SGH20

31 July 2018

SG HISCOCK & COMPANY

Fact Sheet

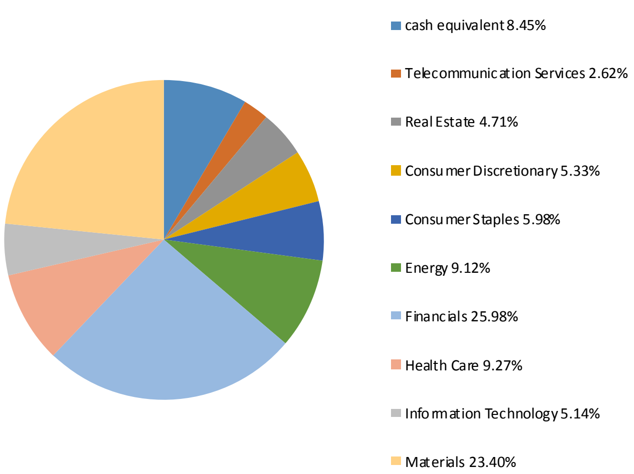
Investment objective	Aims to offer long term returns in excess of the following measures over a rolling five year period, although returns are not guaranteed: • S&P/ASX 300 Accumulation Index plus 5.00% p.a. (before fees and tax); and • Cash Rate (as measured by the Bloomberg AusBond Bank Bill Index) 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**	$24.54 million

Unit Prices	**Application**	**Net Asset Value**	**Withdrawal**
31 July 2018	$ 1.7952	$ 1.7907	$ 1.7862

Performance as at 31 July 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	13.35	13.84	17.58	14.13	12.46	6.98
Growth Return	0.80	-7.74	-4.35	8.22	-0.07	-0.48	4.33
Total Net Return	0.80	5.61	9.49	25.80	14.06	11.98	11.31
S&P/ASX300 Accumulation Index	1.31	5.78	6.05	14.70	8.09	9.15	8.28
Total Net Return vs. the Index	-0.51	-0.17	3.44	11.10	5.97	2.83	3.03

Distribution Period	**31-Dec-16**	**30-Jun-17**	**31-Dec-17**	**30-Jun-18**
Distribution rate (cents per unit)	2.9299	6.8688	2.9225	25.7167

Asset allocation as at 31 July 2018



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

Top 5 holdings represent 31.70% 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

Global equities markets were positive in July with developed markets (+3.2%) outperforming emerging markets (+1.8%). European and US equity markets were the strongest performers up 3.9% and 3.7% respectively, with the ASX300 Accumulation Index up 1.3%.

The strength in global equities has been buoyed by the acceleration in US growth on the back of tax reform changes. The US GDP growth figures released in late July were impressive and surprised to the upside with an annual increase of 4.1% (driven by private consumption up 2.7%). There were also significant revisions to the personal income data suggesting that income growth has been running ahead of consumption growth in the past five quarters. This implies the savings rate is almost double the level it was previously estimated to be, and US households are in much ruder health than the prior numbers suggested.

The risk is this adds to inflation and results in US 10-year bond yields testing, and potentially breaching, their recent upper limits. In turn it raises concerns the Fed will increase and potentially accelerate plans to lift interest rates.

A critical question for investors is whether the current surprise in US growth is a “sugar hit” from the tax reforms or can be sustained? If it marks the peak in growth this cycle and retraces in the second half of calendar 2018, then bonds may be close to peaking along with the US dollar. This would seem to be what credit markets are currently implying given the long bonds did not respond more post the recent strong economic data releases. However, if the current growth momentum continues then the risk is credit markets recalibrate and bonds move higher. This would provide another test for equity markets and potentially see the US dollar continue to appreciate placing renewed pressure on emerging markets, and in particular China if combined with any further escalation in trade tensions.

The strength in the US economy and broader global growth trends are being reflected in corporate earnings. The global reporting season has been strong, particularly in the US. More than 60% of companies have now reported in the US and Europe, with double digit earnings growth in both regions. According to JP Morgan 86% of the S&P500 companies have beat consensus EPS estimates. However, where companies have missed on earnings they have been punished. Facebook’s share price fell 20% in one day on weaker than expected active user growth and lower expected revenue growth. The decline was the largest ever loss of value in one day for a US traded company, approximately $120bn.

Domestically, we are set to launch into the Australian reporting season in August. Consensus is for ASX200 earnings to grow modestly at mid-single levels in keeping with an environment where the economy has been resilient, but is growing below trend with wages growth at 30-year lows and inflation still below the RBA’s official target range. In the June quarter Australia’s CPI increased by less than expected (0.4%) with annual core inflation sitting at 1.9%. This is unlikely to inspire the RBA to increase interest rates any time soon.

Importantly earnings revisions of late for the Australian listed market have remained positive, buoyed by higher commodity prices. However, valuations are above average, consistent with a low interest rate environment, but the spread between ‘value’ and ‘growth’ is at historical highs implying the market is paying up for a select group of stocks offering above average growth opportunities. This adds an elevated level of risk coming into this reporting season. These companies will need to deliver strong earnings growth to justify their elevated PE multiples or run the risk of a ‘Facebook’ de-rate.

Portfolio Performance & positioning

In July the SGH20 portfolio returned 0.80% after fees, underperforming the ASX300 Accumulation Index by 0.51%. For the month ANZ Banking Group, Treasury Wine Estates and National Australia Bank all contributed to performance. Saracen Minerals was the largest detractor in the month pulling back post its recent strong run and gold price weakness.
During the month we made no stock changes to the portfolio, but, we took the opportunity to trim the weighting in a number of companies that have recently performed strongly.

The portfolio continues to be overweight companies with offshore exposure (c.65% by revenue). This is less about our view on the currency, and more about our belief that these companies have better prospects and are more diversified. The fund held 8.45% cash at the end of July after paying a distribution of 25.7 cents per unit in June.

For more information visit www.sghiscock.com.au