Arnhem Australia+ SMA
December 2017

The Strategy

The Arnhem Australia+ strategy is a high conviction separately managed account portfolio of quality growth Australian and International equities.

The strategy gives investors the combined benefits of franked Australian dividend income with balanced exposure to high growth industries not available in Australia.

Portfolio Guidelines

Benchmark:	S&P/ASX 200 Accumulation Index
Universe:	Global Developed Markets
# Securities:	15 to 30
% Individual Holding	Up to 10%
Australia/International:	70%-30% / 30%-70%
Cash holdings:	Up to 25%
Div. Yield Target (gross):	4%
Management Fee:	0.8% (ex GST)

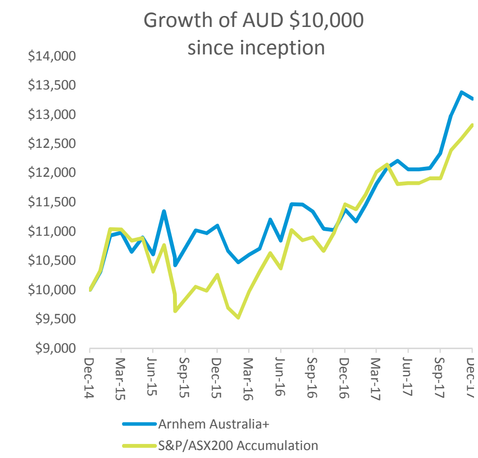
Performance Review

The market took a breather in December from its upward momentum in 2017. The AUD was significantly stronger and consequently, global equities markets were down almost 2% when measured in AUD. The Arnhem Australia+ SMA returned a negative 0.82%, underperforming the ASX200 benchmark by 2.63%, most of which was related to a stronger AUD. The best performing stock in the portfolio was Tabcorp, as the company finally closed the long awaited merger with Tatts Group. The combination of the two companies places it in an excellent position to compete with U.K bookmakers like Paddy Power and William Hill. Tabcorp has flagged a potential $130m of synergies and we believe that there is a strong likelihood that they will be able to execute on that number. The company also now has the opportunity to revive the Lottery business, especially by stepping up the online sales effort. One of the underperformers was Nvidia. While there was little news flow out on the company, the market saw some selling of strong 2017 performers at the end of the month. Given the great run in the Nvidia stock, there was some associated weakness. We remain confident in our view of the company, as the demand for Artificial Intelligence related processing power continues to grow exponentially and Nvidia remains the market leader with its Graphical Processing Unit (GPU) chips

	Annualised Performance (Gross of Fees)				
	1 Month	3 Month	1 Year	3 Year	Inception
Arnhem Australia+	-0.82%	7.54%	16.69%	9.90%	9.90%
ASX 200 Accumulation	1.81%	7.64%	11.80%	8.63%	8.63%
Outperformance	**-2.63%**	**-0.09%**	**4.90%**	**1.27%**	**1.27%**

Top 3	Contribution	Bottom 3	Contribution
Tabcorp	+71bp	Align Technology	-47bp
Iress	+10bp	Nvidia	-21bp
Telstra	+8bp	Aurizon	-18bp

Disclaimer: Past Performance is no guarantee of future performance. The value of the model portfolio and the income derived from the associated investments decrease or increase from that appearing on the Website. Future returns are not guaranteed, and a loss of principal investment may occur. Information expressed is current information as of the date appearing on this Website only. The value of the model portfolio and the income derived from the associated investments expressly excludes any transaction costs (including, without limitation, any establishment, withdrawal, contribution, termination, switching and other service fees). The portfolio model performance information has been prepared by Arnhem. All information used for this calculation is considered to be from reliable resources but Arnhem cannot attest to its accuracy. This is not intended as investment advice nor should it be considered a solicitation or an offer to transact in the Model listed. The model performance has been calculated using the 1 January 2015 Arnhem Australia+ Model portfolio positions. Any model portfolio that commenced on a date other than the one specified may hold different positions and will experience different returns which may be better or worse than the Arnhem model



Source: Bloomberg, Arnhem Investment Management, as at 31 December 2017

Portfolio Outlook

We believe that there will be two big top-down drivers in the market next year. First, the return of volatility to equity markets - driven by the retreat of central banks, and more political and regulatory uncertainty coming out of the United States. This will result in a greater dispersion between share prices and should reward bottom-up stock pickers like Arnhem. Second, we expect to see a more direct link between expected earnings growth and valuation multiples. The market is starting to become much more concerned about multiple compression, as upward pressure on interest rates is building. This should place a greater focus on the price that the market is willing to pay for stocks. Again, this is likely to play to our strengths as we maintain a strict valuation discipline when investing. In general, the biggest risk equity markets are faced with is related to the movement into unknown territory, as central banks unwind asset purchasing programs that have injected unprecedented liquidity into the financial system. Exacerbating this risk, policymakers have no safety net as both fiscal and monetary policy are exhausted.

