SGH ICE

30 September 2017

SG HISCOCK & COMPANY

Fact Sheet

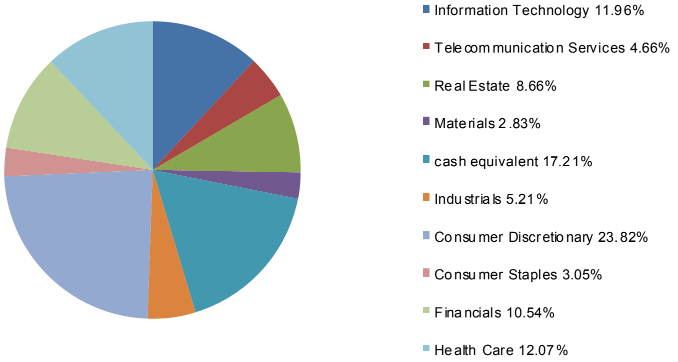
Investment objective	Aims to deliver superior medium to long term returns by investing in listed companies which possess a sustainable competitive edge. Companies can create that by owning/operating assets that are difficult to replicate. The Investment Manager believes that key intangible assets (such 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**	$648.86 million

Unit Prices	**Application**	**Net Asset Value**	**Withdrawal**
30 September 2017	$ 1.9885	$ 1.9816	$ 1.9747

Performance as at 30 September 2017[3]	**1 mth %**	**3 mths %**	**6 mths %**	**1 yr %**	**3 yrs % p.a.**	**5 yrs % p.a.**	**Inception % p.a.**
Total Net Return	1.27	1.30	5.42	0.55	9.59	14.13	11.18
S&P/ASX Smallcap Industrial Index	1.05	2.51	2.61	1.89	8.63	10.91	3.76
S&P/ASX 300 Accum. Industrials Index	0.29	-0.81	-2.17	7.39	8.57	12.61	6.71
S&P/ASX 300 Accumulation Index	0.04	0.80	-0.78	9.02	7.12	9.94	5.73

Distribution Period	**31-Dec-15**	**30-Jun-16**	**31-Dec-16**	**30-Jun-17**
Distribution rate (cents per unit)	0.6485	11.0518	0.7943	1.3505

Asset allocation as at 30 September 2017



Top 5 holdings as at 30 September 2017
Ooh! Media Ltd
Janus Henderson Group- GDI
MYOB Group Limited
Speedcast International Limited
Bapcor Limited

Top 5 holdings represent 16.57% of total fund.

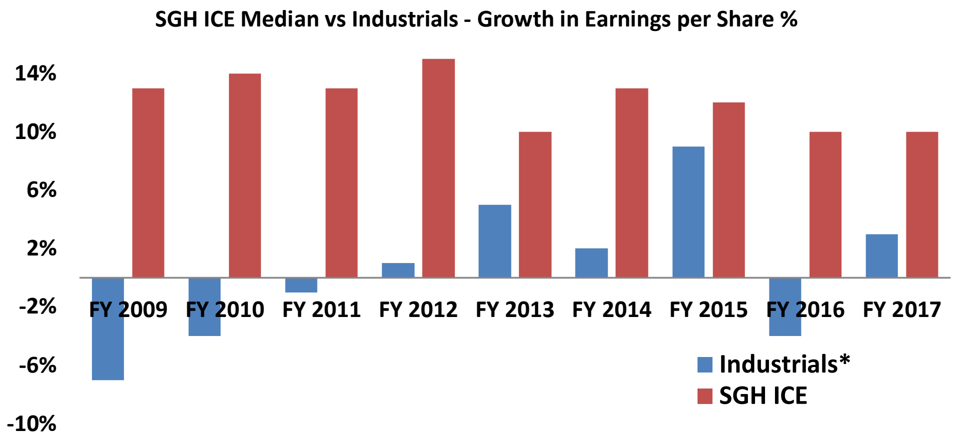
1. Includes estimated GST payable, after taking into account Reduced Input Tax Credits (“RITC”).
2. A performance fee of 15.375 (inclusive of GST and an estimate of RITC) of any performance in excess of the performance hurdle (the daily percentage movement in the S&P/ASX 300 Accumulation Index plus 1.20 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.

Fact Sheet

Commentary

Reporting Season Commentary

The key event for the September quarter was the FY 2017 reporting season. All the numbers are in the bag and investors have now had time to absorb earnings outcomes across the market. For the ICE fund, median earnings per share growth for our companies was a strong +10%, continuing the trend of ICE portfolio companies delivering 'more certain earnings growth'. This compared favourably against the +3% earnings growth for ASX Industrials (ex Banks and Property) as shown in the chart below.



