Fund Update - 31 March 2019

# Australian Equities Fund

PARADICE
INVESTMENT MANAGEMENT

## Fund Objective

The Fund aims to outperform the S&P/ASX 200 Total Return Index (after fees and before taxes) over a rolling three to five year period.

| Performance Net (%) | 1 Month | 3 Months | 1 Year | Since Inception* p.a. |
|---|---|---|---|---|
| Australian Equities Fund | -0.70 | 11.28 | 8.45 | 9.82 |
| S&P/ASX 200 - Total Return | 0.73 | 10.89 | 12.06 | 9.18 |
| **Excess Return** | **-1.43** | **0.39** | **-3.61** | **0.64** |

* Inception date - 02 August 2017

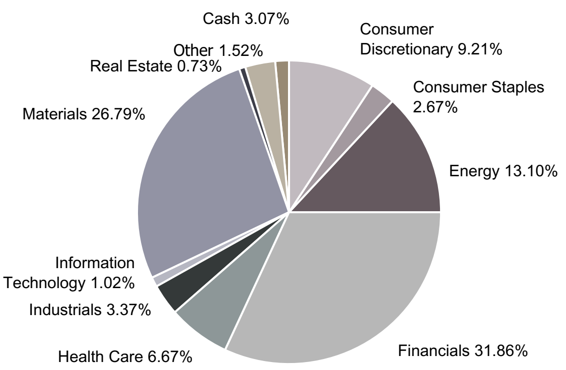
## Fund Details

| | |
|---|---|
| APIR Code | ETL8084AU |
| Fund Size (AUD m) | $40 |
| Application Price | $1.1140 |
| Redemption Price | $1.1096 |
| Distribution Frequency | Semi-Annually |
| Management Fee | 0.75% p.a. |
| Performance Fee | 0.15% p.a. |
| Buy Sell Spread | +/- 0.20% |
| Minimum Investment (AUD) | $20,000 |

## Characteristics

| | |
|---|---|
| Number of Stocks | 39 |
| Portfolio Dividend Yield | 4.11% |
| Stock Range | 30 - 50 |
| Industry Range | Unconstrained |
| Cash Range | 0-10% |

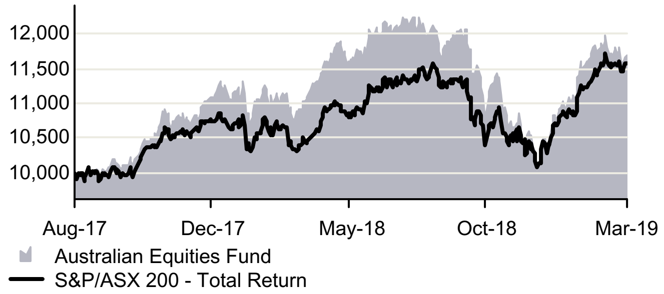
## Sector Allocation (%)




## Top 10 Positions (%)

| | **Fund** |
|---|---|
| BHP Group Ltd. | 9.14 |
| Westpac Banking Corporation | 6.85 |
| National Australia Bank Ltd. | 6.21 |
| Commonwealth Bank of Australia | 5.86 |
| Macquarie Group Ltd. | 5.57 |
| CSL Ltd. | 5.35 |
| Aristocrat Leisure Ltd. | 4.89 |
| Australia and New Zealand Banking Group... | 4.63 |
| Woodside Petroleum Ltd. | 4.16 |
| Origin Energy Ltd. | 3.71 |

## Growth of AUD 10,000




## Contact


**Phone: 02 8227 7400**

**Email: distribution@paradice.com**

**Website: www.paradice.com**

# Commentary

## MARKET REVIEW

For the purpose of comparison, commentary is quoted in AUD terms and Australian sector returns refers to the S&P ASX 200 TR Index except where stated otherwise.

