SGH20

31 October 2018

SGH
SG HISCOCK & COMPANY

Fact Sheet

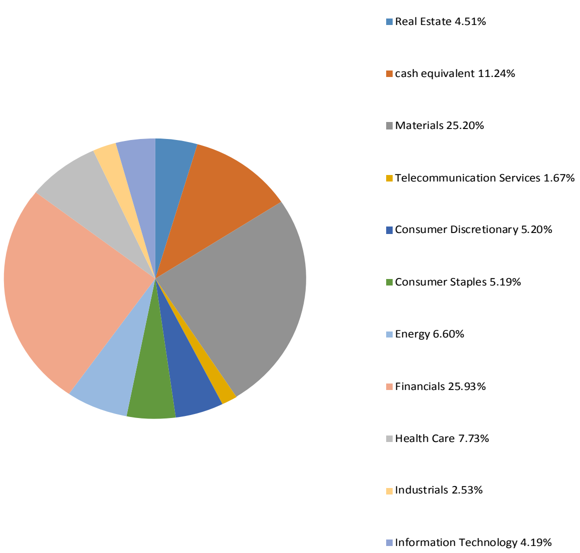
Investment objective	Aims to offer long term returns in excess of the following measures over a rolling five year period, although returns are not guaranteed: • S&P/ASX 300 Accumulation Index plus 5.00% p.a. (before fees and tax); and • Cash Rate (as measured by the Bloomberg AusBond Bank Bill Index) plus 5.00% p.a. (before fees and tax).		
Investments held	A portfolio of approximately 20 stocks that are listed on the Australian Securities Exchange.		
Investment Manager	SG Hiscock & Company		
APIR	ETL0042AU	**mFund Product Code**	SHF01
Commencement	28 October 2004	**Buy spread**	+0.25%
Management costs[1]	1.23% p.a.	**Sell spread**	-0.25%
Minimum initial investment	$20,000	**Fund size**	$22.40 million

Unit Prices	**Application**	**Net Asset Value**	**Withdrawal**
31 October 2018	$ 1.6543	$ 1.6502	$ 1.6461

Performance as at 31 October 2018[2]	**1 mth %**	**3 mths %**	**6 mths %**	**1 yr %**	**3 yrs % p.a.**	**5 yrs % p.a.**	**Since Inception % p.a.**
Distribution Return	0.00	0.00	12.30	14.97	13.77	12.10	6.80
Growth Return	-6.24	-7.84	-14.97	-7.90	-2.61	-3.34	3.65
Total Net Return	-6.24	-7.84	-2.67	7.07	11.16	8.76	10.45
S&P/ASX300 Accumulation Index	-6.16	-5.98	-0.54	2.88	8.24	6.00	7.65
Total Net Return vs. the Index	-0.08	-1.86	-2.13	4.19	2.92	2.76	2.80

Distribution Period	**31-Dec-16**	**30-Jun-17**	**31-Dec-17**	**30-Jun-18**
Distribution rate (cents per unit)	2.9299	6.8688	2.9225	25.7167

Asset allocation as at 31 October 2018



Top 5 holdings as at 31 October 2018
Woodside Petroleum
Australia & New Zealand Banking Group Limited
Macquarie Group Limited
National Australia Bank Limited
CSL Limited

Top 5 holdings represent 31.26% of the total Fund.

1. Includes estimated GST payable, after taking into account Reduced Input Tax Credits ("RITC").
2. 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.

SGH20

31 October 2018

SG HISCOCK & COMPANY

Fact Sheet

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 surprisingly 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 released in the month 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 valuation risks elevated.

Domestically, the economy continues to prove remarkably resilient. Both consumer and business confidence indicators increased during the month, remaining in positive territory, whilst unemployment declined to 5.0% with the RBA commenting it expects the rate to trend lower. There are growing signs the housing cycle has peaked and is credit tightening as the effects of the Banking Royal Commission are fully realised. However, encouragingly signs of growth in wages and incomes is evident and growth in investment is strong.

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 at an attractive margin of safety.

In September the SGH20 portfolio returned -6.24% after fees, essentially flat with the ASX300 Accumulation Index. During the month we took the opportunity to add to Clydesdale Bank and Seven Group Holdings on weakness and took some profits in Macquarie Group and Saracen Holdings following recent strong performance.

For more information visit www.sghiscock.com.au