

# Shaw SMA - Income Portfolio

Shaw and Partners Portfolio Strategies

## Monthly Review – November 2018

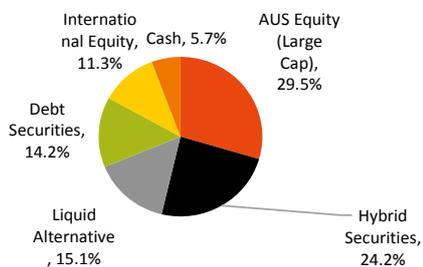
### Portfolio TWR Performance

<b>Number of Securities:</b>	<b>69</b>				
	<b>1 Mth</b>	<b>3 Mth</b>	<b>6 Mth</b>	<b>1yr</b>	<b>Incep.*</b>
<b>Total TWR Return</b>	-0.57%	-4.15%	-0.06%	1.15%	4.21%
<b>Portfolio Objective</b>	0.37%	1.13%	2.28%	4.59%	5.70%
<b>Excess vs. Objective</b>	-0.94%	-5.27%	-2.33%	-3.44%	-1.48%

\*Annualised. Performance Period: 06-Sep-17 to 30-Nov-18

### Asset Class Allocation

<b>Australian Equity (Large Cap)</b>	29.5%
<b>Hybrid Securities</b>	24.2%
<b>Liquid Alternative</b>	15.1%
<b>Debt Securities</b>	14.2%
<b>International Equity</b>	11.3%
<b>Cash</b>	5.7%



### Asset Type Allocation

<b>Managed Funds</b>	27.4%
<b>Listed Hybrid Securities</b>	24.2%
<b>Listed Australian Equity</b>	20.3%
<b>ETF</b>	13.0%
<b>Cash</b>	5.7%
<b>Senior Debt - XTB</b>	3.3%
<b>Listed Investment Company/Trust</b>	3.2%
<b>Listed International Equity</b>	1.5%
<b>Listed Sub Debt</b>	1.3%

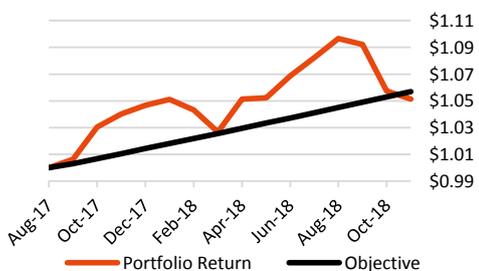
### Portfolio Attribution - 1 month

<b>Income Attribution</b>	0.33%
<b>Capital Attribution</b>	-0.90%

### Asset Class Total Return - 1 month

Asset Class	Portfolio	Objective
<b>Debt Securities</b>	0.31%	0.25%
<b>Hybrid Securities</b>	-0.15%	0.37%
<b>Australian Equity (Large Cap)</b>	-1.46%	-2.40%
<b>International Equity</b>	-0.83%	-1.46%
<b>Liquid Alternative</b>	-0.23%	0.37%

### Value of \$1 Invested at Inception



As at 6-Sept-17

\*Returns are gross of franking credits

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### Portfolio Details

<b>Portfolio Name:</b>	Shaw Income Portfolio
<b>Portfolio Inception Date:</b>	6-Sept-17
<b>SMA Model code:</b>	SP0009
<b>Portfolio Return Objective:</b>	RBA Cash + 3% (Gross Income and Total Return)
<b>Shaw Model Managers:</b>	Martin Crabb / Steve Anagnos

### Investment Objectives

The primary objective of the Shaw Income Goal Portfolio is to provide a regular and sustainable income stream over the medium term (3–5 years) whilst minimising risk to capital. It achieves this by investing in a diversified portfolio of asset classes and strategies. The strategy is designed to have a medium level of risk.

### Investment Strategy

Shaw's investment process combines quantitative and qualitative criteria and analysis to identify asset classes, markets, securities and strategies which have a focus toward producing sustainable income as opposed to capital growth. 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.

