

Shaw SMA - Australian Equity (Large Cap) Growth Portfolio

Shaw and Partners Portfolio Strategies

Monthly Review – April 2018

Top 5 Holdings

ASX Code	Security	Alloc: 27.35%
TWE	Treasury Wine Estate (TWE)	5.58%
CSL	CSL Limited (CSL)	5.53%
RMD	ResMed Inc. (RMD)	5.52%
ALL	Aristocrat Leisure (ALL)	5.40%
MQG	Macquarie Group Ltd (MQG)	5.32%

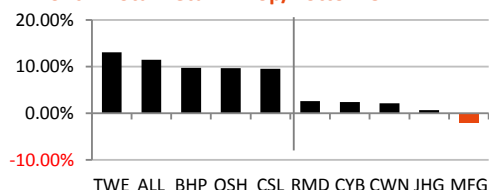
Portfolio TWR Performance

Return	1 Mth	3 Mth	6 Mth	1yr	Incep.
Total TWR Portfolio	5.39%	3.12%	9.90%	15.81%	
Portfolio Objective	3.91%	0.23%	3.02%	6.83%	
Excess vs. Objective	1.49%	2.89%	6.88%	8.99%	

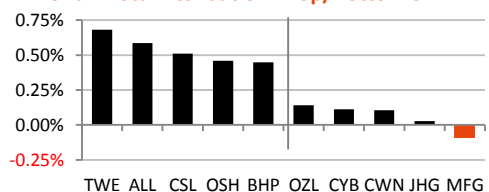
Portfolio Attribution - 1 month

Income Attribution	0.00%
Capital Attribution	5.39%

1 Month: Total Return - Top/Bottom 5



1 Month: Total Attribution - Top/Bottom 5



Market Weights

GICS Sector*	SMA	Index	Relative
Materials	19.0%	17.9%	+1.1%
Financials	17.8%	34.8%	-16.9%
Health Care	16.3%	8.7%	+7.6%
Consumer Discretionary	10.2%	3.6%	+6.6%
REITs	9.3%	7.7%	+1.7%
Industrials	8.8%	7.6%	+1.2%
Consumer Staples	5.6%	7.5%	-1.9%
Energy	4.9%	5.1%	-0.2%
Information Technology	4.5%	2.2%	+2.3%
Telecommunication Services	0.0%	2.8%	-2.8%
Utilities	0.0%	2.2%	-2.2%

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) Growth Portfolio
Portfolio Inception Date:	6-Sept-16
SMA Model code:	SP0005
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) Growth Portfolio is to provide a strong level of capital appreciation over the medium to long term with some income return. The portfolio is tilted towards stocks that have superior earnings growth capacity and focus is on the total return of each stock rather than dividend income as the prime objective.

Investment Strategy

Shaw's investment process combines quantitative and qualitative criteria and analysis to identify stocks which have a favourable outlook and are likely to produce above average earnings growth with positive valuation characteristics.

The portfolio is designed to exhibit a risk profile in line with the overall share market by achieving prudent sector diversification. Stocks are considered on their potential to grow via a high level of earnings retention and high return on equity, developing a new franchise or geographical expansion of a successful domestic business model.

The investment process takes into consideration the primary objective of capital growth. Although the portfolio will generate income, income focused stocks would only be included if their total return criteria fits the portfolio objective.

Portfolio Highlights

- **The Shaw and Partners Australian Equities Large Cap Growth portfolio performed exceptionally well in April, rising 5.4% against a market which rose just shy of 4%.** A combination of being significantly underweight the banking sector relative to the index and strong contributions from stock selection lead to the outperformance. The portfolio is now 9% above the benchmark since inception.
- **Australian companies exporting goods and services into world markets remains a key theme of the portfolio and continues to do well.** Treasury Wine Estates (TWE) which has captured a significant market presence in China for Australian premium wines, rose 13.1% in April and Aristocrat Leisure (ALL), now arguably the world's leading gaming machine designer and manufacturer was up 11.5% in April – both leading returns.
- **Although Australian Banks make up a large part of the market and investor portfolios, we cannot see the growth angle and so hold a relatively low weight to the sector.** The Australian Bank sector increased only 0.25% in April and our underweight position to the big four banks contributed approximately 0.8% to relative returns. Amongst the Financial Services sector more broadly, we see better growth opportunities for Macquarie Group (MQG) and Magellan Financial Group (MFG), albeit the latter was the biggest detractor to relative portfolio returns last month as it fell 2% in a rising market.
- **Growth stocks do particularly well in a rising market, less so in a falling one.** The returns that we have achieved since inception are a manifestation of sector and stock selection, but the conditions have been ripe for growth investors. We caution extrapolation of recent results into the future.

