ShawandPartners

Shaw SMA - Australian Equities (Large Cap) Core

Shaw and Partners Portfolio Strategies

Monthly Review – April 2018

Top 5 Holdings

ASX Code	Security	Alloc: 38.31%
BHP	BHP Billiton Limited (BHP)	10.68%
CBA	Commonwealth Bank. (CBA)	7.82%
MQG	Macquarie Group Ltd (MQG)	7.39%
WBC	Westpac Banking Corp (WBC)	6.60%
NAB	National Aust. Bank (NAB)	5.82%

Portfolio TWR Returns

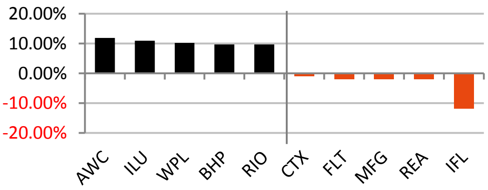
Return	1 Mth	3 Mth	6 Mth	1yr	Incep.*
Total Portfolio	3.98%	0.75%	4.13%	9.33%	14.19%
Benchmark	3.91%	0.23%	3.02%	4.37%	10.04%
Difference	0.07%	0.52%	1.12%	4.96%	4.15%

*Annualised. Performance Period: 01 Jul 2017 to 30 Apr 2018

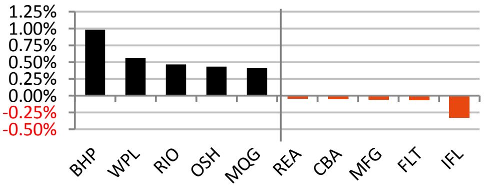
Portfolio Attribution - 1 month

Income Attribution	0.00%
Capital Attribution	3.98%

1 Month: Total Return - Top/Bottom 5



1 Month: Total Attribution - Top/Bottom 5



Market Weights

GICS Sector	SMA	Index	Relative
Financials	41%	34.8%	+6.6%
Materials	27%	17.9%	+8.9%
Energy	10%	5.1%	+4.8%
REITs	7%	7.7%	-0.7%
Consumer Staples	6%	7.5%	-1.4%
Consumer Discretionary	6%	3.6%	+2.0%
Industrials	0.0%	7.6%	-7.6%
Health Care	0.0%	8.7%	-8.7%
Information Technology	0.0%	2.2%	-2.2%
Telecommunication Services	0.0%	2.8%	-2.8%
Utilities	0.0%	2.2%	-2.2%
Cash	3.3%	0.0%	3.3%
	100.0%	**100.0%**	

Portfolio valuation as at 01 April 2018 for GICS reference

Returns are gross of franking credits

Portfolio Details

Portfolio Name:	Shaw Australian Equities (Large Cap) Core
Portfolio Inception Date:	13-May-16
SMA Model code:	SP0001
Indicative # of securities:	15-25
Portfolio Return Objective:	S&P/ASX 100 Accumulation Index
Shaw Model Managers:	Martin Crabb

Investment Objectives

The objective of the Shaw Australian Equities Large Cap Portfolio is to provide regular income, capital appreciation and out performance of the S&P/ASX 100 Accumulation Index over the medium term (3 years).

Investment Strategy

Shaw's Investment Process combines quantitative and qualitative criteria and analysis to identify stocks likely to produce above average risk-adjusted returns.

The portfolio construction is based on macro-economic and thematic views of Shaw's Research in order to best meet the risk and return objectives of the investment strategy. Changes to the portfolio will be made as deemed appropriate by the investment team in order for the portfolio to have a high probability of meeting its objectives.

The Investment Process takes into consideration the return objectives of the portfolio and managed in a way that ensures the portfolio is not overly skewed to any style or thematic that would increase the risk of the portfolio failing to meet its objectives.