The portfolio is a blend of the Shaw and Partners SMA strategic portfolios based on their suitability to the income objective. Each goals-based portfolio has effectively its own asset and risk allocation managed by the Shaw Portfolio Strategies Team.

Asset classes and strategies may include cash, Australian debt securities, and Australian equities including property securities, international equities and alternative strategies (ETF and or managed funds).

### Portfolio Highlights

- The Shaw and Partners Goals-Based Income portfolio fell 0.57% as equity market volatility continue to upset investment returns. The static investment policy return (using neutral weights and benchmark returns) was -0.70%, so the investment management and asset allocation process added 14.4bps of performance for the month. The RBA cash + 3% benchmark return, equating to +0.37% per month, was not achieved.
- The Australian share market was weak again in November, with the benchmark S&P/ASX 100 index falling 2.40%. Our large cap income portfolio fared better, but still fell 1.42% over the month, beating the index by 0.98%. The portfolio returns exceed the index over the short term, but still lag over a year and since inception. We maintain approximately 30% of the portfolio invested in managed funds and 70% via directly held securities.
- The average median margin across financial hybrids widened 34bps over November to 3.59%, in keeping with the wider credit spreads and weaker equity indices experienced globally. Australian iTraxx 5-year CDS was 5 points wider over the period, closing at 86.7bps on the 30 November. The hybrid securities return within the overall portfolio was -0.15%. Since inception the hybrid portfolio return is 6.90%, which is 2.20% over its return objective.
- With the local share and global share markets falling, the Shaw and Partners Liquid Alternatives held up relatively well, giving up 0.23% during the month. The strength in the Australian dollar – which rose 3.42% during November – was a significant drag on the portfolio's international investments, which comprise 85% of the portfolio.
- Debt securities rose 0.25% for the month, in line with the benchmark, whereas the International equities portfolio posted a better than benchmark -0.83% return.

## Top 3 Holdings - Portfolio Positioning and Underlying Performance

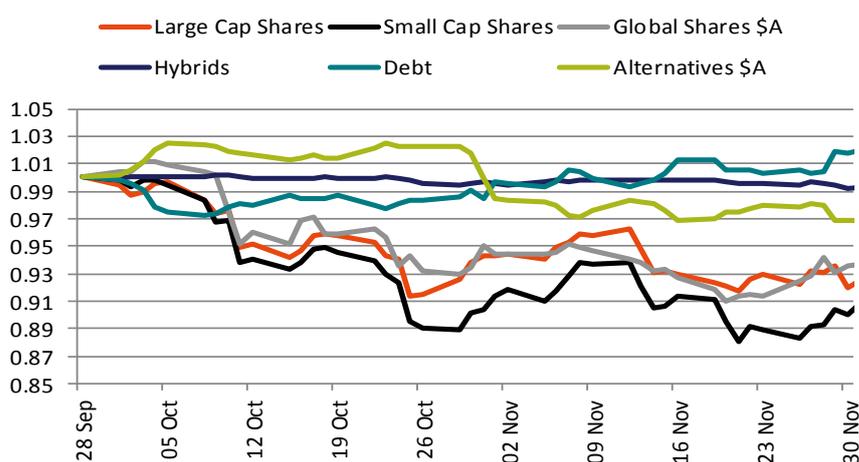
Asset Class	Class Weight	Top 3 Holdings per Asset Class	1 Month Asset Class Performance		
			Actual	Objective	Diff
<b>Debt Securities</b> <i>Objective: RBA Cash rate +1.5%</i>	14.18%	CC JCB Active Bond Legg Mason Aust. Bond Trust Metrics Credit	0.31%	0.25%	0.07%
<b>Hybrid Securities</b> <i>Objective: RBA Cash rate +3.0%</i>	24.16%	Nat Aust Bank Capital Note Macquarie Group Capital Notes 3 CBA - Perls VII	-0.15%	0.37%	-0.52%
<b>Australian Equity (Large Cap)</b> <i>Objective: ASX 100 Accumulation</i>	29.52%	Legg Mason Return Inc Fund Nikko AM Aus Share Inc Fund Westpac Banking Corp	-1.46%	-2.40%	0.94%
<b>International Equity</b> <i>Objective: MSCI International ACWI Ex Australia</i>	11.27%	Ishares Core S&P 500 Antipodes Global Invest Comp Euro Stoxx 50 ETF	-0.83%	-1.46%	0.63%
<b>Liquid Alternative</b> <i>Objective: RBA Cash rate + 3.0%</i>	15.1%	Gmo Systematic Global Macro Trust Blackrock Global Allocation Aus Winton Global Alpha	-0.23%	0.37%	-0.60%
<b>Cash</b> <i>Objective: RBA Cash rate</i>	5.71%		0.00%	0.12%	-0.12%

