Shaw SMA - Australian Equity (Large Cap) Income Portfolio

Shaw and Partners Portfolio Strategies

Monthly Review – April 2018

Top 5 Holdings

ASX Code	Security	Alloc: 40.82%
TYN0038AU	Nikko AM AUS Share Income Fu	9.73%
PL8	Plato Inc Max Ltd. (PL8)	9.63%
SSB0026AU	Legg Mason Real Return Incom	9.34%
NAB	National Aust. Bank (NAB)	6.19%
WBC	Westpac Banking Corp (WBC)	5.93%

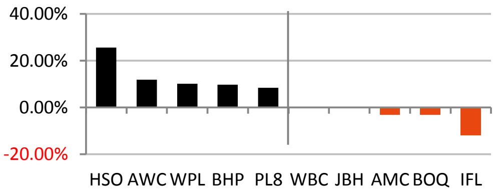
Portfolio TWR Performance

Number of Securities:					21
Return	**1 Mth**	**3 Mth**	**6 Mth**	**1yr**	**Incep.**
Total TWR Portfolio	4.13%	0.19%	1.69%		5.46%
Portfolio Objective	3.91%	0.23%	3.02%		6.83%
Excess vs. Objective	0.23%	-0.04%	-1.32%		-1.37%

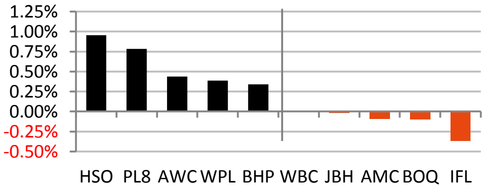
Portfolio Attribution - 1 month

Income Attribution	0.21%
Capital Attribution	3.92%

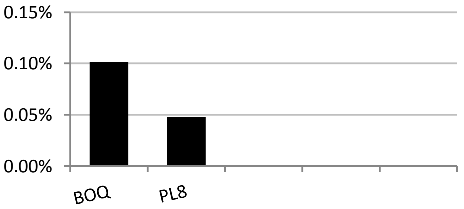
1 Month: Total Return - Top/Bottom 5



1 Month: Total Attribution - Top/Bottom 5



1 Month: Income Attribution



Market Weights

GICS Sector*	SMA	Index	Relative
Financials	24.9%	34.8%	-9.9%
Materials	10.4%	17.9%	-7.5%
Health Care	8.0%	8.7%	-0.8%
REITs	6.4%	7.7%	-1.2%
Energy	4.0%	5.1%	-1.1%
Consumer Discretionary	3.6%	3.6%	+0.0%
Consumer Staples	3.4%	7.5%	-4.1%
Industrials	3.1%	7.6%	-4.5%
Utilities	2.9%	2.2%	+0.7%
Information Technology	0.0%	2.2%	-2.2%
Telecommunication Services	0.0%	2.8%	-2.8%

As at 30 Apr 2018 for GICS reference

**GICs sectors relate only to Listed Equity*

**Returns are gross of franking credits*

Portfolio Details

Portfolio Name:	Shaw Australian Equity (Large Cap) Income Portfolio
Portfolio Inception Date:	6-Sept-16
SMA Model code:	SP0004
Indicative # of securities:	15-25
Portfolio Return Objective:	S&P/ASX 100 Accumulation Index
Shaw Model Managers:	Martin Crabb

Investment Objectives

The primary objective of the Shaw Australian Equity (Large Cap) Income Portfolio is to provide a regular and sustainable fully-franked dividend income stream over the medium term (3 – 5 years). It achieves this by investing in a portfolio of large-cap Australian listed companies. Although the focus is yield generation, the investment process and risk management aims to ensure that capital is preserved with the goal of some capital appreciation via both longer-term price appreciation and actively locking in gains as deemed appropriate.

Investment Strategy

Shaw's investment process combines quantitative and qualitative criteria and analysis to identify stocks which have a relatively high dividend paying capability are likely to produce consistent earnings growth and with positive valuation characteristics.

A prudent level of sector diversification ensures that the risk profile of the portfolio is consistent or potentially lower than the overall share market. This is because a high proportion of the return of the portfolio is derived from more stable income return than capital growth.

Continual assessment and risk management of bottom-up and top-down parameters is a core component of the Model. 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.

Portfolio Highlights

- **The Shaw and Partners Australian Equities Large Cap Income portfolio rebounded strongly in April, posting a return in excess of 4%.** Bank of Queensland (BOQ) and Plato Income Maximiser (PL8) were the only investments in the portfolio to pay dividends in April so the return was mostly capital growth. Our overweight position to Energy and Materials added most to returns.
- Healthscope (HSO) was by far the largest contributor to returns in April, adding over 1.1% of the 4.13% total portfolio return. HSO has been privatised before and the current takeover offer seeks to do just that, with private equity players stepping up again. We are currently reviewing our position in the company. The bid for HSO is a good example of how a "value" high yielding business can be re-priced positively under the right circumstances.
- At the other end of the spectrum are Financial Services stocks. The slow moving train wreck of the Banking Royal Commission took it's toll on a number of Financial Services stocks, notably AMP which we do not own down 19% in the month. Stocks we do own that were impacted were IOOF Group (IFL) which is acquiring ANZ's Wealth business and also Bank of Queensland (BOQ) which reported an underwhelming profit result.
- We maintain a broadly diversified portfolio of companies designed to provide the bulk of their returns as income. Since inception, we have generated an income return of 6% annualised including franking.

