



## Quarterly Market Review – End 30 September 2018 (Q3)

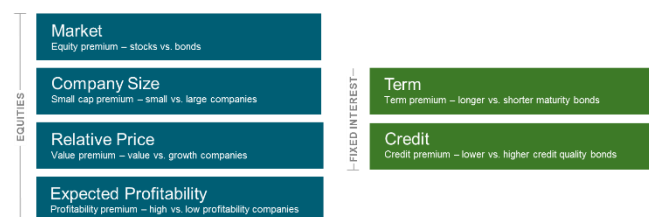
### Key Themes for the Quarter

- Solid 7% unhedged returns from developed equity markets, led by US
- Modest 1.5% return from Australian market
- Size premium negative across the board; Profitability mixed
- Value premium positive in emerging markets and Australia; Negative in global developed markets
- In fixed interest, term premium was negative, credit premium was positive
- AUD fell versus USD and most major currencies in the quarter

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

### EAC STRATEGY REVIEW

#### Australian Equity Strategy

- **Size:** Negative for the quarter but outperformed comparative index
- **Relative Price:** Strong outperformance driven by focus on value in mid-cap and small-cap stocks
- **Profitability:** Marginally detracted on performance

The standout performer in the September quarter was the Value Trust, which beat its benchmark by a full percentage point.

The main driver of this outperformance was the focus on value within mid-cap and small-cap stocks. The same factor helped it eclipse its benchmark by around two thirds of a percentage point over the 12 months to 30 September.

While the size premium was negative in Australia, the Australian Small Company Trust still managed to beat the S&P/ASX Small Ordinaries index by around three quarters of a percentage point, thanks to its mid-cap exposure.

#### Global Equity Strategy

- **Size:** Emphasis on size (mid-caps) detracted from performance
- **Relative Price:** Solid return but lagged index. Positive in Emerging markets.
- **Profitability:** Mixed for the quarter

Outside of Australia, the value premium was negative and combined with a negative size premium offset the gains from the large company, profitability and Emerging markets tilts to the portfolio.

#### Fixed Interest Strategy

- **Credit premium:** Positive
- **Term premium:** Negative over the quarter as yields unexpectedly rose in most major currencies

With yield curves rising around the world, it was a difficult quarter for fixed interest investors. The broad market, as measured by the Bloomberg Barclays Global Aggregate bond index, was slightly negative for the quarter.

The negative term premium meant the best performing strategy was the cash-like Short-Term Fixed Interest Trust, which delivered returns in line with cash.

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

## GLOBAL MARKET SUMMARY

- Headlines in the quarter were dominated by trade tensions between the US and China. The Trump administration imposed tariffs on nearly \$US200 billion of Chinese imports and then threatened more levies if China retaliated. China hit back with tariffs on about \$60 billion of US imports.
- In the UK, the major focus was continuing efforts by Prime Minister Theresa May, leading a divided Conservative Party, to finalise a Brexit deal with the European Union. Britain is due to leave the EU on 29 March 2019.
- Elsewhere, Italian financial markets were under strain as the country's coalition government clashed with the EU Commission over its budget plans.
- Closer to home, Malcolm Turnbull was ousted as prime minister in a three-way Liberal Party leadership battle. His place was taken by Scott Morrison—the fifth change of leader in eight years. Turnbull immediately left politics, forcing a byelection and threatening the government's one-seat majority.
- The Hayne Royal Commission into misconduct in financial services released its interim report, finding that big banks and wealth managers had pursued profit ahead of their customers' interests. The report also accused regulators of being lax in punishing poor behaviour.

Global developed equity markets outside Australia were the star performers on an unhedged basis in the third quarter of 2018, although much of this was due to broad-based weakness in the Australian dollar.

A theme for the quarter was an appreciating US dollar. In September, the Federal Reserve raised its benchmark lending rate for the eighth time in three years, citing an improving economy and forecasting another five moves within two years.

The heavyweight US equity market was the standout globally, with the benchmark S&P-500 index rising more than 7% in local currency terms to register its best quarter in five years.

The Australian market delivered a more modest return of 1.5%, held back by its heavyweight financial and materials sectors, but offset by strong gains by Telstra.

In terms of the return dimensions, the only globally consistent theme was a negative size premium. While the value premium was negative in developed markets, it was positive both in emerging markets and in Australia, for the most part. Profitability was mixed.

In fixed interest markets, the main theme was a negative term premium alongside a positive credit premium. Yields rose in most major markets, although Australia was an exception this past quarter. Corporate bonds outperformed government bonds.

