

Fund Update

March Q 2018

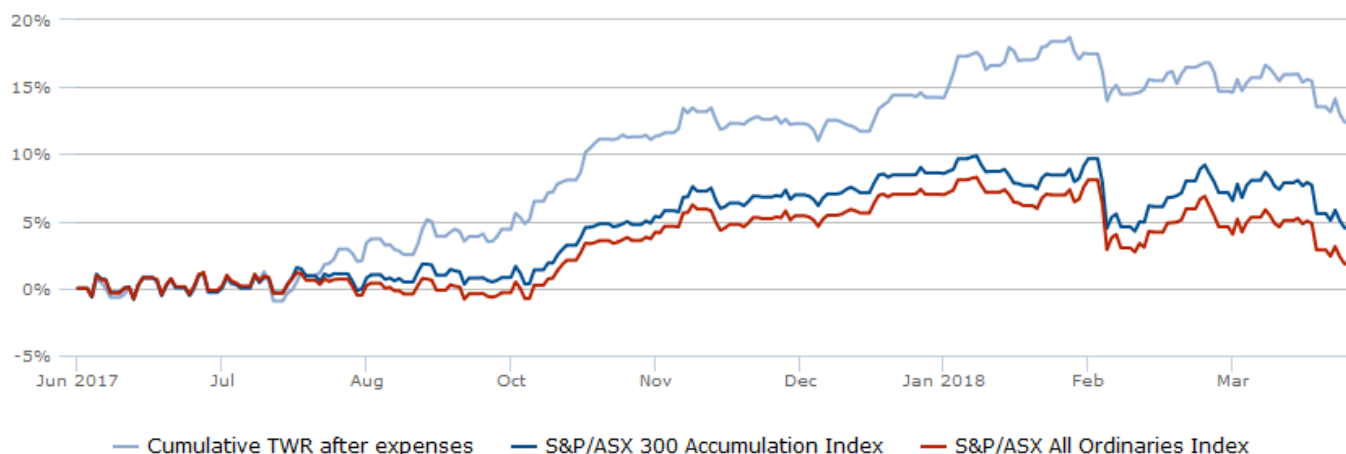
FUND DESCRIPTION

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	29 March 2016	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 March 2018	1 mth	3 mths	6 mths	1 yr	Since inception p.a.
Portfolio return after expenses (TWR)	-3.77%	-1.6%	7.65%	11.8%	2.45%
S&P/ASX 300 Accumulation Index	-3.73%	-3.78%	3.67%	2.86%	11.19%
S&P/ASX All Ordinaries Index	-4.06%	-4.84%	2.16%	-0.59%	6.72%

Cumulative returns over time



MARCUS TODAY SMA REPORT MARCH Q 2018

The Marcus Today SMA has had an interesting if volatile last three months. We went into January with 4.8% of the fund in cash with the market racing up after Trump announced and managed to pass his trillion dollar tax package in December. That saw the US markets going parabolic in early January with a 10.4% rise in a month.

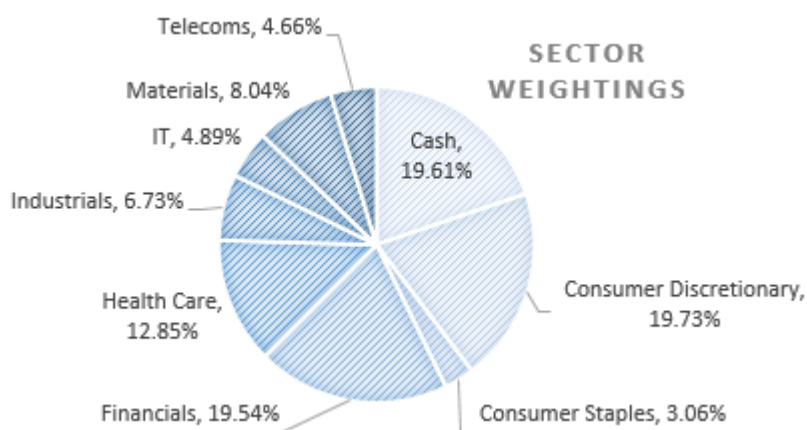
The Marcus Today SMA has steadily outperformed over the last year, up 11.8% compared to the ASX 300 accumulation index benchmark up 2.86% and the All Ordinaries index down 0.59%. In the last quarter the SMA has outperformed by 3.24% but only by falling less than the market. We still have the legacy of a poor first six months of performance post inception and the clear goal is to recover that deficit and pass the high water mark on performance after which performance fees are payable. Our interests are aligned!

There are two parts to managing an equity portfolio, the first is to manage the stock picking, the second is to manage “The Market” which we do by playing with the cash weighting of the portfolio. I have been happy with stock selection but in January we started to get concerned about the market as a whole. The technical indicators on the US market started to hit a few extremes. In particular an indicator called the relative strength index (RSI), which measures the momentum of a share price trend, hit the highest level on the Dow Jones and S&P 500 indices since I was born.

We also became concerned in January that the average daily trading range of the Dow Jones had risen from an average of around 125 points a day over the last couple of years to, at one point, 650 points a day. Volatility had picked up significantly in a very short period of time. Volatility is a sign that the market mood is changing and, in recognition of the un-sustainability of the recent rally, we ran the cash component of the SMA up to 30% at the end of January, and days later, after a sharp drop in the US market, we ran it up to 60%.

One of the beauties of the SMA structure is that we can, and will, hold 100% cash if we feel it is appropriate. Large managed funds simply can't and won't do that (their mandate does not allow them to), but will remain fully invested in all circumstances relying on “relative” performance rather than actual performance.

While that is fine for their marketing purposes, it is not great for their clients. We have a rather demanding ASX 300 accumulation index benchmark, but rather than focus on that, I consider our job, through the Marcus Today SMA, is to produce actual rather than relative returns. After all, it is real money invested in the SMA, owned by real people, including the many Marcus Today members as well as the Marcus Today owners. This is not a marketing game this is real life and it is the total return not the relative return that matters.



This process of managing the market risk through the cash weighting presents itself as a rather aggressive approach in traditional “portfolio” management circles, but if there is anything aggressive about it, the process is targeted at aggressively protecting money rather than aggressively taking risk, and we make no excuses for it.

We also retain the right to change our minds. Portfolio management is about picking stocks with a higher than average probability of performing. It is not about certainty, and it is not about being proud or prejudiced. Things change, and in February the US market firmed up again and we ran the SMA's cash weighting down again closing the quarter with 19.61% cash.

I consider that to be an appropriate level of cash considering the uncertainties before us, including Trump's trade war, the US technology sector peaking on fears of regulation, geopolitical risk as Syria is attacked by the US, UK and France, as well as Trump's past personal life which regularly hits the headlines and raises mild fears of an impeachment.

We stand prepared to run the cash weighting up or down from here on a daily basis. We live in volatile times and after an extraordinary 58% rise in the US market in two years, must be prepared to react in quick time from these levels if necessary. We usually do that by selling a bit of everything, or adding to everything, rather than by changing our stock picks individually although it remains an everyday endeavour deciding which stocks to be in and when.

The bottom line is that this has been a Quarter dominated by market risk rather than stock selection and going forward we continue to work hard on both issues on your behalf.

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