Delivering new sources of return to traditional portfolios

Winton Global Alpha Fund

MACQUARIE PROFESSIONAL SERIES

While historically providing strong absolute returns, the Winton Global Alpha Fund can also provide valuable portfolio diversification benefits. With the potential to generate positive returns in both rising and falling markets, an appropriate allocation to this strategy may help smooth portfolio returns during inevitable market downturns.

1. Low correlation to traditional asset classes

The Winton Global Alpha Fund (the Fund) has a strong long-term performance track record. Since inception in May 2007, the Fund has outperformed both global and Australian equities (Chart 1), maintained lower volatility (Chart 2), and experienced shorter and shallower drawdowns; reflecting Winton’s focus on robust risk management.

Chart 1: Growth of $100,000 since inception of the Fund

Past performance is not a reliable indicator of future performance. Source: Macquarie and Morningstar, December 2017. Performance assumes the re-investment of distributions and is net of fees. Australian equities is based on the S&P/ASX 300 Accumulation Index ($A), and Global equities is based on the MSCI World ex Australia Index ($A). The benchmark is the Barclay CTA Index (Benchmark).
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Chart 2: Annualised volatility for the Fund compared to equities shows lower risk over the medium to long term

Past performance is not a reliable indicator of future performance. Source: Macquarie and Morningstar, as at December 2017. Australian equities is based on the S&P/ASX 300 Accumulation Index ($A), and Global equities is based on the MSCI World ex Australia Index ($A).

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>3 years</th>
<th>5 years</th>
<th>Since inception*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australian equities</td>
<td>0.12</td>
<td>0.10</td>
<td>-0.13</td>
</tr>
<tr>
<td>Global equities (unhedged)</td>
<td>0.10</td>
<td>0.18</td>
<td>-0.13</td>
</tr>
<tr>
<td>Bonds</td>
<td>0.49</td>
<td>0.47</td>
<td>0.30</td>
</tr>
</tbody>
</table>

*28 May 2007. Source: Calculated by Macquarie based on Morningstar data, as at December 2017. Based on S&P/ASX 300 Accumulation Index ($A), MSCI World ex Australia Index ($A) and Bloomberg AusBond Composite All Maturities Index in $A.

Positive correlation (a number closer to +1) means performance tends to move in the same direction at the same time.

Negative correlation (a number closer to -1) means performance tends to move in the opposite direction at the same time.

Low correlation (a number closer to 0) means performance moves randomly and has no significant relationship.

The Fund has historically delivered performance with low long-term correlation to traditional asset classes, including equities and bonds.

There are diversification benefits of investing part of a portfolio into a fund that has low correlation to traditional asset classes. For example, the Fund’s low correlation has allowed it to more efficiently preserve capital in times of stress, including during the global financial crisis where other markets were experiencing large draw-downs.

It is important to note however the Fund is not expected to outperform in all market conditions, and its low correlation means that when equities (or bonds) perform poorly, it can achieve positive, flat or negative returns.

Chart 3 below illustrates the Fund’s performance (net of fees) since inception during the 10 worst months of global equity markets (MSCI World ex Australia Index in $A). The Fund has achieved a unique return profile during these periods, illustrating a potential benefit of low correlation.

Past performance is not a reliable indicator of future performance. Source: Macquarie, as at December 2017.
2. Diversified approach

The Fund employs multiple strategies across approximately 100 liquid exchange-traded futures markets, providing long-term diversification benefits from traditional asset classes.

Some of the futures markets the Fund invests in worldwide include:

- **Share indices**
  - DJ Euro Stoxx (Europe)
  - Hang Seng (Hong Kong)
  - SPI 200 (Australia)
  - Nikkei 225 (Japan)

- **Interest rates/bonds**
  - Gilts (UK bonds)
  - New Zealand bills
  - Treasury bonds (US)

- **Currencies**
  - Japanese Yen
  - Australian Dollar
  - Canadian Dollar
  - Swiss Franc

- **Soft commodities**
  - Coffee
  - Corn
  - Wheat
  - Soybeans

- **Hard commodities**
  - Gold
  - Natural gas
  - Copper
  - Crude oil

The Fund can take long and short positions in any of the markets it trades, and Winton dynamically allocates risk based upon its risk and return forecasts. These forecasts are built from a combination of trend and non-trend following signals. This diversification of signals can help the Fund to better manage downside risk in times when markets see reversals in key longer-term trends, versus strategies employing a trend-following only approach.

3. Specialist investment strategy

Winton view the investment universe as a large body of data sets. For almost 30 years the firm has combined robust scientific and statistical research with creative thinking to identify patterns and interrelationships within this data, seeking to acquire insights that give them an investment edge.

The data sets include large volumes of price records from thousands of markets, economic statistics of the world’s major economies, accounts of the world’s leading companies, production and consumption statistics, demographic data, weather records, and more.

Winton’s focus on science is reflected in the composition of their investment team, employing staff from a variety of backgrounds – from particle physics and astronomy to virology and meteorology. While diverse, they are united by their proven ability to identify subtle patterns within large, noisy data sets.

About Winton

Winton Capital Management Limited (Winton) is a global investment management company, based in London focused on achieving absolute returns through advanced statistical research into financial markets. Winton was founded in 1997 by David Harding. David has been at the forefront of systematic investment management for nearly 30 years, having previously co-founded the quantitative investment company AHL in 1987.
Risks

All investments carry risk. Different investments carry different levels of risk, depending on the investment strategy and the underlying investments. Generally, the higher the potential return of an investment, the greater the risk. The risks of investing in this Fund include:

Market risk: Changes in the prices of futures positions held by the Fund may result in loss of principal or large movements in the unit price of the Fund within short or long periods of time. Global and local economic, financial, political, technological and environmental factors can drive changes in the prices of futures positions. It is not possible to predict the occurrence or magnitude of these and other potentially relevant factors. Different factors may affect the price of individual futures positions, particular asset classes (such as shares, bonds, interest rates, currencies and commodities) or futures positions generally at different times.

Leverage risk: Arises when the Fund takes on positions that are greater in size than its assets. The Fund will take leveraged positions with the aim of increasing returns which can also lead to increased losses. Leverage arises in the Fund through taking both long and short futures positions which are larger in size than the net asset value of the Fund. While this process forms a key part of the investment strategy, it may mean that gains and losses may be significantly greater than those in a Fund that is not leveraged. The Fund employs significant leverage and this may result in a loss of some or all of the Fund’s capital.

Strategy, model and research risk: Winton’s investment approach is based on research into past data and the application of that research to the development of mathematical models that attempt to forecast returns, risk, correlation and transaction costs. Many of these models are trend following models that attempt to identify and exploit market trends. Mathematical models are representations of reality but they may be incomplete and/or flawed and there is an inherent risk that any forecasts derived from them may be inaccurate, particularly if the research or models are based on, or incorporate, inaccurate assumptions or data. Assumptions or data may be inaccurate from the outset or may become inaccurate as a result of many factors such as, changes in market structure, increased government intervention in markets or growth in assets managed in accordance with similar investment strategies. In particular, such factors may make Winton’s trend following models less effective because they may lessen the prospect of identified trends occurring or continuing in the future. As a result, Winton’s investment approach may not successfully generate profitable trading signals or may result in the Fund investing in positions that lead to losses. This may have an adverse effect on the performance of the Fund.

More information on the risks of investing in the Fund is contained in the Product Disclosure Statement, which should be considered before deciding to invest in the Fund.