

# Australian Shares Small Cap Managed Account Portfolio

# Q22018

## Quarterly Performance Update

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

### Top Holdings

	Weighting %
Cash Account	16.3
OFX Group Ltd	8.6
Xero Ltd	8.4
Nine Entertainment Co. Holdings Ltd	7.3
Virtus Health Ltd	5.9
Sigma Healthcare Ltd	5.3
SkyCity Entertainment Group Ltd	4.9
Auckland International Airport Ltd	4.9
ALE Property Group	4.2
Hotel Property Investments	4.0

### Market Commentary

The S&P/ASX Small Ords rose 7.7% in the second quarter, just behind the 8.5% of the S&P/ASX 200. The energy sector (+27%) was a key driver, as were consumer discretionary (+9%) and technology (+14%). Financials (-1%) was the lone negative sector due to poor performance in diversified financials (particularly Blue Sky Alternative -84%) and insurance (NIB Holdings -10%). Looking over the last three years, the materials sector continues to be the largest contributor to performance at nearly 5% of the 15% annualised return.

### How the Portfolio Performed

The Small Cap Portfolio generated a 2.8% return in the second quarter driven mostly by Xero (+35%) and Nine Entertainment (+9.3%). Xero is a fantastic business, and its prospects as a cloud-based small business accounting platform are still massive. Subscriber growth remains strong and it's progressing toward cash flow breakeven, further reducing downside risks. Fast-growing companies with huge addressable markets are notoriously difficult to value, but Xero appears to be doing all the right things to drive growth and its intrinsic value higher. Nine doesn't have the same growth potential or competitive advantages as Xero, so market optimism is probably starting to run too far, making it a source of capital as alternative opportunities arise.

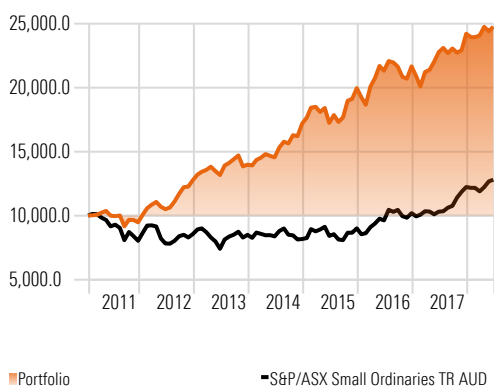
Weighting on the portfolio's return was Ainsworth (-44%) and Greencross (-15%). Ainsworth issued disappointing guidance, as a turnaround in its Australian business remains a mirage. Gaming equipment can be a choppy business cycle depending on demand as well as product innovation by Ainsworth and competitors. While the share price decline is discouraging, the outlook implied seems overly harsh. An earnings downgrade was also to blame for the lower share price for Greencross where demand has been weaker than expected and management has shifted their focus from store refurbishment (short-term revenue driver) to backend technology investments (long-term cost efficiencies and eventually revenue enhancement). The potential for Greencross to capitalise on increased spending on pets still looks attractive, as does the current share price.

### Outlook

Key attributes for future performance of portfolio holdings are having no exposure to the materials sector, an elevated cash position, and of course the individual companies we're invested in given the concentrated portfolio construction. We feel the portfolio has an attractive mix of stable earnings companies in defensive sectors complemented by stock-specific capital appreciation opportunities. This approach, at least thus far, has led to attractive returns with substantially less volatility than the benchmark in the long-run.