Top 5 Australian Holdings	%
Westpac Banking Corp	7.3%
Wesfarmers	7.2%
Tabcorp Holdings	5.8%
National Australia Bank	5.5%
Carsales.com	4.1%
Top 5 International Holdings	**%**
Alphabet	5.1%
Novo Nordisk (ADR)	3.8%
Activision Blizzard	3.8%
Nvidia	3.3%
TJX Companies	3.0%

Top 10 GICS 4 Industries	Portfolio	World	ASX200
Diversified Banks	12.8%	8.0%	25.7%
Internet Software and Services	9.2%	3.1%	0.7%
Hypermarkets and Super Centers	7.2%	0.6%	3.1%
Pharmaceuticals	6.5%	5.4%	0.1%
Casinos and Gaming	5.8%	0.3%	2.3%
Telecommunication Services	5.7%	2.0%	3.0%
Data Processing	4.0%	1.9%	0.8%
Home Entertainment Software	3.8%	0.4%	0.0%
Diversified Metals and Mining	3.4%	0.6%	10.0%
Semiconductors	3.3%	2.3%	0.0%

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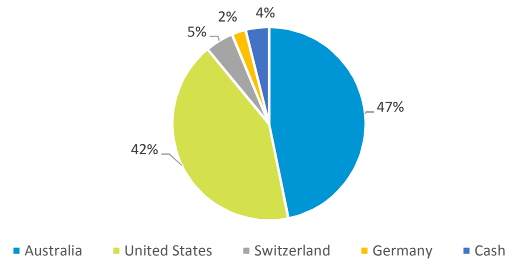
Portfolio Positioning

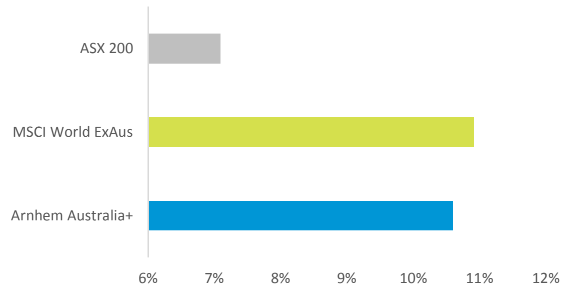
Our allocation between Australian and International securities moved back to Australia in the month of December, as we added to our Tabcorp and Wesfarmer positions. The portfolio continues to have a strong focus on technology related industries like Semiconductors, Internet Software & Services and Health Care Technology. We have no exposure to the Energy, Telecom and Utility related industries, as we see no evidence of sustainable earnings growth, whilst the majority are screened out by our investment process. As a result, the portfolio has a significantly stronger earnings growth profile than is available in the Australian market and remains on track to deliver a gross dividend yield of 4% for the calendar year.

There were no changes to the portfolio in December. We continue to believe it prudent to hold a higher than normal cash balance in the portfolio (close to 4%). Given our expectation for an increase in volatility, there should be interesting opportunities in the months ahead to reinvest this cash balance.

Country Allocation (%)



3-Year EPS Growth Profile



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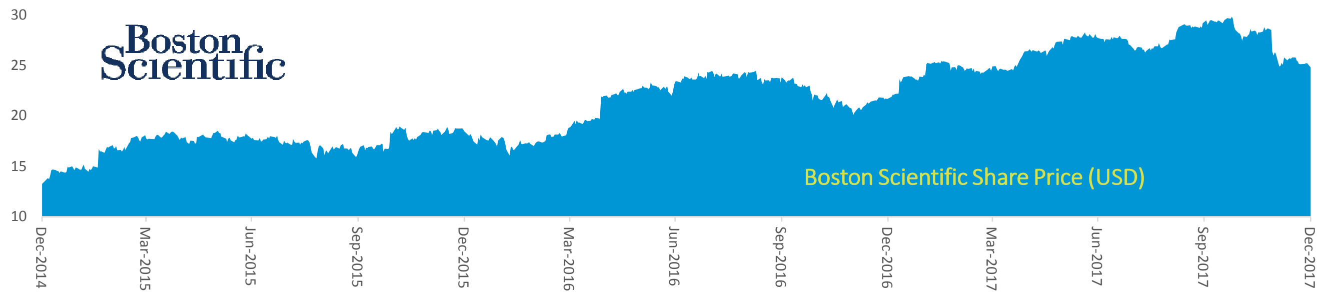
Stock of the month

Boston Scientific is a medical technology company with a focus on cardiovascular devices. The company's largest segment is interventional cardiology, where it manufactures products such as stents and devices to repair or modify the heart's structure. The company is one of the leaders in pacemakers and implantable defibrillators, where it has a broad portfolio of devices and competes with the likes of Medtronic and Abbott. Boston Scientific applies its cardio technology in other areas, such as urology and the treatment of conditions such as asthma. The company is increasingly participating in the high growth field of neuromodulation, which uses electrical pulses to modulate the transmission of pain signals to the brain. Our investment in Boston Scientific is based on two key drivers. Firstly, we are more optimistic than the market around the company's product cycle, the most important of which is TAVR, a minimally invasive procedure for replacing an aortic valve. This device replaces the need for patients to undergo open heart surgery, in some instances. In addition to new products, Boston Scientific is likely to supplement its growth with targeted acquisitions in high growth areas. The company's acquisition track record of late has been impressive and consensus forecasts are not currently factoring in this upside. We forecast 3-year earnings growth of 16% p.a compared to consensus forecasts of 12% p.a and see strong upside from the current share price.



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