Portfolio Highlights

- **The Shaw and Partners Australian Equities Large Cap portfolio rebounded strongly in April, posting a return of just shy of 4%.** No stocks in the portfolio paid dividends in April so the return was all capital growth. Our overweight position to Energy and Materials added most to returns. The portfolio remains positioned for a reflationary environment.
- **The other "highlight" of April was the revelations coming out of the Banking Royal Commission in Canberra.** Market heavyweight AMP had a particularly difficult April, falling 19%. We don't own AMP in the portfolio and maintain a market weight position to the big four banks who also came under fire. IOOF Group (IFL) is part of our portfolio and that came under pressure due to concerns over its acquisition of ANZ's wealth business, but we think they are somewhat insulated and should recover from these levels. The stock was down 12% in April and the largest negative contributor to returns.
- **The Energy sector was the big mover in April, up 10.7%.** We hold an overweight position to the Energy sector via holdings in Woodside Petroleum (WPL) which rose 10.2%, Oil Search (OSH) which rose 9.7% and Caltex (CTX) which fell 1.2%. The stock to do best in the Energy sector was Santos (STO) which rose 21.1% on the back of a takeover offer from Harbor Energy.
- **Our research suggests that during "late cycle" markets commodities and commodity producers perform particularly well as investors seek to hedge against rising prices – i.e. inflation.** As such, we maintain a strong overweight to Materials stocks which we have added to post month end. Despite the fact that prices have increased tremendously since the market lows in January 2016, we see further upside to both earnings and valuations in the Resources sector and maintain a significant overweight position relative to an index portfolio.

Martin Crabb | Chief Investment Officer
+61 2 9238 1352
mcrabb@shawandpartners.com.au

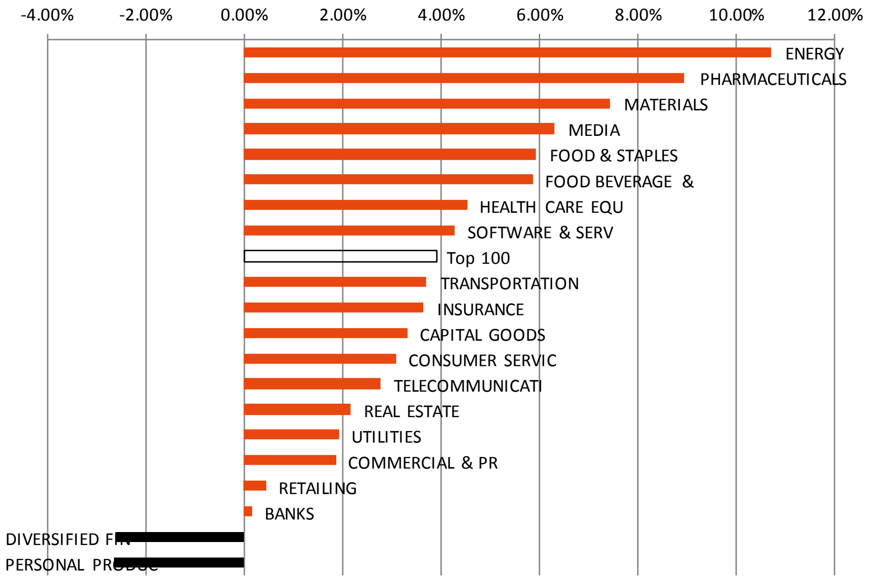
Portfolio Performance

April saw a strong recovery in markets following the sell-off in March. Energy, Materials and Pharmaceuticals (read CSL) lead the charge. Diversified Financial stocks were the laggards thanks to the Banking Royal Commission which highlighted issues with vertically integrated wealth management businesses. The S&P/ASX 100 Accumulation Index rose just shy of 4%, almost exactly reversing March's loss.

For investors to have outperformed the large cap index last month, they needed to be positioned in the Healthcare, Energy and Materials sectors. We hold strong overweight positions to two of the three, being Energy and Materials. Given that Healthcare (comprising Pharmaceuticals and Healthcare Equipment sectors) comprises 8.6% of the S&P/ASX 100 index, and that these sectors have performed exceptionally well over the past few years, the outperformance achieved by our portfolio should be considered in this context.

Our portfolio has outperformed the S&P/ASX100 index in all time periods to April 2018 via a combination of being in the right sectors at the right times and also via stock selection decisions made by our team of experienced analysts.

