



SG HISCOCK & COMPANY

SGH20

31 January 2021

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 approximately 20 stocks that are listed on the Australian Securities Exchange.		
Investment Manager	SG Hiscock & Company Limited	APIR	ETL0042AU
Commencement	28 October 2004	mFund Product Code	SHF01
Management costs¹	0.90% p.a.	Buy spread	+0.25%
Performance Fee²	15%	Sell spread	-0.25%
Minimum initial investment	\$20,000	Fund size	\$17.32 million

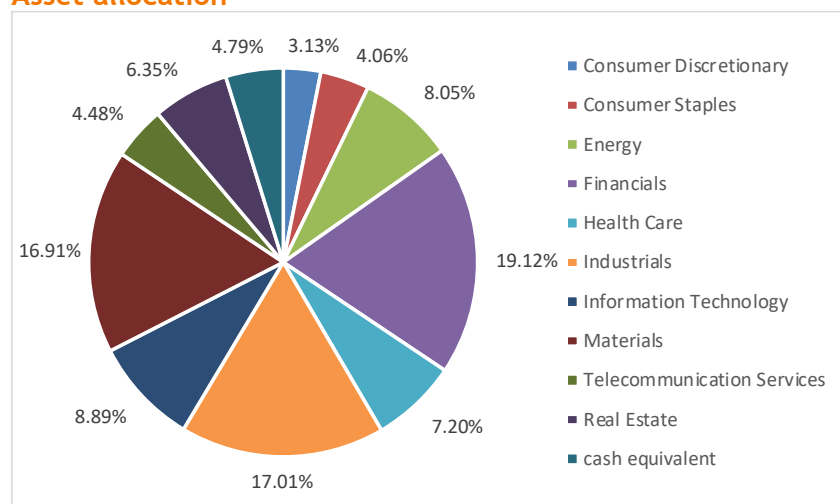
Unit Price	Application	Net Asset Value	Withdrawal
	\$ 1.5133	\$ 1.5095	\$ 1.5057

Performance ³	1 mth %	3 mths %	6 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	Inception % p.a.
Distribution Return	0.00	0.48	0.49	6.69	10.42	11.59	6.99
Growth Return	-1.29	7.13	10.00	-6.52	-4.76	-1.59	3.00
Total Net Return	-1.29	7.61	10.49	0.17	5.66	10.00	9.99
S&P/ASX300 Accumulation Index	0.33	12.05	13.42	-2.69	7.13	10.14	7.94
Total Net Return vs. the Index	-1.62	-4.44	-2.93	2.86	-1.47	-0.14	2.05

Past performance is not a reliable indicator of future performance.

Distribution Period	30-Jun-19	31-Dec-19	30-Jun-20	31-Dec-20
Distribution rate (cents per unit)	12.0728	2.5463	9.7956	0.7331

Asset allocation



Top 5 holdings

National Australia Bank Limited

CSL Limited

Woodside Petroleum

Australia & New Zealand Banking Group Limited

Macquarie Group Limited

Top 5 holdings represent 32.19% of the total Fund.

- Includes estimated GST payable, after taking into account Reduced Input Tax Credits ("RITC").
- Effective 1 December 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
- 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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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 consumption 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 logistical issues 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 Index 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 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.

For more information visit www.sghiscock.com.au

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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 see Uniti as extremely well positioned to grow its fibre network business in both the wholesale and retail arena

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