

## Fund Objective

The Fund aims to outperform the S&P/ASX 200 Total Return Index (after fees and before taxes) over the long term.

Performance Net (%)	1 Month	Since Inception* p.a.
Long Short Australian Equities Fund	2.22	1.51
S&P/ASX 200 - Total Return	1.84	0.87
<b>Excess Return</b>	<b>0.38</b>	<b>0.64</b>

\* Inception date - 12 July 2019

## Fund Details

APIR Code	ETL8096AU
Fund Size (AUD m)	\$5
Fund Base Currency	AUD
Distribution Frequency	Semi-Annually
Management Fee	1.15% p.a.
Performance Fee	15% p.a.
Buy Sell Spread	+/- 0.30%
Minimum Investment (AUD)	\$20,000

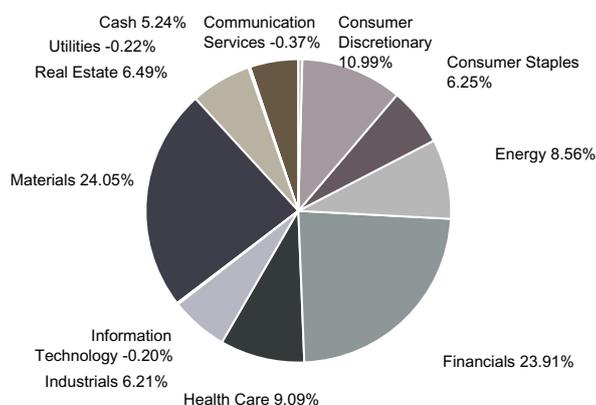
## Characteristics

Number of Stocks	49
Portfolio Dividend Yield	3.87%
Stock Range	Long 20-60, Short 0-20
Industry Range	Unconstrained
Cash Range	0-20%

## Market Exposure

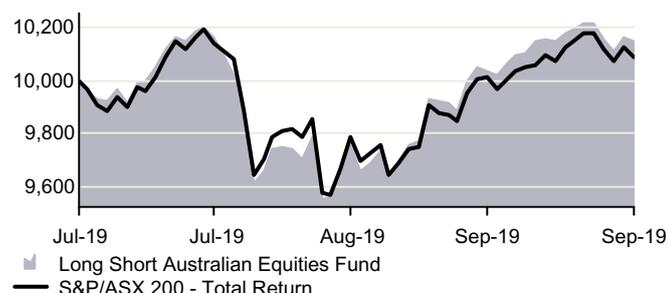
Long	102.85%
Short	-4.81%
Net	94.76%

## Sector Allocation



## Top 10 Positions

	Weight %
BHP Group Ltd.	10.67
CSL Ltd.	8.46
Westpac Banking Corporation	6.68
National Australia Bank Ltd.	6.52
Commonwealth Bank of Australia	5.42
Aristocrat Leisure Ltd.	5.09
Santos Ltd.	3.74
Origin Energy Ltd.	3.71
Treasury Wine Estates Ltd.	3.66
Australia and New Zealand Banking Group...	3.57



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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 Total Return Index except where stated otherwise.

The S&P ASX200 Total Return Index returned 2.4% over the September quarter, outperforming global equities that suffered from ongoing US-China trade tensions.

Defensive sectors outperformed cyclicals as nervousness increased. Consumer Staples performed best, rising 11.6% over the quarter, due to their earnings certainty and with strong performances from Woolworths, which is picking up share, and Treasury Wine due to improved cash flow. Health Care rose 7.0% as the sector held the top spot for earnings revisions with CSL for example up 4.8%. The Materials sector performed worst, falling 3.7% on concerns about slowing Chinese growth and a decline in the iron ore price. The Communications sector shed 3.2% as Telstra fell on a weaker earnings outlook.

Global markets returned 0.5% (MSCI World Net Total Return Index in USD) as trade tensions and slowing macro data weighed on sentiment. The S&P500 Price Index rose 1.2% (in USD terms) as the US was seen as a relative safe haven, which was also reflected with a surge in the USD (DXY +3.4%).

Major forward macro indicators deteriorated through Q3, with the J.P. Morgan Composite Global PMI dropping towards the all-important 50-mark. Flash PMI's released towards the end of the quarter, pointed to a 'near-stall' in factory output. Although Europe was the epicentre of the weakness, the US weakened over the quarter. Their ISM Manufacturing PMI for September came in at 47.8, compared to expectations of 50, which is the lowest reading in a decade. And the US Non-Manufacturing ISM fell to 52.6%, dangerously close to 50 which is the neutral mark.

