SG HISCOCK & COMPANY

SGH Emerging Companies Fund

30 June 2024

Performance [3]	Total Net Return	S&P/ASX Emerging Companies Accum. Index [4]	Total Net Return vs Index
1 month (%)	2.28	-3.73	6.01
3 months (%)	2.36	-0.46	2.82
6 months (%)	2.67	5.51	-2.84
1 year (%)	4.16	5.29	-1.13
3 years (% pa)	-6.88	1.56	-8.44
5 years (% pa)	4.75	10.35	-5.60
10 years (%pa)	13.20	8.75	4.45
Inception (% pa)	11.58	7.38	4.20

[1]Total Net Return is the Fund return after the deduction of ongoing fees and expenses and assumes the reinvestment of all distributions.

Past performance is not a reliable indicator of future performance.

Summary

- The Fund increased by 2.28% after fees in June, outperforming its benchmark, which fell 3.73%.
- Our better performing stocks for the month include Compumedics (+39.6%), Spartan Resources (+31.3%), Generation Development Group (+18.9%), Austin Engineering (+13.7%), Medadvisor (+13.6%), Paragon Care (+12.8%) and Mitre Mining Corporation (+12.1%).
- Stocks that fell for the month include Southern Cross Gold (18.8%), MadPaws Holdings (-15.6%) and Almonty Industries (-15.1%)
- For the rolling twelve months ended, the Fund has increased by 4.16%. This compares to the S&P/ASX Emerging Companies Accumulation Index, which has gained 5.29% 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	$168.4M
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	$4.9475
Net Asset Value	$4.9302
Withdrawal	$4.9129
	Distribution cpu
19-Jan-22	48.1919
30-Jun-22	14.3367
30-Jun-23	6.2000
20-Jun-24	TBA

Investment Objective

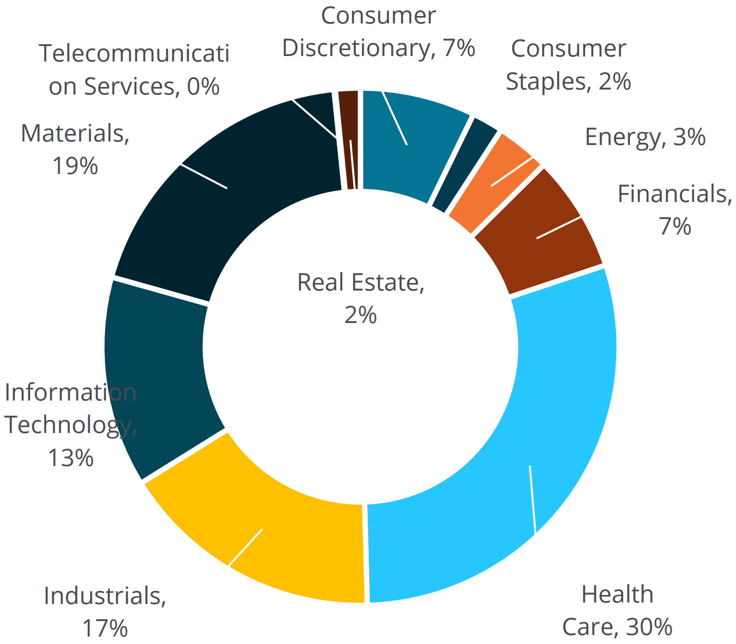
To provide medium to long-term capital growth potential and seeks to outperform the S&P/ASX Emerging Companies Accumulation Index over rolling three-to-five-year periods after taking into account fund fees and expenses.

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	7.21
Consumer Staples	1.96
Energy	3.40
Financials	7.32
Health Care	29.69
Industrials	16.57
Information Technology	13.20
Materials	19.02
Telecommunication Services	0.08
Real Estate	1.55
Total	**100.00**



Top 10 Holdings
Paragon Care Ltd
Generation Development Group
Lycopodium Limited
Animoca Brands Corp
Medadvisor Limited
Vita Life Sciences
Austin Engineering Ltd
Dug Technology Ltd
Marketplacer Holding
Almonty Industries Inc

Top 10 holdings represent 48.36% 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 SGH Emerging Companies Fund For the year ended 30th June, the Fund returned 4.16%, compared to its benchmark, the A&P/ASX Emerging Companies Index, which returned 5.29%.

Our better-performing stocks for the month include gold company Spartan Resources, which has attracted corporate interest as a takeover candidate; Generation Development, after it acquired 100% of financial services company Lonsec; wholesale medical distributor Paragon Care, which continues to re-rate after its merger with CH2 Holdings, and healthcare company Medadvisor which has recently upgraded its earnings guidance for FY24.

Against that, we had a number of micro-cap companies (sub-$100m market capitalisations), which continued to be impacted by poor liquidity and were affected by tax loss selling. We expect most stocks to bounce back strongly in the new financial year.

Table 1. SGH Emerging Companies Fund by market cap sector

Market capitalization	Portfolio
>$500M	**26.5%**
$300M - $500M	**10.6%**
$100M - $300M	**25.3%**
<$100M	**37.6%**

It has been another challenging year for micro-cap performance, with a highly bifurcated stock market – see Table 2. and gains led by the major banks and large companies, significantly increasing the level of stock market concentration. Superannuation funds and ongoing investor demand for fully franked dividend-paying stocks have supported most of these larger companies.

Even though interest rates have been on hold since the RBA's last hike on Melbourne Cup day in November last year, liquidity conditions in the stock market haven't improved much. By any measure, the micro-cap sector has been a big bear market, with most stocks outside the S&P/ASX300 index declining and decade lows in IPO activity and deal-making. In fact, this is a major problem for the ASX as the number of companies listed is shrinking.