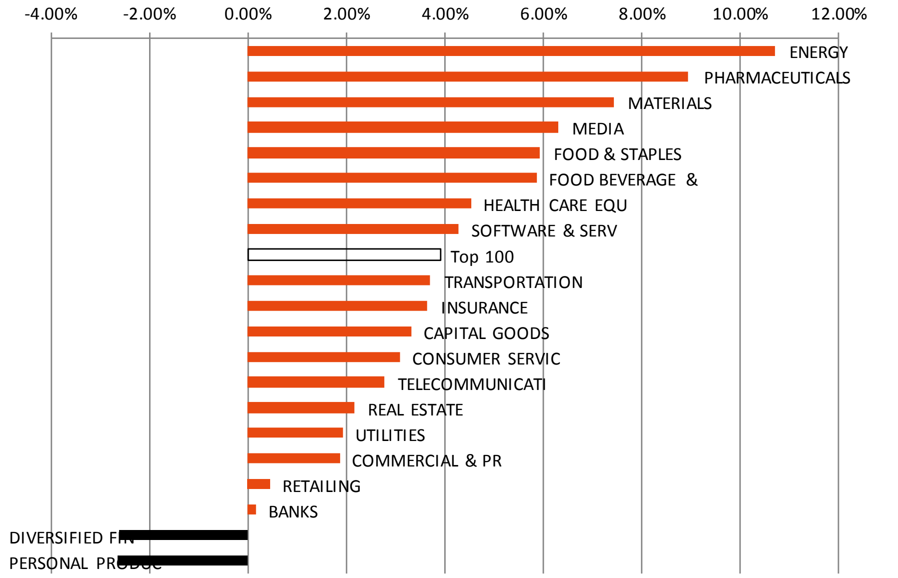
Martin Crabb | Chief Investment Officer
+61 2 9238 1352
mcrabb@shawandpartners.com.au

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.

The Large Cap Income Portfolio seeks to maintain sector diversification to emulate the broader market, but to provide return in the way of income rather than capital gain.

Figure 1: Sector Accumulation Returns for March 2018 – S&P/ASX 100



Source: Shaw and Partners, FactSet

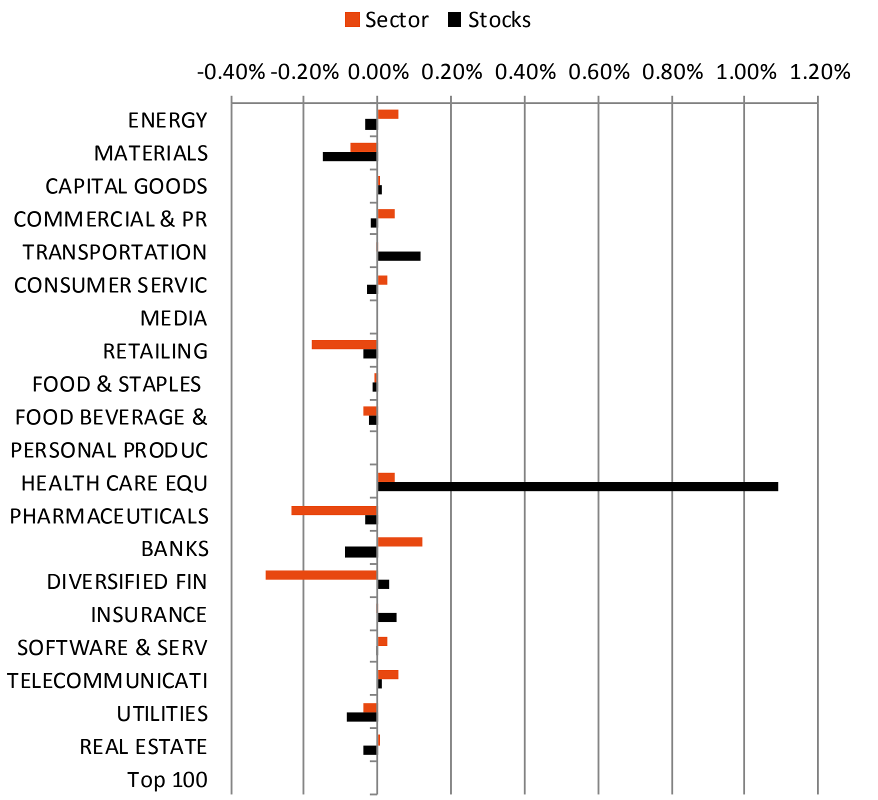
Not holding Commonwealth Bank (CBA) which was down over 8% in April, nor ANZ Bank (ANZ) which fell 5%, contributed to relative returns of the portfolio. In fact after HSO, and Alumina Limited (AWC) which rose 11.9% and is held in the portfolio, these two bank stocks were amongst the largest contributors to relative returns.

The Large Cap Income Portfolio can be expected to perform relatively well when markets are under pressure as the companies we hold in the portfolio tend to be more "defensive" in nature. Conversely, when markets are running hot, investors are seeking to ditch their more defensive holdings and go for growth. As such, we can anticipate that an income strategy will underperform a strongly rising market.

We should also consider the impact that rising bond yields can have on an income strategy. As long term interest rates rise, investors seek higher yields to compensate for the risk of holding equities over risk free, or low risk bonds. Either income payments need to rise, or prices to fall, with the latter being the most obvious.

Looking back at portfolio performance, also lifting returns in April were Woodside Petroleum (WPL) up 10.2% and Sydney Airport (SYD) up 6.3%, despite long term interest rates rising from 2.53% to 2.68% over the month. 10 year bond rates in the United States also rose, from 2.74% to 2.95% in April. Looking more closely at which sector and stock allocations contributed and detracted from performance, we can see from Figure 2 that Healthscope (HSO) dominates the picture. Sector allocations contributed -0.50% to relative returns, whereas stock selection added 0.76%.

Figure 1: Sector and Stock Contribution to Relative Portfolio Returns April 2018



Source: Shaw and Partners, FactSet

Portfolio Outlook and Strategy

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 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.

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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