

ICE Fund

31 January 2024

Following a very positive calendar year 2023 for investor returns, the ICE Fund made a positive start to 2024, adding 2.72% in January. The twelve-month rolling return stands at 13.54%.

Market watchers will observe that each calendar year begins with a host of predictions from all corners of the market - index returns, key stock picks, risky sectors, the outlook for small caps and more. At ICE Investors we commented on the material underperformance of the small cap sector in Australia on several occasions last year. On that basis we were pleased to observe both improved returns for the small cap sector as a whole in 2023, together with improved sentiment toward small caps in the latter part of 2023.

That said, our process and focus remains on identifying and investing in franchise companies – industrial companies with a moat, a sticky customer base and the prospect of solid investment returns for our clients – paying the correct price for the shares! This is the same process and philosophy that has underpinned our near 18-year track record of investment returns.

At the start of each calendar year our investment team always looks forward to February reporting season. This provides the ICE team an opportunity to touch base with our existing and prospective portfolio holdings in our targeted universe, engage with the management teams and re-test our views around the franchise quality of these companies.

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

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*

Carsales.com Ltd.
 GQG Partners
 GUD Holdings Limited
 Light & Wonder Inc
 PSC Insurance Group Ltd

Top 5 holdings represent 21.5% 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 | 2.72 | 16.82 | 13.54 | 4.00 | 7.52 | 8.27 | 13.10 | 9.59 |
| S&P/ASX Small Cap Industrial | 1.91 | 20.07 | 6.79 | 0.26 | 4.90 | 6.45 | 8.92 | 4.26 |
| S&P/ASX 300 Accum Industrials | 2.91 | 17.14 | 9.20 | 8.03 | 8.76 | 8.07 | 10.66 | 7.00 |
| S&P/ASX300 Accum. Index | 1.10 | 13.89 | 6.66 | 9.27 | 9.67 | 8.36 | 9.81 | 6.86 |

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 | 12% |
| \$5b - \$10b | 13% |
| \$2b - \$5b | 14% |
| \$1b - \$2b | 28% |
| \$500m - \$1b | 18% |
| \$100m - \$500m | 11% |
| <\$100m | 0% |
| Cash* | 5% |

| Co. Weight | No. of stocks |
|------------|---------------|
| 4.0% | 4 |
| 3.0% | 5 |
| 2.0% | 20 |
| 1.5% | 6 |
| 1.0% | 8 |

Growth Maturity

| | |
|---------------|-------------|
| Peak Cashflow | 23% |
| Growth | 63% |
| Establish | 9% |
| Cash* | 5% |
| Total | 100% |

Asset Allocation

| Sector | Fund (%) |
|----------------------------|---------------|
| Consumer discretionary | 30.96 |
| Consumer staples | -- |
| Financials | 20.79 |
| Health care | 10.67 |
| Industrials | 8.87 |
| Information technology | 14.28 |
| Materials | 2.24 |
| Telecommunication Services | 4.48 |
| Real Estate | 2.12 |
| Cash equivalent | 5.21 |
| Total | 100.00 |

Key Facts

| | |
|-------------------------------|----------------------------|
| Investment sub-manager | ICE Investors Pty Limited |
| Inception date | 13 Feb 2006 |
| Fund size | \$560.4M |
| 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 | \$2.0271 |
| Net Asset Value | \$2.0210 |
| Withdrawal | \$2.0149 |
| | 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 January included:

