

Shaw SMA - Australian (Small/Mid-Cap) Growth Portfolio

Shaw and Partners Portfolio Strategies

Monthly Review – April 2018

Top 5 Holdings

ASX Code	Security	Alloc: 53.99%
OPS0002AU	OC PREMIUM SMALL COMPANII	18.95%
FID0026AU	Fidelity Future Leaders (Smallca)	15.04%
CSA0131AU	Aberdeen AUS Small Company F	14.63%
Z1P	ZIP CO LIMITED (Z1P) (FPO)	2.72%
IGO	Independence Group (IGO)	2.65%

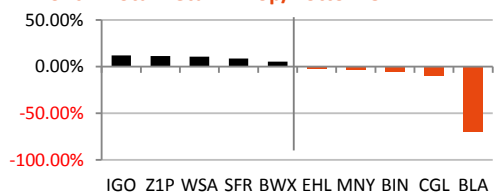
Portfolio TWR Performance

Return	1 Mth	3 Mth	6 Mth	1yr	Incep.
Total TWR Portfolio	0.36%	-3.53%	3.13%		8.48%
Portfolio Objective	2.75%	0.44%	7.11%		14.79%
Excess vs. Objective	-2.39%	-3.97%	-3.98%		-6.31%

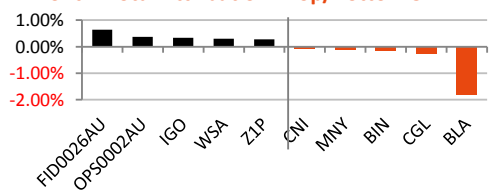
Portfolio Attribution - 1 month

Income Attribution	0.00%
Capital Attribution	0.36%

1 Month: Total Return - Top/Bottom 5



1 Month: Total Attribution - Top/Bottom 5



Market Weights

GICS Sector*	SMA	Index	Relative
Health Care	9.9%	7.4%	+2.4%
Financials	8.1%	6.8%	+1.3%
Materials	7.8%	18.6%	-10.8%
Consumer Discretionary	5.0%	17.0%	-12.0%
REITs	4.9%	10.7%	-5.7%
Industrials	4.6%	11.1%	-6.5%
Consumer Staples	2.5%	7.4%	-4.9%
Information Technology	2.2%	8.4%	-6.2%
Telecommunication Services	0.0%	4.4%	-4.4%
Utilities	0.0%	0.4%	-0.4%
Energy	0.0%	7.8%	-7.8%

As at 30 Apr 2018 for GICS reference

*GICs sectors relate only to Listed Equity

*Returns are gross of franking credits

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Portfolio Details

Portfolio Name:	Shaw Australian Equity (Small/Mid-Cap) Growth Portfolio
Portfolio Inception Date:	6-Sept-16
SMA Model code:	SP0006
Indicative # of securities:	15-25
Portfolio Return Objective:	S&P/ASX Small Ordinaries Accumulation Index
Shaw Model Managers:	Martin Crabb

Investment Objectives

The primary objective of the Shaw Australian Equity (Small and Mid-Cap) Growth Portfolio is to provide a strong level of capital appreciation over the medium to long term. The portfolio is invested in small and mid-sized stocks that are expected to have superior earning growth capacity and focus is on the total return of each stock rather than solely dividend income as the prime objective.

Small and mid-sized companies are generally higher risk than their large cap counterparts and this needs to be taken into account when considering the suitability of this portfolio.

Investment Strategy

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

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 primary objective of capital growth. It aims to invest in companies where the share price does not fully reflect the potential value of the underlying business of the company.

