

# ICE Fund

30 June 2024

For the FY24 financial year the ICE Fund returned a very pleasing 18.73%. Returns for June and the June quarter were 1.91% and -0.81% respectively.

Although the ICE Fund is benchmark unaware we believe the fund's performance in the past twelve months should be viewed favourably against what has been a depressed backdrop for small cap industrial stocks over both this period, and indeed the last 3 years.

Pleasingly, the performance of the smaller cap segment of the market has improved in recent months, lifting the Small Industrials Accumulation index return to 12.40% for the financial year. The ICE Fund's 18.73% return compares favourably, and similarly we would observe the ICE Fund's returns over 3, 5, 10, 15 years, and since inception are comfortably ahead of that index.

The strong portfolio returns in FY24 were supported by a broad contribution from multiple franchise stocks within the portfolio. We detail several key investments in the section below and now look forward to the next year and continuing to invest in and unearth business franchises that meet our criteria.

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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  
Chorus Limited  
Infomedia Ltd  
Light & Wonder Inc  
Steadfast Group

Top 5 holdings represent 20.2% of the total fund.

\* In alphabetical order.

## ICE performance

Performance <sup>1</sup>	1 m (%)	3 m (%)	1 yr (%)	3 yrs (% p.a.)	5 yrs (% p.a.)	10 yrs (%) p.a.)	15 yrs (%) pa)	Inception (% pa)
<b>Total net return</b>	<b>1.91</b>	<b>-0.81</b>	<b>18.73</b>	<b>0.93</b>	<b>7.49</b>	<b>8.57</b>	<b>11.93</b>	<b>9.81</b>
<b>S&amp;P/ASX Small Cap Industrial</b>	<b>1.43</b>	<b>-4.50</b>	<b>12.40</b>	<b>-2.21</b>	<b>2.86</b>	<b>6.57</b>	<b>7.82</b>	<b>4.31</b>
S&P/ASX 300 Accum Industrials	3.28	0.11	17.70	5.93	7.00	8.01	10.29	7.21
S&P/ASX300 Accum. Index	0.92	-1.20	11.92	6.08	7.22	8.04	9.00	6.87

<sup>1</sup> Total Net Return is the Fund return after the deduction of ongoing fees and expenses and assumes the reinvestment of all distributions.<sup>1</sup> 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**

<b>\$10b</b>	10%
<b>\$5b - \$10b</b>	13%
<b>\$2b - \$5b</b>	32%
<b>\$1b - \$2b</b>	10%
<b>\$500m - \$1b</b>	19%
<b>\$100m - \$500m</b>	10%
<b>&lt;\$100m</b>	0%
<b>Cash*</b>	7%

<b>Co. Weight</b>	<b>No. of stocks</b>
<b>4.0%</b>	2
<b>3.0%</b>	15
<b>2.0%</b>	11
<b>1.5%</b>	5
<b>1.0%</b>	8

**Growth Maturity**

<b>Peak Cashflow</b>	20%
<b>Growth</b>	67%
<b>Establish</b>	6%
<b>Cash*</b>	7%
<b>Total</b>	100%

<b>Sector</b>	<b>Fund (%)</b>
cash equivalent	7.27
Consumer Discretionary	24.94
Financials	21.60
Health Care	12.75
Industrials	7.92
Information Technology	15.03
Materials	2.16
Telecommunication Services	5.00
Real Estate	3.33
<b>Total</b>	<b>100.00</b>

**Key Facts**

Investment sub-manager	ICE Investors Pty Limited
Inception date	13 Feb 2006
Fund size	\$585M
Number of holdings	41
Dividends payable	Six Monthly
Buy/sell spread	+0.30%/-0.30%
Minimum initial investment	\$20,000
Base currency	AUD
APIR	ETL0062AU
Management fees <sup>2</sup>	1.180%
Performance fees <sup>3</sup>	15.375%
mFund code	SHF02
Domicile	Australia
<b>Unit price</b>	
Application	\$2.1817
Net Asset Value	\$2.1752
Withdrawal	\$2.11687
<b>Distributions (cpu)</b>	
30-Jun-22	25.5026
31-Dec-22	0.7796
30-Jun-23	2.9600
31-Dec-23	1.5449

<sup>2</sup> Includes estimated GST payable, after taking into account Reduced Input Tax Credits ("RITC").