- Fertility specialist and *in vitro* fertilisation (“IVF”) technology pioneer, **Monash IVF (MVF)** was a strong contributor to the ICE Fund in January, and indeed has been since we first invested in 2023. Today, MVF are one of the leading IVF providers in Australia holding a strong and growing market share for fertility services. The items that underwrite the competitive advantage: Scientific knowhow, laboratory capability, R&D spend, best practice and governance help drive industry leading fertility success rates for Monash. MVF are converting these qualities into market share gains, with more and more specialist doctors joining the group, underpinning patient and profit growth.
- **ResMed Inc (RMD)** – ResMed own the leading global franchise in treating obstructive sleep apnoea (OSA) – a medical condition which afflicts millions globally as they sleep. RMD are the market leader via both their PAP machines (positive air pressure) and facial masks. Recent concerns in respect to how Ozempic and similar medicines, seeking to treat obesity and impact other cardiovascular conditions, would in turn impact the demand for OSA and PAP therapy created a large fall in RMD shares. The simplistic view, that a ‘cure’ for obesity would lower the necessity for OSA treatments created the opportunity to buy RMD, a quality global medical device franchise at an attractive price in November 2023. RMD’s most recent quarterly profit result in January confirmed strong profit growth of the franchise, and as yet no material impact on demand for RMD’s PAP products.
- **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. The shares have performed well in recent months, boosted by continued solid inflows across calendar year 2023, in turn supported by good performance across the group’s suite of investment offerings. We understand that Rajiv and his investment team bring a formidable track record, a highly capable distribution operation and somewhat differentiated fee structure which are, in aggregate, difficult to replicate.
- **Generation Development (GDG)** quarterly market update in January was well received by investors. GDG maintain their market leading share of fund flows in the sale and product management of Investment Bonds in Australia, driven by continued product innovation and sales know how. Fund flows were solid into both the core Investment Bond product, along with GDG’s part owned investment stake in LONSEC and its LONSEC Investment Solutions product. Finally, GDG continues to nurture its new offering, namely an investment linked lifetime annuity. Adviser based support for the product is building, along with critical research ratings and product tenure. A recent collaboration agreement with MetLife should support sales and uptake via a potential ‘white label’ distribution channel for GDG to superannuation fund members.

The key detractor from the ICE fund in January was our relatively small investment in Nanosonics (NAN). NAN is an infection control based medical device company with a well established product, Trophon, sold globally for instrument disinfection, together with a soon to launch CORIS device targeting the automated disinfection of medical endoscopes. Disappointingly, NAN’s “market update” highlighted a material slow down in sales growth for the core Trophon product. Irrespective of the company’s view of the reasons behind this slow down, we were concerned what this sudden change meant for the longer term growth prospects of a potentially maturing product. With conviction in this core product reduced, we sold our position.

Monthly Portfolio Activity

Portfolio activity was light in January, with our outright sale of NAN, and an increase to our holding in Light and Wonder (LNW) the main changes in the fund.

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.

SGH Distribution Team for the Fund



Anthony Cochran
Head of Distribution
acochran@sghiscock.com.au
0410 332 870



Rebecca Collins
Head of Research & Consultants
rcollins@sghiscock.com.au
0423 561 879



Matthew Potter
Senior Investment Specialist
mpotter@sghiscock.com.au
0404 884 399



Nick Simpson
Research & Platform Manager
nsimpson@sghiscock.com.au
0448 336 317

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).

This publication has been prepared by SG Hiscock and Company Limited to provide you with general information only. In preparing this document, we did not take into account the investment objectives, financial situation or particular needs of any particular person. It is not intended to take the place of professional advice and you should not take action on specific issues in reliance on this information. Neither SG Hiscock & Company Limited ("SGH") (ABN 51 097 263 628 AFSL 240679), ICE Investors Pty Limited Equity (ABN: 30 630 473 5689), Equity Trustees nor any of its related parties, their employees or directors, provide and warranty of accuracy or reliability in relation to such information or accepts any liability to any person who relies on it. Past performance should not be taken as an indicator of future performance. You should obtain a copy of the Product Disclosure Statement before making a decision about whether to invest in this product.

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.

SG Hiscock & Company

ABN 51 097 263 628
AFSL 240679

Level 23, 360 Collins Street
Melbourne 3000

Level 4, 95 Pitt Street
Australia Square Plaza
Sydney 2000

1300 555 511
www.sghiscock.com.au

