

31 January 2018

SG HISCOCK &amp; COMPANY

## Fact Sheet

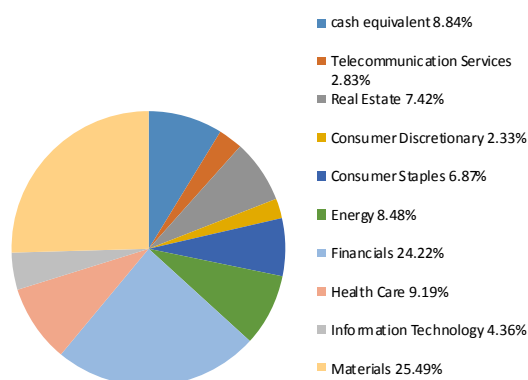
<b>Investment objective</b>	Aims to offer long term returns in excess of the following measures over a rolling five year period, although returns are not guaranteed: <ul style="list-style-type: none"> <li>S&amp;P/ASX 300 Accumulation Index plus 5.00% p.a. (before fees and tax); and</li> <li>Cash Rate (as measured by the Bloomberg AusBond Bank Bill Index) plus 5.00% p.a. (before fees and tax).</li> </ul>		
<b>Investments held</b>	A portfolio of approximately 20 stocks that are listed on the Australian Securities Exchange.		
<b>Investment Manager</b>	SG Hiscock & Company		
<b>APIR</b>	ETL0042AU	<b>mFund Product Code</b>	SHF01
<b>Commencement</b>	28 October 2004	<b>Buy spread</b>	+0.25%
<b>Management costs<sup>1</sup></b>	1.23% p.a.	<b>Sell spread</b>	-0.25%
<b>Minimum initial investment</b>	\$20,000	<b>Fund size</b>	\$25.09 million

Unit Prices	Application	Net Asset Value	Withdrawal
31 January 2018	\$ 1.8768	\$ 1.8721	\$ 1.8674

Performance as at 31 January 2018 <sup>2</sup>	1 mth %	3 mths %	6 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	Since Inception % p.a.
Distribution Return	0.00	1.63	1.76	6.62	13.66	9.56	6.14
Growth Return	-0.34	4.48	13.13	14.21	-0.85	-0.73	4.85
Total Net Return	-0.34	6.11	14.89	20.83	12.81	8.83	10.99
S&P/ASX300 Accumulation Index	-0.39	3.18	8.16	12.37	7.47	8.99	8.13
Total Net Return vs. the Index	0.05	2.93	6.73	8.46	5.34	-0.16	2.87

Distribution Period	30-Jun-16	31-Dec-16	30-Jun-17	31-Dec-17
Distribution rate (cents per unit)	30.0717	2.9299	6.8688	2.9225

## Asset allocation as at 31 January 2018



## Top 5 holdings as at 31 January 2018

Australia & New Zealand Banking Group Limited
National Australia Bank Limited
Macquarie Group Limited
Woodside Petroleum
CSL Limited

Top 5 holdings represent 30.58% 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.

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### Commentary

In our December Quarterly Commentary we commented that “it is hard to think volatility will not increase from here” and that “we see the potential for a correction (say 10% down) ..” Little did we think it would happen days after going to print with the VIX Index recording its sharpest one day rise in its history, and the S&P500 giving back literally all of its January gains (+5.7% and the strongest start to the year in 30 years) in the first few days of February.

The risk of a drawdown has been increasing with valuations becoming stretched, protracted extreme low volatility and extreme positioning, but identifying the trigger is not always clear, and sometimes there doesn't need to be one (as Robert Shiller reminds us). This time it seems to have been driven more by technical factors relating to the rebalancing of exchange traded volatility products rather than fundamentals. There is risk that heightened volatility leads to more short term deleveraging from other systematic trend following strategies. The tightening in financial conditions will also see an increase in risk aversion back to more normalised levels, with the result we may have seen the top in equity markets in the near term.

History shows that quarterly drawdowns of 10% or more in bull markets are not uncommon, and in fact the lack of a correction of greater than 5% in the S&P500 for such a long period of time as we have recently seen, is more the outlier. In this context some mean reversion is not unexpected, and arguably represents a return to a more normal pattern of market behaviour. Whilst unpleasant at the time, it is not something necessarily to fear. It provides an opportunity to capitalise on short term dislocations, and for active stock pickers like ourselves the potential to upgrade the portfolio with stocks we have had our eye on at lower prices.

Our base case continues to be that evidence of strong synchronised global growth and increasing earnings expectations should be positive for equities. In January global growth remained solid with the US ISM and European PMI's easing slightly and Japan strong. US equities saw upgrades as companies revised up guidance on the back of the Trump Tax Reform package announcement in December.

Australian equities underperformed global markets in January, falling 0.4%. The risk is this relative underperformance continues through 2018 given the more muted domestic earnings outlook compared to offshore. The strong commodities rally means there is still considerable upside to resource sector estimates based on spot prices, but outside this we expect the reporting season will confirm a mostly benign but constrained domestic earnings backdrop.

A rise in inflation expectations that pushes up bond yields remains the biggest risk to equities (and arguably all asset classes) given where valuations are trading relative to history. The sell off in bonds and rise in Government bond yields in January saw the US 10-year treasury yield hit 2.7%, its highest level since April 2014. The risk is when rates rise too quickly, they can weigh on growth expectations and equity valuations. This has the greatest impact on long duration assets and bond proxies. In January this was evident as the infrastructure, utility and REITs laggard the broader ASX300.

Our working assumption is central banks increase rates gradually. But the risk is as we move through 2018 that inflation surprises to the upside versus expectations. Higher wage growth is certainly possible if growth remains strong. Couple this with higher commodity prices a scenario of rising inflationary pressures cannot be dismissed.

The portfolio continues to be overweight companies with offshore earnings, reflective of their better relative growth prospects. In January we made little change to the portfolio.

### For more information visit [www.sghiscock.com.au](http://www.sghiscock.com.au)

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