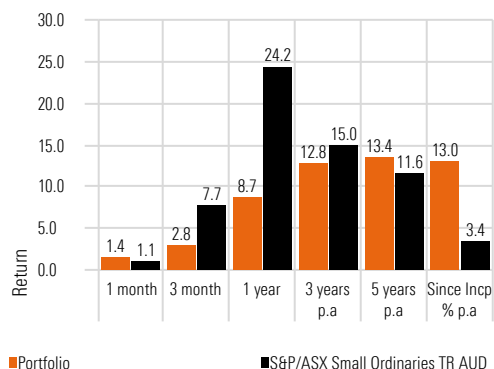
### Investment Growth of \$10,000

Time Period: 1/02/2011 to 30/06/2018



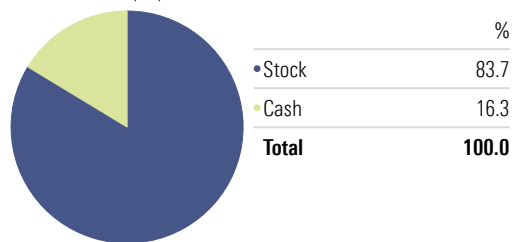
### Returns Relative to Benchmark

As of Date: 30/06/2018



### Asset Allocation

Portfolio Date: 30/06/2018

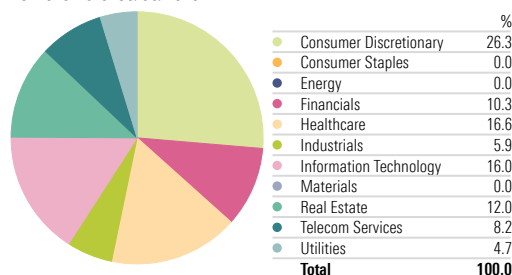


### Transactions in the Quarter

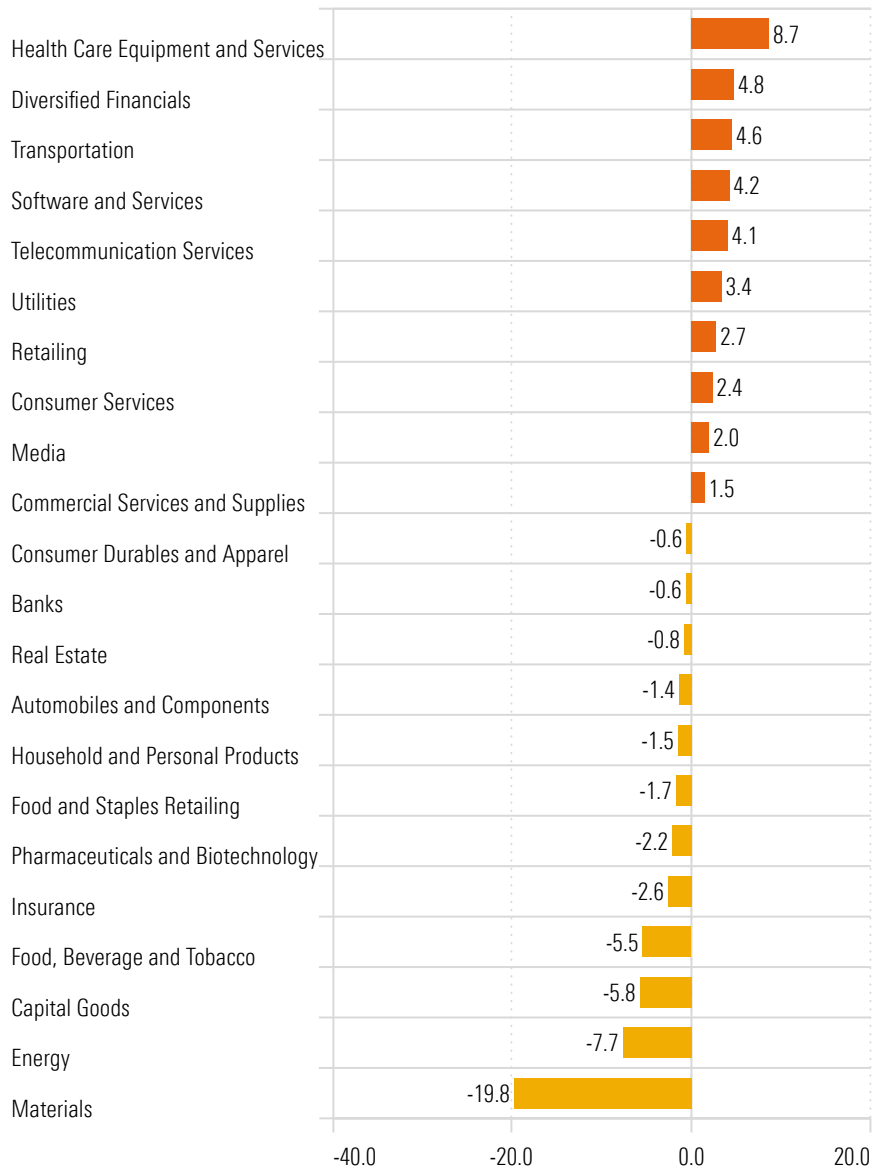
There were no transactions in the quarter.