Table 2. ASX Sector returns by market cap sector

3 years to 30 June 2024

Sector	Nano	Micro	Emerg	Small	Mid	Large	Mega	All
Overall Median	-80.00%	-52.36%	-7.60%	4.18%	18.95%	22.15%	35.76%	-47.67%

(Nano: <$20m, Micro: $20m-$100m, Emerg: $100m-$500m, Small: $500m-$2bn, Mid: $2bn-$8bn, Large: $8bn-$100bn, Mega: >$100bn)
Source: Macquarie Quant

With Australia in a per capita recession, it is evident that the rise in share prices has outpaced any growth in earnings. The Australian economy continues to slow as consumer sentiment remains depressed and business insolvencies grow. Although employment numbers appear strong, this is largely due to growth in the public sector, particularly in aged and healthcare services such as the NDIS, rather than the private sector, which closely monitors employment costs.

Additionally, cracks are appearing in the labor market, with the Seek Employment Index for May showing an 18.6% decrease in job ads over the past twelve months, and wage growth has appeared to have peaked

Despite the recent sticky monthly inflation numbers, which caused a negative reaction in the stock market and economists' predictions of another rate hike, the economy is still broadly on track to see inflation hit the RBA target by 2026. Government energy subsidies are expected to reduce headline inflation by around 0.5% in the September quarter, which will significantly influence inflation expectations and wage growth.

The next crucial data point for the RBA will be the June quarter CPI number, which is due later in July. However, weak consumer demand suggests that most inflationary pressures in the economy indicate structural supply issues and not excessive aggregate demand.These structural supply issues appear to have arisen due to government policy failures, such as housing shortages, leading to increased rents and rising electricity and gas prices.

The RBA faces a challenging landscape, balancing its dual roles of price stability and full employment. A skilled RBA governor must carefully manage this balance to avoid the economy going backward. The Federal government tax cuts, effective July 1, will provide some relief for consumers but are likely to be used for day-to-day living expenses, replenishing savings that are now low, or offsetting tax bracket creep rather than new spending. With many Australians under mortgage and rental stress and household debt growing, a further rate hike could push Australia into a formal recession.

Internationally, the European Central Bank, Swiss National Bank, and Bank of Canada have started cutting rates. Slowing global growth, a sluggish Chinese economy still dealing with the aftermath of its property bubble, and weak economic data from the United States suggest that the US Federal Reserve may cut interest rates in the coming months.

The US yield curve remains inverted, and declining leading indicators and rising unemployment claims point to an economic slowdown. There is also a growing risk of political uncertainty, with new sanctions and tariffs under a Trump administration, if elected, likely to trigger a global trade war, competitive currency devaluations, and "beggar-thy-neighbor" policies. The Smoot-Hawley Tariff Act of the 1930s helped push the US and world economy into a depression, highlighting the risks of such policies.

Overall, despite significant negative investor sentiment still being priced into the micro-cap sector and the heightened geopolitical risk, we remain long-term positive on the share market. After a three-year bear market in emerging companies and so many micro-cap stocks out of favor and unloved, the conditions are right for a better performance year.

Our stock market research shows that small and emerging companies typically outperform large companies the first month before an interest rate cut and for six to twelve months afterward. Investors should be exposed to emerging companies coming out of a recession or an economic slowdown because they are the most sensitive to growth, and valuations in large companies are stretched. Therefore, with anticipated rate cuts later this year, greater investor focus, and stock sector rotation, it's a favourable environment for emerging companies to outperform over the next twelve to eighteen months.

Portfolio Positioning

Dimerix

We recently added **Dimerix Limited (DXB)** to the portfolio. DXB is a biotech company whose primary research focus is on inflammatory diseases, particularly focal segmental glomerulosclerosis (FSGS) and diabetic kidney disease. Their lead product, DMX-200, is being developed as an adjunct therapy for patients with these conditions. FSGS is a rare kidney disease that leads to irreversible scarring and end-stage kidney failure. DXB has received orphan drug designation for DMX-200, which offers expedited clinical study timeframes and extended exclusivity, among other benefits.

DXB has announced an exclusive agreement with Taiba LLC, a healthcare company, to commercialize DMX-200 in the Middle East, receiving up to A$120.5 million in upfront milestone payments from Taiba, with tiered royalties starting at 30%. This follows a previous agreement with Advanz Pharma, a British multinational pharmaceutical company, for global rights (excluding the USA), providing up to A$240m in upfront and milestone payments, including royalties. ADVANZ Pharma's expertise in rare diseases and established market presence enhance the potential for DMX-200's success.

Simultaneously, Swedish company Calliditas Therapeutics, with a similar asset approved in the US for treating Immunoglobulin A Nephropathy, received a US$1.1 billion takeover bid from Asahi Kasei. This highlights the significant potential upside for DXB if it successfully navigates its path to market. With no approved treatment for FSGS globally and an annual growth rate of 8%, DXB's progress offers substantial market opportunities.

Positive Phase 2a data reported in July 2020 met all primary and secondary endpoints. DXB is now conducting the global ACTION 3 Phase 3 Trial for FSGS, with 144 patients enrolled. An interim analysis in March 2024 confirmed DMX-200's superior performance compared to placebo, maintaining the probability of meeting final trial endpoints.

A $20 million placement, which we participated in, has ensured DXB is fully funded to the final readout, positioning the company to secure advantageous licensing agreements in the US and other markets. With a potential treatment price of US$120,000 per patient annually, DXB is well-positioned to capitalize on a >US$3 billion opportunity and provide a solution for the FSGS patient community.

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The Fund's Target Market Determination is available one 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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