The RBA cut the cash rate to a new historic low in Q3, and then 25bp further in October to 75bp. Their statement noted spare capacity in the labour market and fears of a global recession. Australia's 2Q GDP annual growth rate slipped to just 1.4%, which is the same rate as the GFC trough in 2009. The NAB business confidence index weakened to 1.4, which is well down the year's 7.3 May highpoint. The Westpac consumer confidence index also dipped and now sits below 100 which is the neutral mark.

Commodities had a tough quarter with the Bloomberg Commodities Index down 2.4%. Iron ore fell 20.5% as mine disruption tight supply normalised. Copper transmitted negative signals regarding the state of the global economy, with the base metal down 7.1%. In contrast, precious metals rallied, with gold and silver up 4.5% and 10.0% respectively due to safe haven buying. Nickel surged 36.5% during the quarter as Indonesia cut supply. On the back of mixed commodities, the stocks within the Materials sector also saw mixed earnings revisions, with a net 0.0% move for the sector overall.

Oil prices fell 7% on a weaker demand outlook despite an attack on a major Saudi processing facility. Energy sector earnings were revised -4.0% on lower oil prices.

Earnings revisions were -2.1% for the Australian market overall.

Communications at -10.1% suffered the most with declines across the telecommunications with Telstra suffering on a weaker mobile outlook update in the August reporting season. IT at -7.0% was impacted by Nearmap and Afterpay on cost issues, and NextDC on capacity utilisation not ramping as expected. Utilities -5.4% was mainly due to AGL's -8.5% downgrade after a weak FY19 result and guidance. Financials -2.9% occurred as the RBA's rate cuts flowed through bank NIMs, and IAG -8.3% as rate increases slowed. Within Industrials, Brambles missed FY19 expectations as cost pressures continued.

### PERFORMANCE

The portfolio outperformed over the quarter due to its positioning and stock selection.

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

**Treasury Wine (TWE) Overweight** Treasury outperformed on a strong FY19 earnings result and cash flow.

**Western Areas (WSA) Overweight** Western Areas rose as Nickel surged 36.5% during the quarter on an Indonesia supply cut.

**Reliance Worldwide (RWC) Overweight** Reliance bounced off oversold levels when it delivered an inline result and deranging concerns abated.

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

**BHP Billiton (BHP) Overweight** BHP weakened on negative earnings revisions due to lower iron ore and oil prices.

**Iluka Resources (ILU) Overweight** Iluka fell on negative earnings revisions due to a softer zircon demand outlook.

**CYBG PLC (CYB) Overweight** CYBG sold off with the UK banking sector on Brexit concerns and higher than expected PPI claims.

### Portfolio Changes

We rotated the portfolio towards more defensive positioning by selling Materials, Energy, and buying Healthcare and Consumer Staples.

We reduced the Banking exposure, and sold some cyclical names, as well as making a number of stock specific changes.

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## Commentary

### OUTLOOK

We expect Australian equities to consolidate having bounced on accommodative global and Australian monetary policies and are now trading at the top end of their price/earnings multiple valuation range. The portfolio has an increased cash position.

Globally, the macro economic outlook continues to soften. Europe remains tough but much of the global outlook depends on the outcome of a trade deal between China and the USA which is becoming increasingly difficult to forecast and uncertainty around the outcome is starting to impact business investment. China has increased stimulation – especially in infrastructure investment – but growth continues to slow. Despite this, financial conditions remain very accommodative and more cuts are being priced into interest rate markets from the US Fed and Australia's RBA.

The portfolio remains overweight Materials, which are still attractive on valuation grounds.

We expect oil prices to move in a range sideways. The demand outlook has weakened with slower global economic growth however OPEC has extended cuts until May 2020. Equity valuations are however still attractive, so the portfolio continues to have a modest overweight to Energy. We have opportunistically reduced the sector exposure further over the quarter.

The reduction in positions in Materials and Energy, and cash levels, has reduced the portfolio's beta modestly. After a period of outperformance, we have shifted back underweight Banks. Valuations are now back to the top end of prior trading ranges. The Federal Coalition's policies, APRA borrowing capacity changes, interest rate cuts and tax cuts have stabilised house prices and we are seeing modest increases in some markets. This has improved the outlook for credit growth however NIMs remain pressured and don't expect to see any earnings growth from the sector.

Central banks globally continue to have an easing stance with inflation running below target levels. The 2yr-10yr rates curve in the US that shifted negative in the back of August and was discussed as a recession indicator has steepened a small amount more recently. Overall the portfolio is short bond proxies and long duration stocks, which we see as expensive. REITs also face declining growth.

We have a modest overweight to the healthcare sector.