SG HISCOCK & COMPANY

SGH Australia Plus Fund

31 January 2021

Investment Objective	To outperform the S&P/ASX300 Accumulation Index by 5% on a rolling 3 year basis		
Investments held	Generally within the largest 300 companies listed on the ASX, plus companies listed in Asia with a focus on Asian domestic consumption.		
Investment Manager	SG Hiscock & Company Limited	**APIR**	ETL0383AU
Commencement	8 October 2013	**mFund Product Code**	SHF01
Management costs[1]	0.70% p.a.	**Buy Spread**	+0.25%
Performance Fee[2]	20% capped at 1.25% in any calendar year, subject to a highwater mark	**Sell Spread**	-0.25%
Minimum initial investment	$20,000	**Fund Size**	$9.18 million

Unit Prices 31 January 2021	Purchase	Net Asset Value	Withdrawal
	$ 1.6020	$ 1.5980	$ 1.5940

Performance[3] 31 January 2021	1 mth %	3 mths %	6 mths %	1 yr %	2 yrs % p.a.	3 yrs % p.a.	Inception % p.a.
Distribution Return	0.00	0.72	0.74	4.27	3.53	5.20	7.22
Growth Return	-0.54	5.91	9.02	-0.69	7.14	0.86	6.63
Total Net Return	-0.54	6.64	9.76	3.58	10.66	6.06	13.85
S&P/ASX 300 Accumulation Index	0.33	12.05	13.42	-2.69	10.29	7.13	7.84
Total Net Return vs. the Index	-0.87	-5.42	-3.66	6.27	0.38	-1.07	6.01

Past performance is not a reliable indicator of future performance.

Top 5 Holdings

National Australia Bank Limited
CSL Limited
Woodside Petroleum
Rio Tinto Limited
James Hardie Industries SE

Top 5 holdings represent 20.27% of total fund

Why Australia Plus

1. We want access to the best quality companies in Asia, at the right price. It is the choice, but not the obligation to invest in emerging companies with strong local franchises
2. The strong rise in both the sheer number of Asians entering the middle class and the growth in disposable income, suggests that this is a multi year trend that is very hard to access by restricting the investible universe to Australian listed stocks.
3. Investors appropriately diversify their portfolio by enhancing returns with a focus on the domestic demand thematic within Asia.
4. It offers Australian investors a wider opportunity set without the requirement to have money invested in Asia through a pooled vehicle.
5. By focussing purely on the domestic demand thematic in Asia, our investible universe grows by 40-50 stocks outside the ASX300. This is a very narrow subset of Asian stocks that meet our basic quality filters and would consider owning at the right price.

1. Includes estimated GST payable, after taking into account reduced input tax credits (RITC).
2. A performance fee of 20% (net GST and an estimate of RITC) of any investment return above the fund's benchmark may also be payable as an expense of the fund, capped at 1.25% in any year, subject to a highwater mark
3. Performance: Total Net Return is the Fund return after the deduction of ongoing fees and expenses assuming the reinvestment of all distributions.

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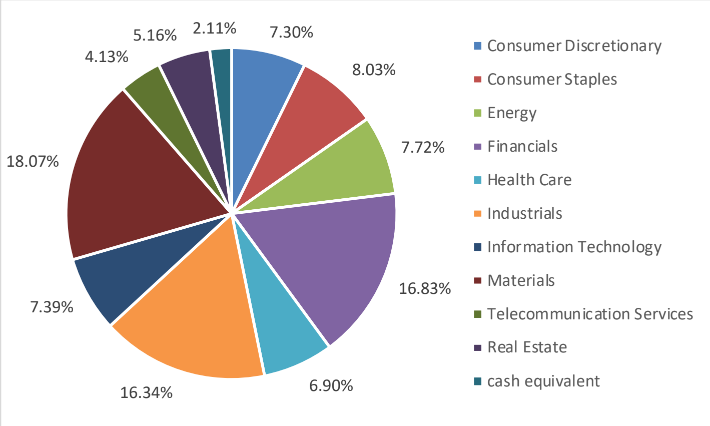
Asset allocation



Monthly Observations

January was a turbulent month for global equity markets. Early in the month was driven higher on the back of the Georgia US election run-offs, which saw the Biden administration gain control of the Senate, raising the prospects the next wave of government stimulus will be passed, and potentially upscaled. In the latter part of the month the so called "reddit revolution" and Robinhood retail revenge phenomena gripped the market targeting short sellers and squeezing up the prices in a number of US small cap stocks like GameStop. This brought several high-profile hedge funds to their knees and sparked fear into what stock might be the next target of the reddit brigade, resulting in a spike in volatility and most global markets finishing in the red for the month.

It is easy to add the bizarre behaviour and price moves around GameStop to a growing list of signs of craziness one usually associates with late cycle market behaviour. The growing fear of missing out (FOMO), increase in market participation and speculation, acceleration in stock prices on little or no news and seeming disregard for the gap between price and fundamentals in some areas of the market have all the hallmarks of the final euphoric phase of the cycle.

At another level it highlights how technology and social media are disrupting society and the COVID crisis is accelerating these trends through directly putting stimulus in people's hands and changing behaviour and consumptions patterns.

Perhaps most concerning from our perspective is the apparent disregard for risk and margin of safety. COVID has ushered in massive direct welfare payments and free money, moratoriums on mortgage foreclosures and bankruptcies and, growing expectation if something goes wrong central banks and/or governments will step in and fix the problem. It appears to be creating an unhealthy level of risk taking and speculation, at least in some areas.

There is only one form of intelligent investing, and that's figuring out what something is worth and buying it for that price or less, and ensuring you have a margin of safety. This is at the core of our philosophy; "buying quality companies with sustainable growth at a margin of safety" is key to our process and risk management approach.

Portfolio positioning and performance

The positive vaccine news in November provided the catalyst for stronger markets and rotation in market leadership to more COVID recovery beneficiaries and more cyclical companies. This fuelled strong moves in share prices until mid-January when concerns about further outbreaks, new mutating strains of the virus and logistically issue around the manufacturing and distribution of the vaccine started to emerge, and the market gave up most of its gains for the month, with the S&P/ASX300 Accumulation closing up 0.33%.

The portfolio has lagged the market in the last few months but has continued to outperform its benchmark over the rolling 12 months.

We continue to see Australia as in in the fortunate position relative to much of the world, with a domestic economy able to operate with relative openness and policy makers willing to support the economy returning to full employment. We see this as providing good potential for an ongoing economic recovery, and transition from 'hope' to 'growth'.

This should continue to support a rotation in market leadership from growth to more cyclical and often lower valuation companies. Rising (not falling) yield curves and higher commodity prices should add support.

Woodside Petroleum (WPL) has rebounded strongly from its October lows on the recovering oil price and continued to perform well in January. **Rio Tinto (RIO)** has also experienced a strong re-rate on higher iron ore prices, although came off late in month on concerns Chinese steel mill margins had turned negative on iron prices above US$150. We see this as likely putting a ceiling on iron prices and some potential for a retracement from their recent highs, but for prices to remain strong relative to recent history given the prevailing supply side constraints.

We continue to see ongoing opportunity for the major banks to re-rate with prospects of higher dividends in 2021 and as regulatory headwinds and remediation costs start to ease. The decision to increase our weight in **National Australia Bank (NAB)** has worked well to date, with a further strong contribution in January.

Cooper Energy (COE) has to this point been disappointing, lagging materially the rally in the energy sector. It was the major detractor in January closing down 16.7% after providing its quarterly production update and highlighting continuing commissioning issues in migrating its Orbost Gas Plant to commercial production of 68PJ per day from the Sole Gas field, its largest asset.

Post necessary remedial works production has resumed at a steady state rate of 45PJ per day and is expected to ramp up steadily in the months ahead whilst managing the sulphur absorber issues. COE also outlined a transition agreement with APA (plant operator) that effectively protects the COE margin during this phase of activity prior to the establishment of commercial production. Of comfort to investors should be the option COE has to extend this arrangement until May 2022. Importantly COE has been able to meet all customer nominations since commencement of delivery under its Gas Sales Agreements (GSA's) from 1st December 2020 and has in place a number of fall-back options should the Orbost Plant production fail to meet the level of nominations from customers.

Management remain confident of achieving nameplate production and in the ability of the Sole field to deliver against the GSA's, it has just taken too long to get there. While there is much to do, the slower than expected remediation and path to nameplate production has seen the market lose confidence in the project. Clarification of the agreement with APA and protection of COE margins should however provide comfort and we expect the stock to re rate in 2021 as it demonstrates higher levels of stable production.

Lendlease (LLC) has also not participated in the recent rally as we would have expected and was down -8% in January. In late December it was announced that the Melbourne Metro Consortium had renegotiated its contract with the Victoria Government and revision to the budget with no adverse financial consideration of Lendlease. This effectively now paves the way for company transitioning to its urban infrastructure strategy articulated at its strategy day last September. In a world where Governments are looking at fiscal stimulus and urban renewal projects, and investors looking to invest in social infrastructure we see growing opportunity for Lendlease to create and unlock value from its $113bn development pipeline.

Cleanaway (CWY) traded in a very volatile manner during month. The stock was up materially on the back of the news that Bingo received a non-binding take-over from CPE Capital (private equity) to acquire the business for $2.3bn. However, the subsequent announcement that CEO, Vik Bansel, is stepping down saw the stock close down 3.5% for the month. This is disappointing from our perspective given he has been key in turning the business around over the last 5 years. However, we continue to see the business as extremely well positioned to capitalise on the structural shift and tailwinds around the shift in waste collection and recycling on the back of the China ban on plastic imports and environmental and regulatory shift to a circular waste economy. We expect the interim result in February should confirm the underlying fundamentals around these trends.

On a more positive note, **Uniti Group** released its final 4C quarterly cashflow report during the month which showed good underlying growth in net operating cashflow up 53% to $16m and ~5,300 fibre to the premise connections in the December quarter. Post the acquisition of Opticom and Telstra Velocity's business we to see Uniti as extremely well positioned to grow its fibre network business in both the wholesale and retail arena

For more information visit www.sghiscock.com.au