SGH20

31 March 2018

SG HISCOCK & COMPANY

Fact Sheet

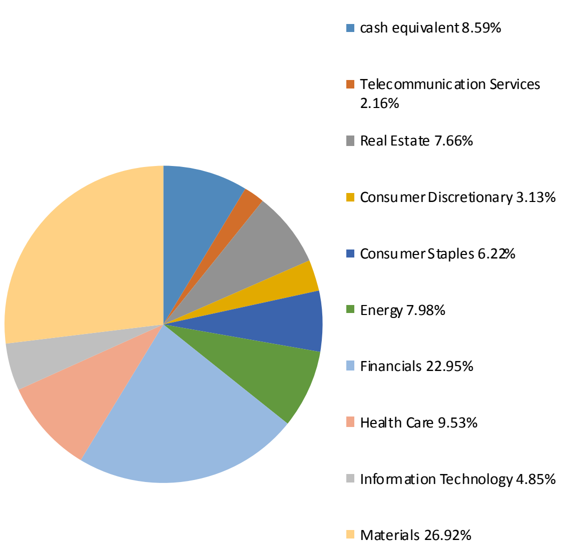
Investment objective	Aims to offer long term returns in excess of the following measures over a rolling five year period, although returns are not guaranteed: • S&P/ASX 300 Accumulation Index plus 5.00% p.a. (before fees and tax); and • Cash Rate (as measured by the Bloomberg AusBond Bank Bill Index) 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**	$24.64 million

Unit Prices	**Application**	**Net Asset Value**	**Withdrawal**
31 March 2018	$ 1.8594	$ 1.8548	$ 1.8502

Performance as at 31 March 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	1.68	6.28	13.28	9.58	6.06
Growth Return	-2.66	-1.26	8.52	8.45	-3.56	-0.49	4.72
Total Net Return	-2.66	-1.26	10.20	14.73	9.72	9.09	10.78
S&P/ASX300 Accumulation Index	-3.73	-3.78	3.67	2.86	3.92	7.62	7.75
Total Net Return vs. the Index	1.07	2.52	6.53	11.87	5.80	1.47	3.03

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 March 2018



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

Top 5 holdings represent 30.68% 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

March was another volatile month for equities hovering in modest negative territory before selling off aggressively in the final days. Tariff protectionism, stirring trade war developments, White House personnel changes, Facebook woes, talk of pending regulatory action and weaker PMIs all coincided to weigh on markets. The ASX300 Accum Index declined 3.7%, the worst monthly performance since January 2016, with all sectors except property finishing in the red. Globally, all major indices also ended the month down with the MSCI Global Equity (ex Aust) Hedged -2.3% and US S&P500 down 2.7%.

A growing question is whether the January top in the S&P500 marked the peak in US equity markets this cycle, or is the current sell off just another short correction. The fact the January top was characterised by multiple expansion on overwhelming bullish sentiment on the back of US tax cuts has the hallmarks of the final 'euphoria' phase of a bull market cycle, before the downturn. However, this needs to be considered against the fact global industrial production growth is running at just under 4%, and whilst momentum may have peaked, there is little evidence this is about to turn down sharply. The up and coming US quarterly reporting season will be important in confirming the trends for corporate earnings.

A key risk to the global growth outlook is whether the current tit-for-tat tariff moves between the US and China materialises into a fully blown trade war. President Trump as a candidate pledged if elected he would "use every lawful tool to combat unfair trade, protect American workers, and defend our national security". Despite the chaos in Washington, he would appear to be fulfilling his promise. Our working assumption is his objective is to reduce the US trade deficit with China and deliver a better deal through a negotiated outcome, rather start an all-out war. However, this is something we are watching closely, and we expect further volatility as the posturing and negotiations play out.

The other reason a potential top in markets may have been reached is US monetary tightening. In March the Fed raised the funds rate target range 25bps to 1.50-1.75% and released a somewhat more hawkish forecast for the path of policy rates over the 2018 to 2020 period. The closely-watched median expectations for 2018 continues to look for a total of three hikes, and in addition to this the Fed is on course to shrink its balance sheet by 9% (0r US$420bn) over 2018.

Inflation remains critical to the Fed's tightening, and interest rate expectations. The recent US tax reform and US February payroll print sparked an inflation scare and sell off in the US 10-year bonds, with the yield up 33bps calendar YTD and closing the month at 2.74%. For the moment bonds have not breached the critical 3% level many technical observers see as the threshold that would signal the end of the deflationary era that started in the early 1980's.

Adding to the market uncertainty was a significant widening in the Libor-OIS spread towards 2.5% during the month. Often seen as a measure of financial sector stress, the blow-out in the spread has been discounted to some extent on the belief that it reflects an increase in US Treasury bill issuance in the aftermath of the run down in cash balances. If it proves more sustained it could start to raise greater concerns around the sustainability and serviceability of the US deficit.

In China the PBOC followed the FED's 25bp hike in March with a rise in the reserve repo rate by 5bp. This is the first policy announcement under newly appointment PBOC governor Yi Gang. Premier Li also delivered the government work report at the National People's Congress (NPC) during the month. The 2018 growth target was maintained at "around 6.5%".

Domestically, the RBA kept interest rates on hold at 1.50% in March. The commentary on growth has become vaguer, with the RBA stating that the economy will "grow faster in 2018 than it did in 2017", and talking up wage growth, stating that it "appears to have troughed and there are reports that some employers are finding it more difficult to hire workers with the necessary skills."

Portfolio Performance & positioning

The portfolio continues to be overweight companies with offshore earnings, reflective of their better relative growth prospects. In March we made no changes to the portfolio outside some reweighting of existing positions. The SGH20 portfolio returned -2.66% in the month outperforming the ASX300 Accum. Index by 1.07%.