Shaw SMA - Australian Equity (Large Cap) Growth Portfolio

Shaw and Partners Portfolio Strategies

Monthly Review – November 2018

Top 5 Holdings

ASX Code	Security	Alloc: 26.92%
RMD	Resmed Inc	5.91%
FMG	Fortescue Metals	5.67%
CSL	CSL Limited	5.16%
ALL	Aristocrat Leisure	5.09%
BHP	BHP Billiton	5.09%

Portfolio TWR Performance

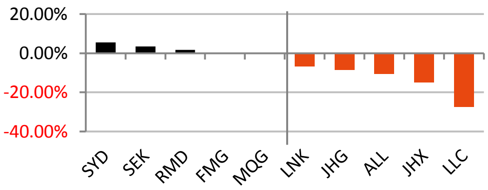
Number of Securities:					20
Return	**1 Mth**	**3 Mth**	**6 Mth**	**1yr**	**Incep.***
Total TWR Portfolio	-4.90%	-14.48%	-7.60%	1.72%	7.73%
Portfolio Objective	-2.40%	-9.18%	-3.33%	-0.95%	3.38%
Excess vs. Objective	-2.51%	-5.31%	-4.27%	2.67%	4.35%

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

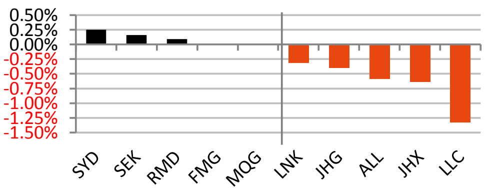
Portfolio Attribution - 1 month

Income Attribution	0.19%
Capital Attribution	-5.03%

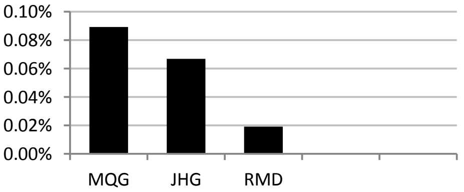
1 Month: Total Return - Top/Bottom 5



1 Month: Total Attribution - Top/Bottom 5



1 Month: Income Attribution



Market Weights

GICS Sector*	SMA	Index	Relative
Materials	20.1%	17.3%	+2.7%
Health Care	16.6%	9.6%	+7.0%
Financials	14.9%	33.9%	-19.0%
Industrials	10.4%	8.4%	+2.0%
Consumer Discretionary	10.1%	5.8%	+4.2%
REITs	9.5%	7.2%	+2.3%
Energy	5.1%	5.2%	-0.1%
Information Technology	4.7%	0.9%	+3.7%
Consumer Staples	4.6%	5.3%	-0.7%
Telecommunication Services	4.1%	3.8%	+0.3%
Utilities	0.0%	2.2%	-2.2%

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) Growth Portfolio
Portfolio Inception Date:	6-Sept-17
SMA Model code:	SP0005
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 (Large Cap) Growth Portfolio is to provide a level of capital appreciation over the longer term (5–7 years). The portfolio is tilted towards stocks that have superior earning growth capacity and focus is on the total return of each stock rather than the dividend income as the prime objective.

Investment Strategy

Shaw's investment process combines quantitative and qualitative criteria and analysis to identify stocks which have a favourable outlook 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 objective.

The investment process takes into consideration the primary objective of capital growth. Although the portfolio will generate income, income focused stocks will be included if their total return criteria fits the portfolios objective.

Portfolio Highlights

- November was another challenging month for equity markets, and growth stocks continued to be sold off as investors sought the safety of the sidelines. Our Large Cap Growth portfolio fell 4.90% for the month, underperforming the S&P/ASX 100 index by 2.51% and taking the underperformance over the past quarter and six months to 5.31% and 4.27% respectively. Over the year and since inception, the portfolio remains above the index. Stocks exposed to housing and construction industry were particularly under pressure during the month.

- Growth stocks, as measured by the MSCI Australia Growth Total Return index, fell 4.80% in the month, in line with the portfolio. Quality stocks – those defined with high Return on Equity, low debt and stable earnings growth also performed poorly, falling 4.36%. Those stocks with the best historical momentum fell 7.7% in November and are down 17.9% over the past three months, illustrating the reversal of many previous high-flying stocks.

- During the month, we took advantage of the sell-off in Lend Lease (LLC) shares by adding to our position. We funded this by trimming our holding in Goodman Group (GMG) after a period of strong relative and absolute performance.

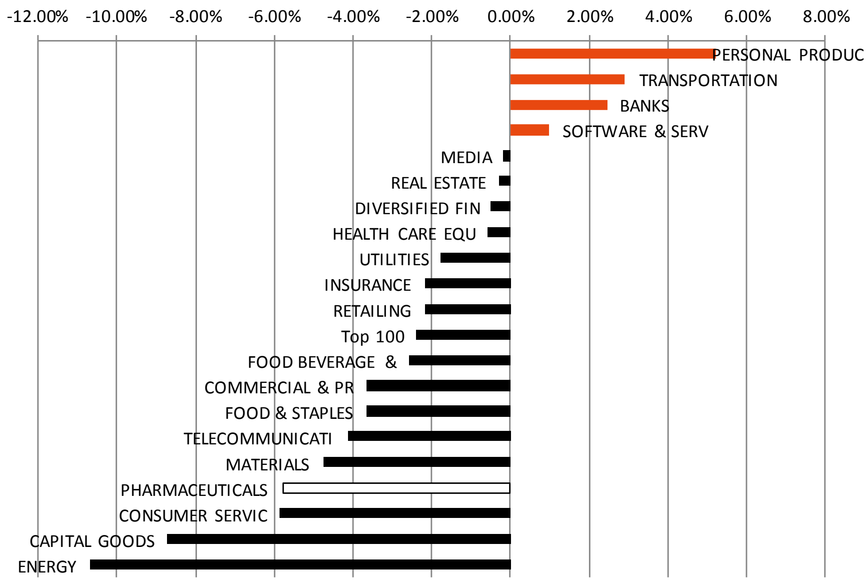
- The stocks in our growth portfolio are selected on their ability to grow profits in excess of the market over a long period of time. The current sell-off in growth stocks has seen valuation multiples come back to very attractive levels and the 12m forward PE of the portfolio is now 18.4x versus an index of 15.3x, but long-term growth is expected to be 9.8% versus index of 5.1%. Over the past year, the portfolio has delivered 3.95% grossed up income.

Portfolio Performance

November was another challenging month for share markets, with the benchmark S&P/ASX 100 index down 2.4% and only four sectors posting gains. The sector allocation of the growth portfolio suffered by being short banks, which cost 119 basis points of relative returns. This, combined with the holding in Lend Lease (LLC) which cost 120 basis points, can explain all of the underperformance against the index in the month. Stocks to do well included Sydney Airport (SYD) which added 0.26% to returns, Seek Limited (SEK) adding 0.17% and Resmed (RMD) adding 0.09%.

The portfolio is designed to hold the twenty best growth franchises amongst the ASX100 whilst maintaining a similar risk profile as the overall market. The portfolio has averaged rolling annual returns since inception of 11.48% with a standard deviation of 6.88%, providing a Sharpe ratio of 1.67x. This compares favourably with our income and core Australian equities portfolio which both have Sharpe ratios over the same time frame of 1.69x.

Figure 1: Sector Performance – 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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