

Australian Shares Core Managed Account Portfolio

Q22018

Quarterly Performance Update

All data and information as at Portfolio Date: 30/06/2018

Top Holdings

	Weighting %
Cash Account	11.6
QBE Insurance Group Ltd	5.5
Healthscope Ltd	5.4
Crown Resorts Ltd	5.4
Medibank Private Ltd	4.9
ResMed Inc DR	4.9
Westpac Banking Corp	4.7
National Australia Bank Ltd	4.6
Carsales.com Ltd	4.6
Woodside Petroleum Ltd	4.4

Market Commentary

The Australian equity market rocketed higher by 8.5% in the second quarter, nearly double the 4.5% generated by equity markets globally. Most local sectors outperformed their global counterparts, particularly materials (+12%), as BHP Billiton Limited (+20%) was the largest contributor to the S&P/ASX 200 total return. Materials have been a primary driver of Australian equity market returns for several years.

Australian growth stocks (+11%) nearly doubled the return of value (5.8%) in the second quarter, just as they have over the last three years (11% vs 6.5%). Buying expensive stocks that have already increased in price has been a winning recipe, while buying value-priced quality – as we tend to do – has lagged. All cycles turn eventually, and this one has been running for longer than most.

Portfolio Update

The Core Portfolio generated a 4.1% return in the second quarter driven mostly by Woodside Petroleum (+22%), Healthscope (+14%), and CSL (+24%). Higher oil prices, which are often used to set the price of liquid natural gas cargoes, have generated a strong bid for Woodside. Healthscope is surrounded by suitors, moving the share price higher, but has so far fended them off, despite weak trends in the underlying business. We see the bids as opportunistic given Healthscope will soon finish a massive capital expenditure cycle and hope to see higher bids materialise or for it to remain an independent entity. CSL continues to execute as the world leader in its primary segments, although we must admit the valuation has become increasingly demanding.

Weighing on the portfolio's return was Telstra (-17%), Brambles (-11%), and Link Administration (-12%). It was more of the same from Telstra – reduced guidance, vague strategy, and investor capitulation. More on this in a moment. Brambles has been pressured by higher energy prices, competitive intensity, and higher costs and uncertainty stemming from President Trump's various trade tirades. Link unexpectedly became collateral damage from a government proposal to close small superannuation accounts to protect small investors from high fees. Link has since estimated the impact to be mild and shares have begun to recover.

As the largest position in the portfolio (after cash), and a constant underperformer over the last two-plus years, Telstra deserves additional commentary, but not quite an obituary. It's hard to find a more disappointing stock and company in the equity market, certainly considering Telstra's size, brand-awareness, employee base, number of customers, and widely-held status among Australian investors. Stakeholders of all shapes and sizes have been disappointed by the company's flat-footedness. Cost-cutting and innovation should be bearing fruit today. Instead, they're just becoming urgent priorities as management responds to roll-out of the NBN (the slowest moving train wreck in history) and new competition in TPG Telecom.

Interestingly, Telstra isn't alone. The telecommunications sector globally looks cheap to us as competition peaks before the decade-old fourth-generation ("4G") specification is replaced by 5G in the next few years. This brings the opportunity for mobile internet to bypass fixed line (NBN) and to grow in the internet of things (autonomous cars, drones, and ever-growing smart-connected devices). The potential is hard to estimate, but nonetheless significant, even if the exact timing is uncertain. The next year or two remain tenuous, but we have no plans to sell our current position in Telstra.

Outlook

The Core Portfolio is a concentrated strategy, so deviation from the benchmark, positive and negative, is the norm. Sharp stock market appreciation, particularly from materials and growth stocks, has left our quality- and value-oriented positions and cash level out of step. Taking on ever-more risk has been a winning strategy for nearly a decade since the financial crisis. Now is not the time to be daring, in our view. Key attributes for future performance of current portfolio holdings are limited exposure to the most cyclical parts of the economy (mining, minerals, construction, and capital markets), and large investments in defensive competitively-advantaged companies.

