SGH SG HISCOCK & COMPANY

SGH Opportunities Fund

31 August 2024

Performance[1]	Total Gross Return	Total Net Return	S&P/ASX Small Ordinaries Accum. Index	Total Net Return vs. the Index
1 month (%)	2.19	2.11	-2.02	4.13
3 months (%)	3.79	3.52	-0.01	3.53
6 months (%)	13.42	12.85	1.52	11.32
1 year (%)	10.47	9.35	8.51	0.84
3 years (% pa)	-2.41	-3.42	-2.90	-0.52
5 years (% pa)	8.89	7.86	3.89	3.97
Inception (% pa)	8.95	7.83	5.94	1.89

Past performance is not a reliable indicator of future performance.

Top 10 Holdings at 31 August 2024	%
Generation Development Group	4.91
Marketplacer Holdings Ltd	3.25
Paragon Care Ltd	3.12
Southern Cross Electrical	2.99
Ora Banda Mining	2.95
Superloop Limited	2.92
Austin Engineering Ltd	2.86
SRG Global Ltd	2.68
Telix Pharmaceutical Ltd	2.61
Genesis Minerals Ltd	2.57

Top 10 holdings represent 31.05% of the total Trust

[1] The gross return is the net return calculated using unit price before performance fees, the grossed up for managemnt fees. All returns greater than 1 year are annualised.
[2] Includes estimated GST payable, after taking into account Reduced Imput Tax Credits ('RITC').
[3.] Performance fee is 20.50% of the amount by which the Trust's performance exceeds tyhe performance hurdle (S&P/ASX Small Ordinaries Accumulation Index). Any underperformance from a prior period must be recouped before a fee can be taken (we call this the High-Water Mark).

Key Facts

Investment manager	SG Hiscock & Company Ltd (SGH)
Inception date	1 Jan 2017
Qualifying investors	Wholesale clients
Benchmark	S&P/ASX Small Ordinaries Accumulation Index
Management costs[2]	1.03%
Performance fee[3]	20.50%
Distributions	Annual
Buy/sell spread	+0.35/ -0.35%
Minimum initial investment	$25,000
Base currency	AUD
APIR	DMP6133AU
Domicile	Australia
	Unit price ($)
Application	1.3894
Net Asset Value	1.3846
Withdrawal	1.3798
	Distribution cpu
30-Jun-22	4.38
30-Jun-23	0.39
30-Jun-24	0.22

Fund Investment Team:

Rory Hunter, Portfolio Manager

Sophie Smith, Investment Analyst

For more information visit the **Fund webpage** or the **News & Views section** of our website.

Investment Objective

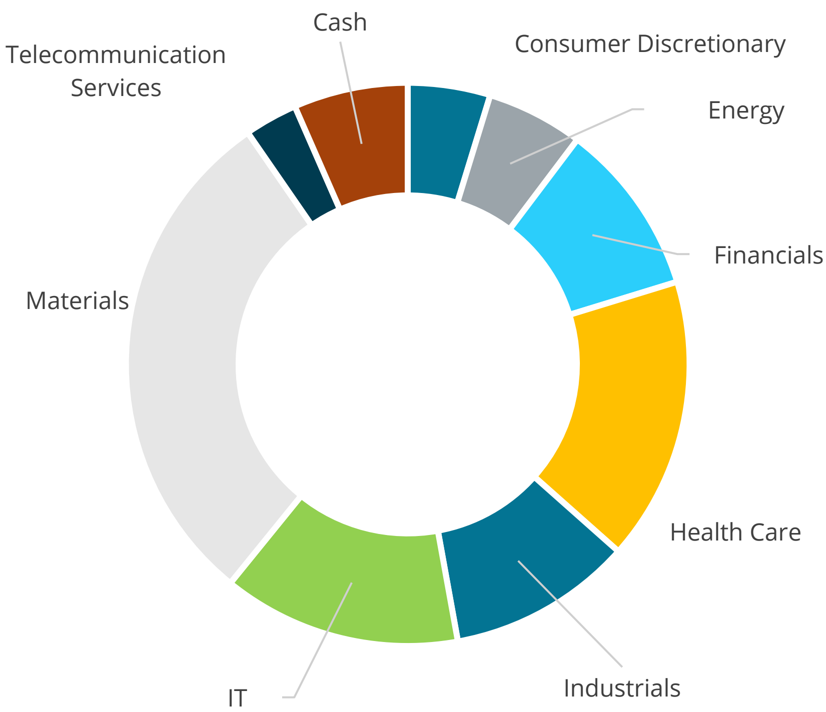
Designed to provide medium to long-term capital growth potential and seeks to outperform the S&P/ASX Small Ordinaries Accumulation Index over rolling 3-to-5-year periods after taking into account trust fees and expenses.

