SGH Emerging Companies Fund

31 October 2018

SG HISCOCK & COMPANY

Fact Sheet

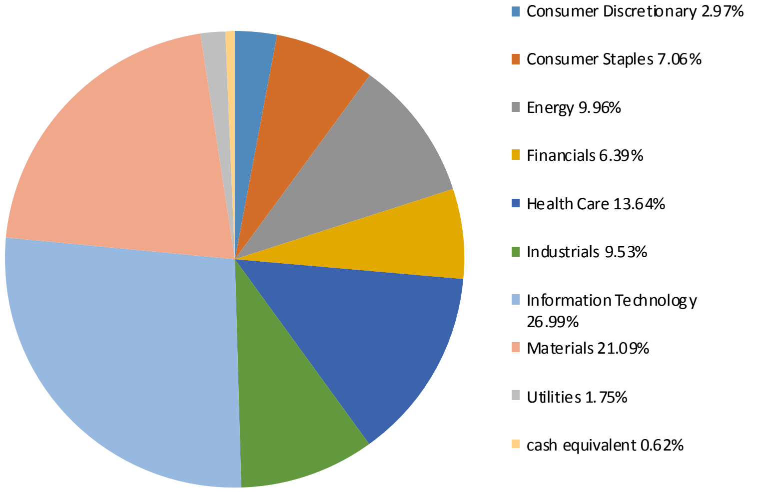
Investment objective	To provide medium to long-term capital growth potential and seeks to outperform the S&P/ASX Emerging Companies Accumulation Index over rolling three to five year periods after taking into account fund fees and expenses.		
Investments held	The Fund will primarily invest in companies 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**	$69.34 million
Minimum Initial Investment	$20,000	**SIV Compliant**	Yes (1 July 2015)

Unit Prices	**Application**	**Net Asset Value**	**Withdrawal**
31 October 2018	$ 3.9013	$ 3.8877	$ 3.8741

Performance as at 31 October 2018[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	0.21	4.26
Growth Return	-8.36	-5.83	-7.76	2.26	14.81	16.29	8.28
Total Net Return	-8.36	-5.83	-7.76	2.26	14.81	16.50	12.54
Index Return[4]	-10.91	-11.29	-13.39	-5.73	7.08	3.92	6.13
Total Net Return vs. the Index	2.55	5.46	5.63	7.99	7.73	12.58	6.41

Distribution Period	**31-Dec-16**	**30-Jun-17**	**30-Jun-18**
Distribution rate (cents per unit)	NIL	NIL	NIL

Asset allocation as at 31 October 2018



Top 10 holdings as at 31 October 2018
Volpara Health Technologies Limited
Redflex Holdings Limited
Cooper Energy Limited
AJ Lucas Group Limited
Acrow Formwork and Construct
Wiseway Group Ltd
POWERWRAP
Zip Co Ltd
Food Revolution Group Ltd
Triton Minerals Limited

Top 10 holdings represent 32.04% 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.

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Commentary

- Our better performing stocks for the month include Volpara Health (+52.2%), Resonance Health (+19.2%), TZ Limited (+15.2%) and Locality Planning Energy (+11.1%).
- Stocks that declined for the month include Veris Limited (-42.8%), Neurotech International (-40.7%), Livehire (-39.2%), Althea Group (-34.4%), Food Revolution Group (-27.6%), Nuheara (-25.3%), Zipmoney (-21.1%), Compumedics (-20.0%), Xref Limited (-17.2%), Generation Development Group (-16.4%), archTIS (-14.3%) and The data Exchange Network (-13.5%).

Our Fund decreased by 8.36% in October, out-performing its benchmark the S&P/ASX Emerging Companies Index which fell by 10.91%. For rolling twelve months, the Fund is up 2.26% after fees, compared to the S&P/ASX Emerging Companies Index which has declined 5.73%. It was an ugly month for stock markets, the worst since August 2015, with small company growth stocks, hit hard. Every sector except gold suffered declines over the month. Rising US interest rates, fears of an escalating US-China trade war and US mid-term elections spooked investors. Further, domestically, with the AGM season, we also saw some companies issue profit warnings including retailers, Lovisa, The Reject Shop, Nick Scali, and Super Retail Group. With the large share market decline in October, we are now expecting a decent bounce. As we wrote last month; a number of our technical indicators registered the share market falls as a panic extreme. Additionally, there is also usually a strong seasonal pattern which sees the stock market sell-off into early November, before a rally into Christmas. As such, although we remain cautious, we think the market and our portfolio will reclaim some of the losses incurred in the coming months - as investor confidence returns. It's worth highlighting that even with more rate tightening possible by the US Federal Reserve, we still think Australian cash rates are likely to remain unchanged (and very low). And, most likely well into next year. Particularly with a domestic credit crunch creating widespread weakness in house prices and subdued wages growth and low inflation. Note, auction clearance rates in Sydney and Melbourne are at six-year low and haven't shown signs of stabilising. When comparing share valuations to historically low-interest rates the Australian equity market isn't expensive. The main pocket of overvaluation has been in small mid-cap growths stocks - and not surprisingly these suffered the largest falls last month. Further, the domestic economy still appears to be very solid, even with a slowing housing sector. Moreover, there is a boom in infrastructure spending on the East Coast of Australia and the coming State, and Federal elections should continue to see a plethora of major project announcements. Therefore, with continued low interest rates and strong corporate earnings, we remain positive on the share market and the longer-term outlook of the Fund. And, with the large share market falls last month, we have seen more opportunities emerge.