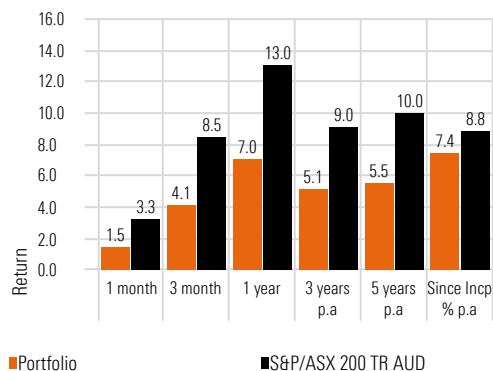
Investment Growth of \$10,000

Time Period: 1/07/2004 to 30/06/2018



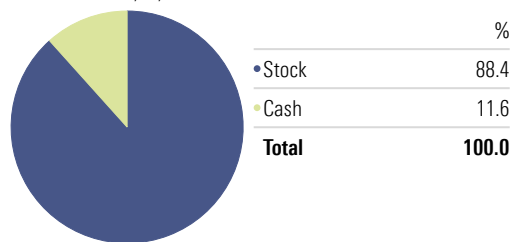
Returns Relative to Benchmark

As of Date: 30/06/2018



Asset Allocation

Portfolio Date: 30/06/2018

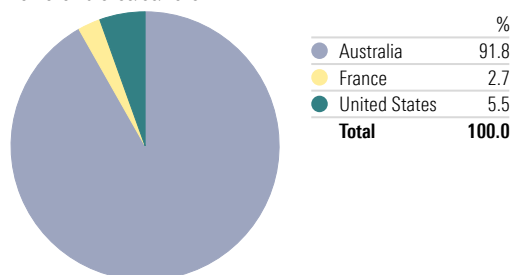


Transactions in the Quarter

There were no transactions in the quarter.

