

Shaw SMA - Australian Equities - Large Cap Core

Shaw and Partners Portfolio Strategies

Monthly Review – November 2018

Top 5 Holdings

ASX Code	Security	Alloc: 41.77%
BHP	BHP Billiton	10.84%
CBA	Commonwealth Bank	9.66%
WBC	Westpac Banking Corp	7.98%
NAB	National Aust. Bank	7.18%
MQG	Macquarie Group	6.11%

Portfolio TWR Returns

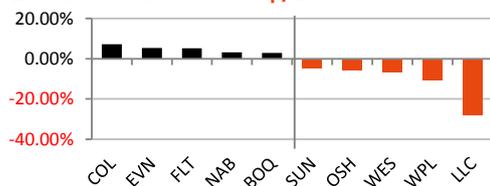
Return	1 Mth	3 Mth	6 Mth	1yr	Incep.*
Total Portfolio	-1.75%	-7.69%	-4.55%	0.69%	9.53%
Benchmark	-2.40%	-9.18%	-3.33%	-0.95%	6.59%
Difference	0.64%	1.48%	-1.22%	1.64%	2.94%

*Annualised. Performance Period: 13-May-16 to 30-Nov-18

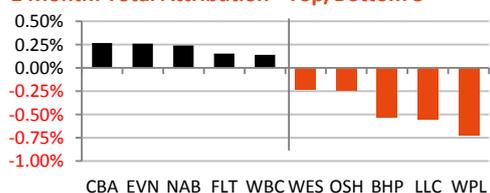
Portfolio Attribution - 1 month

Income Attribution	0.94%
Capital Attribution	-2.69%

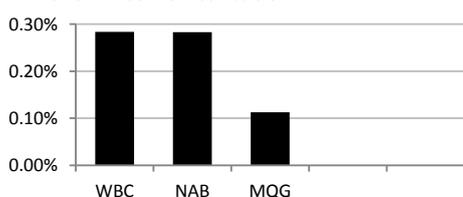
1 Month: Total Return - Top/Bottom 5



1 Month: Total Attribution - Top/Bottom 5



1 Month: Income Attribution



Market Weights

GICS Sector	SMA	Index	Relative
Financials	37%	33.9%	+3.0%
Materials	28%	17.3%	+10.2%
Energy	14%	5.2%	+9.3%
REITs	13%	7.2%	+5.3%
Consumer Staples	3%	5.3%	-2.0%
Consumer Discretionary	3%	5.8%	-3.0%
Industrials	0.0%	8.4%	-8.4%
Health Care	0.0%	9.6%	-9.6%
Information Technology	0.0%	0.9%	-0.9%
Telecommunication Services	0.0%	3.8%	-3.8%
Utilities	0.0%	2.2%	-2.2%
Cash	2.4%	0.0%	2.4%
Total	100.0%	100%	

Portfolio valuation as at 01 Nov 2018 for GICS reference

* Returns are gross of franking credits

Portfolio Details

Portfolio Name:	Shaw Australian Equity - Large Cap Core Portfolio
Portfolio Inception Date:	15-May-16
SMA Model code:	SP0001
Indicative # of securities:	15-25
Portfolio Return Objective:	S&P/ASX 100 Accumulation Index
Shaw Model Manager:	Martin Crabb

Investment Objectives

The objective of the Shaw Australian Equity (Large Cap) Core Portfolio is to provide regular income, capital appreciation and out performance of the S&P/ASX 100 Accumulation Index over the medium term (3–5 years) through investment in large cap shares listed in Australia.

Investment Strategy

Shaw's and Partners' Investment Process combines quantitative and qualitative criteria and analysis to identify stocks likely to produce above average earnings growth with positive valuation characteristics.

The portfolio construction is based on macro-economic and thematic views of Shaw and Partners' Research in order to best meet the risk and return objectives of the investment strategy. Continual assessment and risk management of bottom-up and top-down parameters is a core component of the Model. Changes to the portfolio will be made as deemed appropriate by the investment team in order for the portfolio to have a high probability of meeting its objectives.