In listed property, real estate investment trusts delivered market-like returns in Australia, though lagged the broad market elsewhere.

### FIXED INTEREST

Bloomberg AusBond Bank Bill Index	0.52%	1.87%
Bloomberg AusBond Composite 0+ Yr Index	0.54%	3.72%
Bloomberg Barclays Global Aggregate Bond Index (hedged to AUD)	-0.07%	0.89%

### AUSTRALIAN EQUITIES

S&P/ASX 300 Index (Total Return)	1.50%	14.03%
S&P/ASX Small Ordinaries Index (Total Return)	1.10%	20.32%
S&P Australia BMI Value Index (gross div., AUD)	1.62%	11.80%
S&P Australia BMI Growth Index (gross div.)	1.34%	18.04%

### GLOBAL EQUITIES

MSCI World ex Australia Index (net div., AUD)	7.35%	20.82%
MSCI World ex Australia Index (net div., hedged to AUD)	5.61%	12.89%
Hedging Premium	-1.75%	-7.93%
MSCI World ex Australia Small Cap Index (net div., AUD)	4.19%	19.53%
MSCI World ex Australia Value Index (net div., AUD)	6.38%	14.34%
MSCI Emerging Markets Index (net div., AUD)	1.00%	7.56%

### REAL ESTATE

S&P/ASX 300 A-REIT Index (Total Return)	1.98%	13.25%
S&P Developed REIT Index (net div., AUD)	2.17%	11.99%

### WORLD MARKETS

S&P 500 Index	9.99%	27.87%
MSCI United Kingdom Index (net div.)	0.42%	11.56%
MSCI Europe ex UK Index (net div.)	3.92%	6.83%
Japan Nikkei 225 Average Index (price-only)	7.68%	27.34%
Shanghai Stock Exchange Composite Index	-2.57%	-11.80%

### CURRENCIES (RELATIVE TO AUD)

British Pound	0.85%	5.48%
Euro	1.52%	6.53%
Japanese Yen	-0.50%	7.40%
United States Dollar	2.38%	8.51%

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

## EAC PORTFOLIO PERFORMANCE VS BENCHMARK – Q3 2018

### EAC Strategies - Investment Performance (%)

As of Date: 30/09/2018

Strategy	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	Since Inception
EAC Strategy - Australian Equities	2.01	10.09	14.24	14.27	8.44	7.56	9.88
S&P/ASX 300 TR	1.50	9.99	14.03	12.16	8.19	7.65	8.84
EAC Strategy - Global Equities	5.08	7.31	14.83	13.32	12.62	9.30	7.74
Composite Index - Global Equities	5.57	8.64	15.47	12.67	13.07	9.27	6.73
EAC Strategy - Fixed Interest	0.36	0.92	1.16	2.12	2.73	4.36	5.05
Composite Index - Fixed Interest	0.52	1.01	1.87	1.94	2.19	3.19	4.27

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

As of Date: 30/09/2018

Model Portfolio	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	Since Inception
EAC Portfolio 55-45	1.76	4.98	7.78	8.16	6.99	6.74	7.50
Composite Index 55-45	1.96	5.31	8.23	7.10	6.48	6.20	6.49
EAC Portfolio 70-30	2.28	6.13	9.87	9.89	8.24	7.69	8.24
Composite Index 70-30	2.25	6.39	9.98	8.67	7.77	7.00	7.05
EAC Portfolio 85-15	2.84	7.40	11.97	11.68	9.42	8.17	8.72
Composite Index 85-15	2.77	7.73	11.98	10.27	9.04	7.67	7.46
EAC Portfolio 100-0	3.54	8.67	14.52	13.80	10.60	8.55	8.95
Composite Index 100-0	3.42	9.08	14.28	11.97	10.22	8.11	7.46

Data sources: Morningstar, DFA Australia Ltd. All returns are quoted net of management fees, but not admin/wrap fees as these vary per account. WARR HUNT Pty Ltd is an Authorised and Credit Representative of WH Capital Pty Ltd (AFSL & ACL 469418). Any advice in this publication is of a general nature only and has not been tailored to your personal circumstances. Please seek personal advice from WARR HUNT prior to acting on this information. Before making a decision to acquire a financial product, you should obtain and read the Product Disclosure Statement (PDS) relating to that product. Past performance is often not indicative of future results. Inception for WARR HUNT strategies and portfolios 1 October 2001.



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