SGH20

31 May 2018

SG HISCOCK & COMPANY

Fact Sheet

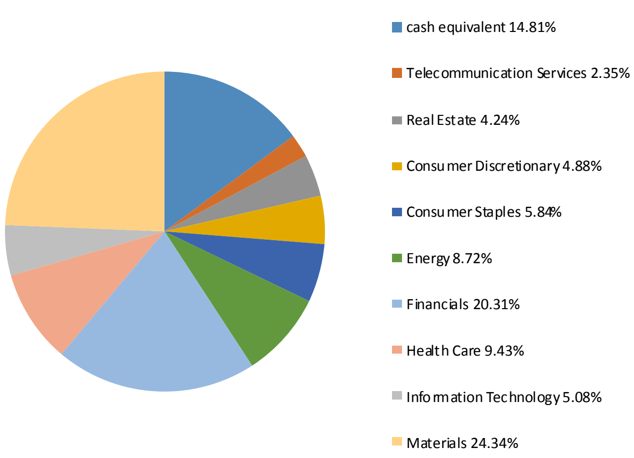
Investment objective	Aims to offer long term returns in excess of the following measures over a rolling five year period, although returns are not guaranteed: • S&P/ASX 300 Accumulation Index plus 5.00% p.a. (before fees and tax); and • Cash Rate (as measured by the Bloomberg AusBond Bank Bill Index) 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**	$26.52 million

Unit Prices	**Application**	**Net Asset Value**	**Withdrawal**
31 May 2018	$ 1.9948	$ 1.9898	$ 1.9848

Performance as at 31 May 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	1.69	6.72	13.63	9.78	6.01
Growth Return	2.52	4.42	8.20	15.89	-1.05	1.49	5.20
Total Net Return	2.52	4.42	9.89	22.61	12.58	11.27	11.21
S&P/ASX300 Accumulation Index	1.19	1.10	2.93	9.99	6.06	8.78	8.03
Total Net Return vs. the Index	1.33	3.32	6.96	12.62	6.52	2.49	3.18

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 May 2018



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

Top 5 holdings represent 30.12% 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.

SGH20

31 May 2018

SG HISCOCK & COMPANY

Fact Sheet

Commentary

If one acted on the well-known adage, “sell in May and go away”, they would have missed out this month. Equity markets saw continuing positive momentum. Following a strong start to the month the ASX300 faded to finish the month up 1.19% (TR). A spike in bond yields was followed by a flare-up in Eurozone politics and ongoing trade policy tensions. For the month Healthcare (+5.6%) & Discretionary (+5.1%) were the best performing sectors.

Domestically, the Royal Commission continued to dominate news, with the topic extending to SME lending. In broader economic news, the Australian economy appears to be growing at around trend or 2.75%. Cash rates have been steady at 1.5% for the past 20 RBA meetings and the RBA has continued to state the next move will be up, however, any prospect of near term tightening appears unlikely given ongoing weak wages, inflation data and cooling house prices.

May also saw the Federal Government hand down its Budget with a target of returning to surplus in 2019/20. From an equity market perspective the main focus was on infrastructure spending which was ramped up by $20bn to $75bn over the next ten years and should be supportive for the engineering and construction sectors.

Global growth momentum, which turned down in February showed signs of picking-up in May with US Industrial production rising above expectations by 0.7%. The industrial sector is supported by a still weak US dollar and a stronger global and domestic economy. On the flip side, wage growth disappointed in the US in May, as average earnings in the private sector earnings were up only 2.7% year on year.

A key risk to global growth continues to be whether the current tit-for-tat tariff moves between the US and China turns into a fully blown trade war. These fears again flared during the month and we are alive to the risk if this is left unchecked it could lead to a short circuiting of the global recovery. However, our working assumption continues to be that the US’s 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.

During the month the Federal Reserve left rates unchanged and tweaked the post-meeting statement language in observing they are now close to their 2% inflation objective, whilst the minutes indicated a temporary, modest inflation overshoot would be “helpful” in anchoring inflation expectations. It appears this view was held by only a “few” on the Committee, with most on the FOMC believing another hike in the Fed rate was warranted “soon”.

Portfolio Performance & positioning

In May the SGH20 portfolio returned 2.52% after fees, outperforming the ASX300 Accumulation Index by 1.33%. In the month Sino Gas, Saracen Minerals and CSL all contributed strongly. Treasury Wine Sates was notably weaker on concerns around distribution and inventory problems in China, and changes to Chinese import requirements on the back of Australia-China political tensions.

During the month Sino Gas received a takeover offer from Lone Star to acquire 100% of the company for $0.25/share cash. The offer has been unanimously recommended by the Board in the absence of a superior offer and subject to an Independent expert. Whilst it provides certainty we see further value as the project moves towards becoming free cash flow positive over the next few years, and believe Sino’s large reserve position in the China’s Ordos Basin is a strategic asset in light of China’s policy to increase gas in the national energy mix under its current 10 year plan and current environmental drive to switch from coal to gas generation.

The takeover proposal by Unibail-Rodamco for Australia’s largest shopping centre owner and development company, Westfield Corporation (WFD) was approved by WFD shareholders on 24th May with the transaction effective on 31st May. We received approximately one third cash and two thirds Unibail (URW) scrip which is listed on the ASX in the form of a Chess Depositary Interest (CDI). In addition, shareholders also received a small interest in retail technology network stock OneMarket (OMN). We see initial value in URW stock post the demerger but expect initial trading to be volatile as managers adjust their portfolios in line with mandate requirements and index weighting adjustments.

For more information visit www.sghiscock.com.au