SG HISCOCK & COMPANY

SGH Emerging Companies Fund

29 February 2024

Performance [3]	Total Net Return	Income Return	Growth Return	S&P/ASX Emerging Companies Accum. Index [4]	Total Net Return vs Index
1 month (%)	0.37	0.00	0.37	5.15	-4.78
3 months (%)	-0.24	0.00	-0.24	6.12	-6.36
6 months (%)	-4.34	0.00	-4.34	-0.19	-4.15
1 year (%)	-3.30	1.25	-4.55	-3.23	-0.07
3 years (% pa)	-6.88	6.21	-13.09	1.44	-8.32
5 years (% pa)	7.67	5.00	2.6	11.00	-3.33
10 years (% pa)	8.00	3.61	4.39	8.08	-0.08
Inception (% pa)	12.02	2.70	9.32	7.76	4.26

Past performance is not a reliable indicator of future performance.

Summary

- The Fund increased by 0.37% after fees in February, underperforming its benchmark, which gained 5.15%.
- Our better performing stocks for the month include Ansarada Group (subject to takeover offer) (+35.7%), DUG Technology (+25.6%), Vita Life Sciences (+13.2%), The Market Limited (+12.5%) and Medadvisor (+12.5%).
- Stocks that fell for the month include Vitura Health (-41.6%), ImpediMed (-24.5%), Calidus Resources (-17.9%), CurveBeamAI (-14.9%) and Big River Industries (-11.4%).
- For the rolling twelve months ended, the Fund has decreased by 3.30%. This compares to the S&P/ASX Emerging Companies Accumulation Index, which has lost 3.23% over the same period.

Key Facts

Investment manager	SG Hiscock & Company Ltd.
Launch date	22 Jun 2001
Benchmark	S&P/ASX Emerging Companies Accum. Index
Management fee [1]	1.03%
Performance fee [2]	20.50%
Fund size	$179.3M
Distributions	Annual
Buy/sell spread	+0.35/ -0.35%
Minimum initial investment	$20,000
Base currency	AUD
APIR	ETL0118AU
mFund	SHF04
Domicile	Australia
SIV	Compliant and audited
	Unit price
Application	$4.6813
Net Asset Value	$4.6650
Withdrawal	$4.6487
	Distribution cpu
30-Jun-21	74.1094
19-Jan-22	48.1919
30-Jun-22	14.3367
30-Jun-23	6.2000

Investment Objective

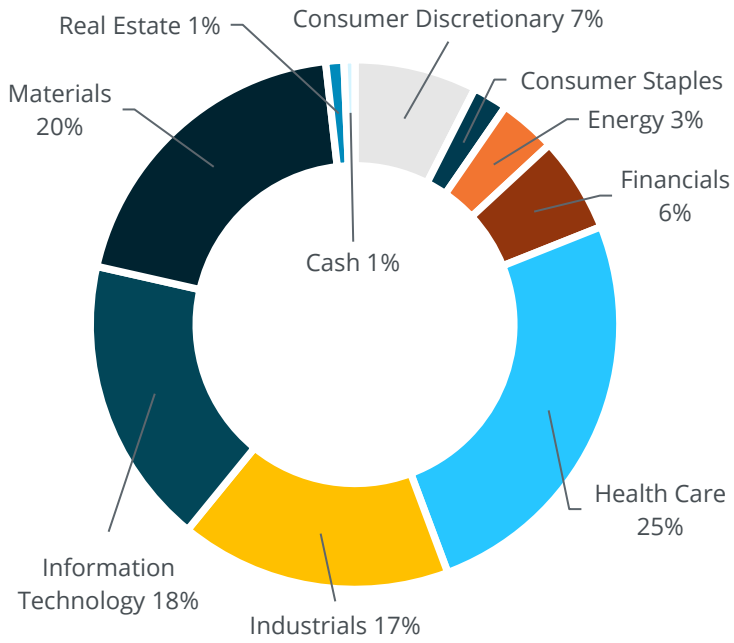
To provide medium to long-term capital growth potential and seeks to outperform the S&P/ASX Emerging Companies Accumulation Index over rolling three-to-five-year periods after taking into account fund fees and expenses.

Investment Held

The Fund will invest in companies that have a market capitalization of less than $500m (at the time of first purchase) and cash.

Asset Allocation:

Sector	Fund (%)
Consumer Discretionary	7.50
Consumer Staples	2.14
Energy	3.50
Financials	5.87
Health Care	25.38
Industrials	16.62
Information Technology	17.68
Materials	19.73
Telecommunication Services	0.19
Real Estate	1.11
Utilities	0.22
Cash equivalent	0.67
Total	**100.00**



Top 10 Holdings
Lycopodium Limited
Animoca Brands Corp
Dug Technology Ltd
Generation Development Group
The Market Ltd
Medadvisor Limited
Marketplacer Holding
Vita Life Sciences
Big River Industries Ltd
Almonty Industries Inc

Top 10 holdings represent 43.42% of the total Fund.