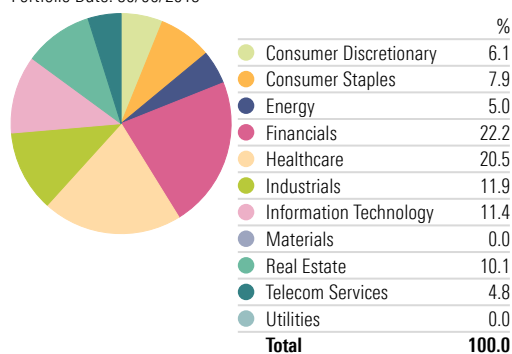
Equity Region Exposure

Portfolio Date: 30/06/2018

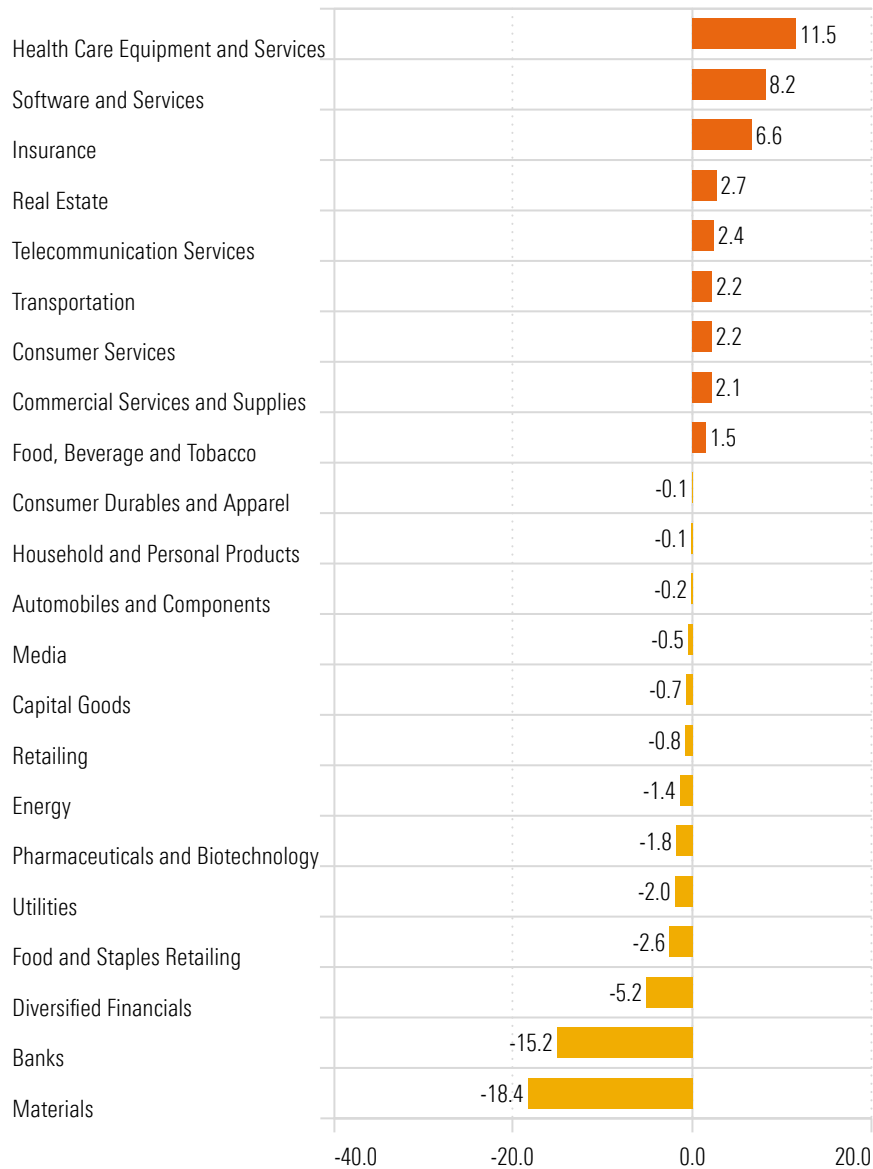


Equity Sectors (GICS)

Portfolio Date: 30/06/2018



Average Relative Weights over the Quarter



Market Performance

Time Period: Since Inception to 30/06/2018

	Inv	Bmk1
Up Period Percent	59.52	63.69
Down Period Percent	40.48	36.31
Best Month	9.14	7.98
Worst Month	-12.71	-12.61
Best Quarter	23.25	21.50
Worst Quarter	-16.08	-18.25