Portfolio Highlights

- **The Shaw and Partners Australian Small/Mid Cap Growth Portfolio had a small positive return during April** and we took steps to further diversify the portfolio by adding a 20% allocation to OC Premium Small Companies Fund, cutting back our allocation to individual companies. Small Companies underperformed large companies in April.
- **Blue Sky Alternative Investments (BLA) had a significant negative impact on the portfolio in April, falling 70%.** We are currently reviewing our valuation, investment thesis and position in BLA. The initial report by a US based short seller was full of incorrect suppositions and calculations and was dismissed as such by the company. The impact on the reputation and fund raising ability of BLA, was however underestimated and the subsequent changes to board and management have caused further damage and disclosure.
- **The performance of BLA overshadowed strong returns** from Independence Group (IGO), Western Areas (WSA) and Sandfire Resources (SFR) amongst material stocks, up 12.4%, 10.9% and 8.5% respectively. Amongst industrials Zipco (Z1P) was the best performer, up 11.6%.
- **The outlook for small companies relative to large ones has improved slightly over April.** Small Companies returned 2.75% in April versus 3.91% for Large Companies. The 12 month forward Price/Earnings ratio for Small Companies is 17.1x versus 15.4x for Large.
- **External managers had mixed but generally positive results,** with Fidelity up 4.4%, OC Funds up 2.0% and Aberdeen up 0.3%. These managers now comprise 50% of the portfolio.

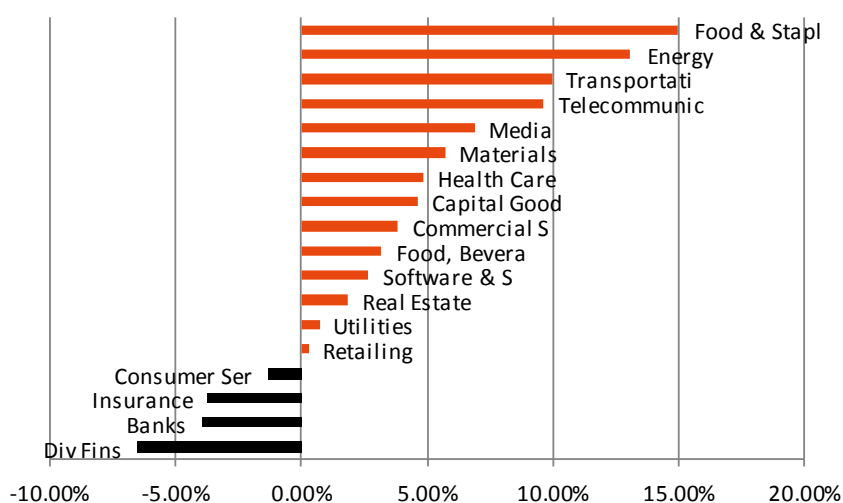
Portfolio Performance

Similar to the large cap end of the market, Resources drove index returns for small caps in April. The S&P/ASX Small Resources index rose 6.92% in accumulation terms in April versus 1.46% for Industrials, culminating in 2.75% for the Small Ordinaries Index return.

Food and Staples Retailing was the best performing sector in April – this sector only comprises one stock being Metcash Limited (MTS) which rose 15%. The next best sector, Energy comprises 21 stocks, which performed between a maximum of +40% for 88 Energy (88E) and -14% for Yancoal Australia (YAN). The “largest” small cap Energy stock is Beach Energy (BPT) which rose 30% on higher oil prices.

At the other end of the spectrum was the Insurance, Banks and Diversified Financials sectors which has been hit with the regulatory scrutiny of the Bank Royal Commission. Several stocks, such as NIB Health (NHF) in the Insurance sector down 12.7%, Australian Finance Group (AFG) in the Banking sector down 9.2% and Clearview Wealth (CVW) in the Diversified Financials sector down 9.2% dragged the market lower.

Figure 1: Small Cap Accumulation Returns – April 2018



Source: Shaw and Partners, FactSet

Portfolio Outlook and Strategy

Small companies are expected to grow strongly over the next three years and although investors have to pay more for this in higher valuations, the gap is not sufficient and small caps should perform well. April drove home the risks involved in having a small number of direct holdings in the small caps space and vindicates our decision to lower our allocation to directly held stocks from 70% of the portfolio to 50% and introduced a third manager after a period of due diligence. We also added Emeco Limited (EHL) to the direct share portfolio. The stock should do well as the economy recovers and mining investment improves.

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