SG HISCOCK & COMPANY

SGH High Conviction Fund

31 January 2024

Performance[1]	Total Net Return	Distribution Return	Growth Return	S&P/ASX300 Accum. Index
1 month (%)	1.35	0.00	1.35	1.10
3 months (%)	14.67	1.60	13.07	13.89
6 months (%)	6.45	1.48	4.97	5.58
1 year (%)	7.90	5.47	2.43	6.66
3 years (% p.a.)	8.45	9.62	-1.17	9.27
5 years (% p.a.)	8.61	9.08	-0.47	9.67
7 years (% p.a.)	8.91	9.60	-0.69	8.78
10 years (% p.a.)	8.92	10.62	-1.70	8.36
Inception (% p.a.)	9.75	7.41	2.34	8.15

[1] 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.
Past performance is not a reliable indicator of future performance.

- For the month the portfolio returned +1.35% net of fees, outperforming the benchmark by 0.25%.
- The portfolio continued to benefit from many of the longer duration longer duration and cyclical stocks that have lagged on fears of rising rates continuing to find support including CSL, ResMed, Aristocrat and Netwealth. BHP, Worley and Genesis Minerals were the main detractors.
- In the recent sharp rally performance has mainly been driven by multiple and valuation expansion on lower rate expectations, not earnings. This has been most evident in large cap stocks. The February reporting season will be important in providing confirmation around earnings trends and their sustainability, but also in determining whether capital continues to flow more to the mid and smaller cap names and we continue to see markets grind higher.
- During the month we reduced the position size in James Hardie after a stellar performance (+40%) in the last 3 months and initiated a position in The Lottery Corporation (ASX: TLC). resilient economic growth and a drop in the US mortgage finance rate.

Key Facts

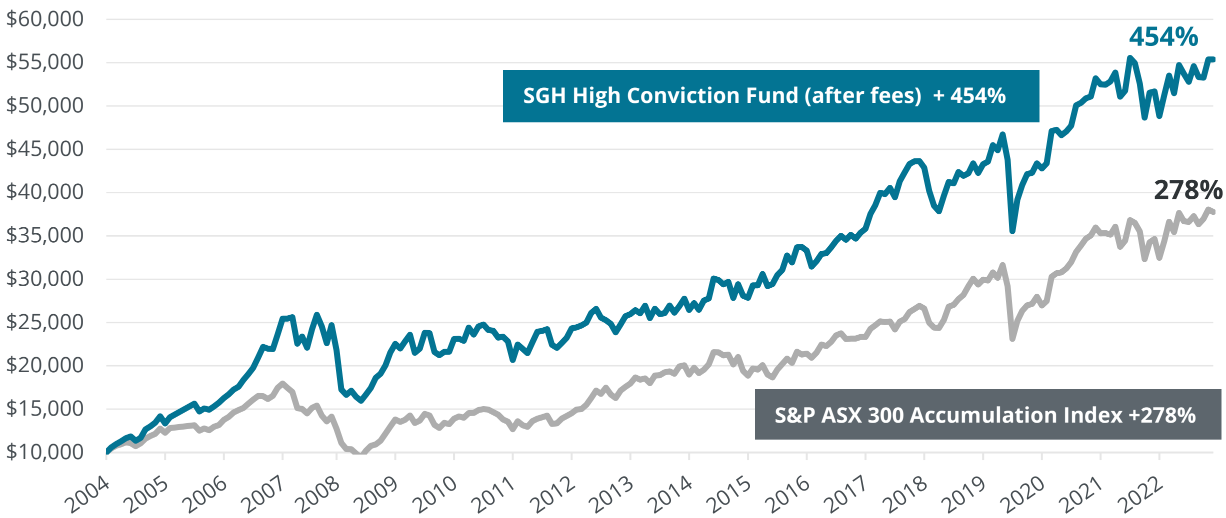
Investment manager	SG Hiscock & Company Ltd.
Launch date	28 Oct 2004
Benchmark	S&P/ASX300 Accumulation Index
Management fees[2]	0.90%
Performance fee[3]	15.00%
Fund size	$18.1M
Dividends payable	Biannual
Buy/sell spread	+0.25/ -0.25%
Minimum initial investment	$20,000
Base currency	AUD
APIR	ETL0024AU
mFund code	SHF01
Domicile	Australia
	Unit price
Application	$1.5649
Net Asset Value	$1.5610
Withdrawal	$1.5571
	Distribution cpu
30-Jun-22	19.8711
31-Dec-22	1.4301
30-Jun-23	5.5247
31-Dec-23	2.1797

Investment objective The Fund invests in a concentrated portfolio of Australian stocks that aims to offer long term returns in excess of the S&P/ASX 300 Accumulation Index (after fees).

Investments held A portfolio of 15 to 30 stocks that are listed on the Australian Securities Exchange.

