ShawandPartners

Shaw SMA - Australian (Small/Mid-Cap) Growth Portfolio

Shaw and Partners Portfolio Strategies

Monthly Review – November 2018

Top 5 Holdings

ASX Code	Security	Alloc: 55.70%
OPS0002AU	OC Premium Small Companies	20.15%
CSA0131AU	Aberdeen Aus Comp Fund	15.56%
FID0026AU	Fidelity Future Leaders	14.63%
HUO	Huon Aquaculture Group	2.70%
MWY	Midway	2.66%

Portfolio TWR Performance

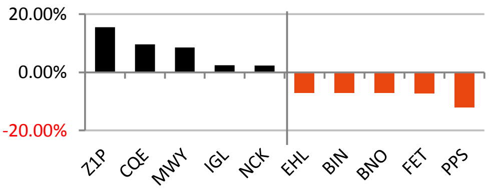
Number of Securities:					22
Return	1 Mth	3 Mth	6 Mth	1yr	Incep.*
Total TWR Portfolio	-0.86%	-11.19%	-7.17%	-2.21%	4.08%
Portfolio Objective	-0.37%	-10.25%	-7.98%	-1.63%	7.67%
Excess vs. Objective	-0.49%	-0.94%	0.80%	-0.57%	-3.58%

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

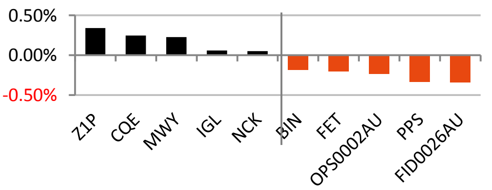
Portfolio Attribution - 1 month

Income Attribution	0.00%
Capital Attribution	-0.86%

1 Month: Total Return - Top/Bottom 5



1 Month: Total Attribution - Top/Bottom 5



Market Weights

GICS Sector*	SMA	Index	Relative
Materials	21.1%	16.6%	+4.5%
REITs	16.3%	10.6%	+5.7%
Financials	16.3%	7.7%	+8.6%
Industrials	10.7%	10.0%	+0.7%
Information Technology	10.5%	10.0%	+0.4%
Health Care	8.7%	7.1%	+1.6%
Consumer Staples	5.9%	7.4%	-1.5%
Telecommunication Services	5.6%	8.6%	-3.0%
Consumer Discretionary	4.9%	12.5%	-7.7%
Utilities	0.0%	0.3%	-0.3%
Energy	0.0%	9.0%	-9.0%

As at 30 Nov 2018 for GICS reference

**GICs sectors relate only to Listed Equity*

**Returns are gross of franking credits*

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Portfolio Details

Portfolio Name:	Shaw Australian Equity (Small/Mid-Cap) Growth Portfolio
Portfolio Inception Date:	6-Sept-17
SMA Model code:	SP0006
Indicative # of securities:	15-30
Portfolio Return Objective:	S&P/ASX Small Ordinaries Accumulation Index
Shaw Model Manager:	Martin Crabb

Investment Objectives

The primary objective of the Shaw Australian Equity (Small and Mid-Cap) Growth Portfolio is to provide a level of capital appreciation over the longer term (5–7 years). The portfolio is tilted towards small and mid-sized 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 relatively high dividend paying capability 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 primary objective of capital growth. It aims to invest in companies where the share price does not fully reflect the potential value of the underlying business of the company.

Portfolio Highlights

- **Small Cap stocks outperformed their larger counterparts in November**, with the S&P/ASX Small Ordinaries Accumulation index down 0.37% versus -2.40% for the S&P/ASX 100 Accumulation index. The Shaw and Partners Small and Mid-cap Portfolio performed slightly below the index, down 0.86%, where stock selection decisions in the software and services sector offset positive sector positions – holding no Energy for example.

- **Our best performer for the month was Zip (Z1P), which rose 15.5% as it continues to gain acceptance amongst merchants**. Although the small cap index was only down 0.37% for November, the average stock in the index fell 1.34% and the spread between the best and worst performer was 102%! The best performing sector was Software and Services, buoyed by technology stocks such as Appen (APX), Megaport (MP1) and Wistech (WTC), all up over 15%. Our portfolio held Praemium (PPS) in this sector which did not follow the sector strength, down 10% as investors downgraded earnings on weaker share markets.

- **The worst performing sector amongst the small cap index was Energy**, following a crude oil price which fell 21.8% over the month. We hold a zero position in the Energy sector due to absence of quality businesses in our investment universe. Pharmaceuticals and Consumer Durables sectors also came under pressure.