### Equity Sectors (GICS)

Portfolio Date: 30/06/2018

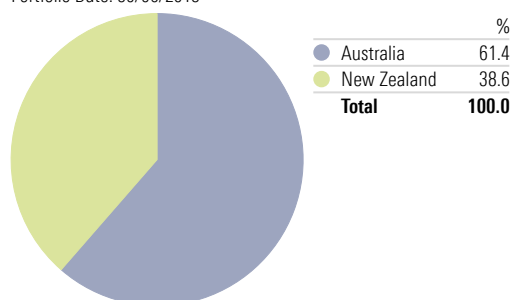


### Average Relative Weights over the Quarter



### Equity Region Exposure

Portfolio Date: 30/06/2018



**Market Performance**

Time Period: Since Inception to 30/06/2018

	Inv	Bmk1
Up Period Percent	64.04	56.18
Down Period Percent	35.96	43.82
Best Month	7.58	9.81
Worst Month	-8.47	-10.61
Best Quarter	14.56	14.98
Worst Quarter	-8.30	-15.30

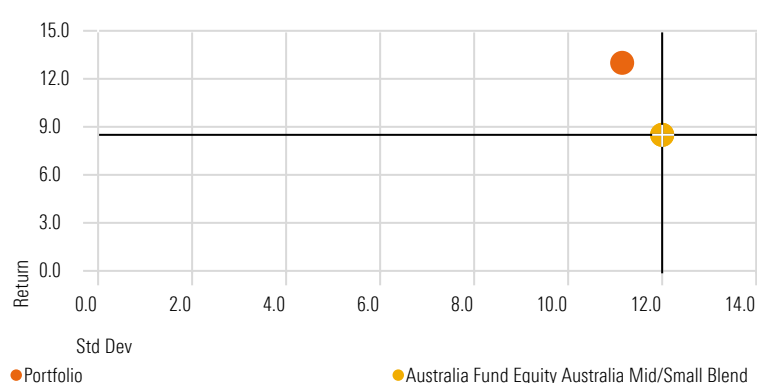
**Risk**

Time Period: Since Inception to 30/06/2018

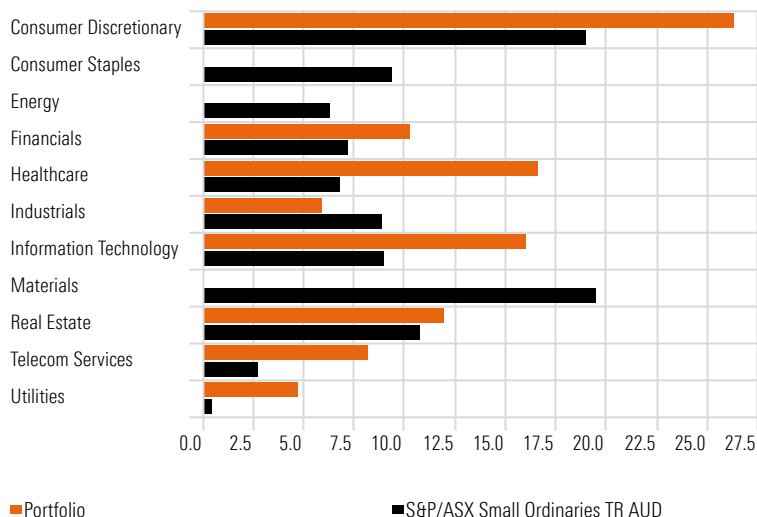
	Inv	Bmk1
Return % pa	12.98	3.38
Std Dev	11.02	14.08
Max Drawdown	-11.63	-26.88

**Risk-Reward**

Time Period: 1/02/2011 to 31/03/2018

**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	16.332
OFX Group Ltd	OFX	■	5.030	8.602
Xero Ltd	XRO	■	34.599	8.431
Nine Entertainment Co. Holdings Ltd	NEC	■	9.251	7.279
Virtus Health Ltd	VRT	■	6.285	5.904
Sigma Healthcare Ltd	SIG	■	7.051	5.318
SkyCity Entertainment Group Ltd	SKC	■	1.093	4.906
Auckland International Airport Ltd	AIA	■	7.941	4.902
ALE Property Group	LEP	■	13.436	4.187
Hotel Property Investments	HPI	■	5.097	4.016
Mercury NZ Ltd	MCY	■	0.656	3.958
MYOB Group Ltd	MYO	■	-5.246	3.558
Spark New Zealand Ltd	SPK	■	8.571	3.461
Chorus Ltd	CNU	■	1.326	3.411
Trade Me Group Ltd	TME	■		3.220
Greencross Ltd	GXL	■	-15.312	2.838
Australian Pharmaceutical Industries Ltd	API	■	15.667	2.694
Ainsworth Game Technology Ltd	AGI	■	-43.784	2.153
Folkestone Education Trust	FET	■	-0.809	1.803
iSentia Group Ltd	ISD	■	-15.569	1.378
Automotive Holdings Group Ltd	AHG	■	-18.803	1.044
Myer Holdings Ltd	MYR	■	-1.333	0.603

## 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.