

## 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	-1.37	2.01	24.64	11.78
S&P/ASX 200 - Total Return	-2.17	0.68	23.40	11.04
<b>Excess Return</b>	<b>0.80</b>	<b>1.33</b>	<b>1.24</b>	<b>0.74</b>

\* Inception date - 02 August 2017

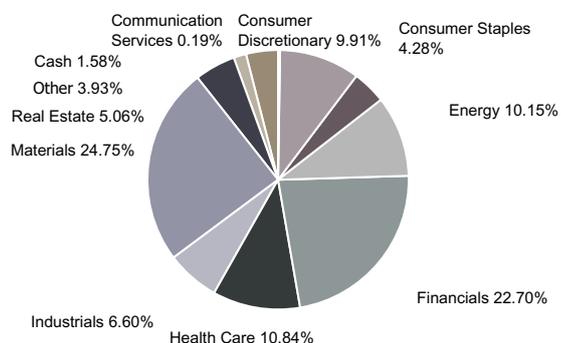
## Fund Details

APIR Code	ETL8084AU
Fund Size (AUD m)	\$50
Fund Currency	AUD
Distribution Frequency	Semi-Annually
Management Fee	0.75% p.a.
Performance Fee	15% p.a.
Buy Sell Spread	+/- 0.20%
Minimum Investment (AUD)	\$20,000

## Characteristics

Number of Stocks	37
Portfolio Dividend Yield	3.86%
Stock Range	30 - 50
Industry Range	Unconstrained
Cash Range	0-10%

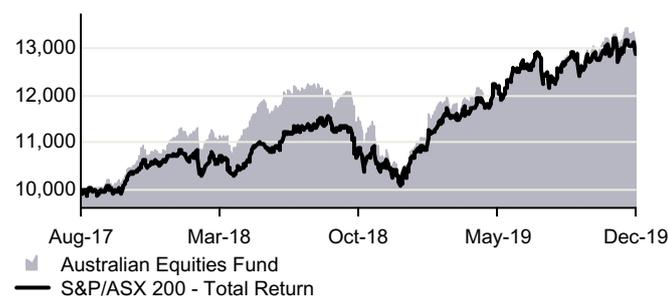
## Sector Allocation



## Top 10 Positions

	Weight %
BHP Group Ltd.	11.62
CSL Ltd.	9.04
National Australia Bank Ltd.	5.49
Commonwealth Bank of Australia	5.25
Aristocrat Leisure Ltd.	5.04
Origin Energy Ltd.	4.29
Santos Ltd.	4.21
Westpac Banking Corporation	3.93
Ancor PLC Shs	3.83
QBE Insurance Group Ltd.	3.69

## Growth of AUD 10,000



## Contact

Phone: 02 8227 7400

Email: [distribution@paradice.com](mailto:distribution@paradice.com)

Website: [www.paradice.com](http://www.paradice.com)

### Disclaimer

This information is prepared by Paradise Investment Management Pty Ltd (ABN 64 090 148 619, AFSL No. 224158) (Paradice, we or us). This material is not intended to constitute advertising or advice (including legal, tax or investment advice) of any kind. These materials are not to be distributed and must not be copied, reproduced, published, disclosed or passed to any other person at any time without the prior written consent of Paradise. Equity Trustees Limited (ABN 46 004 031 298, AFSL No. 240975) (Equity Trustees) is the responsible entity of, and issuer of units in, the Paradise Australian Equities Fund (ARSN 617 679 071) (Fund). Equity Trustees is a subsidiary of EQT Holdings Limited (ABN 22 607 797 615), a publicly listed company on the Australian Securities Exchange (ASX:EQT). In deciding whether to acquire, or to continue to hold, units in the Fund please read the current product disclosure statement available from Paradise. Past performance of the Fund is not a reliable indicator of future performance. The value of an investment in the Fund may rise or fall. Returns are not guaranteed by any person. Total returns are calculated before tax and after ongoing management costs. We encourage you to think of investing as a long-term pursuit. In preparing this information, we have not considered your investment objectives, financial situation or needs and therefore the Fund may not be suitable for you. You should have regard to your own individual objectives, financial situation and needs and, if necessary, seek independent professional advice before you make any investment decision. Neither Paradise, Equity Trustees, nor any of their respective related parties, directors or employees, make any representation or warranty as to the accuracy, completeness, reasonableness or reliability of the information contained in this publication or accept liability or responsibility for any losses, whether direct, indirect or consequential, relating to, or arising from, the use or reliance on any part of this material. Any rates of return, forecasts or estimates contained in this publication are not guaranteed. The content of this publication is current as at the date of its publication and is subject to change at any time. It does not reflect any events or changes in circumstances occurring after the date of publication.

---

## 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 S&P ASX200 Total Return Index rose 0.7% over the December quarter, underperforming global equities that benefited relatively more from an improved global macroeconomic environment.

