Macquarie PPM Growth Ex-20 Australian Equity Strategy Overview October 2018

Managed Accounts

Model portfolio performance – 31 October 2018

	Growth Ex-20 strategy	S&P/ASX 300 Accum. Index Excluding the S&P/ASX 20 Leaders Index	Relative Performance
1 month (%)	-9.83	-7.25	-2.59
3 months (%)	-11.81	-6.73	-5.08
1 year (%)	0.74	2.15	-1.40
3 years (% pa)	7.55	11.13	-3.58
5 years (% pa)	9.93	9.32	0.61
Since inception (% pa)	11.33	10.67	0.66

Inception date 31st July 2013. Past performance is not a reliable indicator of future performance

Until 17 December 2017, the strategy was managed with a fundamental approach. From 18 December 2017, the strategy was restructured such that it is managed with a quantitative, systematic investment approach.

Source: Macquarie

Portfolio highlights

The Portfolio underperformed the benchmark by 2.59%, to finish the month down 9.83%.

The largest positive contributors to performance for the month were overweight positions in defensive companies such as Evolution Mining (EVN) and Ingham's Group (ING), and an underweight position to AMP Ltd (AMP).

Evolution Mining (EVN) benefitted from a rising gold price as investors positioned themselves more defensively in a volatile market. At a company level, EVN received board approval to proceed with further development of the Mt Carlton mine. EVN is confident the high margin ores from Mt Carlton can be expanded, which will cost around $60m in capital expenditure and increase the capacity from a very profitable mine.

The greatest detractors from performance were overweight positions in growth focused companies such as Bingo Industries (BIN), Pinnacle Investment Management (PNI), and Afterpay Touch Group (APT).

Afterpay Touch Group (APT) was down 30.4% for the month, after crossbench senators supported a Labor plan to establish an inquiry into financial services sectors not covered by the royal commission. APT stated in a market release that it is "is supportive of appropriate regulation."

Market overview

Australian equity markets followed their global peers lower during October, falling sharply over the month. The S&P/ASX200 Accumulation Index fell 6.05%, while the S&P/ASX300 Accumulation Index slipped 6.16%.

Initially driven by higher yields, the global selloff extended during the month from heightened global growth concerns. In the worst monthly performance since the GFC, the MSCI World Index fell 7.6%, with growth stocks enduring heavy losses. At a global sector level, IT (-9.5%) bore the brunt of the selloff, with Utilities and Consumer Staples bucking the trend and falling by only 0.8% and 2.3% respectively. Developed markets have now outperformed emerging markets for the eighth consecutive month, the longest on record, with the MSCI Developed Markets Index falling 7.3% to Emerging Market's 8.7%. At a regional level the UK and Europe outperformed, with the FTSE 100 and Euro Stoxx 50 down by 4.9% and 5.8% in local currency terms, with Japan's Nikkei underperforming with a 9.0% fall. In other news, the US earnings season produced the best growth since Q3 2010, however this failed to stem the global rout. Markets saw concern in a stronger USD, a continuing housing slowdown and higher input costs, along with a waning benefit from tax reform. The Chinese yuan continued to depreciate against a backdrop of a worsening trade war, with the USD/CNY rate ending the month at 6.98, the weakest since 2008.

Australian equity markets fell in line with global counterparts, but marginally outperformed. Growth sectors such as IT and Healthcare fell 11.2% and 7.0% respectively, with companies like Afterpay Touch Group (-30.4%) and Xero (-18.8%) leading the declines.

Model top 10 holdings

ASX code	Weight (%)
ALL	4.55
OSH	4.29
SYD	4.15
RMD	4.14
RWC	3.82
QAN	3.64
ALX	3.39
CPU	3.13
LNK	3.07
EVN	3.07

Sector Allocation

Sector	Portfolio (%)	Benchmark (%)
Energy	6.26	7.11
Materials	14.62	17.83
Industrials	25.10	11.53
Consumer discretionary	17.08	9.87
Consumer staples	8.78	5.49
Healthcare	6.79	7.53
Financials	3.90	14.12
Information technology	10.09	5.09
Communication services	1.72	3.26
Utilities	2.54	4.48
Real estate	0.00	13.67
Cash	3.12	0.00

The defensive sectors such as REITs (-3.1%) and Utilities (-4.0%) outperformed, with Shopping Centres Australasia (+7.1%) and Propertylink Group (+4.9%) among the best performers. In other corporate news, AMP fell 26% after it announced the sale of its life business, taking its

12-month return to -47.4%. Corporate Travel Management ended the month down -34.3% after a hedge fund released a research report accusing the company of aggressive accounting and poor disclosure, and alleged its international offices were phantom locations.