Figure 1: Sector Accumulation Returns for April 2018

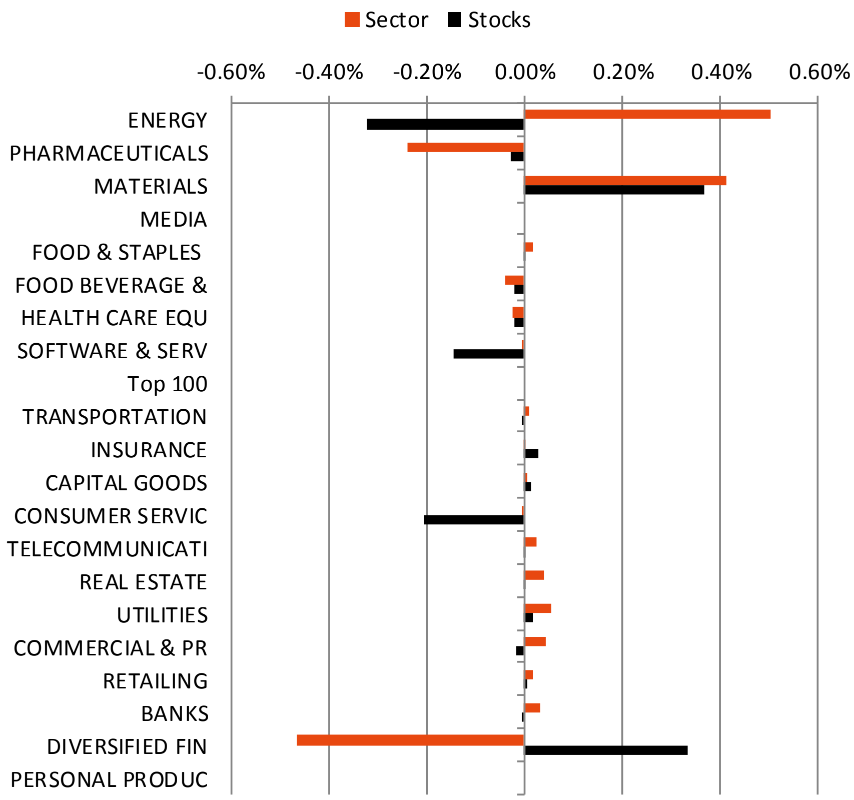


Source: Shaw and Partners, FactSet

Looking at the decisions we make inherent in the sector and stock allocations relative to the index, our overweight to Energy and Materials added the most value and our underweight Healthcare detracted the most from a sector perspective. On the stock front, our positioning in the less leveraged oil plays in Caltex (CTX) and OilSearch (OSH) meant we underperformed the Energy sector and this resulted in the largest negative stock contribution.

Our large overweight to Diversified Financials – which was premised on a rebound in capital markets which did occur – was a significant negative contributor as this sector fell 2.63% in the month. Our stock selection -being overweight Macquarie Group (MQG) in particular – helped offset this impact. Our stock selection in the Materials sector also added significantly to returns.

Figure 2: Stock and Sector Attribution



Source: Shaw and Partners, FactSet

Portfolio Outlook and Strategy

We make a relatively large number of relatively small changes to the portfolio this month, adding to our already overweight Energy and Materials call by adding to existing positions in Alumina (AWC), Fortescue Metals (FMG), Iluka Resources (ILU), Woodside Petroleum (WPL) and in the Financials we add Bank of Queensland (BOQ). Funding this we drop Lendlease (LLC) after a stellar run, trim the supermarkets Wesfarmers (WES) and Woolworths (WOW) as these now look fully prices, and take some profits in Macquarie Group (MQG) still maintaining a strong overweight position. We swap 1% from National Australia Bank (NAB) to Westpac (WBC) amongst the big four banks.

We retain a neutral position to equities in a balanced portfolio structure, but favour global equities over local equities due to better growth and valuations plus to potential for further $A depreciation. Within the Australian market, we strongly favour Energy and Resources stocks as these will be heavily sought in the weeks and months ahead as investors look to hedge rising inflationary pressure and higher bond yields.

Disclaimer

Shaw and Partners Limited ABN 24 003 221 583 ("Shaw") is a Participant of ASX Limited, Chi-X Australia Pty Limited and holder of Australian Financial Services Licence number 236048.