<sup>3</sup> 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.

## Quarterly Performance Commentary

Positive contributors to the ICE Fund for the June quarter included: -

- **PSC Insurance (PSI)** – PSC has been a strong contributor to the ICE fund over many years. The insurance broker's shares lifted in May on the back of a proposed acquisition by Ardonagh, one of the largest independent insurance broking groups in the world. PSI's investment attributes are clear, with a strong customer offering to SMEs for insurance broking, very loyal and sticky customers, plus consistent profit growth. We expect the transaction is likely to proceed, although the possibility always exists of a superior proposal.
- **Life 360 (360)** – Shares in the family safety and location sharing 'app' Life 360 made a strong contribution to the fund this quarter, and indeed the last financial year. The unique franchise supports customers in locating family members, capturing 65m registered users of the product globally at last update. Parents receive smart notifications on movements of people within their 'family circle', place alerts (are my kids where they are supposed to be – e.g. at school) and safe driving alerts including crash detection and automated dispatch of emergency services. Further services include physical "TILE" devices applied to your luggage, sporting equipment and even your pet, together with roadside assistance, credit card protection and more. Life 360 intends to begin "advertising" to the non-paying or freemium user base. Based on the experience of other comparable digital businesses like Reddit, Spotify and Uber, the earnings uplift potential is substantial.
- **GQG Partners (GQG)** – Similarly, listed global fund manager GQG continues to feature in the fund's top performers. Led by co-founder Rajiv Jain, the company has leveraged its well-resourced investment team, its substantial global distribution capability, its extraordinary breadth of consultant ratings and relationships and a stellar long-term track record to grow its funds under management (FUM) prodigiously. The power of these difficult-to-replicate assets has supported growth in FUM of just over 50% over the last 12 months, rewarding shareholders with commensurate growth in profit, cash flow and dividends.
- **Catapult Group (CAT)** – Catapult shares responded positively to the release of CAT's FY24 financial result and business update in May. CAT is the global leader in wearable devices used for sports performance data and athlete monitoring, servicing more than 4,200 sporting teams globally. CAT are winning new teams in multiple sports and geographies, including recent client wins in baseball, basketball and motor racing! This is together with ongoing customer additions for soccer, American Football and Ice Hockey. CAT's products continue to expand their reach, launching new features and algorithms in multiple sports, entrenching its position as the market leader. CAT is now generating positive cash flows and the runway ahead looks promising for the CAT franchise.

**Temple & Webster (TPW)** – TPW was the key detractor from portfolio returns across the quarter. We had materially sold down the ICE Fund's holding earlier this calendar year at considerably higher prices. We do note the broader concerns around consumer spending in the face of rising cost of living pressures and expect this was a key factor in the share price weakness. The longer-term prize for TPW is to dominate their space as the category for furniture and homewares continues to progressively shift online. TPW's recent market update in early May, confirmed 30% revenue growth for the calendar year to date, clearly gaining share in a category which was likely subdued across this period.

## Quarterly Portfolio Activity

The ICE Fund participated in two capital raisings for core portfolio holdings during the quarter. Firstly, AUB Group who raised \$200m to purchase a majority stake in Pacific Indemnity, an Australian insurance agency. Secondly, Generation Development (GDG) raising \$148m to take its ownership in LONSEC to 100%. We attended the EQT investor day in Sydney in April and continue to be impressed by the ‘financial infrastructure’ that EQT holds, subsequently increasing our holding. Finally, we added to our holding in InfoMedia (IFM) across the quarter.

To fund these investments, the fund took profits in ResMed Inc (RMD), Macquarie Telecom (MAQ), Webjet (WEB) & Life 360 (360) across the quarter. We also exited our holding in Sigma Healthcare (SIG) in April. The planned merger of Sigma with the Chemist Warehouse Group (CWG) will, in our view materially improve both the asset quality of SIG, but also the earnings consistency. That said, the share price now captures our view of long term valuation, and we elected to sell.

## 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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*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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