The ASX delivered its best quarterly performance since 3Q09, rising 10.9% over the March quarter. All GICS sectors ended the quarter in the green with IT (+20.7%) the strongest. Defensive sectors such as REITs (+14.8%) and Utilities (+11.6%) outperformed the broader market as bond yields plummeted through the quarter. Meanwhile, Materials gained 17.8%, boosted by rising commodity prices. Global markets (+11.2%, MSCI AC World NTR Index) recorded a strong Q1 with Emerging Markets (+9.9%) underperforming Developed Markets (+11.5%). The S&P 500 (+13.5%) posted its best quarterly performance since 2009 fuelled by a lower interest rate environment and expectations of a US-China trade deal.

The NAB business confidence index fell 3 points to 0 in 1Q19, down from the level (+3.0) as at the end of 4Q18. Business conditions were flat at +7.0 pts. On the consumer front, the Westpac consumer confidence index fell from 99.6 in Jan to 98.8 in March – down 0.7% over Q1. Employment rose by 43k positions with the unemployment rate at 4.9% thus far in Q1.

The Australian curve flattened with the spread between long-term rates and short-term rates narrowing during the quarter (-7.9bp). The Australian 3-year bond yield fell -46.4bp to 1.39%, while the 10-year bond yield fell -54.3bp to 1.78%.

The US curve also flattened with the spread between long-term rates and short-term rates narrowing during the quarter (-5.1bp). The US 2-year bond yield fell -22.78bp to 2.26%, while the 10-year bond yield fell -27.92bp to 2.41%. A dovish Fed renewed fears of slowing global growth which put pressure on both short and long term rates.

Metals rose in the first quarter of 2019 with the LME Metals Index up 9.1%. Nickel recorded the sharpest rise over the quarter, increasing 21.6% while Lead prices fell (-0.3%) over Q1. Zinc rose 19.1% while Tin and Copper rose 9.9% and 9.0% respectively. Metals have had a good run thus far as significant progress has been made in US-China trade negotiations. In addition, the Chinese economy is showing signs of stabilisation after aggressive policy support from the Government.

Oil prices rallied during Q1 with Brent and WTI prices down 24% and 29% to US$67.6/bbl and US$60.1/bbl respectively. Oil rose amid tighter supply as OPEC adhere to supply cuts announced in Dec-18 while Venezuela sanctions and Iranian waiver expiry helped tighten markets further.

Reporting season in Australia saw a significant amount of earnings revisions being put through the market. Earnings forecasts for domestic facing businesses continue to look optimistic in the 2H given a back drop of economic lead indicators coming in below expectations, housing data continuing to soften, delays in infrastructure projects and the impact of a federal election. Potentially offsetting some of these factors are government spending promises, budget cash handouts, a rate cut by the RBA or resolution of the China/US trade war.

Capital returns were also a highlight of reporting season. BHP, Rio Tinto, Fortescue, Wesfarmers and Flight Centre all announced higher dividend payments than the market expected, and Caltex announced an off market buyback.

## PERFORMANCE

The portfolio outperformed over the quarter due to its positioning for a better macro environment (beta above 1), a more stable oil price (long energy) and because of stock selection (Fortescue and Macquarie).

The top relative contributors to performance for the quarter are as follows:

**Fortescue Metals Group (FMG) Overweight** Fortescue benefited from a strong iron ore price as ongoing disruption in supply from Vale was met with solid demand. The discount on lower grade iron ore also closed up significantly.

**Santos (STO) Overweight** Santos rallied along with brent oil and after producing a better than expected result following the acquisition of Quadrant.

**Beach Energy (BPT) Overweight** Beach outperformed with oil and following at better than expected result which drove earnings upgrades.

The top relative detractors to performance for the quarter are as follows:

**RIO Tinto (RIO) Underweight** RIO rose with a stronger iron ore price as ongoing disruption in supply from Vale was met with solid steel demand.

**Star Entertainment (SGR) Overweight** Star fell on weaker than expected global VIP revenue trends, and as the Queensland State Government pushes for additional casino licenses.

**Reliance Worldwide Corp (RWC) Overweight R**eliance was impacted by the selldown of majority shareholder Jonathan Munz. The company also provided a trading update prior to the first half result highlighting the business had not benefited from a freeze event in the US.