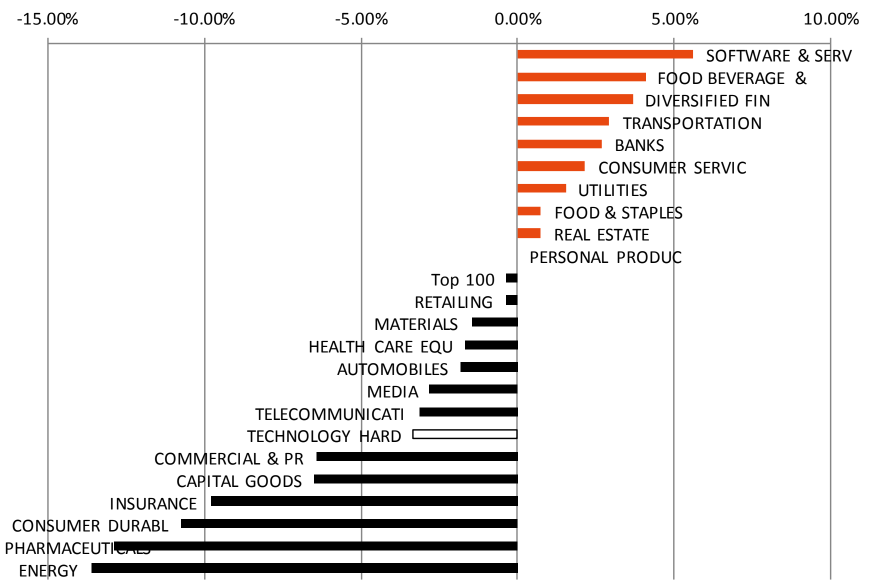
- **We continue to monitor the small cap market for investment opportunities** and continue to use price volatility to reweight portfolios. We added Western Areas (WSA) to the portfolio, trimmed some of our overweights in Real Estate, and added Praemium (PPS) in place of Citadel Group (CGL) which had reached our price objective.

Portfolio Performance

In economic news, the Reserve Bank of Australia increased its average growth forecast for this year and next by 0.25% to 3.5%, which is well ahead of most market forecasts (consensus is for 3.2% this year and 2.8% for 2019). This initially lead to optimism that the Australian economy would ride out a slowdown in housing construction and kept most forecasters suggesting the next move in interest rates would be up. Unemployment remains at 5% and wages are starting to grow off a low base. Capital expenditure surveys suggest a pick-up in investment over the next few years, so all looks fine on the domestic economic front. Global market volatility continues to cloud the outlook for small companies and many investors are sitting on the sidelines.

Sector performance for November highlights the narrow level of leadership of the small cap market, with many sectors down sharply during the month, and more than 16% of small cap stocks falling more than 10%.

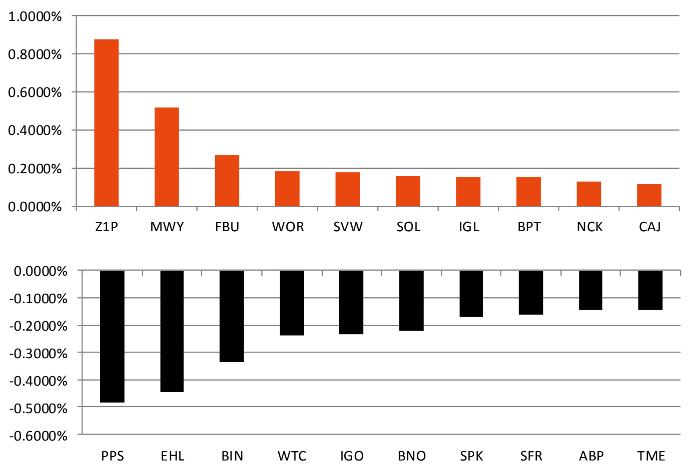
Figure 1: Small Cap Sector Performance – November 2018



Source: Shaw and Partners, FactSet

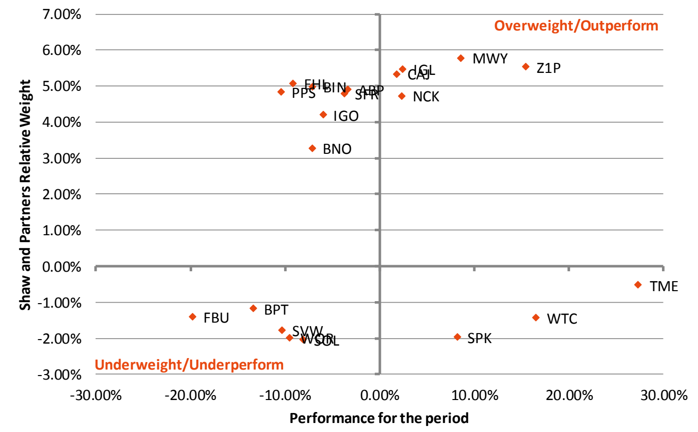
As illustrated in Figures 2 and 3, Z1P, Midway (MWY) – a timber plantation company as well as not owning Fletcher Building (FBU) and Worley Parsons (WOR) made the greatest positive contribution to the portfolio in November.

Figure 2: Portfolio Attribution – Top/Bottom 10



Source: Shaw and Partners, FactSet

Figure 3: Best and Worst Contributors to Relative Performance



Source: Shaw and Partners, FactSet

Portfolio Outlook and Strategy

We continue to see substantial upside potential from the stocks in our portfolio, but we remain vigilant toward managing risk. We have taken on a more pro-growth stance recently by reducing some of our previous large overweight to Real Estate sector, by selling down some positions in Centuria Metropolitan (CMA), Charter Hall Education (CQE) and Centuria Capital (CNI). We continue to hold 50% of the portfolio invested with Aberdeen Standard, Fidelity and OC Funds.

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