MARCUS TODAY SMA

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Fund Performance Report

June Q 2018

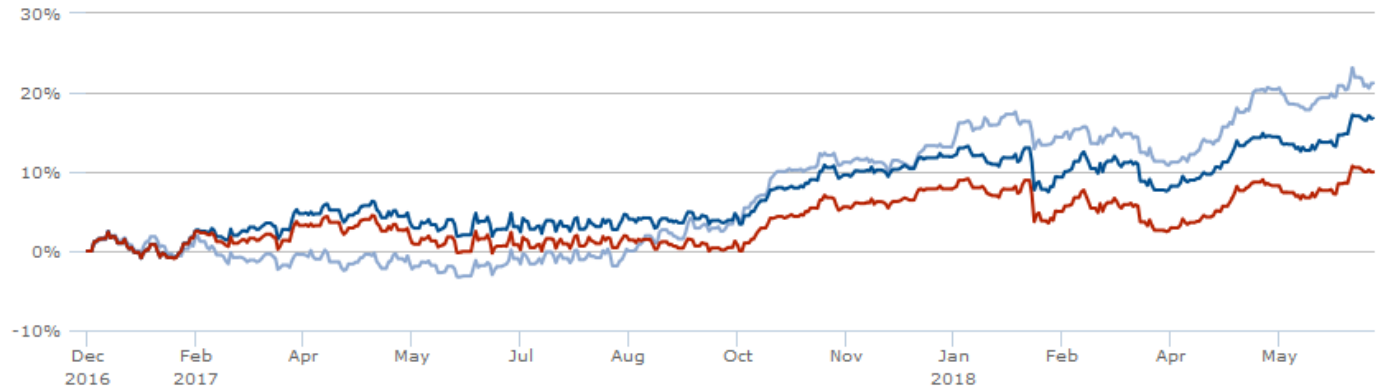
FUND DESCRIPTION

Investment Objective	To achieve superior "total return", combining capital growth with income, by investing in a portfolio of Australian equities	Number of Stocks	Up to 50
Portfolio Manager	Marcus Padley	Cash Limit	Up to 100%
Benchmark	S&P/ASX 300 Accumulation Index	Minimum Investment	$50,000
Inception Date	1-Dec-16	Min Regular Investment	No minimum
Management Fees	0.75% pa		
Administration Fees	0.37% pa for first $250,000 (See Fact Sheet for more information)		
Performance Fee	10% of performance in excess of benchmark		

PORTFOLIO PERFORMANCE

Periods to 30 June 2018	3 mths	6 mths	1 yr	Since inception p.a.
Portfolio return after expenses (TWR)	**8.85%**	**7.1%**	**22.34%**	**12.06%**
S&P/ASX 300 Accumulation Index	8.36%	4.27%	13.24%	13.3%
S&P/ASX All Ordinaries Index	7.17%	1.98%	9.12%	8.84%

Cumulative returns over time



MARCUS TODAY SMA REPORT JUNE Q 2018

At the end of the financial year it gives me great pleasure to report that the Marcus Today SMA has had a good year. We have managed to significantly outperform our very demanding benchmark even after expenses. Our benchmark is the ASX 300 Accumulation Index, an index that perfectly compounds dividends, replicates index changes at no cost, has no rent, office costs or staff.

I often wish we had picked a far less demanding benchmark as some fund managers now do but I do rather abhor the new practice of declaring yourself "benchmark unaware" or giving yourself a somewhat sad benchmark like the RBA cash rate, and charging a performance fee on your outperformance of that low hurdle. Great if you can sneak it through but really?

When you are benchmarking yourself to the ASX 300 accumulation index as we do, it doesn't get much more demanding than that, and that pressure creates more work and significantly more effort, which is surely a good thing.

According to Mercer, to get into the top 10 performing long-only equity funds in Australia in the 2017/2018 financial year you had to return 24.7%. We managed a 22.34% return which would have certainly put us into the top 20 performing equity funds in Australia for that period.

While a similar or even better return may have been achieved by a small number of individuals managing their own portfolios it is unlikely it has been achieved for less risk. We have a mandate to hold up to 50 stocks but have rarely held more than thirty. To produce above-average returns with a spread of 30 stocks is a commendable feat for any fund manager. Our process of incessant market vigilance, continual stock pick attentiveness and a professional rather than emotional assessment of the stocks we hold and sell, has been working.

The key performance requirements for any fund last year involved holding a lot of CSL and Macquarie, plus resources, particularly energy and not holding the banks, Telstra, Vocus, AMP or Harvey Norman amongst the Top 50 stocks.

Glad to say we held one of this year's best-performing stocks APT as well as CSL, Macquarie, Computershare, Cochlear, Aristocrat Leisure, ARB Corporation and Treasury Wine Estates. A lot of big international stocks which have flourished on a lower A$ and an exposure to international economic growth which has outstripped Australia's. What we missed out on, which is why we didn't produce 30%+ returns last year, was resources. We have held BHP and RIO and Woodside but not consistently and mostly with neutral rather than overweight holdings. Had we held more BHP, RIO, Santos, Origin and Beach Petroleum we might have cracked that 30% mark.

We still have the legacy of a poor first six months of relative performance post inception but we are closing that gap day by day, and our immediate goal is to recover that deficit and pass the high water mark on the benchmark's performance since inception after which performance fees are payable. Our interests are aligned (!) Any client who has joined us since December 2016 is well above the high water mark.

Two processes are run side-by-side when managing your investments. You will be aware of the need for us to pick and time stocks in a clinical rather than emotional manner, but you may not be aware how we manage market risk.

MANAGING MARKET RISK

The SMA manages market risk by raising and lowering the cash weighting in the portfolio. One of the great advantages of the SMA structure is that it can go to 100% cash. This allows us to protect capital in a bear market whereas large managed funds simply can't and won't do that, their mandate does not allow them to. The large funds will remain almost fully invested in all circumstances.

How much cash to hold is a daily debate and there are no rules. We simply wake up every morning and make a decision. We rarely get scared by the market but can rapidly run up cash levels if we do. And reverse it again when the squall is over.

When it comes to raising the cash weighting we may sell a few stocks outright (the ones that are not performing tend to be exited first) but will essentially take the top off every stock rather than stock pick what to sell. The main issue is to run up the cash not get cute about which stocks to do it with.

This process of managing the market risk through the cash weighting, especially going to 60% or more cash as we did momentarily in February, presents itself as a rather aggressive approach in traditional "portfolio" management circles, but if there is anything aggressive about it, we are aggressively protecting money rather than aggressively taking risk, and we make no excuses for it. We look forward to continuing to invest and perform on your behalf in this, the 2018/2019 financial year.

CONTACT DETAILS

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