MT EQUITY INCOME SMA

Fund Performance Report

December Q 2018

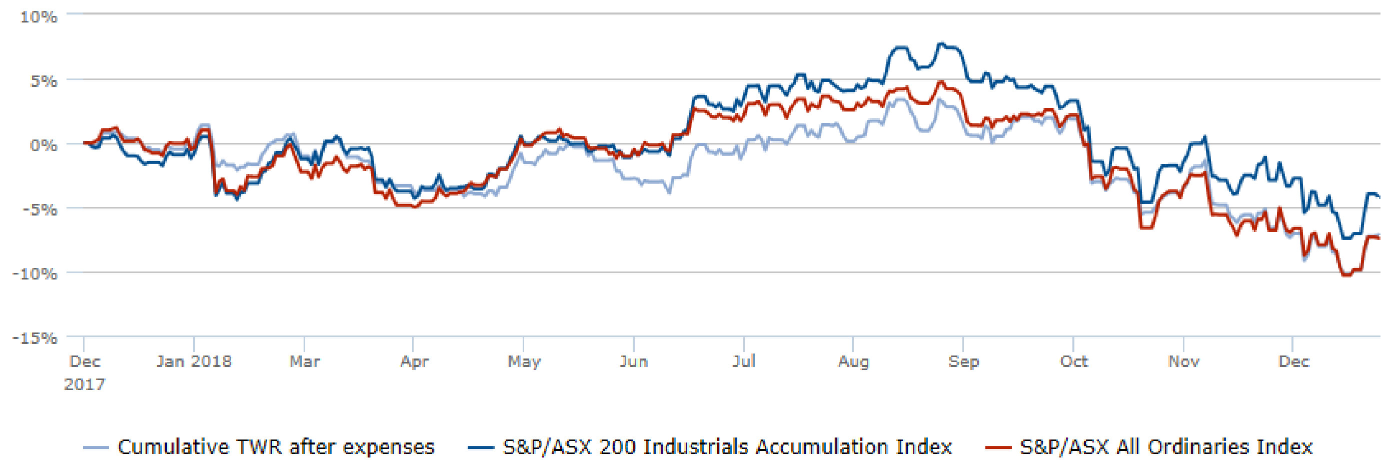
FUND DESCRIPTION

Investment Objective	To provide a high level of regular tax-effective income, combined with competitive capital growth over the medium to long term, 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 200 Industrials Accumulation Index	Minimum Investment	$50,000
Inception Date	1-Aug-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 31 December 2018	3 mths	6 mths	1 yr	2 yrs p.a.	Since inception p.a.
Portfolio return after expenses (TWR)	**-8.92%**	**-6.33%**	**-7.13%**	**-1.35%**	**0.57%**
S&P/ASX 200 Industrials Accumulation Index	-8.25%	-6.68%	-4.22%	2.18%	4.26%
S&P/ASX All Ordinaries Index	-9.74%	-9.23%	-7.42%	-0.09%	1.79%

Cumulative returns over time



The light blue line is the SMA after expenses.

MARCUS TODAY INCOME SMA REPORT DEC Q 2018

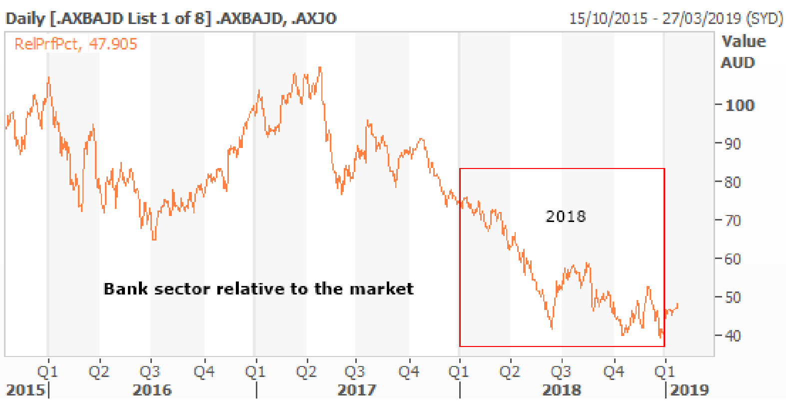
Not the most fabulous calendar year in the end and as we all know a horrible last quarter. From top to bottom the ASX 200 fell 15.1% in the recent correction from August to December since which time it has bounced over 6% and the Income SMA with it. In 2018 the SMA dropped 7.13% compared to the All Ordinaries index down 7.42% and the ASX Industrials Accumulation index down 4.22%. It was down 8.92% in the last Q compared to the market down 9.74% and the benchmark down 8.25%.

When you are running an income fund the focus is on collecting franking credits for investors, and I hate to say it, even if Labor get in and remove the cash refund of franking credits, the stock picking nature of the fund is not going to change a lot. Most of the companies that are attractive to investors *with* franking will still be attractive to income investors without the franking. What the removal of imputation credit cash refunds will do is to bring some stocks that have high yields, but no franking, more into our spotlight as their yields compared to unfranked yields will improve on a relative basis. But we don't anticipate significant change if any.

Stock selection for income investors is unlikely to change much. Although some of you may very unfortunately lose your cash refunds, many investors who are paying tax will still be franking focused and a fund like ours will continue to provide a franking collection service for them.

For those of you that do lose your cash refunds, which is not a foregone conclusion by any means, the focus will still be on income, on higher yielding stocks. For you, the loss of cash refunds might, on a risk-reward basis (less reward in equities) tip the balance more in the favour of lower risk investments like hybrids or fixed interest as the yield on equities without franking comes down. But I doubt that will interest many of you, and the prospect of a guaranteed zero growth profile is something you can achieve without us. Our focus will still be on growth and income not just income.

As I have written before, the nature of this fund is that we are corralled into high yielding stocks like the banks which dominate the Australian industrials index. 42.4% of the portfolio is in banks including Macquarie (8.0% holding). As such our relative performance is dictated to some extent by the fortunes of the bank sector. 2018 was not good for banks. This is a chart of the relative performance of the bank sector compared to the market and it makes the obvious point that the bank sector has been underperforming this year (the red box marks 2018).



The good news is that the market and the bank sector's relative performance improved as the market sold off and continues to improve for the moment. The market is up over 6% in 2019 so far and the SMA with it. As we run into results in February, we are concentrating on high yielding stocks with dividends due. CBA is the most obvious with a 8.44% gross yield. Telstra is another but we don't hold it, the share price is not performing and the yield is not what it once was. Only if the results ignite the price will we get involved before the dividend goes ex.

The main event for the portfolio will be the Royal Commission recommendations due to be published this month. The hope is that the Commission does little to impact business and focuses instead on issues like management remuneration which should not worry shareholders and share prices unduly. The banks have mostly sold their wealth management businesses anyway. The CBA is selling theirs for $3.2bn this year and on one broker's calculation, that money will be returned to shareholders as a share buyback or a special dividend worth about 85c. Ultimately the Royal Commission should soon be behind the sector allowing the cloud of 2018 to lift.

The other driver this year will hopefully be an improvement in the housing market, but more importantly in the mortgage market. A combination of APRA's lending restrictions and the disruption of the Royal Commission paralysed the banks last year. With APRA lifting lending restrictions in December and the housing market at its worst, there is room for the sector to improve.

The other major strategy we have employed recently is to include large quality growth stocks in the portfolio in the 'dead income' periods between results seasons. As I write this has paid off with gains in stocks like CSL, Cochlear and the ASX.

Meanwhile, we continue to work hard on your behalf and look forward to a better year for the market and the Marcus Today Income SMA.

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