

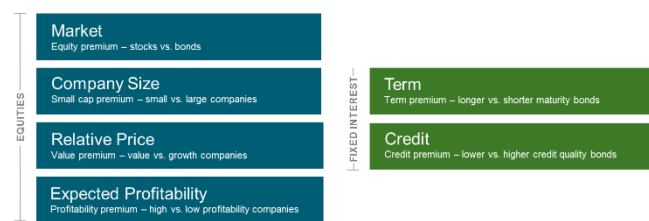


Quarterly Market Review – end 31 March 2018

OUR INVESTMENT PHILOSOPHY - RE-CAP

We structure broadly diversified, low cost portfolios which tilt towards specific factors of higher expected return to provide our clients with greater certainty of achieving their investment objectives.

Enhanced Asset Class (EAC) Investing



Diversification does not eliminate the risk of market loss.
1. Relative price as measured by the price-to-book ratio; value stocks are those with lower price-to-book ratios.
2. Profitability is a measure of current profitability, based on information from individual companies' income statements.

Key Themes for the Quarter

- Emerging markets were the standout in mixed global equity returns
- Developed markets positive; Australia negative
- Value premium positive in emerging markets; negative elsewhere
- Size premium positive in developed markets; negative in emerging
- Profitability premium positive in developed and emerging
- REIT's and utilities lag broader equity markets
- Negative term, credit premiums in fixed interest

EAC STRATEGIES REVIEW

Australian Equity Strategy

- **Size:** Positive size premium
- **Relative Price:** Negative value premium
- **Profitability:** Positive both market wide and within value

Our Australian Equity Strategy slightly outperformed the benchmark for the quarter. Whilst the Australian Large component performed in line with the overall market and was buoyed by a positive size and profitability premium, the negative value premium weighed on performance.

The poor performance of Australian bank stocks, a major source of franking yield, weighed on the Australian Equity Income Strategy. However, the strategy delivered on its objective of franking yield.

Global Equity Strategy

- **Size:** Positive size premium
- **Relative Price:** Negative value premium
- **Profitability:** Positive both market wide and within value

Our Global Equity Strategy performed in line with the benchmark for the quarter. A negative value premium for the quarter weighed on the performance was countered by a positive profitability and size premium.

The star performer was the Emerging Markets Trust, which outperformed the MSCI Emerging Markets index thanks to its focus on value stocks in China, Brazil and South Africa.

Fixed Interest Strategy

- **Credit & Term:** Negative for the quarter

In fixed interest markets, term and credit premiums were both negative for the quarter which resulted in the EAC Fixed Interest Strategy underperforming the benchmark.

In pursuit of the term premium on offer, the fixed interest strategy has longer duration than cash. As a result, the negative term premium in the past quarter, particularly in US bonds, detracted from performance versus cash.

Overall our EAC Strategies and Diversified Portfolios continue to reward our clients as shown in the Performance tables on the following page. If you have any questions or would like more information about our strategies and portfolios, please contact us.

EAC PORTFOLIOS – PERFORMANCE vs BENCHMARKS

EAC Strategies - Investment Performance (%)

As of Date: 31/03/2018

Strategy	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	Since Inception
EAC Strategy - Australian Equities	-4.14	3.77	3.75	6.20	7.32	5.40	9.55
S&P/ASX 300 TR	-3.78	3.67	2.86	3.92	7.62	5.25	8.49
EAC Portfolio - Global Equities	0.27	6.77	13.91	8.75	14.55	7.70	7.51
Composite Index - Global Equities	0.22	6.29	14.42	8.08	14.45	7.44	6.40
EAC Strategy - Fixed Interest	0.00	0.24	1.38	2.24	2.73	4.59	5.15
Composite Index - Fixed Interest	0.43	0.85	1.73	1.97	2.28	3.49	4.34

EAC Model Portfolios - Investment Performance (%)

As of Date: 31/03/2018

Model Portfolio	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	Since Inception
EAC Portfolio 55-45	-1.29	2.60	5.02	4.94	7.15	5.91	7.41
Composite Index 55-45	-1.03	2.75	4.93	3.72	6.68	5.28	6.37
EAC Portfolio 70-30	-1.55	3.44	6.17	5.70	8.45	6.52	8.11
Composite Index 70-30	-1.37	3.34	5.91	4.30	7.96	5.63	6.79
EAC Portfolio 85-15	-1.84	4.16	7.24	6.46	9.65	6.66	8.52
Composite Index 85-15	-1.70	3.91	6.88	4.88	9.24	5.90	7.13
EAC Portfolio 100-0	-1.94	5.27	8.75	7.49	10.99	6.67	8.68
Composite Index 100-0	-1.88	4.76	8.11	5.58	10.61	6.01	7.13

GLOBAL MARKET SUMMARY

- Financial headlines were dominated in the quarter by an upsurge in market volatility after a period of relative calm. Media attributed the volatility to various causes, including protectionist pressures in the US, rising bond yields and greater regulatory scrutiny of the high-flying technology sector.
- In late March, the US Federal Reserve, in its first meeting under its new chair Jerome Powell, raised its benchmark interest rate by another quarter of a percentage point to 1.75% and forecast at least two more hikes for 2018.
- In Australia, the Reserve Bank left its own benchmark cash rate unchanged for a record equalling 18th consecutive meeting at 1.5%, pointing to strengthening economic growth alongside continued low inflation.

