SGH SG HISCOCK & COMPANY

ICE Investors

ICE Fund

29 February 2024

February continued the positive start to the year for the ICE Fund. The Fund returned 3.01% for the month, 11.59% for the rolling quarter, and the one year rolling return now stands at 18.41%.

Having commented extensively during 2023 in respect to the material underperformance of the small cap sector in Australia in recent periods it has been pleasing to observe the broadly similar returns of large and small cap industrials (see table below) for the rolling twelve months to February. This is consistent with our observation that sentiment toward small caps in the latter part of 2023 was improving. More pleasingly, we note that the benchmark unaware ICE fund has outperformed both indices over this time frame.

February "reporting season" always proves insightful for the companies we own in the fund. What do we look for a franchise company to deliver at its half or annual profit results? Essentially good growth in revenue, ideally evidence of growth above industry levels (meaning market share gains) and stable to rising profit margins – indicative of pricing power and scale benefits. We discuss several of the top contributors and detractors to the fund below, including several key contributor companies that continue to gain market share, winning customers and contracts.

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Investment Objective

To deliver superior medium to long term returns by investing in ASX & NZX listed companies which possess a durable competitive advantage by owning or operating assets that are difficult to replicate.

Investments Held

A portfolio of approximately 30-50 predominantly ASX listed securities (a minimum of 15 and generally no more than 80).

Top 5 Holdings*

AUB Group
GQG Partners
GUD Holdings Limited
Light & Wonder Inc
PSC Insurance Group Ltd

Top 5 holdings represent 20.6% of the total fund.
* In alphabetical order.

ICE performance

Performance [1]	1 m (%)	3 m (%)	1 yr (%)	3 yrs (% p.a.)	5 yrs (% p.a.)	10 yrs (% p.a.)	15 yrs (% pa)	Inception (% pa)
Total net return	**3.01**	**11.59**	**18.41**	**4.03**	**7.47**	**8.21**	**13.40**	**9.73**
S&P/ASX Small Cap Industrial	**3.89**	**14.92**	**12.87**	**1.07**	**4.27**	**6.36**	**9.98**	**4.46**
S&P/ASX 300 Accum Industrials	3.42	13.89	14.15	9.26	8.27	7.92	11.41	7.17
S&P/ASX300 Accum. Index	0.98	9.46	10.53	9.09	8.61	7.94	10.22	6.88

[1] Total Net Return is the Fund return after the deduction of ongoing fees and expenses and assumes the reinvestment of all distributions.[1] Includes estimated GST payable, after taking into account Reduced Input Tax Credits ("RITC"). Past performance is not a reliable indicator of future performance.

Market Cap Analysis

$10b	11%
$5b - $10b	12%
$2b - $5b	21%
$1b - $2b	20%
$500m - $1b	17%
$100m - $500m	11%
<$100m	0%
Cash*	7%

Co. Weight	No. of stocks
4.0%	3
3.0%	11
2.0%	12
1.5%	7
1.0%	8

Growth Maturity

Peak Cashflow	23%
Growth	63%
Establish	8%
Cash*	7%
Total	100%

* Cash holding was elevated at month end due to material inflows received into the fund, plus timing of reporting season transactions (buys/sells).

Asset Allocation

Sector	Fund (%)
Consumer discretionary	28.83
Consumer staples	--
Financials	22.26
Health care	10.27
Industrials	8.16
Information technology	14.26
Materials	2.54
Telecommunication Services	4.37
Real Estate	2.45
Cash equivalent	6.86
Total	**100.00**

Key Facts

Investment manager	SG Hiscock & Company Limited
Investment sub-manager	ICE Investors Pty Limited
Inception date	13 Feb 2006
Fund size	$575M
Number of holdings	45
Dividends payable	Six Monthly
Buy/sell spread	+0.30%/-0.30%
Minimum initial investment	$20,000
Base currency	AUD
APIR	ETL0062AU
Management fees [2]	1.180%
Performance fees [3]	15.375%
mFund code	SHF02
Domicile	Australia
	Unit price
Application	$2.0880
Net Asset Value	$2.0818
Withdrawal	$2.0756
	Distributions (cpu)
30-Jun-22	25.5026
31-Dec-22	0.7796
30-Jun-23	2.9600
31-Dec-23	1.5449

[2] Includes estimated GST payable, after taking into account Reduced Input Tax Credits ("RITC").

[3.] A performance fee of 15.375% (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 300 Accumulation Index plus 1.20% p.a. calculated on a daily basis gross of fees) may also be payable.

Monthly Performance Commentary

Positive contributors to the ICE Fund for February included:

- **Temple & Webster (TPW) –** TPW continues to entrench its position as the leading, profitable online retailer for furniture and homewares in Australia – aiming to offer its customers a differentiated catalogue of products at great prices. At ICE, our focus remains on the longer-term prize of category leadership as the sales for furniture and homewares shift toward online. TPW's industry leadership allows it to benefit from scale across purchasing, product range and logistics or customer delivery. TPW's half year profit results confirmed market share gains, growing revenue at 23%, accelerating across the period. We expect that overall sales for the furniture and homewares category was down for the period, making TPW's growth all the more impressive.