Martin Crabb | Chief Investment Officer

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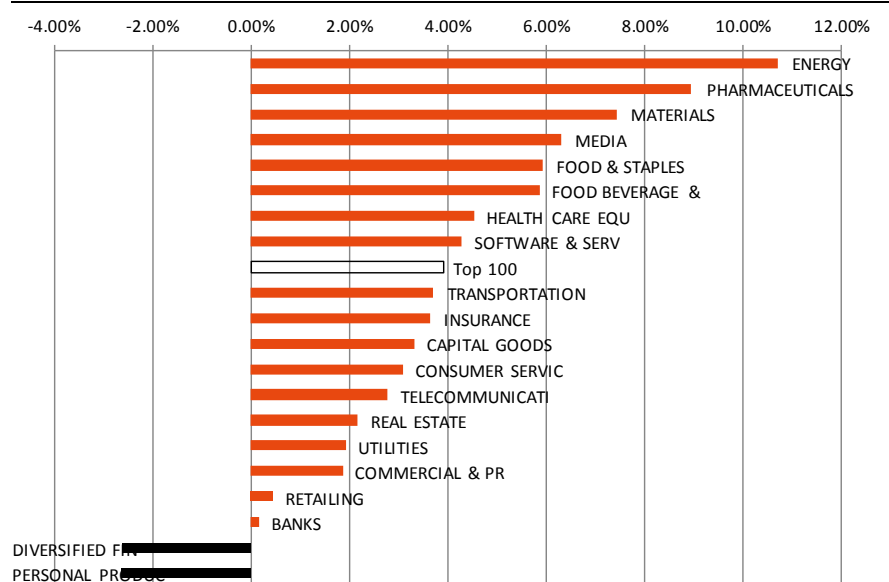
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Portfolio Performance

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

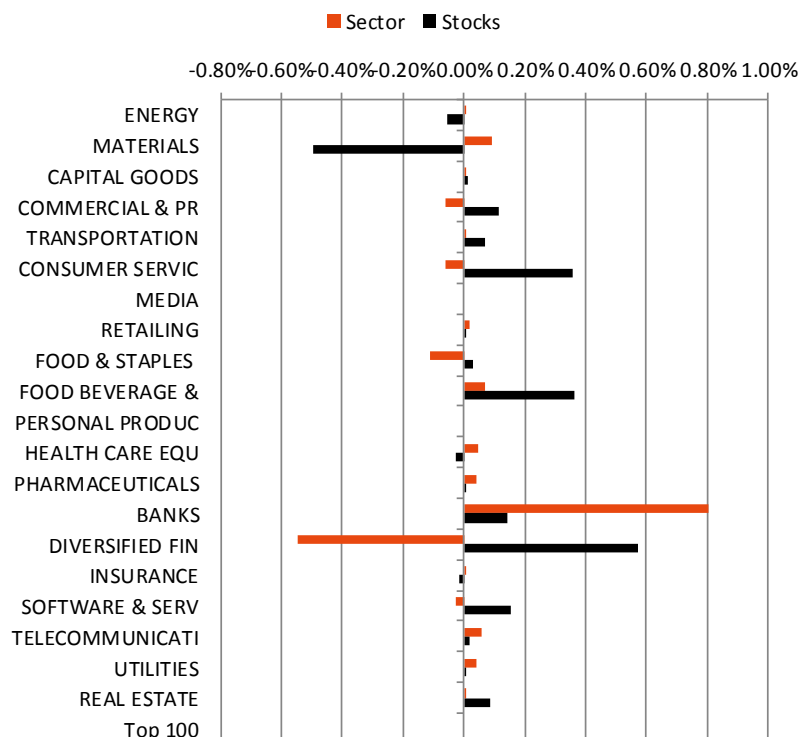
Figure 1: Sector Accumulation Returns for April 2018



Source: Shaw and Partners, FactSet

Figure 2 shows which sector allocations added (Banks) or subtracted (Diversified Financials) value.

Figure 2: Stock and Sector Contribution, 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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