



Praemium – UBS Concentrated Australian Equities Model

Monthly investment report to 30-Apr-2018



Performance Comments

Before fees and expenses, the portfolio rose by 1.95% over the month, underperforming the benchmark.

The holding in Santos Limited, up 21.1%, was the largest positive contributor to performance for the month, after the oil and gas producer received a takeover approach from Harbour Energy, recognising the value and potential of the underlying assets. Oil Search, up 9.7%, also contributed to performance, benefiting from the strong oil price and as the market looked past recent earthquake related product disruptions. Offsetting these was the poor performance of AMP, down 19.1%, as the market reacted to the media coverage of the Financial Services Royal Commission and AMP's own corporate governance missteps. Also impacting performance was the underweight in CSL Limited, up 9.6%, as the local market continued to rerate growth stocks.

% Return (Gross)	Fund ¹	Benchmark*	Difference
1 month	1.95	3.91	(1.96)
3 months	(1.68)	0.34	(2.02)
1 year	1.96	5.46	(3.50)
3 years	1.74	5.70	(3.96)
5 years	4.65	7.53	(2.88)
Calendar Year to Date	(2.58)	(0.11)	(2.47)
Since inception (12/09)	5.46	7.47	(2.01)

¹ Performance figures are gross of ongoing fees and expenses.

* S&P/ASX 200 Accumulation Index

Performance can be volatile and future returns can vary from past returns. The benchmark does not incur these costs. The performance figures quoted are historical, calculated using end of month redemption prices and do not allow for the effects of income tax or inflation. The calculations also assume that all income distributions have been reinvested. Performance has been prepared in accordance with 2016 GIPS standards.

Stock Contributors & Detractors (%)

Company name	Return	Contribution	Over/Underweight
Santos	21.10	0.49	OW
Oil Search	9.65	0.26	OW
National Australia Bank	1.61	0.11	UW
Insurance Australia	5.61	0.10	OW
Boral	(7.53)	0.06	UW
Total of top 5 Contributors		1.02	
Caltex Australia	(1.21)	(0.15)	OW
Brambles	(1.10)	(0.17)	OW
Tabcorp Holdings	(0.23)	(0.23)	OW
CSL	9.58	(0.25)	UW
AMP	(19.04)	(1.05)	OW
Total of top 5 Detractors		(1.85)	

Note: Position at month-end, which may be different to the position during the month.

Portfolio Positioning

Active Positions by Industry Group (%)

Top 5 Overweights		Top 5 Underweights	
Insurance	9.40	Real Estate	(7.87)
Energy	7.69	Pharmaceuticals, Biotechnology & Life Sciences	(4.95)
Consumer Services	3.09	Materials	(4.57)
Commerical & Professional Services	2.03	Transportation	(4.26)
Food & Staples Retailing	1.96	Banks	(3.64)

Active Positions by Stock (%)

Top 5 Overweights		Top 5 Underweights	
Insurance Australia	5.95	National Australia Bank	(4.90)
Tabcorp Holdings	5.64	CSL	(4.80)
Suncorp	5.09	Macquarie	(2.14)
Oil Search	5.07	Woodside Petroleum	(1.88)
James Hardie Industries	4.62	Transurban	(1.60)

Note: Position at month-end, which may be different to the position during the month.

Market Review

The Australian equity market rose strongly in April, rising 3.9% and outperforming global equities despite the ongoing weakness in the Australian dollar. Large caps (up 3.9%) outperformed small caps (up 2.8%), despite the ongoing weakness in the major banks. Earnings Momentum and Growth were the best performing sectors in the month. Value was the worst performing style, despite strongly outperforming in the region. Low Volatility also lagged.

Energy was the best performing sector, up 10.8%, benefiting from the 8.5% increase in the oil price in April. Materials, up 7.6%, were also strong, with base metal prices up 3% and iron ore up 1%. Financials were the worst performing sector, rising 0.2%, with stocks pressured by the Royal Commission. Telecommunication Services, up 2.0%, were also weak.