[1] Includes estimated GST payable, after taking into account Reduced Input Tax Credits ("RITC").
[2.] Effective 1 October 2015, a performance fee of 20.50% (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 Emerging Companies Accumulation Index on a daily basis) may also be payable.
[3] 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.
[4.] Index = S&P/ASX Emerging Companies Accumulation Index effective 1 October 2015, previously S&P/ASX Small Ordinaries Accumulation Index.

Market Commentary

The SGH Emerging Companies Fund finished slightly up in February, underperforming its benchmark, the S&P/ASX Emerging Companies index, which was volatile with big gains in technology shares and a late-month surge in lithium stocks. Note that we can't own some of these stocks which are in our benchmark index because their market capitalisations are above $500m.

However, against this backdrop, the February reporting season saw most of our portfolio companies deliver strong half-year revenue and profit growth, except for several medical technology stocks, which disappointed and detracted from the overall portfolio returns.

The Fund also benefited from a takeover bid for virtual data room company Ansarada Group. After month's end, we also benefited from M&A activity in another of our holdings – see below.

We also think it's important to note, with our performance, that with the overall stock market, including many large companies, trading at record highs, the best opportunities in the Australian market now clearly lie outside the S&P/ASX300 index, as these stocks have cheaper valuations and significantly under-performed because of poor investor sentiment and liquidity.

For example, one way to measure this is the price discount for Listed Investment Companies (LICs) that should trade close to their net asset value (NTA), but many are still trading at large discounts.

Nevertheless, we maintain our conviction that an investor sentiment and liquidity turnaround is occurring, and market leadership will broaden into micro-cap companies. With expectations of interest rate cuts, potentially starting mid-year, we anticipate a shift in investor focus toward growth stocks.

Inflation is moderating, and it looks like the RBA made a mistake in raising interest rates in November last year, as more Australians are falling behind on their mortgage repayments, retail sales are weak, economic growth stagnates, business insolvencies are rising and unemployment therefore is set to rise.

The Australian economy grew at only 1.5% last year and has had three-quarters of negative growth when adjusted for population growth – a per capita recession. Additionally, this underscores the need for targeted fiscal stimulus measures from the government, which could benefit emerging companies poised for growth.

In conclusion, while February presented its challenges, we remain confident that the Fund performance will continue to recover. We have a well-diversified portfolio anchored by companies with strong fundamentals, positioning us well to capitalize on future opportunities. As we look ahead, we remain confident in our view that the cycle is turning in favour of the micro-cap sector, and more opportunities lie ahead.

Portfolio Positioning

ParagonCare

Paragon Care (ASX Code PGC), one of our larger portfolio holdings, reported their half-year results on the 1st of March, after the month's end. At the same time, they announced a transformative merger with **CH2**, creating one of Australia's leading wholesalers, distributors, and manufacturers of healthcare and medical equipment, operating across growing markets in the Asia Pacific region.

Based on FY24 pro-forma revenues, the merged businesses will have sales over $3.3 billion and EBITDA of $93 million, without synergies estimated conservatively to be $5m, but which we think will be considerably more than this. For example, the combined business will have 24 distribution centres across Australia, which can be reduced. There will also be cross-sell opportunities across customer bases.

Importantly, this is an all-scrip deal, effectively a back-door listing of CH2, which has a very experienced management team and Board, with a strong track record of acquisitions, and will run the business with two independent directors going forward.

We see this as a significant strategic transaction that will capitalise on and strengthen the combined operational capabilities of both companies and, with an aging population, in a growing healthcare equipment market. Significantly, with a strengthened balance sheet, the merged group will also have opportunities to acquire and rationalise other businesses. For example, a similar healthcare and medical equipment business, Device Technologies, owned by private equity firm Navis Capital, is expected to be sold next year and would also have considerable cost synergies if acquired.

The proposed merger between ParagonCare Limited and CH2 involves ParagonCare acquiring 100% of the shares in CH2 in exchange for issuing shares in ParagonCare. It represents 57% of Paragon Care's issued shares after the transaction. The CH2 shareholders will have voluntary escrow arrangements in place for two years.

The transaction implies a merged market capitalisation of $344m and a proforma EV/EBITDA multiple of 5.2x based on the combined company debt levels. The merged company's nearest ASX competitor will be EBOS Group, a large Australasian wholesaler and distributor of healthcare and medical equipment.

Financial media speculated that EBOS expressed interest in acquiring ParagonCare late last year. For comparison, EBOS trades on an EV/EBITDA multiple of 12.5x. ParagonCare sits outside the S&P/ASX300 index and as a result has very low levels of institutional ownership.

As the merged company will be significantly larger, we expect after the transaction is completed in late May, which is subject to a shareholder vote, there will be a significant re-rating of ParagonCare shares to close the valuation gap.

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