MT EQUITY INCOME SMA

Fund Update
March Q 2018

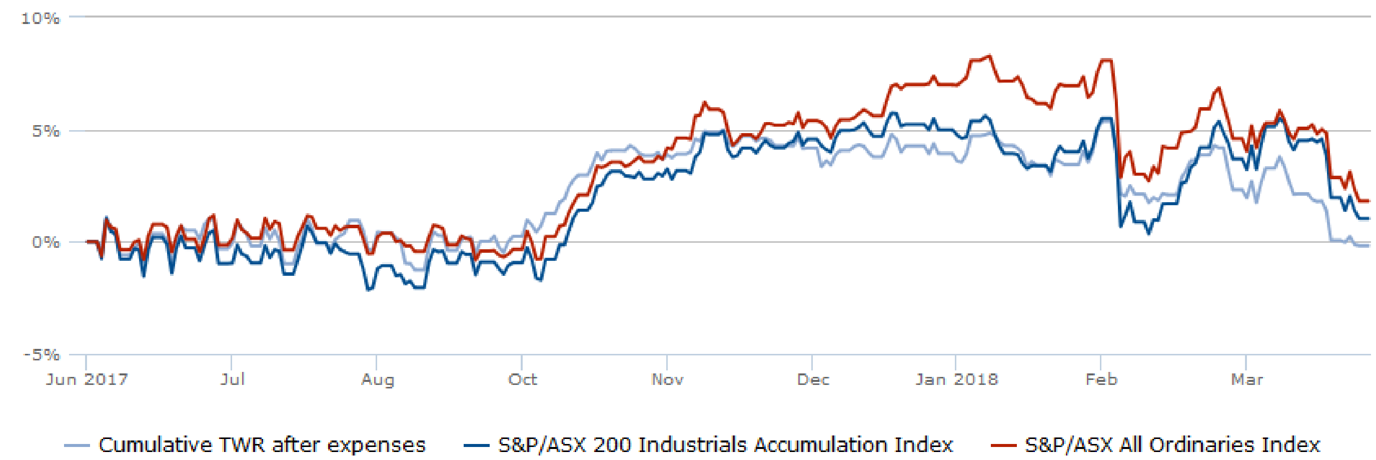
FUND DESCRIPTION

Investment Objective	To provide a high level of regular tax-effective income, combined with compeitive capital growth over the medium to long term, by investing in a portfolio of Australian equities	Number of Stocks	Up to 50
Portfolio Manager	Marcus Padley	Cash Limit	Up to 100%
Benchmark	S&P/ASX 200 Industrials Accumulation Index	Minimum Investment	$50,000
Inception Date	29 July 2016	Min Regular Investment	No minimum
Managment Fees	0.75% pa		
Administration Fees	0.37%pa for first $250,000 (See Fact Sheet for more information)		
Performance Fee	10% of performance in excess of benchmark		

PORTFOLIO PERFORMANCE

Periods to 31 March 2018	1 mth	3 mths	6 mths	1 yr	Since inception p.a.
Portfolio return after expenses (TWR)	**-4.2%**	**-3.95%**	**-0.42%**	**-1.04%**	**3.04%**
S&P/ASX 200 Industrials Accumulation Index	-3.64%	-3.76%	1.98%	-0.39%	4.4%
S&P/ASX All Ordinaries Index	-4.06%	-4.84%	2.16%	-0.59%	2.44%

