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Model Portfolio Update

Discovery Resources Model (DI0003)

SEP 2018

Market Overview

The S&P/ASX200 Accumulation Index posted a small gain (+1.5%) for the third quarter, most of it recorded in July. The monthly run of outperformance for Australian equities came to an end as the market declined in September. In global equities, trends diverged as the US market continued to make progress whilst many international and emerging markets lost ground. A duller earnings outlook and looming political risks created less enthusiasm about Europe, while Japanese equities lacked a clear catalyst to propel performance. Investors also had concerns that a trade war could do serious damage by disrupting global supply chains, with investors also worried by US sanctions against Iran, tensions with Turkey, and Italian politics.

Once again the RBA decided to hold the cash rate at 1.5%. Weak core inflation outcomes and tight financial conditions suggested that inflation would not recover to target within a reasonable timeframe. Though based on the most recent GDP data, the economy delivered above-trend growth. Labour market data showed the unemployment rate remained low at 5.3%, whilst domestic wage growth remained muted at +2.1%. The central bank was less concerned on housing or the recent rise in mortgage rates. The Australian dollar fell heavily against most major currencies as it depreciated to a more than two-year low to US71.0c as fears over an escalation in the trade conflict between the United States and China dominated concerns.

The Communication Services sector (+15.2%) was the best performing sector for the quarter, mainly from contribution by telecommunication network companies. Information Technology (+12.8%) also performed well, predominantly through a few payment and software companies. The Utilities sector (-5.7%) was the worst performing sector for the quarter as it was pulled down by power and electricity firms. Other sectors that fell included Materials (-2.8%) and Consumer Staples (-2.2%).

The S&P/ASX200 Resources Accumulation Index saw gains in oil companies offset by falls in miners. Oil companies continued to perform well; Beach Energy (+21.9%) continued to do well, as did Santos (+15.8%) and Woodside Petroleum (+8.8%). Refinery and retail did not fare as well, Origin Australia (-17.6%), Caltex Australia (-8.1%), and Viva Energy Group (-4.6%) all lower. Of the miners some of the larger diversifieds did well, such as South32 (+8.6%), BHP Billiton (+2.1%), though Rio Tinto (-5.6%) was lower. The fall in gold prices resulted in gold miners all struggling, with the exception of Northern Star Resources (+14.3%); the rest of the sector saw falls by St Barbara (-27.7%), Regis Resources (-27.3%), Evolution Mining (-24.5%) and Newcrest Mining (-11.0%) amongst others. Other notables included falls in Sims Metal Management (-21.3%), Fortescue Metals Group (-10.7%) with Lynas Corporation (-31.8%) the worst performer in the sector.

Performance as at 30 September 2018

	Gross %
1 Month	4.57%
3 Months	2.50%
6 Months	18.85%
1 Year	29.75%
2 Years (pa)	21.99%
3 Years (pa)	18.32%
5 Years (pa)	4.75%
Since inception (pa)*	4.94%

* Model performance inception date: 31/10/2006.
Past performance is no indicator of future performance. Long term performance returns show the potential volatility of returns over time. The value of investments and the income from them can fall as well as rise and is not guaranteed. You may not get back the amount originally invested. Fluctuation may be particularly marked in the case of a higher volatility Model and the value of an investment may fall suddenly and substantially. Model portfolio composition and performance have been based on theoretical tracking of the model portfolio and are gross of fees and do not take tax positions into account. Please note, actual portfolios may not perform in the same manner as the model depicted in this document, depending on the nature of your personal portfolio and any customisations. Rounding used in the presentation of data may result in minor variations.

Summary

Model Portfolio Name	Discovery Resources Model
Model Code	DI0003
Model inception date	18/10/2006
Principal investment objective	To track the performance of the top 25 listed stocks, ranked by their weight in their respective sector, when the Energy and Materials sectors of the S&P/ASX 200 Accumulation Index are combined
Can derivatives be used?	No
Indicative number of stocks	20 – 30
Minimum Model investment	No fixed minimum*
Model Provider's Fees*	
Investment Fee	0.40% p.a.
Performance Fee applicable?	No

* Please refer to the Product Disclosure Statement for further details.

About the Model Portfolios

Investment objective

The Discovery Resources Model Portfolio (the "Model") aims to track the performance of the top 25 stocks, ranked by their weight in their respective sector, when the Energy and Materials sectors of the S&P/ASX 200 Accumulation Index are combined.

Investment strategy

The investment objective of the Model is pursued by investing in a basket of securities listed on the ASX whose businesses are predominantly involved with the following activities: the construction or provision of oil rigs, drilling equipment and/or transportation of oil and gas products, coal and other consumable fuels and other energy related service and equipment, including seismic data collection; or, companies engaged in exploration, production, marketing and refining.

The Model will also invest in companies that manufacture chemicals, construction materials, glass, paper, forest products and related packaging products and metals, minerals and mining companies, including producers of steel.

Designed for investors who...

- Seek exposure to the energy and material sectors of the ASX
- Are satisfied with market returns
- Accept the risk of significant price fluctuations.