The US and China announced on 13 December that a Phase One Trade Deal had been reached covering issues including Intellectual Property. Following several months of global monetary policy easing, both the global manufacturing and service sector Purchasing Manager Indices (PMIs) picked up in November. The UK election win by the Conservatives was taken positively by investors. This improved macroeconomic environment boosted equities and drove a rally in US Treasury yields. The 10yr rose 25bp to 1.92%, with the curve steepening as the spread between long-term and short-term rates widened 31bp.

Healthcare performed best amongst Australian sectors, rising 14.0%, led by CSL as globally healthcare also performed best. Energy performed second best on higher oil. The economically cyclical sectors like Industrials and Materials outperformed defensives such as Utilities, Staples and REITs on the improving macroeconomic outlook and change in US Treasury yields.

Financials were the weakest sector in Australia, falling 6.3%, led by Westpac Bank underperforming after raising \$2.5b of new equity, and AUSTRAC issuing money laundering allegations that subsequently resulted in management and board changes. National Australia Bank also underperformed as ASIC sued over fees for no service. Australian private sector credit growth rose just 2.3% year on year (yoy) in November, below consensus, with downside from business. The Financial sector's earnings were revised down 5.0%.

The RBA cut the cash rate another 25bp to a new historic low of 75bp. The board maintained dovish commentary. Australia's 3Q GDP growth rate was weaker than expected at 0.4% quarter on quarter (qoq) vs consensus at 0.5%. Real household consumption was the downside surprise growing just 0.1% qoq, the weakest quarter since the GFC. The NAB business confidence index was flat at 0 in 4Q, unwinding most of the post-election bounce. The Westpac consumer confidence index also fell to 95 and is now well below the 100 neutral mark. The Australian equity market experienced 3.4% earnings downgrades, with the momentum group suffering the worst at -14.6%.

Oil prices rose 8.6% on better demand expectations due to stronger economic growth, and after OPEC plus Russia agreed to a further 500k bpd supply cut, which brings their total cuts to 1.7m bpd. Saudi Aramco floated in the biggest IPO ever, implying a need to maintain oil price stability. Other notable moves amongst commodities was Copper, which rose 8.5% also on economic growth. The weakest over the period was Nickel, which fell 18%.

### PERFORMANCE

The portfolio outperformed over the quarter due to its positioning in Materials, Energy and value stocks, and because of stock selection.

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

**Aristocrat (ALL) Overweight** Aristocrat outperformed on a strong FY19 earnings result, lifted by its core gaming and Digital units.

**CSL (CSL) Overweight** CSL rose along with healthcare globally and broker upgrades.

**Bingo (BIN) Overweight** Bingo outperformed after price increases stuck, enabling strong first time FY20 guidance.

The bottom relative contributors from performance for the quarter are as follows:

**Treasury Wine (TWE) Overweight** Treasury underperformed on weaker US wine data and another management change.

**National Australia Bank (NAB) Overweight** NAB underperformed as ASIC sued over fees for no service.

**Westpac Bank (WBC) Overweight** Westpac underperformed after raising new equity, and AUSTRAC issued money laundering allegations that resulted in management and board changes.

### OUTLOOK

We are seeing signs of improving macroeconomic conditions globally. Financial conditions have been eased significantly, remaining accommodative for some time now, and more cuts are priced into interest rate markets in early 2020. The US and China may sign a phase one trade deal in January 2020, which not only winds back some tariffs but also removes the downside risk of further deterioration.

While the lagging economic indicators continue to print negatively, we are seeing signs of stabilisation in the leading data and continue to monitor this for further signs of a bottom. Manufacturing PMIs are now expected to provide the spark for a global rebound, having now increased for four consecutive months with positive momentum in orders and inventories. Encouraging also are the rebounds in all-industry employment PMI and US job gains last month. The Services PMIs rise is less decisive, and we expect this sector to remain sluggish into 2020. Australia should recover with a lag to the global economy.

---

## Commentary

We have pivoted the portfolio in a minor way to reflect the more positive outlook and are looking for further evidence before increasing conviction.

We increased the portfolio's cyclical exposure by buying Materials, Energy, and adding some cyclical names. We reduced defensive positions in Gold, Staples and Healthcare. We also decreased the portfolio's cash position. We further decreased Banking exposure on regulatory concerns.

We have increased positioning in Materials, which provide cyclical exposure and are attractive on valuation.

We expect oil prices to be well supported at current levels with OPEC willing to constrain supply for geopolitical reasons and as shale supply growth continues to slow. The demand outlook should improve with global economic growth. Equity valuations are attractive so we have lifted positions in Energy.

The 2yr-10yr rates curve in the US has steepened and should continue to do so as macroeconomic conditions improve further. Overall the portfolio is short bond proxies and long duration stocks, which we also see as expensive. REITs also face declining growth.

We remain underweight Banks. From a purely macro perspective they should benefit if the 2yr-10yr rates curve steepens as we expect. However substantial industry headwinds remain with credit growth still slowing, NIM pressure, and regulatory and compliance costs increasing so we don't see any earnings growth.

We reduced defensive positions in Consumer Staples and we have a modest overweight to Healthcare.