ARNHEM AUSTRALIAN EQUITY FUND

INVESTMENT REPORT – APRIL 2018

FUND SIZE

AS AT 30 APRIL 2018: $134.74 MILLION

PERFORMANCE

	Fund Gross	Fund Net	Benchmark
1 month %	4.44	4.37	3.91
3 months %	0.52	0.31	0.34
FYTD %	8.59	7.83	8.26
1 year %	6.57	5.67	5.46
3 years % p.a.	3.61	2.73	5.70
5 years % p.a.	6.36	5.46	7.53
Since Inception % p.a. (Inception: 31 Aug 00)	8.81	7.92	7.96

Source: BNP Paribas Securities Services

Ongoing fee measure is capped at 0.85% p.a. (inclusive of RITC and GST)

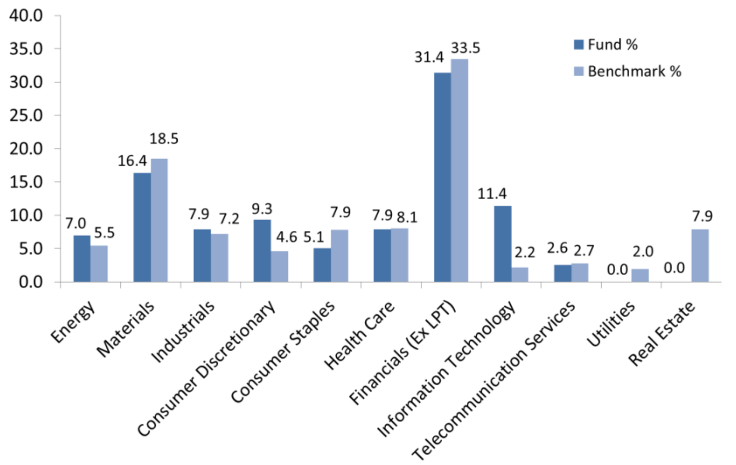
Benchmark: S&P/ASX 200 Accumulation Index

The value of investments can go up and down. Past performance is not necessarily indicative of future performance.

TOP 10 HOLDINGS

SECURITY	SECTOR	FUND
Westpac Banking Corp	Financials (Ex LPT)	8.56%
BHP Billiton Ltd	Materials	7.24%
Commonwealth Bank Australia	Financials (Ex LPT)	6.49%
National Australia Bank Ltd	Financials (Ex LPT)	5.93%
Wesfarmers Ltd	Consumer Staples	5.10%
Macquarie Group Ltd	Financials (Ex LPT)	4.21%
Cochlear Ltd	Health Care	4.01%
Trade Me Ltd	Consumer Discretionary	3.15%
Aristocrat Leisure Ltd	Consumer Discretionary	3.13%
Origin Energy Ltd	Energy	3.10%
		50.92%

SECTOR ALLOCATION



BNP PARIBAS ASSET MANAGEMENT

The asset manager for a changing world

COMMENTARY

MONTHLY MARKET REVIEW

Globally, the US economy expanded throughout the quarter, beating market expectations. The number of Americans filing for unemployment benefits decreased by 24,000 to 209,000. This is the lowest level for initial claims since 1969. The Chinese economy grew by 1.4% quarter-on-quarter in the three months to March of 2018 (6.8% year-on-year), slightly below market expectations of 1.5%. The ECB held its benchmark refinancing rate at 0% on April 26th as expected, and reaffirmed that the net asset purchases are intended to run at a monthly pace of EUR30bn until the end of September, or beyond, if necessary. The unemployment rate in the Euro Area edged down to 8.5% in February from 8.6% in January, matching market expectations. It is the lowest jobless rate since December of 2008, well below 9.5% a year earlier.

Domestically, economic news remains largely positive. Consumer prices in Australia rose by 1.9% through the year to the March quarter of 2018, the cost of housing and transport increased at a softer pace while prices of food rebounded. Australia's seasonally adjusted unemployment rate stood at 5.5% in March of 2018, the same as a downwardly revised figure in the prior month and in line with market consensus. The Reserve Bank of Australia left the cash rate unchanged at a record low of 1.5% at its April 2018 meeting.