Investment Held

The Trust will primarily invest in companies that are listed on the ASX and reside outside the S&P/ASX 100.

Asset Allocation

Sector Exposure at 31 August 2024	Current Portfolio Weights (%)
Consumer Discretionary	4.73
Energy	5.55
Financials	9.98
Health Care	16.30
Industrials	10.59
Information Technology	13.69
Materials	29.55
Telecommunication Services	3.05
Cash equivalent	6.56
Total	**100.00**



Commentary

The Trust's better performing stocks during August included: Larvotto Resources (+212.5%), Andean Silver (+40.9%), Southern Cross Gold (36.1%), Santana Minerals (+32.2%) and Ora Banda Mining (+31.8%).

Stocks that underperformed during August Included: State GAS (-43.3%), Enlitic Ltd (-31.9%), Impedimed Limited (-22.6%), Curvebeam AI (-20.8%) and Neuren Pharmaceuticals (-19.2%).

Monthly Commentary

August was a story of two halves – the month started with volatility on a global scale and then attention turned to reporting season as investors looked to gauge how companies are continuing to perform in the face of ever-increasing economic headwinds. The month commenced with a US labour market report that sent shockwaves through global asset markets, with the impacts amplified by concerns about the potential impact of tightening Japanese monetary policy conditions and global portfolio flows. Despite the sharp drawdowns at the start of the month, most key markets then regained their early losses to end marginally higher. Yield curves in most major jurisdictions steepened through the month (as short-term yields fell more than long term yields) to reflect conviction in expectations of rate cuts in the coming months, reinforced by Fed Chair Jerome Powell's speech at Jackson Hole.

Overall, reporting season presented a surprisingly resilient picture of the Australian consumer, even in the face of the cost-of-living crisis and a higher interest rate environment. However, beneath the surface, a significant divide is emerging between two consumer groups, differentiated by age (older vs. younger) and housing status (outright homeowners vs. those with mortgages or renting). Over the course of the month, it became clear that older Australians continued to spend on travel, while younger demographics were increasingly focused on finding ways to save money—evident in the rise of Home Brand product purchases at supermarkets, eating at home more frequently, and postponing large purchases.

Australia's largest listed companies are trading at record levels. The average price to earnings ratio for Australian equities sits above the historical average of 17x, whilst expectations for 2025 financial year are for low single digit growth in earnings. Effectively, the larger end of the market is in a rare position where share prices and earnings are moving in opposite directions. In comparison, the US S&P 500 is also trading at elevated multiples, however, has forecast earnings growth of circa. 13% p.a. to support this. Given the poor growth outlook for large ASX listed companies, coupled with peak interest rates, the environment remains supportive for small companies who are executing on a growth strategy.

SRG Global (ASX: SRG) is a new addition to the portfolio this month, returning +16% after announcing a strategic acquisition and delivering a strong FY24 result. SRG is an engineering-led global specialist in asset services, mining services and construction that operates across the entire asset lifecycle of engineer, construct and sustain. Unlike typical mining service businesses that are exposed to the cyclicality of the resources sector, SRG is relatively well insulated given its long-term annuity style contracts that span three to five years on average and are exposed to more structural drivers.

The Group has been further enhanced by the recently announced acquisition of Diona, a market leader in water security and energy transition sectors. Diona is a leading end to end delivery partner with self-perform capabilities through long term programs and asset management agreements with both utility and government agencies. At an acquisition price of $111m, implying an FY24 EBIT multiple of 6x, this acquisition is expected to be circa. 10% EPS accretive to FY24 pre any synergies. Speaking to management, they expressed confidence in the strategic rationale, specifically the cross-sell opportunity with both common and new clients, further assisting SRG's expansion into key geographic regions.

From a valuation perspective, SRG still appears "cheap" relative to listed peers. SRG trades on a forward EV/EBITDA multiple of 4.4x relative to competitors at an average of 6.2x. Further, the argument could be made that SRG should command a valuation premium. SRG operates with EBITDA margins of circa. 9% relative to the broader industry at 6%, has guided to topline growth of circa. 10%+ p.a. and has a business structure of 80/20 split of annuity/project-based revenue in an industry that historically relies on project based work, thus providing enhanced earnings certainty.