### Portfolio Performance

For the first time since inception, the goals-based Income portfolio dipped below the accumulated return objective. This is primarily due to weakness in equity markets, which comprise 42% of the portfolio, or 57% if you class Liquid Alternatives as equity. Over the past year, Australian shares have provided a negative return, making it difficult for the rest of the portfolio to make up the ground to reach an RBA cash plus 3% return objective.

The inclusion of Liquid Alternative strategies to replace some of the equity beta of the portfolio has been a sound decision, with local market returns down 9.18% and global equity market returns down 6.48% in the last three months.

Figure 1: Asset Class Accumulation Returns: August to November 2018



Source: Shaw and Partners, FactSet

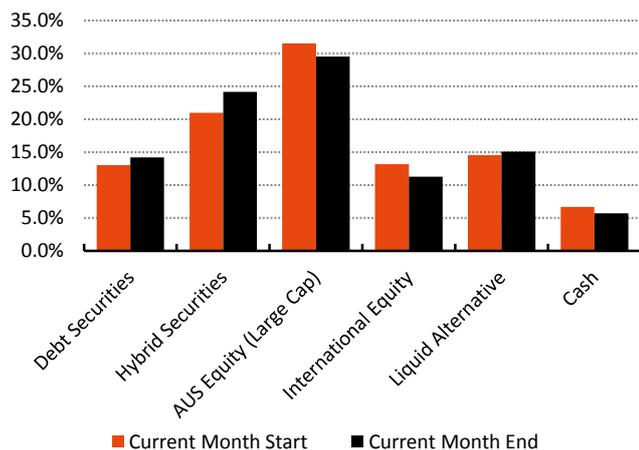
### Portfolio Outlook and Strategy

Risk assets have been sold off on a cocktail of fears ranging from a Trade War between US and China, a hawkish Fed that is going to slam the brakes on the US economy, a plummeting oil price as OPEC overproduces, a sharp slowdown in Chinese economic activity, rising corporate borrowing spreads and a falling Australian housing market. Whilst the market is right to discount some of these scenarios, it has assumed all will end poorly and the emerging evidence is to the contrary. This creates an opportunity to add to risk positions into the New Year. Currently the portfolio is positioned close to the neutral allocation.

## Asset Allocation

Asset Class	Current Month Start	Current Month End
Debt Securities	13.0%	14.2%
Hybrid Securities	21.0%	24.2%
Australian Equity (Large Cap)	31.6%	29.5%
International Equity	13.2%	11.3%
Liquid Alternative	14.5%	15.1%
Cash	6.7%	5.7%
<b>Totals</b>	<b>100%</b>	<b>100%</b>