Portfolio Highlights

- Australian share markets were weak again in November, with the S&P/ASX 100 index falling 2.40% including dividends. Our large cap model portfolio fared better, but still fell, returning -1.75%, 0.65% above the index. Our position in gold, and particularly Evolution Mining (EVN) has fared us well, but we see less need for Gold stocks given the recent Fed statements and think gold stocks are looking a bit stretched on valuation.
- Our portfolio remains positioned for the "late cycle trade". We remain overweight Materials and Energy, however less so following the sale of EVN. Recent statements by Fed Governors do hint at a less hawkish Fed, which may abate short term fears about growth and lead to an extended period of economic growth. China and the United States agreeing to a pause on tariff escalation for 90 days and commitments by China to close the trade gap will be welcomed by jittery markets.
- The sell-off in Financial Services stocks on the back of weaker house prices, rising corporate borrowing costs and the Royal commission has seen value emerge in this sector and makes it a logical home for the Gold stock sales proceeds. We equally favour three of the top four banks, liking ANZ Bank (ANZ) the least and like BOQ and Suncorp as well so they all get a top up. This stakes us to 6.6% overweight the banking sector.
- We sold all of our Coles (COL) allocation on day one, believing Wesfarmers (WES) to be a better business without it. We added the proceeds to WES. We top up LendLease (LLC) to a minimum portfolio weight of 2.0%. The Property Index has bifurcated in to those stocks with residential or construction businesses and those that don't and now is a good the time to take advantage of the valuation spread between the two.
- 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.

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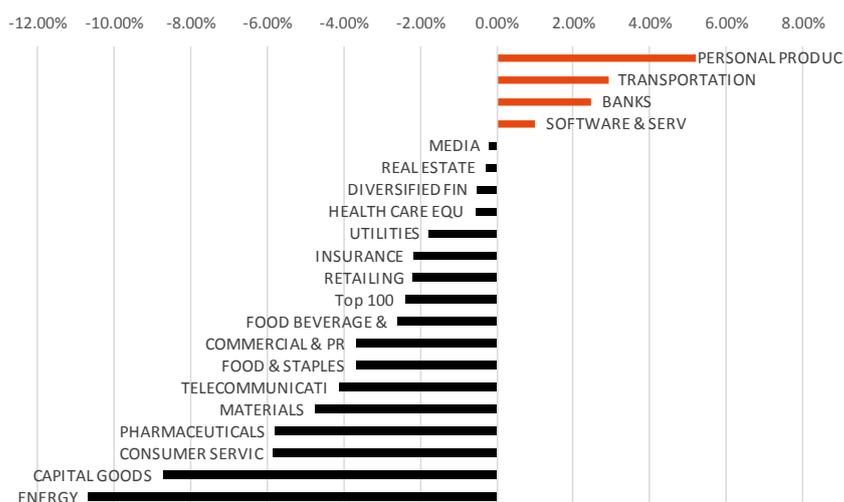
Portfolio Performance

The Large Cap Core Portfolio is designed to provide investors with an exposure to Australian equity markets with the added value derived from the Shaw and Partners research platform. Since inception in 2011, the model portfolio has consistently outperformed the index. During November, equity markets were once again challenged and the sector positioning of our portfolio was not weighted appropriately. As such, the sector bets cost the portfolio around 75 basis points against the performance of an index portfolio. Specifically, being overweight the Energy sector cost 79 basis points, and overweight the Materials sector cost another 24 basis points. Offsetting this was the overweight to REITs and Banks which collectively added back 25 basis points.

Stock selection decisions more than made up for the sector bets, however and the overall portfolio improved 65 bps against the index, implying 140 bps of stock selection. The biggest financial contributors to the portfolio – including the value of fully-franked dividends – were Commonwealth Bank (CBA) which added 27bps, Evolution Mining (EVN) which added 27 bps, National Australia Bank (NAB), Westpac Bank (WBC) and Flight Centre (FLT) which added 25, 14 and 16bps respectively.

Dividend yield, whilst not a primary focus of this portfolio, has been a primary driver of investment performance. Over the past year, the portfolio has yielded 6.67% gross, and since inception on the 13th of May 2016, the compound annual yield has been 6.60% gross.

Figure 1: Sector Performance – November 2018



Source: Shaw and Partners, FactSet

Portfolio Outlook and Strategy

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