Outlook & Strategy

The performance of the equity market has been dominated by macroeconomics and policy for some years. The main drivers have been global quantitative easing and Chinese monetary conditions. Participating in the beneficiaries of these extreme, irrational and dangerous actions would require firstly abandoning fundamental valuation processes and secondly consuming large portions of portfolios. Investing in bond proxies requires the assumption that interest rates remain low to support prices and avoid stressing highly leveraged balance sheets. Buying resources assumes producers will continue to make huge returns despite demand being artificially inflated (Chinese overproduction) and supply being too great (historically high inventories). Taking the view that the momentum behind these two themes is too great to confront and simply hedging the portfolio, could consume over one third of the portfolio roughly split evenly between bond proxies and commodities leveraged stocks. Taking a simplistic top down view, these two groups usually move in opposite directions so that underweights to both offset each other, where risk-off environments have seen interest sensitives supported at the expense of leverage and the opposite when sentiment turns.

Our portfolios' positioning from lightly to heavily underweight these themes has developed over the years as overvaluation and fundamental supply and demand risks worsened. Arguing bond proxies and resource stocks are attractively valued even if interest rates and Chinese monetary conditions normalize is folly. While stock selections opportunities exist intra any industry or thematic, these groups in their entirety are each artificially supported by a single unsustainable factor. There is no fundamental valuation case otherwise. The challenge for benchmark aware portfolios is how much to allocate to stocks we have minimal conviction in from a risk adjusted valuation perspective. Our current view is very little.

Underweights to these themes are driven by weak theses for stocks in those spaces, and strong conviction in other businesses. The overweight positions are in companies operating across disparate industries covering general insurance, gaming, IT, energy, wealth management and building materials. Each are leaders in their respective sectors, where niche fundamental economic risks are biased to the upside and stocks are either oversold on extrapolation of unsustainable headwinds or with specific strategies for driving performance.

Our top dozen stock specific positions have added substantial value since last August. This has occurred as macro themes have approached exhaustion and company valuations and theses have gained attention. As always we welcome such environments as they highlight stock selection and not retrospective reverse engineering of momentum stories. We believe this unique combination of holdings is in the early stages of a multi-year free cash flow growth period (only towards sustainable mid-cycle levels) which is neither forecast by consensus or factored into share prices. Our process and team have identified these stocks across a range of industries (mentioned above) and styles, will deliver significant alpha regardless of the risks in the surrounding environment, and are funded by material active underweights to overvalued momentum stories.

Model changes during the month

Stock	Change (%)	New Active (%)
NIL	NIL	NIL



UBS Asset Management (Australia) Ltd
Chifley Tower
Level 16
2 Chifley Square
Sydney NSW 2000

Tel +61-2-9324-2000
Fax +61-2-9324-3245
www.ubs.com

UBS Asset Management (Australia) Ltd (ABN 31 003 146 290) (AFS Licence No. 222605) is a subsidiary of UBS Group AG. This material provides general information only and has been prepared by UBS Asset Management (Australia) Ltd without taking into account your objectives, financial situation or needs. No representation or warranty, either express or implied is provided in relation to the accuracy, completeness, or reliability of the information contained herein. The information in relation to model portfolios including performance figures may not reflect your actual portfolio as the implementation of recommended model trades and holdings is beyond the responsibility of UBS and may differ due to timing differences or other considerations by others.

This material does not constitute an offer or recommendation to buy or sell any securities or financial products, or to conclude any legal act of any kind whatsoever. Any opinions or forecasts expressed in this material are subject to change without notice and may differ or be contrary to opinions or forecasts expressed by other business areas or divisions of UBS Group AG or its affiliates ("UBS") as a result of using different assumptions and criteria. UBS is under no obligation to update or keep current the information contained herein. UBS specifically prohibits the redistribution or reproduction of this material in whole or in part without the prior written permission of UBS.

Neither UBS Group AG nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this material. Your investment does not represent deposits or other liabilities of UBS, and is subject to investment risk, including loss of capital invested.

© UBS Group AG 2018. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved.