SG HISCOCK & COMPANY

SGH Emerging Companies Fund

31 January 2024

Performance [3]	Total Net Return	Income Return	Growth Return	S&P/ASX Emerging Companies Accum. Index [4]	Total Net Return vs Index
1 month (%)	-3.21	0.00	-3.21	-5.20	1.99
3 months (%)	1.13	0.00	1.13	4.62	-3.49
6 months (%)	-5.13	0.00	-5.13	-9.03	3.90
1 year (%)	-9.44	1.17	-10.61	-11.86	2.42
3 years (% pa)	-4.41	6.38	-10.79	0.42	-4.83
5 years (% pa)	8.55	5.05	3.50	10.93	-2.38
10 years (%pa)	12.38	2.70	9.68	7.74	4.64
Inception (% pa)	11.52	4.40	7.12	7.01	4.51

Past performance is not a reliable indicator of future performance.

Summary

- The Fund decreased by 3.21% after fees in January, outperforming its benchmark, which fell 5.20%.
- Our better performing stocks for the month include Santana Minerals (+46.5%), Compumedics (+35.7%), Medadvisor (+30.2%), Almonty Industries (+23.3%), Austin Engineering (+19.7%), Emerald Resources (+10.9%) and Monash IVF Group (+10.4%).
- Stocks that fell for the month include Green Technologies Metals (-47.4%), CurveBeam AI (-43.4%), Synertec Corporation (-26.7%), ImpediMed (-24.1%) and The Market (-14.3%)
- For the rolling twelve months ended 31st January, the Fund has decreased by 9.59%. This compares to the S&P/ASX Emerging Companies Accumulation Index, which has lost11.86% over the same period.

Key Facts

Investment manager	SG Hiscock & Company Ltd.
Launch date	22 Jun 2001
Benchmark	S&P/ASX Emerging Companies Accum. Index
Management fee [1]	1.03%
Performance fee [2]	20.50%
Fund size	$189.4M
Distributions	Annual
Buy/sell spread	+0.35/ -0.35%
Minimum initial investment	$20,000
Base currency	AUD
APIR	ETL0118AU
mFund	SHF04
Domicile	Australia
SIV	Compliant and audited
	Unit price
Application	$4.6643
Net Asset Value	$4.6480
Withdrawal	$4.6317
	Distribution cpu
30-Jun-21	74.1094
19-Jan-22	48.1919
30-Jun-22	14.3367
30-Jun-23	6.2000

Investment Objective

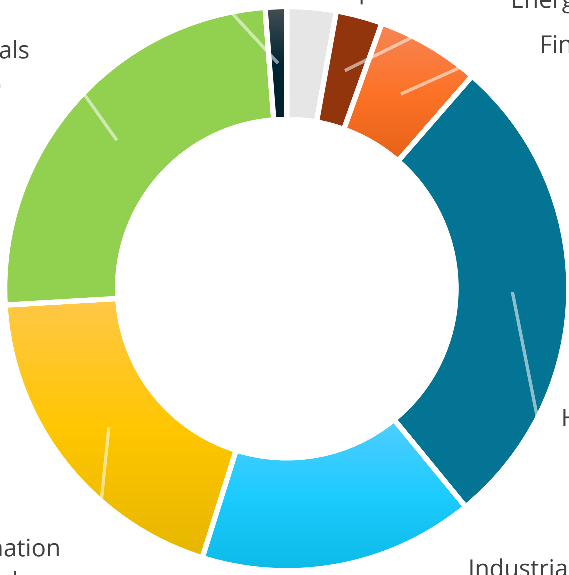
To provide medium to long-term capital growth potential and seeks to outperform the S&P/ASX Emerging Companies Accumulation Index over rolling three-to-five-year periods after taking into account fund fees and expenses.

Investment Held

The Fund will invest in companies that have a market capitalization of less than $500m (at the time of first purchase) and cash.

Asset Allocation:

Sector	Fund (%)
Consumer Discretionary	7.32
Consumer Staples	2.59
Energy	2.45
Financials	5.46
Health Care	25.46
Industrials	14.51
Information Technology	17.70
Materials	22.73
Telecommunication Services	0.18
Real Estate	1.13
Cash	0.40
Total	**100.00**



Top 10 Holdings
Lycopodium Limited
Animoca Brands Corp
Generation Development Group
Big River Industries Ltd
The Market Ltd
Dug Technology Ltd
Almonty Industries Inc
Marketplacer Holding
Medadvisor Limited
Mach7 Technologies

Top 10 holdings represent 39.35% 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.

Market Commentary

The stock market was volatile in January, with mixed performance. The ASX emerging company sector saw selling, partiuclarly in small resource stocks. A late rally pushed the major indices into positive territory.

Although we outperformed our benchmark for the month, two of our larger medical technology companies, CurveBeam AI and Impedimed, reported slower than forecast quarterly sales growth, which impacted portfolio performance. These companies have exciting growth potential in the longer term, but the small end of the market still has liquidity challenges, and any disappointment is met with selling.

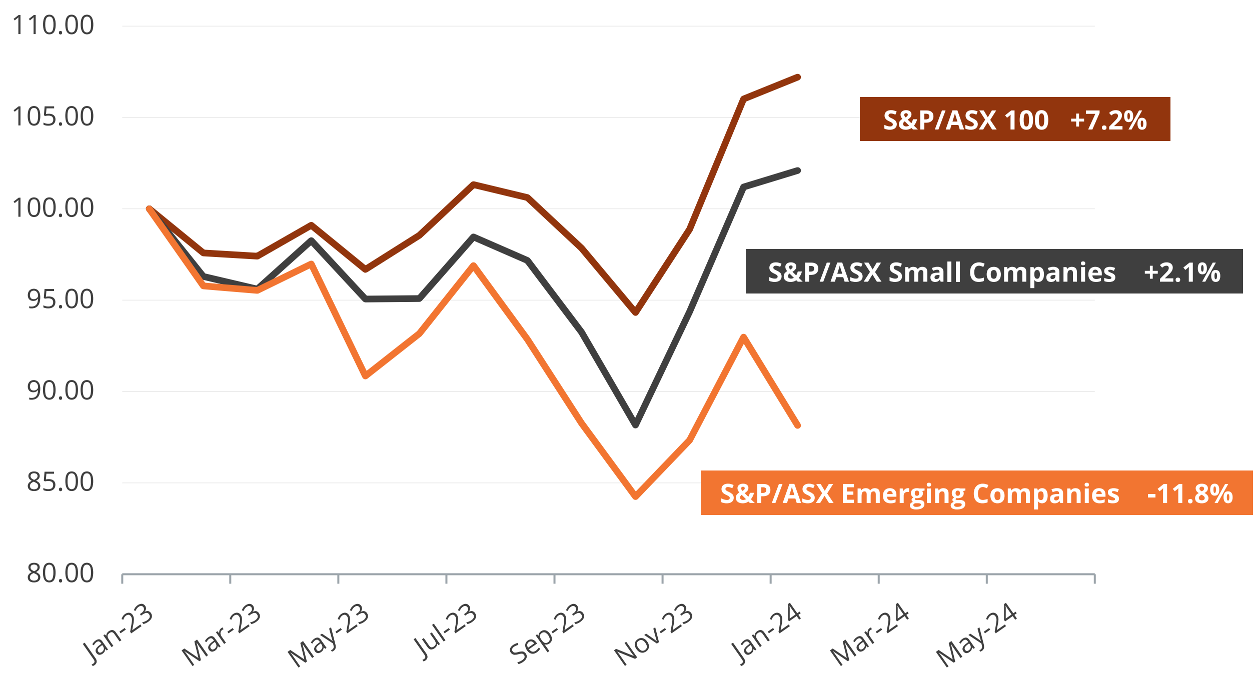
Against this, one of our other medical technology companies, Compumeedics, upgraded earnings and expects record fiscal first-half 2024 revenue, a rise of 35% year over year.

With the stock market trading close to record highs, it is disappointing that we haven't been able to participate strongly in the recent gains. But this rally has been mainly driven by institutional asset allocation shifts from cash into equities and low-cost equity index and futures buying.

Retail investor sentiment has not improved greatly as financial conditions haven't eased. It is also important to note that the S&P/ASX Indices are market capitalisation weighted, so the large companies drive their performance. There is no broadcap unweighted index that measures the performance of the total market – over 2,000 stocks. As buying has been focused across the S&P/ASX300 index stocks, including the S&P/ASX Small Companies index companies (ASX-100 to ASX300) - the leadership has been in larger companies.

As we only invest in emerging companies with market capitalisations less than $500m, our performance benchmark index S&P/ASX Emeging Companies Index (350-600) doesn't participate in this buying – see Chart 1, even though the valuations of emerging companies are very cheap.

Chart 1. S&P/ASX Index performance – 12 months (Base 100 = 31 January 2023)



Source: Iress & SG Hiscock

It is worth highlighting the difference between the S&P/ASX Small Companies and the S&P/ASX Emerging Companies indices because they aren't comparable. For example, the S&P/ASX Small Companies index has an average market capitalisation of $1.2bn, has only 3% of the index represented in sub $500m market capitalisation companies and includes many large companies. The S&P/ASX Emerging Companies index has an average market capitalisation of $250m (too small for many institutional investors). The average market capitalisation of our portfolio, which includes over 60 stocks, is $190m.

It is also worth highlighting, with the S&P/ASX300 index at close to record highs and many large company valuations extended again, the individual S&P/ASX sector performance and where share prices have most to catch-up – see Tabe 1 below.

Table 1.

ASX Code	S&P/ASX Index	31-Jan-24	All Time High	% Diff
XKO	S&P/ASX 300	7,618.6	7,641.8	0.3%
XAO	All Ordinaries	7,912.8	7,956.3	0.5%
XMJ	Materials	18,555.6	19,609.2	5.4%
XFJ	Financials	7,051.8	7,556.9	6.7%
XNJ	Industrials	6,866.5	7,498.4	8.4%
XMM	Metals and Mining	6,100.5	6,666.6	8.5%
XHJ	Health Care	44,155.0	48,812.6	9.5%
XDJ	Consumer Discretionary	3,319.1	3,682.9	9.9%
XUJ	Utilities	8,057.1	9,197.6	12.4%
XSJ	Consumer Staples	12,309.6	14,561.5	15.5%
XTX	All Technology	2,725.0	3,274.6	16.8%
XSI	S&P/ASX SMALL IND	3,039.5	3,838.4	20.8%
XIJ	Info Technology	1,854.6	2,450.5	24.3%
XSO	Small Ordinaries	2,955.6	4,176.5	29.2%
XEC	**Emerging Companies**	**1,934.2**	**2,813.9**	**31.3%**
XGD	Gold	6,719.7	9,888.5	32.0%
XPJ	A-REIT	1,522.0	2,582.0	41.1%
XEJ	Energy	11,177.1	20,254.4	44.8%
XSR	Small Resources	3,323.6	7,184.7	53.7%

Source: Iress & SG Hiscock

In summary, as we have written before, we believe 2024 will be a better year for our Fund, and we are close to a turning point for relative out-performance from the emerging companies sector.

Liquidity cycles drive emerging companies' performance, and as the monetary cycle turns, the economy expands, and investors' focus shifts to growth. Our emerging company performance checklist is below, and we think most of these conditions will be met by mid-year when the RBA starts cutting interest rates:

- *Cheap company valuations*
- *Falling interest rates and a positive yield curve*
- *Rising business & consumer confidence*
- *Business credit growth*
- *Positive stock market technicals (momentum).*

From last month,

“liquidity cycles drive small and emerging companies' valuations – and it means money cycles from large caps to small caps and back again, according to investors' risk assessment of these factors. Liquidity flowing back into the market and large companies is the first step of a cycle turn with an increase in trading volumes. As stock market liquidity improves with falling interest rates, confidence and credit growth, money filters into smaller and emerging companies, which are the most sensitive to growth – and they outperform.”