The ASX 200 accumulation index recovered most of the ground it lost in March, rising 3.81% in April and outperforming the MSCI accumulation index. Of the developed markets, the UK FTSE had the strongest April recovery, followed by the Nikkei. The S&P500 was only up 0.27%, despite earnings season delivering some strong results.

For local stocks, the top performers from the S&P/ASX 200 Index for the month were Beach Energy on higher oil prices and takeover speculation, Healthscope on a takeover offer from a private equity firm, Santos on a takeover offer and Infigen, on takeover speculation. The worst performer was AMP on revelations from the Royal Commission that could result in future class actions, together with Board and management changes. The best performing sectors were Energy, Resources, Healthcare and Media with the worst performing sector being Diversified Financial Services and Retail.

FUND REVIEW

The largest contributors to the portfolio's relative performance over the month were AMP (-19.0%), WOR (+13.3%) and ORG (+12.1%). The biggest detractors were CSL (+9.6%), S32 (+15.5%) and BLD (-7.5%). The portfolio was overweight WOR, ORG and BLD while underweight CSL, S32 and AMP.

AMP Limited (AMP), a company that we do not hold, contributed to performance in April as the share price declined sharply on the back of the royal commission. Allegations of cover ups, "fees for no service" and other inappropriate conduct has left AMP open to the potential for class action. Even if a class action does not eventuate, we believe the brand is significantly damaged and that AMP will see further advisor defection. There is no change to our holding.

Our overweight position in WorleyParsons Ltd (WOR) contributed to performance in April, with the stock outperforming the broader market. The Hydrocarbons business segment accounts for about 80% of company earnings, meaning WOR is leveraged to the price of oil. More specifically, WOR is leveraged to the level of capital expenditure (capex) by oil and gas companies and, the higher the oil price, the greater the level of investment in exploration and appraisal. After a period of very subdued capex by global oil & gas companies, we have seen a strong turnaround and the past few results for WOR have seen big increases in its backlog of work. Management has also done a good job with efficiency initiatives, cost reductions and 'right-sizing' the company. The underlying thesis is still an expectation for continued growth in capex by the global oil and gas companies in the coming years, which should drive continued earnings growth for WOR. We remain overweight.

Our overweight position in Origin Limited (ORG) contributed to performance in April, with the stock outperforming the broader market. The key driver of this outperformance was the increase in the oil price, which is at its highest level for over 3 years. ORG is highly leveraged to the price of oil through its stake in the APLNG liquefied natural gas project. We continue to see strong earnings growth coming from both the utility business as well as APLNG, and the market is likely to further de-risk the company as debt levels continue to reduce. We retain our overweight position.

Our underweight position in CSL Limited (CSL) detracted from relative performance during the month. The market remains convinced that CSL will upgrade its full year guidance after a severe flu season in the US. Flu earnings are based on assumptions by the company around the level of vaccine returns (unused syringes) from customers at the end of the season. The level of returns from customers varies depending on the flu season's severity and market share swings between manufacturers. Given the severe flu season in the US this season, and CSL's successful new vaccines, returns are likely to be lower than that accrued by the company, and we agree that flu earnings will be revised higher. However, there are offsets, such as increasing research & development expenditure and currency swings which may dampen the upside. Furthermore, we think the market is overly focused on short-term earnings momentum and we question the medium term growth outlook and valuation of CSL. Growth rates for Immunoglobulin and specialty sales will slow, and CSL's haemophilia franchise is in structural decline. We remain underweight CSL.

South32 Limited (S32), a company that we do not hold, detracted from performance by outperforming the broader market throughout April. During the month, management released the quarterly report, which highlighted that the company's net cash position had increased to $1.9bn, due to strong commodity prices. The alumina price has spiked following the introduction of sanctions on Russia's largest aluminium producer Rusal. We expect alumina prices to retrace to more sustainable levels and contend that S32 is fully valued at current share prices. There is no change to our position.

Boral Limited (BLD), an overweight position, detracted from performance throughout the month of April. In a third quarter update, management disclosed that the business had been affected by adverse weather events in both the US and Australia, which together with unplanned production outages, resulted in a downgrade to earnings estimates. We continue to see BLD as being a beneficiary of growing activity in residential and non-residential construction activity in the US and Australia. Synergy benefits from the Headwaters acquisition are expected to supplement earnings growth. We retain our overweight position.

DISCLOSURE

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