

ICE Fund

31 October 2024

The ICE Fund returned -1.66% for the month of October and now 30.95% for the rolling year, net of fees.

Contributors to the ICE Fund's strong one-year returns have come from a variety of franchise investments. Key positives included family location services app, Life 360, sports performance software company, Catapult Group, Australia's leading chemical distribution company, Redox Limited & investment manager distribution specialist, Pinnacle.

While noting the strong returns for the ICE fund in the past year we would still observe the material underperformance of the small cap segment of the market against the larger cap stocks over the past three years. We discuss the key contributors to the fund in our report, together with portfolio activity for the month.

[Continue to the full commentary on page 3](#)

ICE Investment Team

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For more information visit the [Fund webpage](#).

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*

Amotiv
AUB Group
Chorus Limited
EBOS Group
Light & Wonder Inc

Top 5 holdings represent 17.6% 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	-1.66	0.08	30.95	-0.71	7.12	8.11	10.01	9.86
S&P/ASX Small Cap Industrial	-1.12	1.15	31.12	-1.22	3.44	6.64	6.70	4.57
S&P/ASX 300 Accum Industrials	-0.26	2.00	34.62	6.96	7.77	8.22	9.32	7.51
S&P/ASX300 Accum. Index	-1.30	2.19	24.86	7.62	8.10	8.33	8.19	7.10

¹ Total Net Return is the Fund return after the deduction of ongoing fees and expenses and assumes the reinvestment of all distributions. 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	10%
\$5b - \$10b	16%
\$2b - \$5b	27%
\$1b - \$2b	11%
\$500m - \$1b	22%
\$100m - \$500m	7%
<\$100m	1%
Cash*	7%

Co. Weight

	No. of stocks
4.0%	1
3.0%	16
2.0%	11
1.5%	5
1.0%	13

Growth Maturity

Peak Cashflow	23%
Growth	64%
Establish	6%
Cash*	7%
Total	100%

Sector

	Fund (%)
Consumer Discretionary	23.85
Consumer Staples	2.42
Financials	14.24
Health Care	16.85
Industrials	9.13
Information Technology	13.38
Materials	2.22
Telecommunication Services	4.53
Real Estate	6.48
Cash equivalent	6.90
Total	100.00

Key Facts

Investment sub-manager	ICE Investors Pty Limited
Inception date	13 Feb 2006
Fund size	\$600M
Number of holdings	46
Distributions	Semi-annual
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	2.2588
Net Asset Value	2.2520
Withdrawal	2.2452
	Distributions (cpu)
30-Jun-23	2.9600
31-Dec-23	1.5449
31-June-24	1.2981

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

Top contributors to the ICE Fund's performance for the month included:

- **Generation Development (GDG)** – GDG's quarterly market update in October was well received by investors. GDG are a market leader in the manufacture and distribution of tax effective investment bonds, and recently recorded their highest ever rolling twelve months of inflows to the end of September. Advisor education, and product innovation continue to entrench their dominant position for fund flows in this category. Pending changes to Superannuation legislation for High Net Worth (HNW) balances look set to provide further tailwinds with Investment Bonds positioned as an alternative investment vehicle. We note also that GDG have been incubating an investment linked annuity product in their stable. Similar to GDG's efforts in respect to investment bonds, progress was modest in the early times, but has been building, and offers a future growth option for the GDG franchise.
- **Life 360 (360)** – 360 was again a strong contributor to fund returns in October. Their unique franchise supports customers in locating and monitoring family members, capturing 70m registered users of the product worldwide at last update. Life 360 has begun "advertising" to the non-paying or freemium user base. This opens up a whole new profit pool for Life 360, on top of the already fast growing, core subscription platform. Based on the experience of other comparable digital businesses like Reddit, Spotify and Uber, the uplift in profit potential for Life 360 is substantial.
- **Redox Limited (RDX)** – was a solid contributor to the fund in October, and indeed has made a strong contribution since we first invested via the IPO in 2023. RDX is Australia's leading importer and distributor of chemicals – across food production, agriculture, mining, manufacturing and more. RDX is a founder led business, with a 50 plus year operating history. Their franchise strength stems from their market share, built upon their bespoke sales systems and operating know-how, combined with long established deep links into global supply chains. Together with long dated customer relationships across many industries, these attributes have delivered profitable growth for RDX over many years.
- **Light & Wonder (LNW)** – Having been a detractor from fund returns in the prior quarter, it was pleasing to see LNW become a positive contributor to the fund in October. We highlighted LNW in our last update as a key detractor following the loss of an intellectual property challenge to a competitor in its key US market. Although these legal proceedings will now limit LNW in selling a modest part of its intellectual property portfolio, we don't at this stage anticipate that over time, this one legal finding will dramatically change the investment thesis, nor growth prospects for LNW.

WEB Travel Group (WEB) was a key detractor from the ICE Fund in October, following a market trading update. Despite achieving solid growth in revenue for WEB's WebBeds business, profit margins have recently disappointed. WEB attributed the margin pressure to various short-term dynamics, although in our view these highlighted an increasing lack of visibility for the business and potential structural pressure on profit margins. As such we elected to sell the balance of our holding. Following the recent demerger of Webjet (WEB) into Webjet Travel Group (WEB) and Webjet Group Limited (WJL) we had already sold our position in WJL and reduced our remaining position in WEB prior to the downgrade.

Monthly Portfolio Activity

The ICE Fund added to existing positions in Australian Clinical Laboratories (ACL) and Steadfast (SDF). We exited our position in WEB Travel Group (WEB) as discussed and took profits in each of Chorus Limited (CNU), Life 360 (360), Generation Development (GDG), and Catapult (CAT) across the month.

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



* 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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Disclaimer: Equity Trustees Limited ("Equity Trustees") (ABN 46 004 031 298), AFSL 240975, is the Responsible Entity for the ICE Fund ("the Fund"). Equity Trustees is a subsidiary of EQT Holdings Limited (ABN 22 607 797 615), a publicly listed company on the Australian Securities Exchange (ASX: EQT).

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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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