

# Wheelhouse Global Equity Income Fund

## Monthly performance update

As at 31 December 2019

### Performance

	1 month	3 months	6 months	1 year	2 year p.a.	Since inception p.a.
Income	1.38%	1.42%	2.95%	8.49%	8.25%	7.36%
Growth	(3.64%)	(1.15%)	2.37%	6.19%	2.70%	1.66%
<b>Total Fund return</b>	<b>(2.25%)</b>	<b>0.27%</b>	<b>5.32%</b>	<b>14.69%</b>	<b>10.94%</b>	<b>9.02%</b>
<b>Benchmark*</b>	<b>(0.86%)</b>	<b>4.25%</b>	<b>9.10%</b>	<b>27.98%</b>	<b>13.98%</b>	<b>12.96%</b>
Income Index**	(1.83%)	2.33%	7.10%	20.79%	11.62%	9.93%

Performance figures are net of fees and expenses. Inception date is 26 May 2017.

\*Benchmark is the MSCI World Index ex Australia.

\*\*The Income Index is used to assess the performance of the Fund over a shorter period than the longer-term investment horizon of the benchmark. It comprises 50% of the Fund's benchmark (the MSCI World Index ex Australia) and 50% of the Put Write Index, an all income index which serves as a proxy for the Fund's income-generated returns.

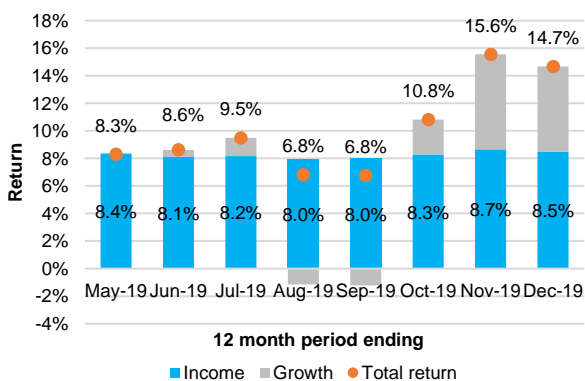
### Monthly performance review

The Fund returned (2.25%) in December, behind the benchmark return of (0.86%). This return comprised:

- A return of 1.57% from the portfolio (in USD); and
- A negative return of (3.82%) from the strengthening of the Australian dollar versus US dollar.

Income distributions were 1.5c for the December quarter, taking the rolling 12-month income return to 8.49%.

### Income vs Total return (12 month rolling)

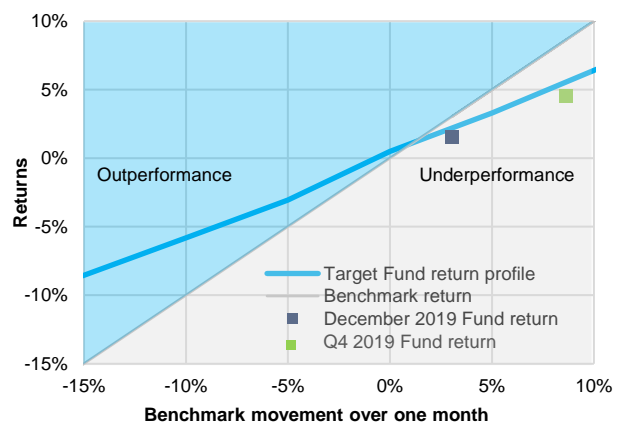


Source: Wheelhouse

### Lower risk returns

The strategy's high-income generation and active downside protection strategy are designed to lower risk and deliver equity returns with a smoother, more retiree-friendly return profile. As a result, returns are expected to add relative value in weak and low-growth markets, and to drag in more positive markets. We assess this targeted return profile in USD to strip out the influence of the AUD/USD currency movements.

### Targeted monthly return profile



Wheelhouse is a retirement solution designed to deliver better investment outcomes to Australian retirees. Our philosophy is based on three pillars:

- investing in global equities as a **growth asset** to address longevity risk;
- shaping returns to be **retiree-friendly** with lower volatility, better capital preservation and consistent income; and
- delivering a **lower cost** solution to help improve outcomes.

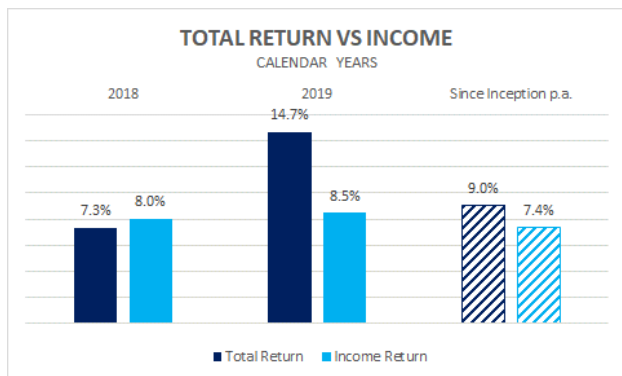
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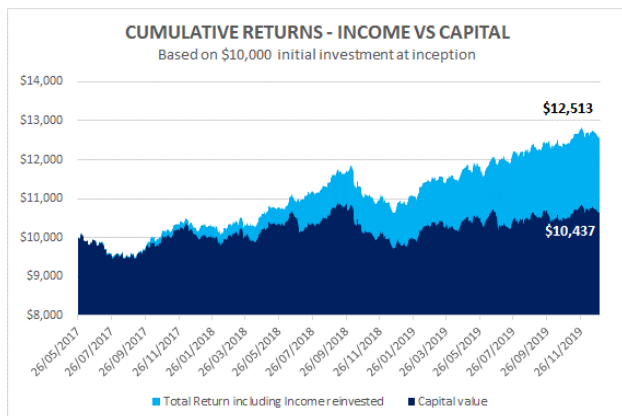
The Wheelhouse Global Equity Income Fund returned 14.69% during 2019, with income the dominant source of return as expected. The income generation of the strategy significantly increases the consistency of equity-like returns, by smoothing performance in both weak and strong years. More consistent returns are more predictable, and thus able to be relied upon with greater certainty for regular income.



