

ARNHEM AUSTRALIAN EQUITY FUND

INVESTMENT REPORT – JULY 2018

FUND SIZE

AS AT 31 JULY 2018: **\$115.1 MILLION**

PERFORMANCE

	Fund Gross	Fund Net	Benchmark
1 month %	1.23	1.16	1.39
3 months %	5.74	5.52	5.84
FYTD %	1.23	1.16	1.39
1 year %	14.84	13.87	14.59
3 years % p.a.	5.57	4.67	7.98
5 years % p.a.	7.37	6.46	9.17
Since Inception % p.a. (Inception: 31 Aug 00)	9.02	8.13	8.19

Source: BNP Paribas Securities Services

Ongoing fee measure is capped at 0.85% p.a. (inclusive of RITC and GST)

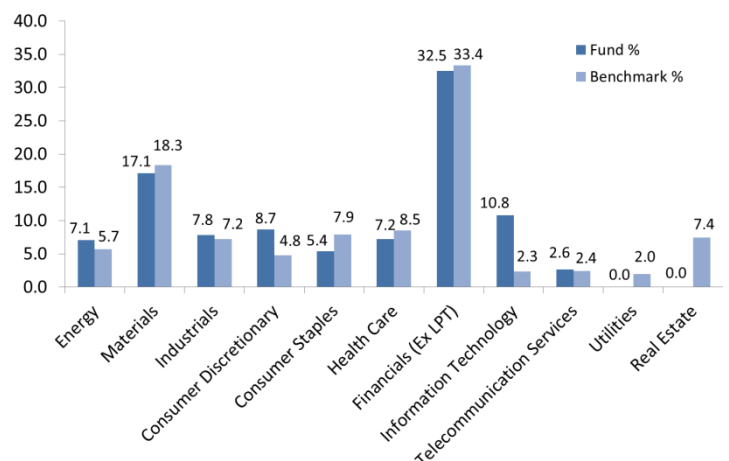
Benchmark: S&P/ASX 200 Accumulation Index

The value of investments can go up and down. Past performance is not necessarily indicative of future performance.

TOP 10 HOLDINGS

SECURITY	SECTOR	FUND
Westpac Banking Corp	Financials (Ex LPT)	8.49%
BHP Billiton Ltd	Materials	7.64%
Commonwealth Bank Australia	Financials (Ex LPT)	6.46%
National Australia Bank Ltd	Financials (Ex LPT)	5.71%
Wesfarmers Ltd	Consumer Staples	5.37%
Macquarie Group Ltd	Financials (Ex LPT)	4.33%
Cochlear Ltd	Health Care	3.94%
Aristocrat Leisure Ltd	Consumer Discretionary	3.74%
ANZ Banking Group	Financials (Ex LPT)	3.61%
Rio Tinto Ltd	Materials	3.44%
		52.72%

SECTOR ALLOCATION



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COMMENTARY

MONTHLY MARKET REVIEW

Globally, the U.S economy advanced an annualized 4.1% in the second quarter of 2018, well above an upwardly revised 2.2% expansion in the previous period. It is the strongest growth rate since the third quarter of 2014 amid higher consumer spending and soybean exports. The University of Michigan's consumer sentiment for the U.S came in at a six-month low of 97.9 in July 2018, above the preliminary reading of 97.1 and little-changed from June's 98.2. Elsewhere, the Chinese economy advanced 6.7% year-on-year in the second quarter of 2018, the weakest pace of expansion since the third quarter of 2016. The Eurozone economy grew 0.3% quarter on quarter in the three months to June 2018, following a 0.4% expansion in the previous period. It was the weakest growth rate since the second quarter of 2016.

Domestically, Australian economic news remains largely positive. Consumer price inflation rose to 2.1% year-on-year in the second quarter of 2018 from 1.9% in the previous period, but slightly below market expectations of 2.2%. The unemployment rate stood at 5.4% in June of 2018, the same as in the prior month, whilst the jobless rate remained at the lowest level since last November. The Reserve Bank of Australia left the cash rate unchanged at a record low of 1.5% at its July meeting, as widely expected, citing sluggishness in inflation and wages, high household debt and the risk to global growth from trade policy in the U.S.