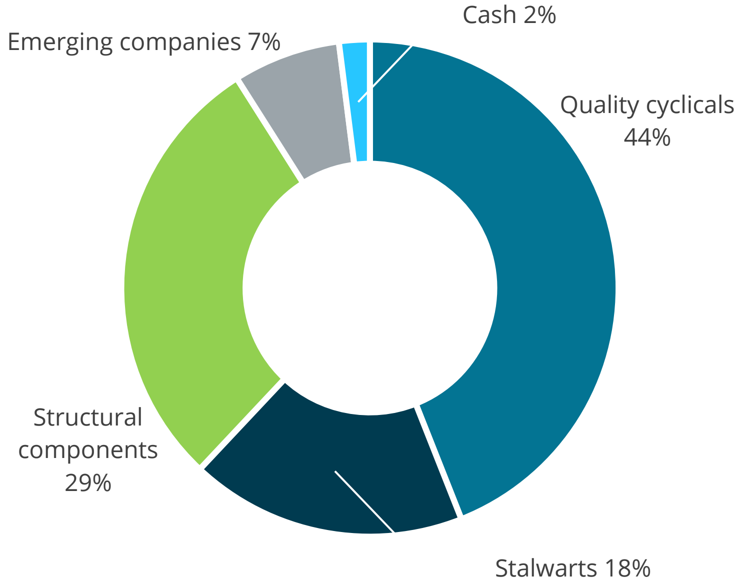
[2]Includes estimated GST payable, after taking into account Reduced Input Tax Credits ("RITC").
[3]Effective 1 Dec 2018, a performance fee of 15% (net GST and an estimate of RITC) of any investment return above the fund's benchmark may also be payable as an expense of the fund, subject to a highwater mark.

SGH High Conviction Fund Cumilative Total Return Since Inception



Asset allocation

Sector	Fund (%)
Consumer Discretionary	11.5
Consumer Staples	2.8
Energy	5.0
Financials	19.0
Health Care	10.3
Industrials	17.2
Information Technology	7.4
Materials	19.4
Telecommunication Services	5.6
Cash equivalent	2.2
	100.0



Commentary and outlook

After a brief pause in early January when markets gathered their collective breathe, equities were able to shrug off a slow start and finish the month in positive territory assisted by further evidence that inflation was cooling and data supporting resilient economic growth.

The US S&P500 was up 1.6% while the local market closed up 1.1%. The Healthcare, Financials and Energy sector led the gains, increasing 4.3%, 5.0% and 5.2% respectively while the Utilities and Materials sectors fared the worst, down 1.5% and 4.8% respectively.

Bonds yields reversed some of their recent rally as investors digested the new round of economic data and the level of optimism priced into rate cut expectations, particularly in the US.

There were a couple of interesting economic data points that caught our eye during the month.

Right at the month end, the Australian Consumer Price Index (CPI) came in slightly lower than expected at 4.1% annual rate. While signalling no more rate hikes the print was also supportive of future domestic rate cuts in line with global peers. However, market expectations for the first cut remain in the second half of the year.

The European Central Bank (ECB) kept interest rates unchanged and made sure that investors understand that rate cuts are "not immediately on the table". In general, central banks are keen to be seen as prudent, and not getting ahead of themselves in calling victory on inflation. One should expect that messages coming out of the RBA, ECB, Bank of England and the Federal Reserve will be cautious with regards to the timing of rate cuts.

For the 2023 December quarter, US GDP growth came out stronger than expected and both the US Manufacturing and the Services Indices showed signs of improvement.

The People's Bank of China, conscious of the stresses in the system, cut the Reserve Ratio Requirements (RRR) for banks by 50 basis points from February 5. This is in part a recognition of the stresses that property companies are facing, as evidenced by the order by a Hong Kong Court, to one of China's biggest property developers, Evergrande Group, to liquidate after it was unable to reach a restructuring deal with creditors who are owed hundreds of billions of dollars. While this is not a surprise, it has the potential to further weigh on business and consumer confidence and add to concerns of Chinese stagflation.

Not a data point as such, but the likelihood of Mr Trump becoming the next US President, has increased with early primary voting results for the Republican nomination. This is despite court cases, damages, and a multitude of negative headlines. One is unsure how equity markets will greet this news but it raises a number of questions around US domestic and foreign policy and potential for unpredictable pivots and shifts and market volatility.

Looking out over the course of the next 12 months we continue to believe that there is prospects of a better balance of inflation and growth. When and how quickly central banks may cut rates will be influenced by how this places out, which in turn is likely to be heavily influenced by employment conditions.

This will also be important in determining whether the rally we have seen over recent months continues to broaden out. Performance has mainly been driven by multiple and valuation expansion on lower rate expectations, not earnings. This has been most evident in large cap stocks where capital has flowed first. The February reporting season will be important in providing confirmation around earnings trends and their sustainability, but also in determining whether capital continues to flow more the mid and smaller cap names and we continue to see markets grind higher.

