

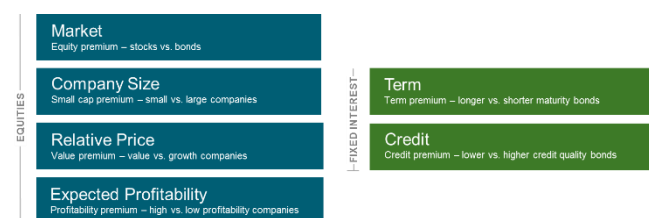


## Quarterly Market Review – end 30 June 2018

### 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.  
Relative price is measured by the price to book ratio; value stocks are those with lower price to book ratios.  
Profitability is a measure of current profitability, based on information from individual companies' income statements.

#### Key Themes for the Quarter

- Solid returns in Australia and other developed equity markets
- In a reversal of the previous quarter, emerging markets performed poorly
- Australian size and value premiums negative for the quarter; positive for the year
- Global value premium negative for the quarter and year; size positive for quarter
- Longer bond lagged shorter in quarter; but outperformed for year
- AUD fell versus USD in quarter; but gained against Euro and GBP

### EAC STRATEGY REVIEW

#### Australian Equity Strategy

- **Size & Relative Price:** Negative for quarter, positive for year
- **Profitability:** Positive for quarter and year

The Australian Equity Strategy delivered a solid quarterly return of just under 8% for the quarter, although this fell short of its benchmark due to negative size and relative price premiums.

Over the full year, however, it was buoyed by a strong positive size premium and eclipsed the benchmark returning 14.5%.

#### Global Equity Strategy

- **Size:** Emphasis on size (mid-caps) detracted from performance
- **Relative Price:** Negative for the quarter
- **Profitability:** Positive for the quarter

With the value premium negative in most developed markets, the Global Equity Strategy lagged its benchmark slightly for the quarter but delivered a solid 13.3% for the financial year.

#### Fixed Interest Strategy

- **Credit & Term** were both negative for the quarter.

It was a mixed quarter for fixed interest investors. Yields rose in the dominant US market. In other major markets, however, longer yields declined. Credit spreads widened over the quarter.

The Strategy performed in-line with benchmark for the quarter but underperformed on a 12-month basis but to exposure to longer term duration.

**Overall our EAC Strategy and Diversified Portfolios continue to reward our clients as shown in the Performance tables on page 3.**

**If you have any questions or would like more information about our strategies and portfolios, please contact us.**

## GLOBAL MARKET SUMMARY

- *Financial headlines in the quarter were dominated by escalating trade tensions as the Trump administration threatened to raise tariffs against Chinese imports*
- *The World Trade Organisation warned that continued escalation in protectionist measures by the major economies posed a serious threat to growth and recovery in all countries.*
- *International diplomacy was also a major media focus with the historic summit held in Singapore in June between US President Donald Trump and North Korean President Kim Jong Un.*
- *In Australia, the financial media focused on ongoing repercussions from the Hayne Royal Commission into the financial services industry.*

The Australian and other developed equity markets performed strongly in the second quarter of 2018, although in a reversal of the previous quarter emerging markets bucked the trend.

Australia was one of the best performing developed markets, despite weakness in heavyweight financial stocks and Telstra. Energy was one of the standout sectors locally and globally, supported by healthcare, consumer staples and IT. In developed markets, listed property was also a notable positive performer.

Having led global market gains in the first quarter, emerging markets reversed course in the second quarter amid global trade tensions. While there were modest gains in India and China, there were heavier losses in most countries, led by Brazil and Turkey.

The value premium was negative for the quarter in the Australian, developed and emerging markets, but over the year was positive in Australia. The size premium was positive in developed markets over the quarter, but negative in Australia.

A theme for the quarter was a broad-based appreciation of the US dollar. In mid-June, citing an improving economy, the Federal Reserve raised its benchmark lending rate for the second time this year and upgraded its forecast for four increases in total for 2018.