Cumulative returns over time



MARCUS TODAY INCOME SMA REPORT MARCH Q 2018

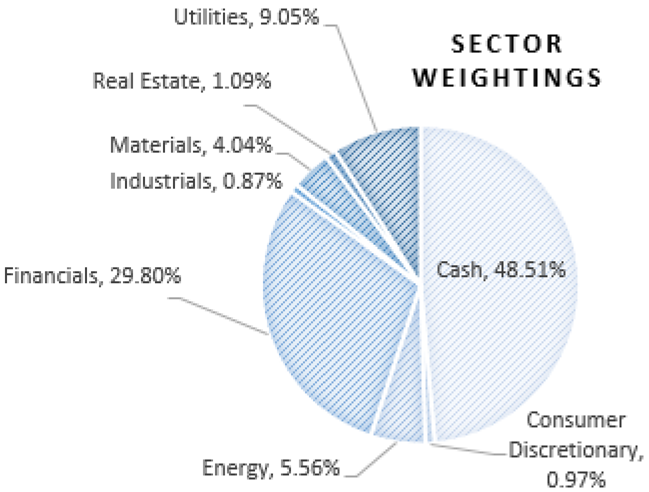
The Marcus Today Income SMA continues to track the rather uninspiring ASX 200 industrials accumulation index. In the last quarter the portfolio has dropped by 3.95% compared to the benchmark down 3.76%. Since inception the portfolio is up 3.04% compared to the benchmark up 4.4%. If you include franking the Marcus Today Income SMA is up 5.11% since inception.

It is an uninspiring performance by both the portfolio and the benchmark and has been caused of course by the rather tiresome underperformance of the major Australian income stocks, namely the big four banks and Telstra. The Commonwealth Bank in particular accounts for 10% of the ASX 200 industrials index and we have been matching that weighting as well as the Telstra weighting in the portfolio. As such we have become victim to the bank sector underperformance which has not been good as shown by the red chart of the relative performance of the bank sector against the ASX 200 above. This relative performance obviously hasn't been helped by a 20% rally in the resources sector in the last year which does not form part of the benchmark.

Concerned by this lack of performance we allowed both the CBA and Telstra to report results and go ex-dividend in February, and, having held them for more than 45 days as required by the 45 day rule in order to qualify for the franking, we took the decision to exit these stocks, both of which remained in downtrend. It has been a refreshing change of approach which gives us the ability to now look for income in stocks that offer more chance of a capital gain as well as a fully franked dividend.

At the same time "the market" had begun to concern us and, as we bit the bullet and sold the CBA and TLS, running our cash levels up to 48%, we decided, and continue to believe, that there is no rush to replace them. We are now in the powerful position of holding a lot of cash while we choose our replacement stocks and while we wait for the market risk to dissipate.

The most obvious income strategy at the moment is deciding whether to buy the other three major banks ahead of their results and dividends in early May, but while the Royal Commission continues the sector performance gives us no reason to take up that opportunity yet.



One of the beauties of the SMA structure is that we can, and will, hold 100% cash if we feel it is appropriate. Large managed funds simply can't and won't do that (their mandate does not allow them to). Instead they will remain fully invested in all circumstances relying on "relative" performance rather than actual performance.

While that is fine for their marketing purposes, it is not great for their clients. We have a rather demanding accumulation index benchmark, but rather than focus on that, I consider our job, through the Marcus Today Income SMA, is to produce actual rather than relative total returns. After all, it is real money invested in the SMA, owned by real people, including the many Marcus Today members as well as the Marcus Today owners. This is not a marketing game this is real life and it is the total return not the relative return that matters.

Our process of managing market risk through the cash weighting presents itself as a rather aggressive approach in traditional "portfolio" management circles, 48% cash would scare many fund managers, but if there is anything aggressive about it, it is that we are aggressively protecting money rather than aggressively taking risk, and we make no excuses for it.

We stand prepared to run the cash weighting up or down from here on a daily basis. We live in volatile times and after an extraordinary 58% rise in the US market in two years, must be prepared to react in quick time from these levels if necessary.

The bottom line is that this has been a Quarter dominated by market risk rather than stock selection and we await the moment to re-enter the market with a stable of stocks that offers us the chance of a capital performance on top of the dividend, rather than simply holding high yield stocks because that's what you are supposed to do.

CONTACT DETAILS

Website: www.marcustoday.com.au **Email**: sma@marcustoday.com.au **Phone**: 0428 062 327