

Fact Sheet

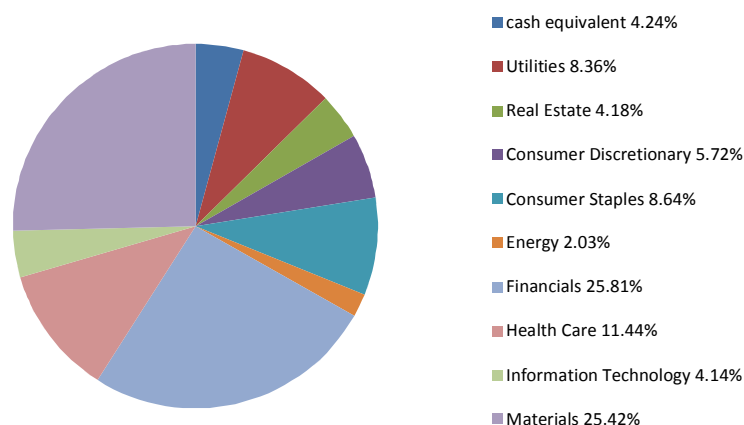
Investment objective	Aims to offer long term returns in excess of the following measures over a rolling five year period, although returns are not guaranteed: <ul style="list-style-type: none"> S&P/ASX 300 Accumulation Index plus 5.00% p.a. (before fees and tax); and Cash Rate (as measured by the Bloomberg 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 costs¹	1.23% p.a.	Sell spread	-0.25%
Minimum initial investment	\$20,000	Fund size	\$38.71 million

Unit Prices	Application	Net Asset Value	Withdrawal
30 June 2017	\$ 1.7497	\$ 1.7453	\$ 1.7409

Performance as at 30 June 2017 ²	1 mth %	3 mths %	6 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	Since Inception % p.a.
Distribution Return	4.07	4.09	4.28	6.27	13.60	9.53	6.26
Growth Return	-2.35	-1.98	2.51	3.85	-3.22	0.23	4.17
Total Net Return	1.72	2.11	6.79	10.12	10.38	9.76	10.43
S&P/ASX300 Accumulation Index	0.22	-1.57	3.07	13.82	6.64	11.63	7.85
Total Net Return vs. the Index	1.50	3.68	3.72	-3.70	3.74	-1.87	2.59

Distribution Period	31-Dec-15	30-Jun-16	31-Dec-16	30-Jun-17
Distribution rate (cents per unit)	3.1058	30.0717	2.9299	6.8688

Asset allocation as at 30 June 2017



Top 5 holdings as at 30 June 2017

National Australia Bank Limited
CSL Limited
Australia & New Zealand Banking Group
Janus Henderson Group- GDI
Lendlease Group

Top 5 holdings represent 32.42% 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

Globally equity markets continued to break new highs in June before a sharp sell off late in the month on central bank commentary indicating the possibility of withdrawal of stimulus measures. The ASX300 was little changed for the month, but was volatile with no fewer than seven +/- 1% daily moves as it gyrated on sentiment shifts around global reflation and macro news.

Continued lack of any real progress on US tax reform, and comments the Fed “expects to begin implementing a balance sheet normalisation program this year” saw the 10-year US Treasury bond yield decline to 2.13% in mid June (down from 2.64% in mid Dec-16), and US dollar weaken. Against this the US 3 month T-Bill rose to its highest level since October 2008 on the Fed raising rates a further 25bps to 1.25%, resulting in a flattening of the yield curve.

Resources rallied on reflation talk and a stronger iron ore price (+14% after reaching a one year low mid month), on better than expected Chinese PMI for June (51.7 vs consensus 51.0) and industrial production for May. Near term cyclical risks in China remain something to watch. Tightening in financial conditions to mitigate shadow banking and property sector risks are resulting in declines in property sales in major cities (down c.30% yoy in the first four weeks of June) and slowing credit growth. However, stronger export markets and supply-side reform are helping drive a recovery in private investment capex (+6.6% yoy in the first 5 months of 2017), while growth in infrastructure spending remains robust.

In a watershed moment for China's equity market, MSCI finally announced it would include China A-Shares in its Emerging market index starting in May 2018.

European news was dominated by the UK election which saw the ruling conservatives lose their majority and potentially weakens the Government's hand in the Brexit negotiations. European growth continues to recover. The closely watched German Ifo Business Climate Index rose to a record high in June.

Domestically the major data releases surprised to the upside and pointed to the economy improving against the commonly held concerns around low wage growth and rising mortgage and utility costs. The labour force report in May was particularly robust, with strength spanning full-time employment and hours worked, and headline unemployment falling from 5.9% to 5.5% in just two months. Retail sales data is a volatile series, but surprised with growth reported across most categories in May, providing some relief for the consumer discretionary names (+0.5%) following their recent sell-off on news of Amazon's impending arrival.

Australian banks performed better in the month returning 1.96%. They continue to respond to the tighter new macro prudential requirements and Federal Government bank levy by increasing rates out of cycle on investor and interest only mortgage loans. In the last 6 months the Banks have increased their investor interest only rate by up to 60bps. Whilst positive for earnings near term it provides a growing headwind to longer term lending and consumption growth.

Portfolio Performance & Positioning

In the past 12 months, the US 10-year bond yield is up almost 100 basis points, and global equity market cap increased US\$10tn. Rising interest rates should in theory be negative for equity valuations, but equities offer better relative growth prospects in a structurally lower growth environment, and valuations have been pushed to record levels. The risk is we are at a point in the market where interest rates are taking over from growth as the key systematic risk for investors. This risk is compounded by the weight of passive money now in ETF's. Credit markets are the canary in the coal mine we are watching closely. It reinforces the need to maintain a rigorous focus on valuation and the margin of safety we pay for companies.

The SGH20 portfolio returned 1.72% in June outperforming the ASX300 Accumulation Index by +1.50%. During the month we added Rio Tinto.

For more information visit www.sghiscock.com.au

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