Locally, the ASX 200 accumulation index rose 3.54% in the month of July, outperforming the MSCI accumulation index which increased 3.08%. The US S&P 500 rose 3.54% and was the best performing of the developed markets in July. The best performing sectors for the month were telecommunications (+7.6%), capital goods (+7.5%) and industrials (+3.4%). The worst performing sectors were gold (-6.6%), automotive (-4.4%) and media (-1.9%).

In company news, Nine Entertainment and Fairfax announced a merger valuing Fairfax at \$2.16 billion, a 21% premium to Fairfax's closing price. Although Nine's share price fell 10% on the day of the announcement, lowering the effective premium. BHP Billiton announced the sale of its U.S shale oil and gas assets for US\$10.8bn. Wesfarmers presented on the spin-off of its Coles business and said it would retain a 15% shareholding. They also announced the Board composition of Coles. Ramsay Healthcare announced an A\$1bn takeover offer for Capio, a European Hospital operator.

FUND REVIEW

The largest contributors to the portfolio's relative performance over the month were **MYO** (+8.3%), **TAH** (+4.7%) and **LNK** (+4.8%). The biggest detractors were **CAR** (-7.8%), **JHX** (-5.2%) and **TLS** (+8.4%). The portfolio was overweight **TAH**, **CAR**, **LNK**, **JHX** and **MYO** while underweight **TLS**.

Our overweight position in **MYOB Group (MYO)** outperformed the market and contributed to performance. The share price recovered from a downgrade associated with the previous month's increased capital expenditure program. The company enunciated a strategy to accelerate product development and marketing to regain market

share. Given its attractive growth profile and cheap relative valuation, we retain our overweight position.

Tabcorp Holdings (TAH), an overweight holding, outperformed the market in July and contributed positively to performance. There was no company specific news throughout the month, yet TAH is well positioned to benefit from a range of tailwinds including the Point of Consumption tax introduction along with a range of favourable regulatory outcomes. We remain attracted to the long term defensive industry structure and growth opportunities and retain our overweight position.

After a tumultuous few months, **Link Administration Holdings Limited (LNK)** returned to favour after quantifying the impact of the regulatory changes in June. We contend that LNK is in an enviable industry position and will be a relative winner over time, while the U.K segment should deliver solid growth in the interim. We remain overweight.

Our overweight holding in **Carsales.com (CAR)** detracted from performance by underperforming the broader market over the month. Management announced that the company had finalised a new debt facility of \$545m to be used to support the acquisition of the 50.1% of SK Encar, which it did not already own. The debt facility will also provide funding for future acquisition opportunities and working capital. Over recent years, CAR has made several acquisitions, however, the SK Encar acquisition is the most significant. This is because it has the potential to meaningfully diversify the business out of Australia. It is vital that this acquisition is successful and the market will be hesitant about further acquisitions before success has been demonstrated in Korea. We retain our CAR holding.

Our overweight position in **James Hardie Industries PLC (JHX)** detracted from performance as the stock fell 5% over the month, after a solid 15% rally year to date. There was little corporate news apart from the company announcing a new reporting structure that will include its new European building products division. A recent presentation by JHX executives also emphasised the growth ambitions the company has for its enlarged European business. We maintain our overweight holding in JHX.

Our underweight position in **Telstra Corporation Limited (TLS)** contributed negatively to performance during the month as the stock outperformed the market. After the company announced another disappointing market update in June, the stock bounced back on a reshuffle of the management team. While the NBN income streams are temporarily propping up revenue, the underlying business is going backwards. The imminent launch of TPG in mobile will not help this trend, as mobile is the dominant profit contributor for TLS. We believe that these risks are not priced in to the current valuation and retain our underweight position.

DISCLOSURE

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