ShawandPartners

Shaw SMA - Australian Equity (Large Cap) Income Portfolio

Shaw and Partners Portfolio Strategies

Monthly Review – November 2018

Top 5 Holdings

ASX Code	Security	Alloc: 45.41%
SSB0026AU	Legg Mason Return Inc Fund	15.48%
TYN0038AU	Nikko AM Aus Share Inc Fund	14.42%
WBC	Westpac Banking Corp	5.80%
NAB	National Aust. Bank	5.68%
RHC	Ramsay Health Care	4.03%

Portfolio TWR Performance

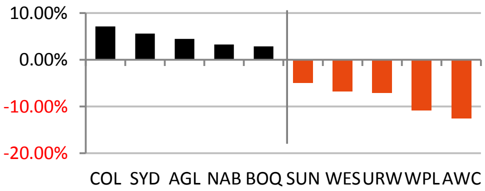
Number of Securities:					20
Return	**1 Mth**	**3 Mth**	**6 Mth**	**1yr**	**Incep.***
Total TWR Portfolio	-1.42%	-8.68%	-3.65%	-2.59%	1.85%
Portfolio Objective	-2.40%	-9.18%	-3.33%	-0.95%	3.38%
Excess vs. Objective	0.98%	0.50%	-0.33%	-1.64%	-1.53%

*Annualised. Performance Period: 06-Sep-17 to 30-Nov-18

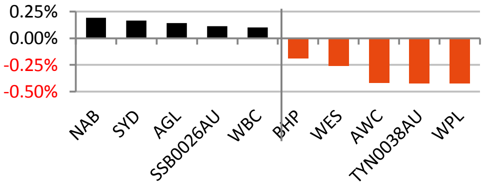
Portfolio Attribution - 1 month

Income Attribution	0.70%
Capital Attribution	-2.11%

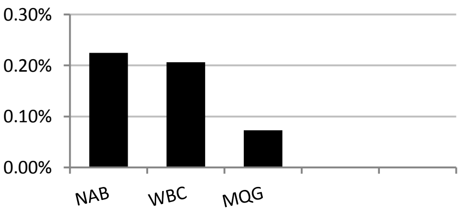
1 Month: Total Return - Top/Bottom 5



1 Month: Total Attribution - Top/Bottom 5



1 Month: Income Attribution



Market Weights

GICS Sector*	SMA	Index	Relative
Financials	38.6%	33.9%	+4.7%
REITs	13.5%	7.2%	+6.2%
Health Care	11.5%	9.6%	+2.0%
Consumer Discretionary	10.8%	5.8%	+5.0%
Materials	10.4%	17.3%	-7.0%
Energy	5.3%	5.2%	+0.1%
Utilities	5.1%	2.2%	+2.9%
Industrials	4.8%	8.4%	-3.6%
Consumer Staples	0.0%	5.3%	-5.3%
Information Technology	0.0%	0.9%	-0.9%
Telecommunication Services	0.0%	3.8%	-3.8%

As at 30 Nov 2018 for GICS reference

**GICs sectors relate only to Listed Equity*

Return is gross of franking credits

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Portfolio Details

Portfolio Name:	Shaw Australian Equity (Large Cap) Income Portfolio
Portfolio Inception Date:	6-Sept-17
SMA Model code:	SP0004
Indicative # of securities:	15-25
Portfolio Return Objective:	S&P/ASX 100 Accumulation Index
Shaw Model Manager:	Martin Crabb

Investment Objectives

The primary objective of the Shaw Australian Equity Income (Large Cap) Portfolio is to provide a regular and sustainable fully franked dividend income stream over the medium term (3–5 years). It achieves this by investing in a portfolio of large-cap Australian listed companies and managed funds. Although the focus is yield generation, the investment process and risk management aims to ensure that risk to capital is minimised with the goal of some capital appreciation via both longer term price appreciation and actively locking in gains as deemed appropriate to the objectives.

Investment Strategy

Shaw's investment process combines quantitative and qualitative criteria and analysis to identify stocks and strategies which have a relatively high dividend paying capability, and are 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. The investment process takes into consideration the risk around companies growing/maintaining their dividend characteristics with the result that this portfolio aims for a higher dividend yield than that of the broader market. The portfolio managers however manage the capital value of the portfolio to minimise the risk of the portfolio failing to achieve its risk and return objectives.