In domestic economic news, national dwelling prices fell another 0.5% in October according to CoreLogic, with the year-on-year (YoY) fall now at -3.5%. Sydney's dwellings are down 7.4% YoY, with Melbourne also down 4.7%. The unemployment rate unexpectedly fell to 5.0%, however employment only rose by 6k vs an estimated 15k, with the fall mostly attributed to a falling participation rate.

The global risk-off sentiment and worsening trade conflict sent most commodities falling, with the Bloomberg Commodities Index declining 2.4% over the month. Oil was the worst performer amid the global growth concerns, with Brent down 8.8%. Coal fell by 7.6%, and the LME Metals Index pulled back 4.6%, led by nickel (-8.6%) and lead (-6.0%). Amid the risk-off sentiment, gold rose 1.9%, and iron ore rose 9.4% due to improving Chinese steel margins.

Portfolio changes

Stock	Action	Comment
Computershare	New 3.0% position	We established a new investment in registry and administration services business, CPU, which offers strong leverage to higher US interest rates.
Oz Minerals	New 2.0% position	We established a new investment in copper producer, OZL, funded from iron ore producer, FMG. OZL offers stronger medium-term upside in our view.
Tabcorp	New 3.0% position	We established a new investment in wagering and lotteries company, TAH, which offers relatively defensive earnings, with medium-term upside from merger synergies.
Cochlear	New 2.5% position	We established a new investment in medical device manufacturer, COH, on valuation grounds, following a pullback in the share price.
ASX	Exited 3.0% position	We exited the investment in exchange business, ASX, on valuation grounds, following a period of share price outperformance.
Fortescue Metals	Exited 2.4% position	We established a new investment in copper producer, OZL, funded from iron ore producer, FMG. OZL offers stronger medium-term upside in our view.
Boral	Exited 2.3% position	We exited the holding in building materials business, BLD, on risk management grounds.
Super Retail	Exited 2.7% position	We exited the investment in discretionary retailer, SUL, on risk management grounds. With slowing sales momentum and a change in CEO, we are cautious about the outlook for near-term earnings.
A2 Milk	Added 1.0%	We added to the recently established investment in dairy products distribution company, A2M. A2M is well positioned for strong ongoing infant formula growth, driven by its strong brand position in Australia/New Zealand and China.

Star Entertainment	Added 0.5%	We added to the recently established investment in casino and hotel operator, SGR. SGR's operating environment is improving, driven by strong VIP play. We believe medium-term upside exists across SGR's asset portfolio in Sydney and Queensland.
Downer EDI	Added 0.5%	We added to the recently established investment in contract services company, DOW. DOW provides a diversified exposure to domestic infrastructure and mining services, at an attractive valuation.
Bluescope	Trimmed 1.0%	We trimmed the holding in steel products producer, BSL, following a review of our Resources exposures. OZL offers stronger medium-term upside in our view.
Dulux	Trimmed 0.5%	We trimmed the holding in paint manufacturer, DLX, on risk management grounds. We are increasingly cautious on the outlook for the domestic consumer, given weakening house prices.
Carsales.com	Trimmed 0.5%	We trimmed the holding in automotive classifieds business, CAR, on risk management grounds. We are increasingly cautious on the outlook for the domestic consumer, given weakening house prices.

Outlook

After the falls in October, the broader Australian equity market is currently trading on 14x forward price-to- earnings. This is in-line with the long-term average, highlighting that valuations have improved.

We believe that the market presents opportunities for investors, given reasonable valuations and ongoing domestic economic growth.

The returns are based on the SMA Model Portfolio provided to the operator of the SMA and do not take into account any fees and expenses. There may be differences between the performance of the SMA Model Portfolio and the actual portfolio implemented by the operator of the SMA resulting from factors including an incomplete implementation of all trades, the timing of trades and the individual circumstances of an investor. As a result the performance of the SMA Model Portfolio shown above will differ to the actual performance of your investment. Please contact the operator of the SMA for further information.