

Fund Update - 30 September 2018

Large Cap Fund



Fund Objective

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

Performance Net (%) p.a.

	1 Month	3 Months	1 Year	Since Inception*
Large Cap Fund	0.01	0.09	19.27	17.50
S&P/ASX 200 - Total Return	-1.26	1.53	13.97	11.69
Excess Return	1.27	-1.44	5.30	5.81

* Inception date - 02/08/17

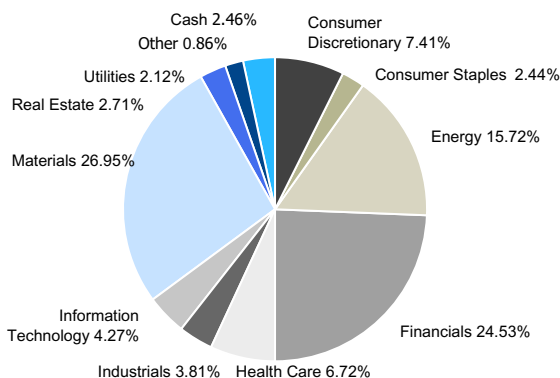
Fund Details

APIR Code	ETL8084AU
Fund Size (AUD m)	\$36
Application Price	\$1.1819
Redemption Price	\$1.1749
Distribution Frequency	Semi-Annually
Management Fee	0.90% p.a.
Performance Fee	Nil
Buy Sell Spread	+/- 0.30%
Minimum Investment (AUD)	\$20,000

Characteristics

Number of Stocks	32
Portfolio Dividend Yield	3.43%
Stock Range	30 - 50
Industry Range	Unconstrained
Cash Range	0-10%

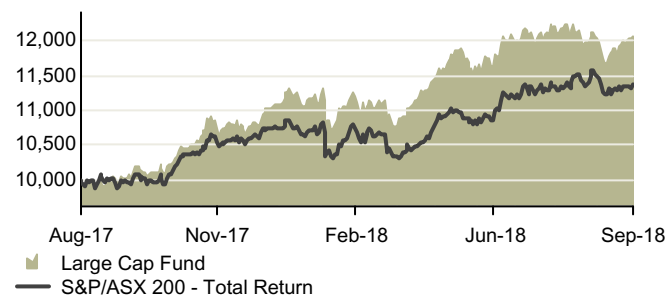
Sector Allocation (%)



Top 10 Positions (%)

	Fund
BHP Billiton Ltd.	11.03
CSL Ltd.	6.72
Australia and New Zealand Banking Group.	6.54
Santos Ltd.	5.98
Commonwealth Bank of Australia	5.74
Macquarie Group Ltd.	5.19
Westpac Banking Corporation	5.17
Woodside Petroleum Ltd.	4.68
Aristocrat Leisure Ltd.	4.25
Origin Energy Ltd.	3.99

Growth of AUD 10,000



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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 Australian Equity market was largely flat over the quarter with the ASX200 TR Index up 1.5% however performance varied wildly across sectors, styles and stocks.

The Communications sector (+25.3%) was the strongest performing, largely due to a 26.0% rise in Telstra on the perception of improved industry dynamics post the TPG Telecom/Vodafone merger announcement. The IT sector (+10.5%) was also strong, benefiting from big moves in stocks like Afterpay (+92.0%) and Wisetech (+41.2%). The multiple rerate in the high PE, high momentum names was extreme despite earnings across reporting season falling on average for these stocks. Utilities (-4.1%) was the worst performing sector, with AGL down over 10% on negative earnings revisions and uncertainty over management change. Materials (-0.9%) were impacted by a stronger USD and weakening sentiment towards emerging markets. Base metals were soft with Nickel down 16% and copper off 7% however bulk industrial commodities held up relatively well. Iron ore was strong closing the quarter at the top end of the recent \$65-70/t trading range. Brent (+6.8%) and WTI (+4.4%) continue to strengthen driven by a combination of looming US sanctions on Iran and solid demand.