The Uranium sector received a boost during the month with the world's largest producer, Kazatomprom, downgrading CY25 production by 17%. Kazatomprom currently accounts for 45% of the world's production and as such, changes in production have a significant impact on the supply/demand dynamics of the Uranium market. While we view this positively, we also note that CY24 production guidance was increased 7%. As a result, we do not expect to see tightness emerge until the start of next year. We expect that a sustained move higher in the uranium price will be required to squeeze the elevated short interest in several ASX listed names. Following the sector's rally on the back of the Kasatomprom news, we took the opportunity to tactically reduce portfolio exposure.

Portfolio activity and reporting season highlights

Austin Engineering (ASX: ANG): The FY24 result came as a disappointment, primarily due to broker consensus expectations for FY25 being set too high, leading to approximately 10% downgrades. This was exacerbated by conservative guidance for FY25. Although ANG cited a strong demand outlook with positive feedback from major customers, investor concerns linger regarding weakening iron ore demand and its potential impact on ANG. We had already reduced portfolio exposure prior to the results, driven by growing concerns on the state of the iron ore market.

Larvotto Resources (ASX: LRV): Recently added to the portfolio, LRV offers exposure to antimony, a critical mineral. China's decision to impose export controls on antimony starting September 15, due to national security concerns, has highlighted the strategic importance of this resource. The country's strategic reserves are deemed too low to allow further exports, especially given its use in solar panels, military applications, and electronics. This announcement coincided with LRV's release of its maiden ore reserve and a positive pre-feasibility study (PFS).

Hipages (ASX: HPG): Another new addition, Hipages connects tradespeople with residential and commercial customers, facilitating job leads and management. Tradespeople pay a subscription fee for credits to access job leads. The FY24 results were encouraging, with average revenue per user (ARPU) growing and job connections reaching a record 86%. While tradie subscriptions only grew by 3% to 36.7 million, further growth is anticipated with the shift to Tradiecore, an automated platform for end-to-end tradie workflow management. The company has already invested in tech spending and stands to benefit from a weakening consumer market, as more tradespeople are likely to join the platform to access job leads.

Superloop (ASX: SLC): Consumer broadband business, Superloop reported a positive result, with momentum building as Origin's customer base transitions onto its platform. The company expects an incremental EBITDA of over $10 million for every additional 10,000 subscribers onboarded by Origin, which currently targets 600,000 subs (up from 150,000). Superloop is the lowest-cost provider in the market, and they highlighted that the cost base for additional subscribers is negligible, with no cannibalization of their consumer business due to different user groups. The company is also investing $5-$6 million in FY25 for smart community and fiber-to-the-premise projects, expected to generate over $5 million in gross margin annually within 1-2 years, potentially justifying a higher trading multiple for SLC.

Investment Guidelines

The Investment Manager will use the following guidelines when selecting investments for the Fund:

- The portfolio will generally hold 60 to 80 stocks with a minimum of 40 stocks.
- All stocks will reside outside the S&P/ASX 100 upon initial investment.
- Cash maximum 20%; equities 80-100 %.
- The Trust will be permitted to invest up to 10% of the Trust's assets in unlisted securities – but those unlisted securities must be expected to be quoted on the ASX within a 12-month period.
- The investment in any one company will not be more than 10% of the market value of the Trust's assets.
- Maximum shareholding in any one company is 10% of its market capitalisation.
- The Trust may use derivatives for risk management purposes, as substitutes for physical securities, and
- The Trust will not be geared.

All stocks on initial purchase will be outside the S&P/ASX 100. Should a stock, via growth, be included in the S&P/ASX 100 Index, SGH is able to hold this stock for a period of no greater than twelve months. SGH will immediately develop an exit plan for any stock that reaches the top 50.

Environmental Social & Governance (ESG)

Environmental

- No coal mining.

Social

- No direct tobacco production.
- No direct gambling.
- No direct predatory or pay day lending.
- No direct controversial weapons manufacturing.[5]
- No live animal exports.
- No adult entertainment[6] industries.

Governance

- No poor occupational health and safety records.[7]
- No investment in companies displaying a pattern of not disclosing related party transactions.
- No excessive use of non-executive options.

[4]Predatory and payday lending includes very high interest rate loans, often carrying excessive fees and terms such as unreasonable repayment requirements.
[5]Any controversial weapons which are prohibited under applicable international treaties or conventions.
[6]Adult entertainment industries include live adult entertainment and pornography.
[7]Poor occupational health and safety records includes notifiable workplace incidents or accidents.

Disclaimer:

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