In fixed interest markets, yields rose modestly in the US, but in the other major markets longer yields declined. Shorter bonds outperformed longer bonds over the quarter but lagged their longer counterparts over the full year.

The Australian Dollar weakened against the US dollar over the quarter but made gains against the Euro and UK Pound.

FIXED INTEREST	QTR	1 Year
Bloomberg AusBond Bank Bill Index	0.49%	1.78%
Bloomberg AusBond Composite 0+ Yr Index	0.82%	3.09%
Bloomberg Barclays Global Aggregate Bond Index (hedged to AUD)	0.15%	1.85%

AUSTRALIAN EQUITIES	QTR	1 Year
S&P/ASX 300 Index (Total Return)	8.36%	13.24%
S&P/ASX Small Ordinaries Index (Total Return)	7.67%	24.25%
S&P Australia BMI Value Index (gross div., AUD)	8.74%	11.91%
S&P Australia BMI Growth Index (gross div.)	9.14%	17.06%

GLOBAL EQUITIES	QTR	1 Year
MSCI World ex Australia Index (net div., AUD)	5.53%	15.39%
MSCI World ex Australia Index (net div., hedged to AUD)	3.62%	11.48%
Hedging Premium	-1.91%	-3.92%
MSCI World ex Australia Small Cap Index (net div., AUD)	7.22%	19.19%
MSCI World ex Australia Value Index (net div., AUD)	3.61%	9.81%
MSCI Emerging Markets Index (net div., AUD)	-4.45%	12.33%

REAL ESTATE	QTR	1 Year
S&P/ASX 300 A-REIT Index (Total Return)	9.82%	13.20%
S&P Developed REIT Index (net div., AUD)	10.69%	8.44%

WORLD MARKETS	QTR	1 Year
S&P 500 Index	7.38%	18.74%
MSCI United Kingdom Index (net div.)	6.88%	14.22%
MSCI Europe ex UK Index (net div.)	0.84%	7.46%
Japan Nikkei 225 Average Index (price-only)	3.63%	17.25%
Shanghai Stock Exchange Composite Index	-11.41%	-5.25%

CURRENCIES (RELATIVE TO AUD)	QTR	1 Year
British Pound	-2.34%	5.20%
Euro	-1.47%	6.15%
Japanese Yen	-0.22%	5.47%
United States Dollar	3.78%	3.86%

## EAC PORTFOLIO PERFORMANCE VS BENCHMARK

### EAC Strategies - Investment Performance (%)

As of Date: 30/06/2018

Strategy	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	Since Inception
EAC Strategy - Australian Equities	7.93	3.45	14.53	10.86	10.45	6.31	9.90
S&P/ASX 300 TR	8.36	4.27	13.24	9.14	9.99	6.28	8.88
EAC Strategy - Global Equities	2.11	2.39	13.31	9.25	13.10	8.61	7.55
Composite Index - Global Equities	2.91	3.14	13.36	9.17	13.09	8.24	6.48
EAC Strategy - Fixed Interest	0.55	0.55	1.31	2.34	2.88	4.45	5.10
Composite Index - Fixed Interest	0.49	0.92	1.78	1.95	2.22	3.34	4.30

### EAC Model Portfolios - Investment Performance (%)

As of Date: 30/06/2018

Model Portfolio	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	Since Inception
EAC Portfolio 55-45	3.16	1.84	7.86	6.56	7.75	6.36	7.50
Composite Index 55-45	3.27	2.20	7.50	5.52	6.99	5.72	6.48
EAC Portfolio 70-30	3.76	2.16	9.73	7.67	9.13	7.13	8.22
Composite Index 70-30	4.03	2.61	9.20	6.57	8.36	6.24	6.94
EAC Portfolio 85-15	4.43	2.51	11.62	8.81	10.45	7.44	8.68
Composite Index 85-15	4.81	3.03	10.91	7.65	9.74	6.68	7.32
EAC Portfolio 100-0	4.96	2.92	13.92	10.06	11.83	7.57	8.87
Composite Index 100-0	5.48	3.50	12.86	8.73	11.13	6.92	7.36



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