Australia's economic conditions remained relatively robust with real GDP growth for the June quarter (released in Q3) at 0.9% q/q. The RBA left the cash rate on hold at 1.5%. The NAB business conditions index was more or less unchanged from the level at the end of Q2 however Business Confidence fell to a two year low. On the consumer front, the Westpac consumer confidence index declined from 106.1 in July to 100.5 in September. Unemployment was steady at 5.3% in Q3, down from the 5.5% in Q2 however real wage growth continues to oscillate around zero. House price indexes turned negative in the second quarter for the first time since mid 2012.

The MSCI AC World NTR index increase +4.3% in USD terms over the quarter. This move higher was entirely fueled by DM, which rose 5.0% versus EM which dropped 1.1%.

PERFORMANCE

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

Santos (STO) - Overweight Santos rose on better than expected 1H earnings and an analyst day, which drew attention to their growth outlook. An increasing oil price also helped.

CIMIC (CIM) - Overweight Cimic rose after a solid first half result ahead of market expectations including strong cashflow and outlook commentary.

Computershare (CPU) - Overweight Computershare continues to outperform on strong earnings growth driven by rising short interest rates and management continue to execute well on cost management.

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

Origin Energy (ORG) - Overweight Origin's FY18 earnings disappointed as they reclassified some hedging costs and electricity markets remained under pressure from government and regulatory bodies.

SIMS Metal Management (SGM) - Overweight Sims reduced earnings expectations for the first quarter, citing weaker volumes and zorba pricing.

Telstra (TLS) - Underweight Telstra benefited from a perceived improvement in the competitive environment with TPG and Vodafone merging.

OUTLOOK

The outlook for Australian equities remains positive in our view, driven by Materials and Energy where the portfolio is overweight, along with selective cyclical, as global economic activity continues to improve, and reflation expands. Conversely, the portfolio is short expensive bond proxies and long duration stocks.

Trade tensions between the US and China shouldn't have a direct material negative impact on growth, but there is a risk it negatively impacts investor sentiment.

Resources should still further benefit from Chinese infrastructure investment, which may be stimulated further in response to weakened US-China trade. The theme of higher grade iron ore premiums should continue. The portfolio remains overweight Materials, with positions in BHP, Rio Tinto, Iluka, South 32, and Western Areas, which have supportive valuation and strong cash flows. We selectively added to some of our resource names at periods of weakness over the quarter.

Oil prices are expected to rise further as supply additions from shale and OPEC in aggregate likely don't keep up with strong demand. Inventory declines should continue. Oil prices may move into "demand destruction" territory in the next 12 months. We expect the theme of expanding Chinese LNG demand may accelerate also over the next 12-24 months in a bid to curb pollution. The portfolio remains overweight Energy with positions in Santos, Beach Energy, Origin Energy and Woodside.

Domestic capital investment continues to rotate from housing to government infrastructure. The portfolio is exposed to CIMIC and Lendlease. We believe housing may pose some risk to Australia's economic growth.

We are underweight the consumer sectors on concerns spending may be negatively impacted by weakening house prices. We are underweight Woolworths and recently sold out of Wesfarmers completely on valuation. Aristocrat remains a key overweight with strong momentum in the core business and an attractive growth outlook in digital. Treasury Wine remains a moderate overweight benefiting from robust Chinese demand and is yet to harness the benefits of restructuring US logistics. Star Entertainment was added on an improving VIP outlook, seemingly less mass disruption from construction, a reduced capex outlook and attractive valuation.

Overseas Central Bankers continued to make 'Hawkish' statements last quarter. Although inflation is yet to take off, wage inflation is picking up. We expect benchmark interest rates to be moved higher going forward. As such the portfolio is underweight defensive yield, utilities, infrastructure and REITs. REITs also face declining growth.

We are overweight Financials via Non-bank Financials, Macquarie and Computershare, which will benefit from rising rates. We are underweight the major Banks, where we see decelerating credit growth, regulatory and housing risks, offsetting their positive exposure to an strong business environment.

We own selected Industrials that are both domestically and globally exposed. We have increased our Reliance position in the most recent pull back which we see as driven by a combination of short term and technical reasons with the core thesis intact. After a few years battling own goals, James Hardie is now positioned with key strategies to reaccelerate volume growth. Bapcor also continues to look attractive. We like management, the industry position and the growth drivers, which are not cycle dependent such as the private label opportunity and the growth option in Asia.