**Source: Macquarie*

September quarter key contributors to performance were reporting season driven. Positive contributors all delivered strong results as follows:

· AFG (+16% earnings growth) – significantly outperforming its peers, on strong growth in higher margin products
· A2 Milk (substantial earnings growth FY17 over FY16) – H2 FY17 +20% growth over H1 despite supply constraints for much of H2. The share price has now appreciated significantly and we have taken some profits.
· Hub24 (move to material profitability) – taking 10% share of industry net flows indicating long term upside to its current 0.6% share of FUA

Other strong results that have not necessarily had the same share price reward as yet came from:

· oOh!media (+27% earnings growth) – outdoor media continues to take an increasing share of the overall media pie through its ability to provide both broad audience reach and location based advertising campaigns
· MYOB (+10% earnings growth) – MYOB's brand recognition allows it to drive strong growth in online products by tapping into a new customer segment as well as upgrading its sticky user base to current technology
· Bapcor (+36% earnings growth) – including +22% EBITDA growth from core Trade business on consistent underlying market growth (3-4%) and store rollout

Naturally in small-mid caps not everything goes according to plan. We saw the unusual situation of Trade Me reporting very well (+12% earnings growth) but coming up as a detractor from performance for the quarter. The reason for this was the company signaled a greater need for reinvestment in the business on increased competition and we have responded by taking a more appropriate risk weighting. We commented in July that Mitula had issued disappointing profit guidance on a one time operational issue. Having spoken with management several times since and tracking key operational performance metrics, we have determined that the issue was indeed one off and the company is back on the path towards original targets, and we maintain a small position.

Market Comment

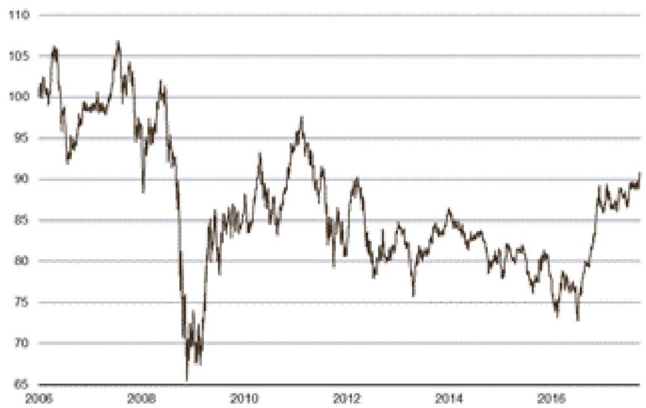
SGH ICE has been differentiated from the lack of earnings growth in the broader Industrials market over the long term (as per our 10+ year track record), given our focus on sustainable earnings growth at a reasonable price. While not presented in the performance table above, it is worth noting this has also been apparent since the February reporting season with 6 month returns of 6% compared with various market index returns of –2.2% to +4.0%.

Noting the shortage of Industrials earnings growth this reporting season, investors have tended to seek earnings growth via 1) uber growth companies (in many cases irrespective of valuation in our assessment) and 2) potential turnaround in lower quality/cyclical companies. Of the top 20 performing stocks in the Small Industrials for the quarter, we assessed that 7 did not meet ICE franchise criteria. Of the remaining 13 in our universe, 2 we own, 3 we are monitoring and 8 are high quality highly priced ‘uber growth’ companies (which we screened out on valuation grounds).

The median FY18 PE of these uber growth stocks is currently 37x, whereas as the median PE of ICE portfolio companies is roughly half this. While earnings growth is clearly very high in these companies, investors need to forecast sustained high growth for many years into the future to justify such multiples. SGH ICE, on the other hand, invests in a ‘more certain’ earnings stream and valuation discipline results in the more moderate PE outcome.

With respect to the lower quality/cyclical end of the market, we know that over the long term, quality companies outperform lower quality/cyclical companies, and SGH ICE invests in quality franchises for this reason. The market goes through short term periods where cyclicals run ahead of quality but this tends to buck the long term trend (as shown in the chart below using global proxies) and we anticipate the current environment will ultimately follow a similar path.

Performance of Global Cyclicals to Defensives



Source: UBS

As it stands today, the Fund is well positioned with solid earnings growth and attractive valuations in aggregate across the portfolio. The ICE median PE premium to the Industrials is currently low compared to the historical range of 5-15% and our forecast IRR is at a strong 3% premium, which we expect will be rewarded by the market in due course.

For more information visit www.sghiscock.com.au