Portfolio positioning & performance

For the month the portfolio returned +1.42% outperforming the benchmark by 0.32%. The portfolio continued to benefit from many of the longer duration longer duration and cyclical stocks that have lagged on fears of rising rates continuing to find support including **CSL (ASX:CSL +5.3%), ResMed (ASX: RMD +14.8%), Aristocrat (ASX:ALL +9.0%)** and **Netwealth (ASX:NWL +9.4%)** contributing strongly. The detractors **BHP (ASX:BHP 6.3%), Worley (ASX:WOR -15.1%)** and **Genesis Minerals (ASX:GMD -9.2%**) were mainly concentrated in the commodities and materials space on the back of the more negative news emanating out of China and in the case of Worley some company specific news.

Global sleep therapy leader **ResMed** released a solid quarterly result showing continued top line growth coupled with good cost management resulted in gross margin finally seeing a recovery. Just as importantly, with the stock decimated mid-2023 due to the concerns that the rising popularity of GLP-1 was going to materially reduce the addressable market of obstructive sleep apnea patients, management used this set of results to present a number of counteracting statistical evidence, which helped give the market comfort.

The concern around GLP-1's to potentially disrupt the obstructive sleep market and derating in the stock provided an opportunity to add a high-quality business to the portfolio back in July last year. The last quarterly result helps provides some proof points in terms of the underlying growth and margin in the core business and seems to have restored a better sense of balance to the impact GLP-1's.

Overall, we see sector market conditions remaining favourable for ResMed with its key rival Philips's under FDA consent decree and being constrained in supplying the market, providing ResMed with the opportunity to take market share.

Insurance building services business, **Johns Lyng Group (ASX:JLG, +11.2%)** also performed strongly in January 2024. Cyclone activity in Queensland combined with flooding in parts of Victoria is likely to boost the future pipeline of restoration work for Johns Lyng. A large number of insurance claims have been lodged as a result of these catastrophe events and with Johns Lyng having a leading national presence, we expect there to be material make safe and restoration work to be awarded to the company over the coming months. Subsequent to the month end, the company also announced its first major national insurance panel win in the USA, which we anticipate will accelerate the company's US growth strategy.

Global engineering services contractor **Worley** underperformed during the month. There were primarily two pieces of bad news that contributed to the underperformance. First was in relation to Worley losing an arbitration dispute regarding $59m in unpaid trade receivables for a contract in Ecuador awarded back in 2011, with the international tribunal apparently ruling Worley's claims as inadmissible owing to these contract wins being tainted by illegality and bad faith.

The company subsequent ASX release advised that the said subcontractors (employed by Worley at the time) once found to be corrupt by the local courts had their employment terminated, and that various internal processes for the engagement of business partners/subcontractors as well as approval and recording of entertainment expenses have since improved. We don't believe this piece of news was particularly material as it relates to historic contracts and that it bears no impact to future earnings of the company.

The second negative piece of news was out of the US, whereby the Biden administration has decided to seek additional environmental evaluation across several LNG projects, one of which includes the Venture Global CP2 LNG project which Worley was awarded for last year. Market estimates a delay could impact ~5% to earnings, with a full cancellation being closer to 10%.

Whilst disappointing, we believe the market's reaction is overdone, noting the growing demand for resources to deliver sustainability related work continues to grow, with Worley very well placed to assist other companies in achieving their respective goals.

SGH High Conviction Fund - Overview

What makes us different?

- High conviction benchmark unaware portfolio holding 15 – 30 stocks.
- Focus on quality businesses that are sustainably growing free cash flow and improving returns.
- Focus on capital preservation and absolute returns for shareholders.
- Disciplined repeatable process to stock selection and portfolio construction.

Investment Philosophy

The core premise of our philosophy is to invest in companies that deliver absolute returns for investors, with a strong focus on capital preservation. In our view this is best achieved by investing in quality businesses that can deliver sustainable value creation over the medium term, rather than simply investing in companies because they are a significant part of an index.

We allocate capital only to high quality ideas where we have conviction, believing only a few quality ideas are required to build a good portfolio. We to do this through investing in quality companies which are sustainably growing free cash flow and returns and are mispriced. We believe price is what you pay, and value is what you get, and valuation discipline is fundamental to investing and creating longer term shareholder value.

Investment Strategy & Process

SGH High Conviction is a concentrated portfolio holding 15-30 stocks. Our focus is on identifying businesses with 'quality sustainable growth' that are mispriced. We do this through a disciplined and repeatable process that seeks to identify companies which are:

- Sustainably growing free cash flow and returns.
- Well-positioned in attractive end markets with a source of competitive advantage.
- Appropriately structured and have a sound balance.
- Lead by engaged, focused and innovative management Where we are satisfied companies meet these criteria, they are eligible for portfolio consideration subject to valuation. A range of valuation methodologies are used depending on the nature of the business.

As part of our process, we undertake an extensive company visitation program which is important in providing 'insight' in developing and testing our thinking, understanding and investment thesis. We seek to know as much about our companies as possible, with a view to mitigating permanent capital loss.

The portfolio construction process is determined by our confidence and conviction in the underlying quality of the business and margin of safety to valuation. It is also influenced by top-down economic considerations and industry and company life cycle risk characteristics.

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