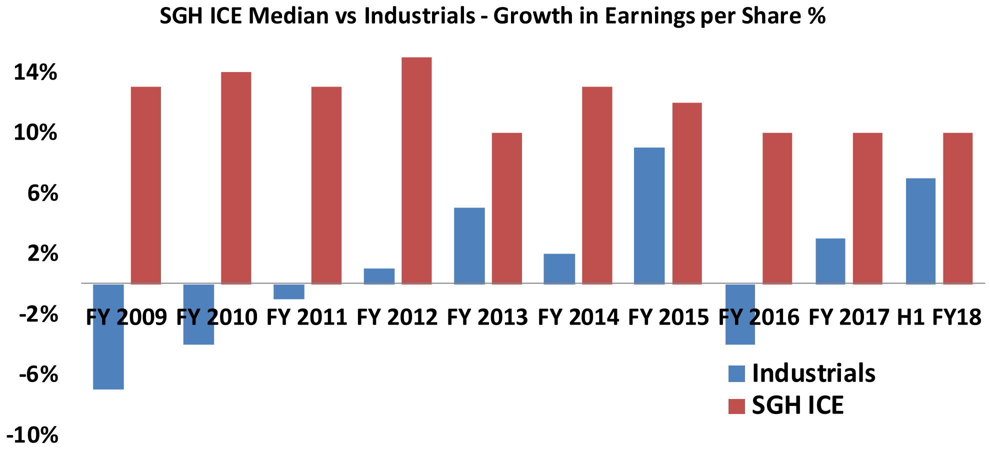
## Commentary

The highlight of the March quarter was the H1 FY 2018 reporting season, where ICE portfolio companies delivered median earnings per share growth of +10%. This was consistent with the trend of delivering 'more certain earnings growth' and compared favourably against the +7% earnings growth for ASX Industrials (ex Banks and Property).




Source: Macquarie

Industries that delivered solid to strong operating performances during reporting season included:

- Automotive – growth in the carpark drives consistent parts/servicing demand and auto retailing continues to consolidate (favouring the listed groups).
- Infant formula—the premium end of the market is currently growing at 20-30% in China, where the locals are seeking trusted international product. We note brands with a unique customer proposition are performing well above industry growth.
- SaaS/cloud – efficiency benefits of remote access, seamless software updates, no upfront capital commitments or lengthy implementations, and the ability to scale up/down continue to drive strong uptake of cloud products. While we see this as a very attractive sector, the fund has limited exposure as valuations tend to be high.
- Quality retirement communities—with the tailwind of ageing population, operators providing a quality accommodation offering are generating strong earnings growth.
- Outdoor media and online classifieds – still taking share from challenged media.
- Insurance broking—premium rates are rising as insurers seek to recoup declines in insurance margins of prior years.

The fund posted a –0.77% return for the quarter, as the broader market fell with the various market indices down –2.2% to –3.7%. The  return for the year was 13.15% which was solid in absolute and relative terms. While we manage ICE in a benchmark unaware way, it is worth noting this return was achieved with a 1/3 lower risk level that the Small Industrials (as measured by standard deviation of monthly returns).

Performance has been generated from bottom up stock picking. Key contributors for the quarter came from A2 Milk (larger half year profit than the entire preceding full year), Bravura (top line growth of +10%) and Smart Parking (strong earnings growth in Management Services division and strengthening pipeline in the Technology business). These were partially offset by key detractors Star Entertainment Group (+12% earnings growth but softer trading update) and Janus Henderson (Q4 underlying performance not as strong as Q3).

We have been carefully picking our way through the market, while many investors have been chasing two ends of the quality spectrum–highly valued uber growth stocks and resources/lower quality cyclicals. High PE uber growth stocks are trading at elevated premiums to market by historical standards. At the same time, resources and lower quality cyclicals have been running, such that both ends of the spectrum have outperformed the market in recent times.

ICE sits at the quality end without the valuation risk of the uber growth stocks— the ICE median PE is near parity with the Industrials ex Financials PE of 17x (a relatively rare occurrence), compared with the circa 30x multiples of uber growth stocks. We have been finding and generating alpha from reasonably valued opportunities in our quality franchise universe that in aggregate continue to deliver 10% median earnings growth and offer solid medium term forecast internal rates of return.

**Portfolio Activity**

During the quarter, we initiated 6 new positions, liquidated Mantra (under takeover) and exited 4 small positions.



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