MARCUS TODAY SMA

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Fund Performance Report

September Q 2018

FUND DESCRIPTION

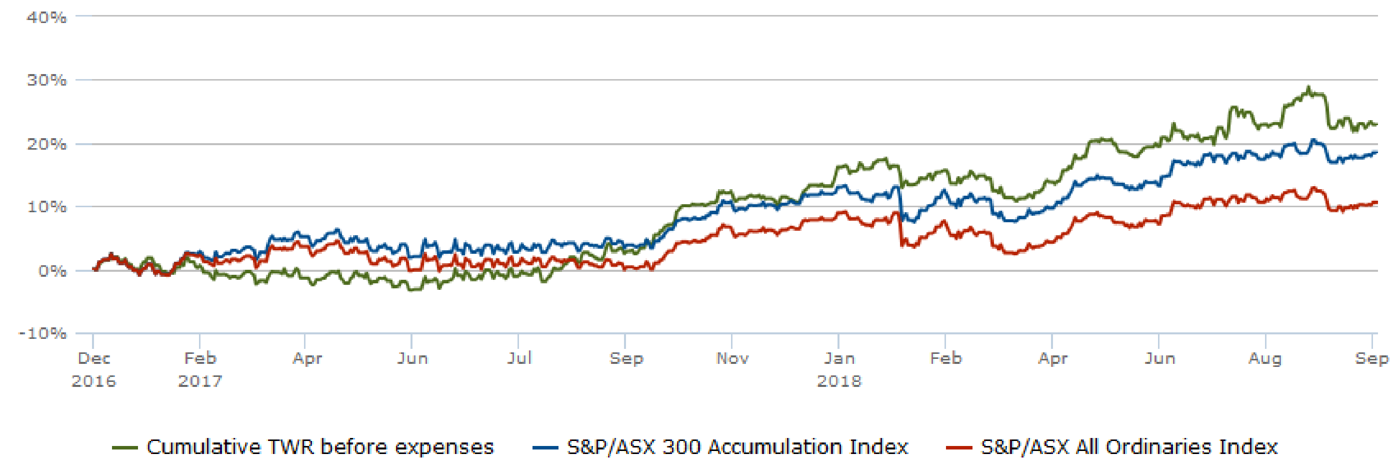
Investment Objective	To achieve superior "total return", combining capital growth with income, by investing in a portfolio of Australian equities
Portfolio Manager	Marcus Padley
Benchmark	S&P/ASX 300 Accumulation Index
Inception Date	1-Dec-16
Management Fees	0.75% pa
Administration Fees	0.37% pa for first $250,000 (See Fact Sheet for more information)
Performance Fee	10% of performance in excess of benchmark

Number of Stocks	Up to 50
Cash Limit	Up to 100%
Minimum Investment	$50,000
Min Regular Investment	No minimum

PORTFOLIO PERFORMANCE

Periods to 30 September 2018	3 mths	6 mths	1 yr	Since inception p.a.
Portfolio return before expenses (TWR)	**1.43%**	**10.4%**	**18.85%**	**11.18%**
S&P/ASX 300 Accumulation Index	1.5%	9.99%	14.03%	12.28%
S&P/ASX All Ordinaries Index	0.57%	7.78%	10.11%	7.91%

Cumulative returns over time



MARCUS TODAY SMA REPORT SEPT Q 2018

After a dazzling performance over the last financial year (SMA up 22.34% compared to the benchmark up 13.24%) the September quarter has been rather dull. We have slightly underperformed the market with the SMA up 1.43% against the ASX 300 accumulation index up 1.5%. 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 and despite everybody using it is quite a demanding index to beat.

We operate the portfolio using a few principles, one of which is that we focus on a list of stocks we invest in and while the odd stock might join the list or exit the list, it is the quality of this list that will determine our outperformance or underperformance. We also don't concern ourselves with having to hold every skyrocketing stock on our list, we are very happy to miss some of the flyers as long as the stocks we hold perform.

What we also focus on is excluding stocks that we assess will drag down our performance. On that basis, while the Royal commission continues, and despite the fact we hold them in the Marcus Today Income SMA, we have exited the banks. Our mandate is to either grow your money, or hold cash, not sit in big boring stocks because it's easy to match the benchmark and take no blame. We do not subscribe to the predictable concept of buying a diversified portfolio of large stocks that will simply match our benchmark. That is something you can do these days through a $19.99 trade in an ETF on your own.

Our job is to produce something more aggressive in a bull market, and go to cash when it turns down. On that basis this is an "aggressive" portfolio compared to usual industry standards which compares us to a balanced fund which might hold 30 to 40% in equities (we can hold 0% to 100% in equities) with significant holdings in other asset classes like fixed interest, property and cash.

We leave you or your financial planner to manage that balance, our job is to invest in equities for higher than usual returns. This is what we are being paid for. You should not hold the Marcus Today SMA as a balanced fund alternative, but as the equity component of a larger balanced portfolio of assets (which might include your property). In the equity world holding 30 to 50 stocks is not that aggressive and when you overlay that with our tendency to focus on a core of large-cap quality growth stocks in uptrend, rather than midcap stock picks alone, then "sensible" is a more appropriate adjective than "aggressive".

On top of the core holdings (stocks like Cochlear, Treasury Wine Estates, Macquarie, Aristocrat Leisure, Computershare, ASX, CSL Limited, Cimic Group) we hold and manage a small stable of more risky but still quality mid-cap growth stocks that provide us with the potential to achieve significant outperformance if we get them right as we did with Afterpay this year. One good idea year can be a good year.

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.

The main market feature this quarter was the results season which is a bit like walking around on a battlefield during an artillery barrage wearing an orange vest. You never quite know when you're going to get blown up. The continuous disclosure requirements as well as high-frequency trading (which accelerates any short-term trends) means that stocks can open significantly higher or lower on the results announcement. We had emerged pretty much unscathed until the announcement of a profit downgrade and capital raising from Speedcast International (SDA) which we have now sold. It is still a quality growth company but is suffering some significant indigestion and an earnings headache in the short term. We will happily keep it on our list and revisit it in the future.

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 now well above the high water mark.

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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