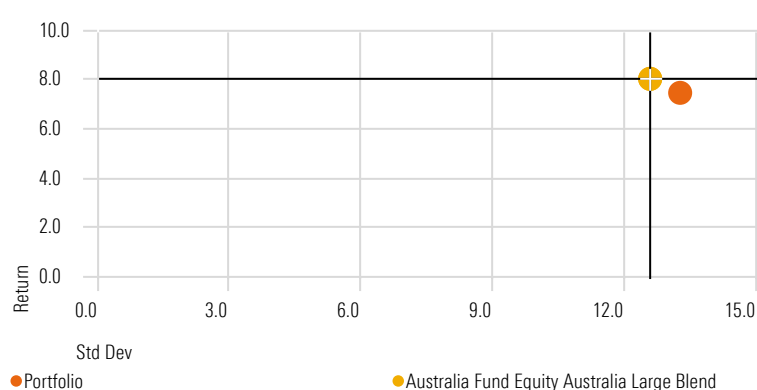
Risk

Time Period: Since Inception to 30/06/2018

	Inv	Bmk1
Return % pa	7.44	8.77
Std Dev	13.26	13.03
Max Drawdown	-48.58	-47.18

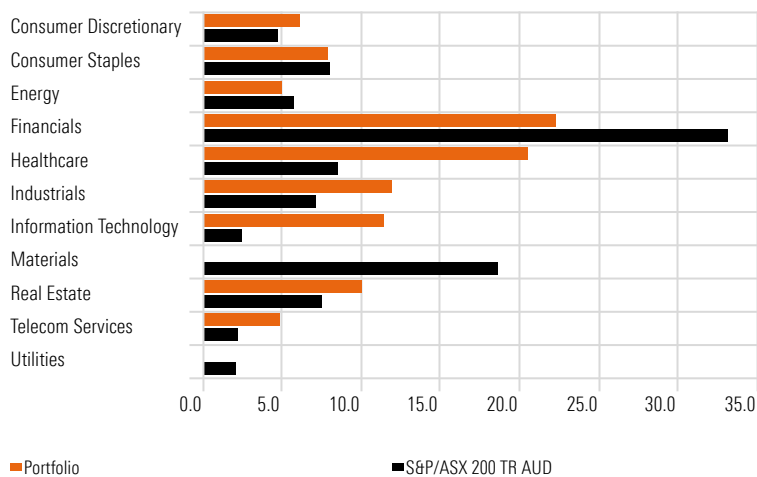
Risk-Reward

Time Period: 1/07/2004 to 30/06/2018



Multiple Investment Sector Exposure Chart

Portfolio Date: 30/06/2018



Complete List of Holdings

Portfolio Date: 30/06/2018

	Code	Style Box	Total Ret 3 Mo (Qtr-End)	Portfolio Weight %
Cash Account			0.489	11.645
QBE Insurance Group Ltd	QBE	■	1.142	5.474
Healthscope Ltd	HSO	■	14.212	5.450
Crown Resorts Ltd	CWN	■	6.383	5.421
Medibank Private Ltd	MPL	■	0.690	4.907
ResMed Inc DR	RMD	■	14.457	4.852
Westpac Banking Corp	WBC	■	5.660	4.663
National Australia Bank Ltd	NAB	■	-0.316	4.596
Carsales.com Ltd	CAR	■	11.917	4.572
Woodside Petroleum Ltd	WPL	■	21.272	4.375
Sydney Airport	SYD	■	9.463	4.362
Telstra Corp Ltd	TLS	■	-16.561	4.285
Brambles Ltd	BXB	■	-11.022	3.984
Coca-Cola Amatil Ltd	CCL	■	6.113	3.611
CSL Ltd	CSL	■	23.903	3.525
Scentre Group	SCG	■	14.621	3.430
Link Administration Holdings Ltd	LNK	■	-12.110	3.422
Wesfarmers Ltd	WES	■	18.768	3.339
Vicinity Centres	VCX	■	10.871	3.079
Ansell Ltd	ANN	■	7.641	2.784
WFD Unibail-Rodamco NV ADR	URW	■		2.404
Qube Holdings Ltd	QUB	■	10.550	2.187
MYOB Group Ltd	MYO	■	-5.246	2.075
Ramsay Health Care Ltd	RHC	■	-13.383	1.530
OneMarket Ltd Ordinary Shares	OMN	■		0.029

Glossary of Terms

Term	Description
Active Return	A performance measure of a portfolio relative to its benchmark.
Allocation Effect	Refers to the portion of an investment manager's value-add attributable to the manager's decision on how much to allocate to each market sector, in other words, a manager's decision to overweight and underweight certain sectors compared with the benchmark.
Alpha	A measure of the difference between a portfolio's actual returns and its expected performance, given its level of risk as measured by beta.
Average Market Cap (mil)	Average Market Cap (mil) This is an estimation of the value of a business that is obtained by multiplying the number of shares outstanding by the current price of a share.
Best Month	The highest monthly return of the investment since its inception or for as long as Morningstar has data available.
Best Quarter	The highest quarterly (3-month) return of the investment since its inception or for as long as Morningstar has data available.
Beta	A measure of systematic risk with respect to a benchmark. Systematic risk is the tendency of the value of the fund and the value of benchmark to move together. Beta measures the sensitivity of the fund's excess return (total return minus the risk-free return) with respect to the benchmark's excess return that results from their systematic co-movement.
Debt to Capital % (TTM)	A ratio measuring a firm's financial leverage. This ratio is calculated by dividing long-term debt (excluding other liabilities) by total capitalisation (the sum of common equity plus preferred equity plus long-term debt).
Down Capture Ratio	Downside Capture Ratio measures manager's performance in down markets. A down-market is defined as those periods (months or quarters) in which market return is less than 0. In essence, it tells you what percentage of the down-market was captured by the manager. For example, if the ratio is 110%, the manager has captured 110% of the down-market and therefore underperformed the market on the downside.
Down Period Percent	Number of months below 0 divided by the total number of months.
Downside Deviation	This measures only deviations below a specified benchmark.
Moat Company Pct	Percentage of the portfolio, by market value, having a narrow or wide moat.
P/E Ratio (TTM)	A measure of value. It is the average price divided by latest earnings.
Portfolio Price/Fair Value	Ratio of the portfolio's market value to the fair value of the portfolio.
R2	Reflects the percentage of a portfolio's movements that can be explained by movements in its benchmark.
ROA % (TTM)	Return on assets (ROA) measures a firm's performance in using assets to generate earnings independent of how the firm financed acquisition of those assets.
ROE % (TTM)	Return on equity (ROE) is the percentage a company earns on its total equity in a given year. ROE shows how much profit a company generates on the money shareholders have invested in the firm.
Selection Effect	Represents the portion of performance attributable to the manager's stock picking ability.
Sharpe Ratio (arith)	Is calculated using standard deviation and excess return to determine reward per unit of risk. The higher the Sharpe Ratio, the better the fund's historical risk-adjusted performance.
Std Dev	A statistical measurement of dispersion about an average, which, for a mutual fund, depicts how widely the returns varied over a certain period of time. Investors use the standard deviation of historical performance to try to predict the range of returns that are most likely for a given fund.
Tracking Error	A measure of the volatility of excess returns relative to a benchmark.
Turnover (2 Yr Avg)	Measures the portfolio manager's trading activity by taking the lesser of purchases or sales (excluding all securities with maturities of less than one year) and dividing by average monthly net assets.
Up Capture Ratio	Upside Capture Ratio measures a manager's performance in up markets relative to the market (benchmark) itself. It is calculated by taking the security's upside capture return and dividing it by the benchmark's upside capture return.
Up Period Percent	Number of months above 0 divided by the total number of months.
Worst Month	The lowest monthly return of the investment since its inception or for as long as Morningstar has data available.
Worst Quarter	The lowest quarterly (3-month) return of the investment since its inception or for as long as Morningstar has data available.