ICE INVESTORS

SGH ICE Fund

30 September 2023

The FY23 "reporting season" is the key event for ICE Investors in the September quarter. We are pleased to highlight that the overall tone of results and outlook statements for franchise companies in the fund was very encouraging. We expect franchise companies to consistently grow earnings as a result of the moat they have established around their business and subsequent stickiness of their customers. On this basis, we were pleased to confirm a solid median 9% profit growth for companies in the fund.

Given the overall positive profit results from the ICE portfolio companies, the fund performed relatively well in what was a down market; -0.2% against the backdrop of the various market indices falling between -0.8% to -1.9%. The fund has returned 8% for the rolling year.

We continue to see quality small cap franchises as being much better value than the large caps and we are positive about the medium term outlook for the fund's investments. In our upcoming webinar, titled "Large Cap Obsession. Are Investors Missing a Substantial Opportunity in Small Caps?" we will provide an update on the fund, including earnings growth of the fund, performance and recent stock additions.

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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*

Aust Clinical Labs
Carsales.com Ltd.
GUD Holdings Limited
Light & Wonder Inc
PSC Insurance Group Ltd.

Top 5 holdings represent 21.7% of the total fund.
* In alphabetical order.

SGH 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	**-3.25**	**-0.16**	**8.03**	**3.89**	**3.23**	**7.34**	**10.47**	**9.17**
S&P/ASX Small Cap Industrial	**-5.04**	**-1.94**	**8.41**	**0.49**	**0.66**	**5.12**	**5.42**	**3.69**
S&P/ASX 300 Accum Industrials	-3.71	-1.05	10.93	8.55	5.08	6.96	7.94	6.47
S&P/ASX300 Accum. Index	-2.89	-0.84	12.92	10.78	6.62	7.40	7.31	6.44

[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	11%
$5b - $10b	7%
$2b - $5b	20%
$1b - $2b	27%
$500m - $1b	15%
$100m - $500m	15%
<$100m	0%
Cash*	6%

Co. Weight	No. of stocks
4.0%	4
3.0%	9
2.0%	14
1.5%	9
1.0%	6

Growth Maturity

Peak Cashflow	27%
Growth	61%
Establish	6%
Cash*	6%
Total	**100%**

Asset Allocation

Sector	Fund (%)
Consumer Discretionary	29.78
Financials	20.64
Health Care	10.16
Industrials	10.39
Information Technology	13.79
Materials	2.17
Telecommunication Services	4.82
Real Estate	2.03
Cash equivalent	6.23
Total	**100.00**

Key Facts

Investment sub-manager	ICE Investors Pty Limited
Inception date	13 Feb 2006
Fund size	531.2M
Number of holdings	42
Dividends payable	Six Monthly
Buy/sell spread	+0.35%/-0.35%
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	$1.8510
Net Asset Value	$1.8445
Withdrawal	$1.8380
	Distributions (cpu)
31-Dec-21	1.0000
30-Jun-22	25.5026
31-Dec-22	0.7796
30-Jun-23	2.9600

[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.

Quarterly Performance Commentary

The fund had several strong performers in share price terms, but equally it was pleasing to see many of our strong franchise companies report solid revenue and profit growth, together with a positive outlook for the year ahead. We discuss a number of the key contributors during the month, together with two names that disappointed.

- **GUD Holdings (GUD)** – GUD's position as Australia's largest distributor of automotive car parts was reinforced by solid double digit-growth in revenue and profit for FY23. The strength of GUD's product range and coverage of key industry brands sees them well positioned to increase prices to offset inflationary pressures. This has seen GUD deliver and maintain healthy operating margins. GUD remains well positioned to drive growth across its product range, covering brakes, clutches, electrical and lighting, plus further growth in its 4WD facing businesses.

- **Carsales.Com (CAR)** was also a strong performer in the quarter, delivering a typically robust financial result, notable for very solid growth in both revenues and profits. CAR's online classifieds business in Australia dominates the "eyeballs' in Australia as the leading online platform for selling new and used car sales. CAR's unassuming management team have been expanding their International footprint and steadily enhancing their business operations in Korea, Brazil and the US. Specifically, the yield (price) growth delivered by the US and Brazilian businesses was a feature of CAR's August update.

- **Generation Development (GDG)** is a diversified financial services provider. GDG hold a leading position in the sale and product management of Investment Bonds in Australia. GDG's recent full year results confirmed the high quality of this business franchise delivering 30% profit growth. FUM flows and increased financial advisor participation supported this growth. The Federal government's proposed tax increase on higher super balances looks set to further increase investor appetite for Investment Bonds. If passed into legislation this would be positive for GDG. GDG are also investing in their investment-linked lifetime annuity product – an emerging product offering in the market with a lot of potential.

- **Bapcor (BAP) –** we purchased a holding in Bapcor (BAP) early in 2023 following our discussions with new CEO, Noel Meehan and recent contact with his largely refreshed management team. The new team have the steering wheel firmly in their hands and have inherited a solid franchise with BAPCOR representing the leading trade and wholesale automotive service provider in Australia. Their network and its proximity to the core mechanic customer is a difficult to replicate asset. The recent full year result was well received as investors appear to have gained confidence in the new team and their plans to streamline the business and restore more consistent profit growth.

Australian Clinical Laboratories (ACL) and **IRESS Limited (IRE)** were the two key detractors from the ICE portfolio during the September quarter. We have exited our holding in IRE.

ACL's outlook commentary for the coming year disappointed investors. Specifically, the recovery in "normal" or non-COVID testing continues to progress, but at a slower pace than what the company had expected, impacting revenue and profit outlook in turn. Although frustrating, this does marry up with data suggesting that GP appointments are yet to recapture prior growth rates. Although the pace of recovery is frustrating, we do note that non COVID testing activity remains in solid growth territory, and on a trajectory back toward "normal." ACL cannot control the demand, however they hold a welldifferentiated franchise in pathology and we anticipate attractive levels of profit growth in the years ahead.

Our investment in **IRE** was clearly the key disappointment for the fund in the September quarter. To recap, we purchased a holding in IRESS (IRE) under new leadership, expecting that the new team would be able to simplify the corporate structure and focus on the core Australian businesses where IRE hold leading, franchise-type positions. Our learning from the August results and our meetings with management suggest that simplification of the business will be more challenging, take more time to execute and involve considerable distraction and effort on management's behalf. This suggests that future growth of the simplified franchise may be more challenging and take longer to materialise, and on that basis we elected to sell our position. It was cold comfort that we had reduced our holding by 25% prior to reporting season.

Quarterly Portfolio Activity

The bulk of our activity occurred within the ICE portfolio holdings. Across the quarter, we trimmed our holdings in carsales.com (CAR), Life 360 (360), Webjet (WEB) and Temple and Webster (TPW). We exited our positions in Advanced Personnel management (APM) and IRE, discussed above. We added new positions to the fund, including Clinuvel (CUV) and Skellerup (NZ), discussed below.

We initiated a position in New Zealand listed Skellerup (SKL.NZ). Skellerup designs, manufacturers and distributes niche precision engineered components which are used in multiple industries globally. Skellerup customers operate in dairy, drinking & waste water, construction, sports & leisure, automotive, mining and medical. Customers are sticky as the engineered componentry are mission critical and Skellerup is embedded in its' customer's R&D process. Know-how and technical expertise crosses various industries exists within Skellerup, including blending multiple materials, safety standards and product performance.

SGH 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 SGH ICE portfolio have averaged +10% pa (FY09 to FY22) 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

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* 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 SGH 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 one 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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