It was a mixed first quarter for global equity markets in 2018, with an upsurge in volatility from the very low levels of 2017 a major talking point.

Emerging markets were the standout performers, gaining more than 3% overall in the quarter, while developed markets outside Australia were positive on an unhedged basis.




After a period of out-performance the Australian market was down around 3% for the quarter mainly due to the banking sector. While Australia lagged the world, it nevertheless enjoyed a strong positive size premium as small cap stocks beat large. There was also a more modest size premium in other developed markets, though not in emerging markets.

The value premium was mixed, registering a positive outcome in emerging markets but negative in the Australian and other developed markets. The profitability premium was almost universally positive over the quarter.

MARKET MOVEMENTS

Quarter End

CASH AND BONDS

	Australian Cash	0.43%
	Australian Bond Market	0.87%
	Global Bond Market	-0.09%

STOCKS

	Australia	-3.78%
	Developed Unhedged	0.79%
	Emerging Unhedged	3.41%
	REITs Unhedged	-4.04%
	Hedging Premium	-3.05%

Performance is shown in AUD. Australian Cash—Bloomberg AusBond Bank Bill Index, Australian Bonds—Bloomberg AusBond Composite Bond Index 0+, Global Bonds—Barclays Global Aggregate Bond Index (hedged to AUD), Australian Stocks—S&P/ASX 300 Index (Total Return), Developed Stocks—MSCI World ex Australia Index (AUD, net div.), Emerging Stocks—MSCI Emerging Markets Index (net div., AUD), REIT Stocks—S&P Developed REIT Index (AUD, net div.), Hedging Premium—MSCI World ex Australia Index (hedged to AUD, net div.) minus MSCI World ex Australia Index (AUD, net div.).

In sectoral terms, the big losers on the Australian market were telecommunications stocks, utilities, REITs, energy and financials. Healthcare and IT stocks were among the better performers. It was a similar sectoral pattern in other developed markets, though energy and financials performed well in emerging markets.

On a country-by-country basis, European countries dominated the top developed market performers, the US was in the middle of the pack, while Australia, New Zealand and Canada were among the laggards. Brazil was the top performing emerging market, China made solid gains, while India lagged.

Real Estate Investment Trusts (REITs) were weaker in both developed and emerging markets in the first quarter, with Australia one of the worst performing markets.

In the fixed interest market in the first quarter, term and credit premiums were negative. Yield curves tended to steepen, while credit spreads widened after narrowing throughout 2017.

On currency markets, the US dollar was mixed over the quarter, falling against the Japanese yen, British pound, the euro, Swiss franc and NZ dollar, but rising against the Australian and Canadian dollars.

MARKET INDICES WRAP UP

WORLD INDICES WRAP UP

FIXED INTEREST	QTR	1 Year
Bloomberg AusBond Bank Bill Index	0.43%	1.73%
Bloomberg AusBond Composite 0+ Yr Index	0.87%	3.28%
Bloomberg Barclays Global Aggregate Bond Index (hedged to AUD)	-0.09%	2.89%

AUSTRALIAN EQUITIES	QTR	1 Year
S&P/ASX 300 Index (Total Return)	-3.78%	2.86%
S&P/ASX Small Ordinaries Index (Total Return)	-2.79%	14.99%
S&P Australia BMI Value Index (gross div., AUD)	-5.38%	-1.26%
S&P Australia BMI Growth Index (gross div.)	-2.16%	8.05%

GLOBAL EQUITIES	QTR	1 Year
MSCI World ex Australia Index (net div., AUD)	0.79%	13.31%
MSCI World ex Australia Index (net div., hedged to AUD)	-2.26%	10.98%
Hedging Premium	-3.05%	-2.33%
MSCI World ex Australia Small Cap Index (net div., AUD)	1.51%	15.34%
MSCI World ex Australia Value Index (net div., AUD)	-1.15%	8.60%
MSCI Emerging Markets Index (net div., AUD)	3.41%	24.25%

REAL ESTATE	QTR	1 Year
S&P/ASX 300 A-REIT Index (Total Return)	-6.19%	-0.07%
S&P Developed REIT Index (net div., AUD)	-4.04%	-1.01%

WORLD MARKETS	QTR	1 Year
S&P 500 Index	1.19%	13.37%
MSCI United Kingdom Index (net div.)	-1.99%	11.30%
MSCI Europe ex UK Index (net div.)	0.70%	14.88%
Japan Nikkei 225 Average Index (price-only)	1.79%	18.23%
Shanghai Stock Exchange Composite Index	1.13%	7.13%

CURRENCIES (RELATIVE TO AUD)	QTR	1 Year
British Pound	5.96%	11.37%
Euro	4.57%	14.71%
Japanese Yen	7.98%	4.06%
United States Dollar	1.59%	-0.53%



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