Portfolio Positioning

We have increased our shareholding in **MadPaws (ASX: MPA, www.madpaws.com.au)**. The share price has fallen 41% because of poor share liquidity over the last 12 months while the company continues to grow strongly.

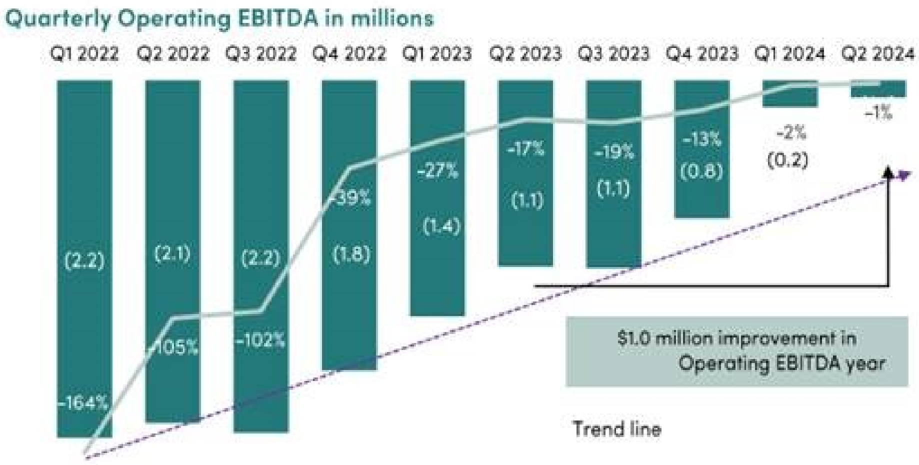
MadPaws operates Australia's number one pet-sitting marketplace, which continues to grow strongly - up 31% in the December quarter. In addition, the company operates Australia's leading online pet chemist, a rapidly growing premium pet products business (SASH), and Australia's number one dog food subscription business (waggly).

Australians spend more than $33 billion each year on their pets. Although pet ownership has been down since COVID-19, the demand for pet services continues to grow strongly as the trend of pet humanisation 'pets as family' continues. This is especially the case as owners become better informed about their pets' needs.

The market response to heightened pet owner awareness is reflected in better quailty pet care food and services, with pet companies marketing more "natural" pet food products, pet vitamins and supplements, and pet insurance products.

MadPaws has made significant investments in its platform, allowing the company to capture a larger ccustomer network and leading to strong improvements in unit economics. In September quarter last year, MadPaws announced its maiden cash flow positive month. The seasonally strong December quarter saw the second consecutive quarter of positive operating cash flow at $1 million.

The group reported operating revenues of $7.6 million, representing a year-on-year rise of 15% , with annualized revenues of greater than $30m (up from less than $4m revenue at the time of the IPO 3 years ago). The percentage growth in sales would be at 21 percent, adjusted for discontinued product lines.



Source: MadPaws

MadPaws' e-commerce division still accounts for the largest share of group revenue, but the pet-sitting marketplace segment is growing faster, is very difficult to replicate at scale, and has much higher profit margins: 40%+.

Notably, the number one pet-sitting company in the United States, Rover, was acquired by private equity company Blackstone in November last year, at a 61% premium to its valuation and an 8.7x revenue multiple. Putting MadPaws pet-sitting business on the same revenue multiple would mean that part of the company alone is worth double the current share price.

WSJ Wall Street Journal

Blackstone to Buy Rover Group for $2.3 Billion

The transaction is slated to close in the first quarter of 2024 ... Blackstone agreed to buy online pet-care marketplace Rover Group in a roughly...

Source: Blackstone to Buy Rover Group for $2.3 Billion - WSJ, as retrieved on 12 February 2024 from The Wall Street Journal, originally published on 29 November 2023.

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The Fund's Target Market Determination is available on the SGH website here. A Target Market Determination is a document which is required to be made available from 5 October 2021. It describes who this financial product is likely to be appropriate for (i.e., the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.

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