SGH Emerging Companies Fund

31 January 2019

SG HISCOCK & COMPANY

Fact Sheet

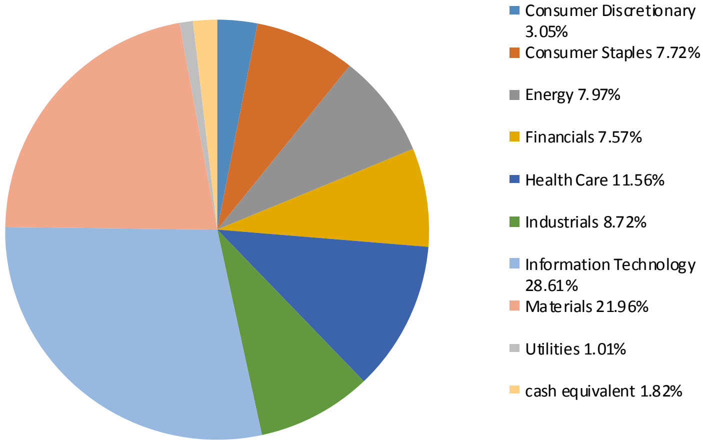
Investment objective	To provide medium to long-term capital growth potential and seeks to outperform the S&P/ASX Emerging Companies Accumulation Index over rolling three to five year periods after taking into account fund fees and expenses.		
Investments held	The Fund will primarily invest in companies that have a market capitalization of less than $500m at the time of first purchase and cash.		
Investment Manager	SG Hiscock & Company		
APIR	ETL0118AU	**mFund Product Code**	SHF04
Commencement	9 October 2001	**Buy spread**	+0.35%
Management costs[1]	1.03% p.a.	**Sell spread**	-0.35%
Performance Fee[2]	20.50%	**Investment pool size**	$83.36 million
Minimum Initial Investment	$20,000	**SIV Compliant**	Yes (1 July 2015)

Unit Prices	**Application**	**Net Asset Value**	**Withdrawal**
31 January 2019	$ 3.9263	$ 3.9126	$ 3.8989

Performance as at 31 January 2019[3]	**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	0.00	0.00	0.00	0.13	4.20
Growth Return	4.81	0.64	-5.23	-15.40	11.12	16.22	8.19
Total Net Return	4.81	0.64	-5.23	-15.40	11.12	16.35	12.39
Index Return[4]	4.24	-2.17	-13.21	-18.24	8.12	4.64	5.90
Total Net Return vs. the Index	0.57	2.81	7.98	2.84	3.00	11.71	6.49

Distribution Period	**30-Jun-17**	**31-Dec-17**	**30-Jun-18**
Distribution rate (cents per unit)	NIL	NIL	NIL

Asset allocation as at 31 January 2019



Top 10 holdings as at 31 January 2019
Atomos Limited
Westgold Resources Ltd
Redflex Holdings Limited
Splitit Payments Ltd
Cooper Energy Limited
Zip Co Ltd
Dubber Corp Ltd
Food Revolution Group Ltd
Wiseway Group Ltd
Volpara Health Technologies Limited

Top 10 holdings represent 32.61% of the total Fund.

1. Includes estimated GST payable, after taking into account Reduced Input Tax Credits (“RITC”).
2. Effective 1 October 2015, a performance fee of 20.50% (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 Emerging Companies Accumulation Index 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.
4. Index = S&P/ASX Emerging Companies Accumulation Index effective 1 October 2015, previously S&P/ASX Small Ordinaries Accumulation Index.

Commentary

- Our better performing stocks for the month include Splitit - see below (+275.0%), Galena Mining (+93.8%), Cardiex Limited (+ 72.4%), Althea Group (+26.5%), Pantoro Limited (+25.0%), TZ Limited (+23.6%), BOD Australia (+23.1%), Resonance Health (+21.7%), and Elixinol Global (+20.0%).
- Stocks that declined for the month include Locality Planning Energy (-27.0%), Auris Minerals (-25.0%), AJ Lucas Group (-23.8%), Azure Healthcare Limited (-18.5%), The Data Exchange Network (- 17.3%) and Compumedics (-15.0%).

Our Fund increased by 4.81% in January, out-performing its benchmark the S&P/ASX Emerging Companies Index which gained 4.24%. For rolling twelve months, the Fund has decreased by 15.40% after fees, compared to the S&P/ASX Emerging Companies Index which has declined by 18.24%.

We had improved performance in January and recovered some lost ground after three negative months. This was driven by renewed investor confidence in global markets with the US Federal Reserve signalling the end of quantitative tightening and this cycle's US Federal rate hikes, and a big bounce in global equity markets and commodity prices, led by oil. Except for the financial sector, awaiting the final report from the Banking Royal Commission, the market was up across the board. As we wrote last month: "the big decline in the markets in December saw behaviour similar to that in late 2008 and early 2009 as investors exited stocks into bonds and cash, with panic levels comparable to those seen after other significant market corrections".

We continue to believe that investor prospects for 2019 are good. Low-interest rates means share valuations are not expensive. Further, the economic outlook is deteriorating globally which means falling bond yields and lower inflation expectations. Moreover, the Australian economy is also slowing with falling housing prices and building activity - although we don't forecast a recession with a boom in infrastructure spending offsetting some of this weakness. As such, we expect the world's central banks to move strongly back into reflationary mode over the course of the year. For example, most economists are now forecasting that the next move in interest rates by the Reserve Bank of Australia will be down. To that end, we think investors will again be forced back into the equity market in search of higher returns, even with patchy corporate earnings. We still believe that there is a mountain of cash sitting in low yielding term deposits and short-term fixed interest securities that will provide support to share prices in any pullback, even with increased market volatility. For emerging companies, with improved monetary conditions and a sluggish domestic economy we think the focus will again return to growth stocks, and we believe our fund is well positioned to capture some of these expected gains.