This report is published by Shaw to its clients by way of general, as opposed to personal, advice. This means it has been prepared for multiple distribution without consideration of your investment objectives, financial situation and needs ("personal circumstances"). Accordingly, the advice given is not a recommendation that a particular course of action is suitable for you and the advice is therefore not to be acted on as investment advice. You must assess whether or not the advice is appropriate for your personal circumstances before making any investment decisions. You can either make this assessment yourself, or if you require a personal recommendation, you can seek the assistance of your Shaw client adviser. This report is provided to you on the condition that it not be copied, either in whole or in part, distributed to or disclosed to any other person. If you are not the intended recipient, you should destroy the report and advise Shaw that you have done so. This report is published by Shaw in good faith based on the facts known to it at the time of its preparation and does not purport to contain all relevant information with respect to the financial products to which it relates. Although the report is based on information obtained from sources believed to be reliable, Shaw does not make any representation or warranty that it is accurate, complete or up to date and Shaw accepts no obligation to correct or update the information or opinions in it. If you rely on this report, you do so at your own risk. Any projections are estimates only and may not be realised in the future. Except to the extent that liability under any law cannot be excluded, Shaw disclaims liability for all loss or damage arising as a result of any opinion, advice, recommendation, representation or information expressly or impliedly published in or in relation to this report notwithstanding any error or omission including negligence.

IMPORTANT INFORMATION TO CONSIDER: It is important that before making a decision to invest in a Shaw Managed Accounts, a managed fund, an exchange traded fund, an individual hybrid security or listed debt instrument that you read the relevant Product Disclosure Statement ("PDS"). The PDS will contain information relevant to the specific product, including the returns, features, benefits and risks.

RISKS ASSOCIATED WITH HYBRID SECURITIES: Hybrid securities and listed debt instruments differ from investments in equities and cash products in a number of important respects. The liquidity risk associated with an investment in hybrid securities and listed debt instruments will generally be greater than that associated with equities. The credit risk associated with hybrid securities and listed debt instruments is higher than that of a cash product or term deposit. Some hybrid securities may be perpetual in nature, meaning that they can only be redeemed or exchanged for cash or equity at the issuer's option. Hybrids may also contain terms which automatically trigger the deferral of an interest payment or cause the issuer to repay the hybrid earlier or later than anticipated. ASIC has published information to assist consumers in understanding the risks and benefits associated with an investment in hybrid securities or listed debt instruments. This information can be found under the heading 'Complex Investments' at www.moneysmart.gov.au/investing.

DISCLOSURE: Shaw will charge commission in relation to client transactions in financial products and Shaw client advisers will receive a share of that commission. Shaw, its authorised representatives, its associates and their respective officers and employees may have earned previously, or may in the future earn fees and commission from dealing in the financial products. Performance of the Model Portfolio is based on a model portfolio and is gross of investment management, administration fees and transaction costs. The total return performance figures quoted are historical and include franking credits. Total returns assume the reinvestment of all portfolio income.

Sydney | Head Office	Melbourne	Brisbane	Perth	Adelaide	Canberra
L15, 60 Castlereagh Street	L20, 90 Collins Street	L28, 111 Eagle Street	L14, 197 St Georges Terrace	L21, 25 Grenfell Street	L1, 18 National Circuit
Sydney NSW 2000	Melbourne VIC 3000	Brisbane QLD 4000	Perth WA 6000	Adelaide SA 5000	Barton ACT 2600
Telephone: +61 2 9238 1238	Telephone: +61 3 9268 1000	Telephone: +61 7 3036 2500	Telephone: +61 8 6188 7643	Telephone: +61 8 7109 6000	Telephone: +61 2 6113 5300
Fax: +61 2 9232 1296	Fax: +61 3 9650 2277	Fax: +61 7 3036 2599	Fax: +61 8 6188 7607	Fax: +61 2 9232 1296	Fax: +61 2 6113 5399
Toll Free: 1800 636 625	Toll Free: 1800 150 009	Toll Free: 1800 463 972	Toll Free: 1800 636 625	Toll Free: 1800 636 625	Toll Free: 1800 636 625