- **OOH!Media (OML)** is an Australian market leader in outdoor media advertising. OML's core asset is their physical footprint – ownership or long dated leases for key outdoor billboard sites in prominent locations, exposed to the eyeballs of the general public. If advertisers wish to reach consumer's eyeballs at airports, roadsides, bus shelters, offices or retail precincts, they need to use OML. As a category, outdoor media advertising, led by high profile digital billboards continues to win share of total advertising dollars. This is a global phenomenon where Australia is following the lead set offshore. We note also OML's recent contract wins, announced at their full year, February results, validating the quality of their assets and the format's appeal.

- **Light & Wonder (LNW)** – dual listed LNW was a material contributor to the portfolio in February, following its fourth quarter and full year financial results. LNW is a leading global provider of digital and electronic gaming services. Management is well respected, and a known quantity in the Australian market, all of which is proving supportive post LNW's recent dual listing. The company is some three plus years into a simplification and turnaround of its business. The simplification involved asset sales and the turnaround has focussed on increasing spend in research and development, predominantly focussed on staff talent. With a rebuild of talent, product content and R&D spend approaching targeted levels, we expect LNW is now in a good position to consolidate its industry position and pursue market share gains.

- **GQG Partners (GQG)** – GQG is a listed fund manager led by co-founder Rajiv Jain with investment products spanning Global, International, US and Emerging Markets. We understand that Rajiv and his investment team bring a formidable track record and a highly credentialled and capable distribution operation which are, in aggregate, difficult to replicate. Distribution covers both researcher networks, key consultant relationships and broader selling capability that has been critical to market share gains and fund flows across wholesale, retail and US Mutual Fund channels. The shares have performed well in recent months, boosted by consistent, solid inflows across several years, in turn supported by good performance across the group's suite of investment offerings.

The key detractor from the ICE Fund in February was **Australian Clinical Laboratories (ACL**), a leading provider of both community, hospital and industrial pathology services. We believe that ACL has good assets, namely brand [with both patients and doctors], scale, location and market leading investment in technology and systems across their national footprint. Importantly we believe that customers of ACL, namely Doctors, remain loyal to a given pathology lab – provide a professional, reliable service and the doctors will keep coming back. The headwind for the industry remains depressed volumes of both GP's [yes, a physical lack of GPs post pandemic] and therefore availability and affordability of patient appointments to drive pathology referrals.   The key issue at ACL's results, was modest revenue growth, with GP access remaining a concern. We do anticipate these impediments to normalise in time [like many post pandemic distortion], and hence why we remain holders of this franchise pathology company.

Monthly Portfolio Activity

We added AUB Group (AUB) to the portfolio in February. AUB have a somewhat unique combination of business assets. Firstly, they have ownership in a series of insurance brokers – mainly retail insurance brokers in Australia, New Zealand and a small footprint at this stage in the UK.

These businesses are supported by a group of AUB owned Agency & Wholesale Brokers – the network that AUB provide make the retail brokers "sticky" or loyal to AUB insurance service and business support. In turn, we expect that AUB's SME clients are loyal to their insurance brokers. Insurance brokers provide an excellent service, assisting SME customers with premium and claims when required. The "asymmetric" knowledge gap, between broker and client when it comes to the complexity of insurance, typically ensures that customers are heavily reliant and loyal to their insurance broker.

The fund took profits in TPW, Car Group Limited (CAR), GQG and Jumbo Interactive (JIN). We exited our positions in Seven Group Holdings (SVW) and Corporate Travel (CTD).

ICE Fund Overview

Our overall goal is to invest (at sensible prices) in companies with a sustainable competitive edge.

This is the focus because these companies deliver ***more certain earnings growth****.*

We go through the following steps for each company that is considered for investment:

1. *Find assets that are difficult to replicate e.g. licenses, patents, brands, captive client base.*
2. *Ensure the company has an entrenched market position for its products/services = hard for competitors to take revenues. If steps 1 & 2 are achieved, then we have a company that should deliver higher & more certain earnings growth over the cycle.*
3. *Ensure we are buying the shares at a price will deliver a* ***high internal rate of return*** *to us as the investor. This ensures higher and more certain earnings growth translates into superior share market performance over time.*

Evidence of the more certain earnings growth has been proven over the course of more than a decade.

The earnings of the median company in the ICE portfolio have averaged +10% pa (FY09 to FY23) which compares favourably to the Industrials market which struggled to grow over the same time period.

The end result is a focus on companies with:

- *Organic growth opportunities that are not overly impacted by fluctuations in the economy.*
- *Appropriate debt levels.*
- *Strong cash generation.*

Awards

IMAP MANAGED ACCOUNT AWARD FINALIST AUSTRALIAN EQUITIES SMALL CAP

Australian Equities Small Cap Finalist 2020 IMAP MANAGED ACCOUNT AWARDS

* Morningstar Awards 2016©. Morningstar, Inc. All Rights Reserved. Finalist: Domestic Equities – Small Caps
** Morningstar Awards 2015©. Morningstar, Inc. All Rights Reserved. Winner: Fund Manager of the Year 2015 - Small Caps Category, Australia.

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