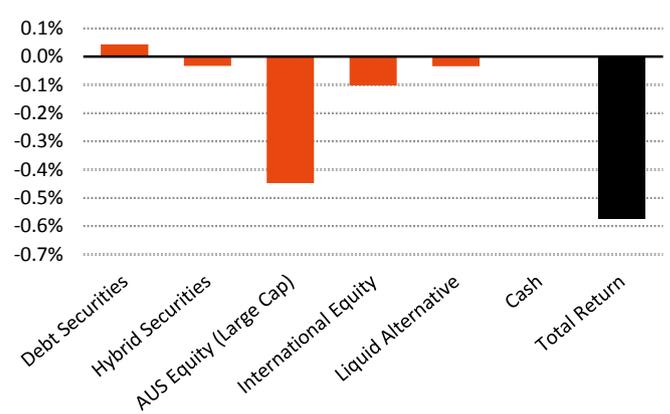
### Asset Allocation



## Asset Class Attribution

Asset Class	1 Month
Debt Securities	0.04%
Hybrid Securities	-0.03%
Australian Equity (Large Cap)	-0.45%
International Equity	-0.10%
Liquid Alternative	-0.03%
Cash	0.00%
<b>Total Return</b>	<b>-0.57%</b>

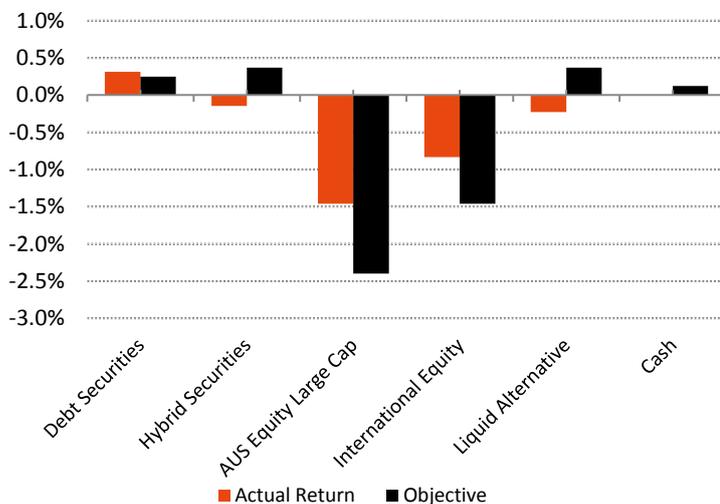
### Asset Class Attribution - 1 Month



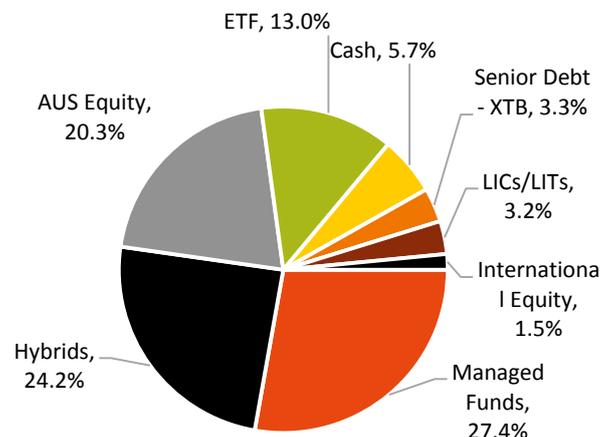
## Asset Class Returns

Asset Class	1 Month		
	Actual	Objective	Diff
<b>Debt Securities</b> Objective: RBA Cash rate +1.5%	0.31%	0.25%	0.07%
<b>Hybrid Securities</b> Objective: RBA Cash rate +3.0%	-0.15%	0.37%	-0.52%
<b>AUS Equity Large Cap</b> Objective: ASX 100 Accumulation Index	-1.46%	-2.40%	0.94%
<b>International Equity</b> Objective: MSCI International ACWI Ex Australia	-0.83%	-1.46%	0.63%
<b>Liquid Alternative</b> Objective: RBA Cash rate + 3.0%	-0.23%	0.37%	-0.60%
<b>Cash</b> Objective: RBA Cash rate	0.00%	0.12%	-0.12%

### Asset Class Returns - 1 Month



### Asset Type Allocation



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