Portfolio Highlights

- The Australian share market was weak again in November, with the benchmark S&P/ASX 100 index falling 2.40%. Our Large Cap income portfolio fared better, but still fell 1.42% over the month, beating the index by 0.98%. The portfolio returns exceed the index over the short term, but still lag over a year and since inception. We maintain approximately 30% of the portfolio invested in managed funds and 70% via directly held securities.

- Following the spin-off of Coles Group (COL) from Wesfarmers (WES), we sold the portfolio's allocation to COL and re-invested the proceeds back into WES. We think COL is due for a large upgrade to its capital expenditure plans as it seeks to catch WOW. Post the month end, we trimmed our position in Ramsay Heathcare (RHC) which has performed well in favour of Unibail-Rodamco-Westfield (URW) which has been weak.

- The fully franked dividend yield of the portfolio has been strong at 7.06% in the past year and 7.00% since inception in September 2017. Franked dividend due from Macquarie Group (MQG), National Australia Bank (NAB) and Westpac (WBC) helped to boost returns in November.

- 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 over-produces, a sharp slowdown in Chinese economic activity, rising corporate borrowing spreads and a falling Australian housing market. Whilst the market will discount some of these scenarios, it has assumed all will end poorly and the emerging evidence is to the contrary. This creates opportunity.

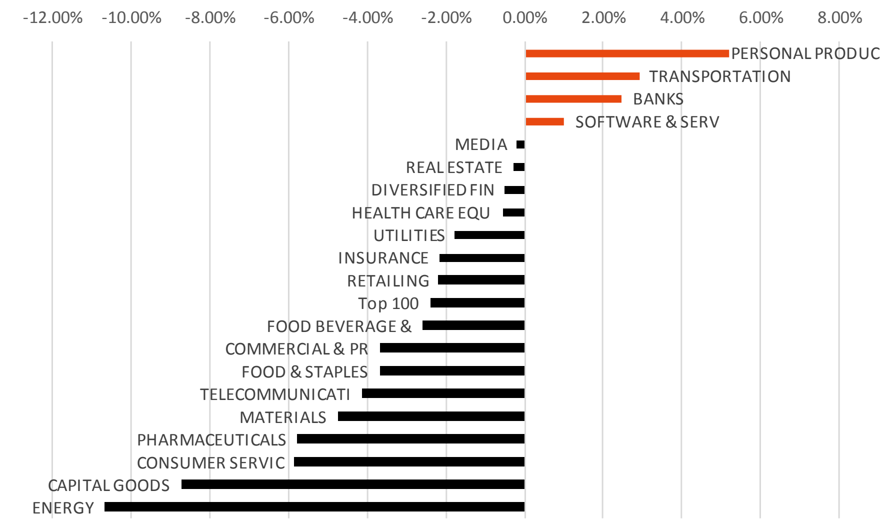
Portfolio Performance

November was once again a challenging month for equity markets, with only four sectors posting gains. Our sector selection, whilst designed to be broadly neutral with an income bias, added 84 basis points to the index return. Being overweight Healthcare added 0.14% and being overweight Real Estate added 0.13%. Being (slightly) underweight the banks cost 0.11% but not owning Pharmaceutical stocks helped to the tune of 0.19%.

The three best performing investments in the month were National Australia Bank (NAB) which added 0.20% to returns, Sydney Airport (SYD) 0.17% and AGL 0.15%. The biggest detractors were Woodside Petroleum (WPL) which detracted 0.44%, the Nikko Australian Share Income Fund which also detracted 0.44% and Alumina (AWC) 0.43%.

Deriving dividend income is the primary return objective of the portfolio which can be owned as a stand-alone strategy or blended with other asset classes to lower return variability. Over the past twelve months, the portfolio has experienced capital losses as the volatility of the market has been high. The income return, however has remained stable at 7.06%, in line with the yield since inception. Based on the current consensus dividend forecast for the stocks in the portfolio (not taking into account yield on managed funds) the grossed-up yield is 8.80% as of December 11th, 2018.

Figure 1: Sector Accumulation Returns: November 2018



Source: Shaw and Partners, FactSet

Portfolio Outlook and Strategy

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 positions into the New Year.

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