Source: Wheelhouse

In the 12 months since December 2018, the fund's relative returns since inception moved from outperformance to underperformance on the back of strong equity markets. Due to the capped but more certain nature of our income generation program this is in line with our expectations of relative underperformance in strong markets with an overall goal of more stable and predictable returns throughout the whole cycle.

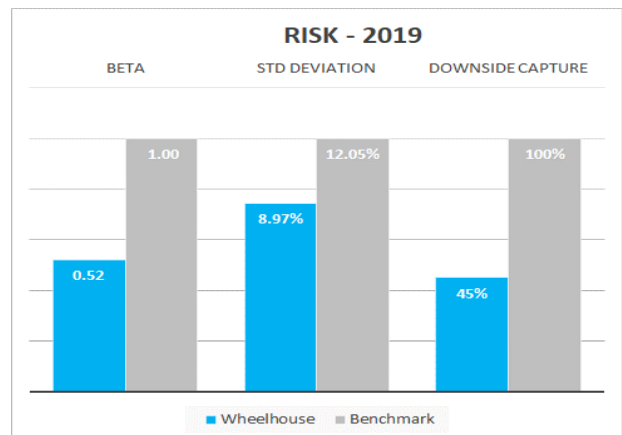
Over time, with a fuller cycle of both weak and strong market conditions, our objective remains to exceed equity returns after fees, with income providing the dominant source of return and the capital base relatively stable and protected.



Source: Wheelhouse

### Risk

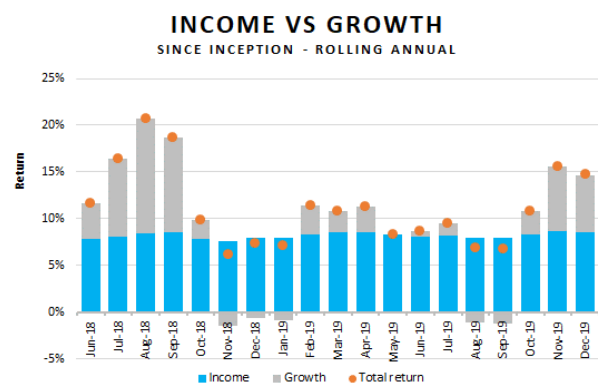
Risk can be measured a number of ways, although principally through market risk (beta), volatility (Standard deviation) or downside capture. Across all measures, the risk of the fund during the year was significantly lower than the broader equity market. For example, the beta of the Fund during 2019 was 0.52, which means the Fund assumed roughly half the risk of the benchmark to generate a 8.5% income return, plus meaningful capital growth.



Source: Morningstar, Wheelhouse

### Income

The Fund's strategy was designed to deliver a consistent, high income distribution of around 7-8%, regardless of market conditions or currency fluctuations. With the income distribution of 1.5c for the December quarter, the rolling annual yield has proven highly consistent and importantly has not come at the expense of eroding the capital base. Distributions are paid quarterly.

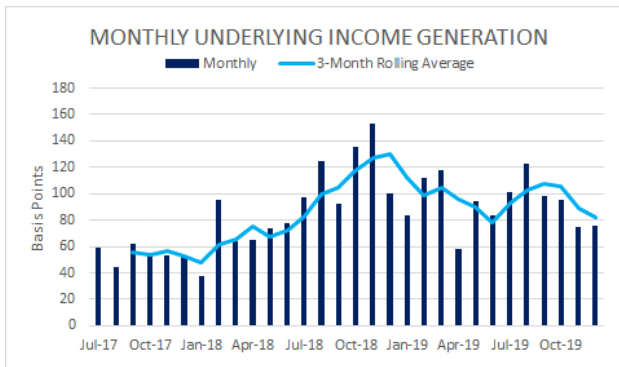


Source: Wheelhouse

An important dynamic for income funds is that the yield needs to be a 'real' yield, that is genuinely generated by the capital base – as opposed to being simply a return of capital.

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At Wheelhouse our yield is primarily generated by systematic overlays that produce consistent 'real' income, and is supplemented by dividends and interest. Total income generation was 11.2% in 2019 and has been broadly consistent with prior periods.



Source: Wheelhouse

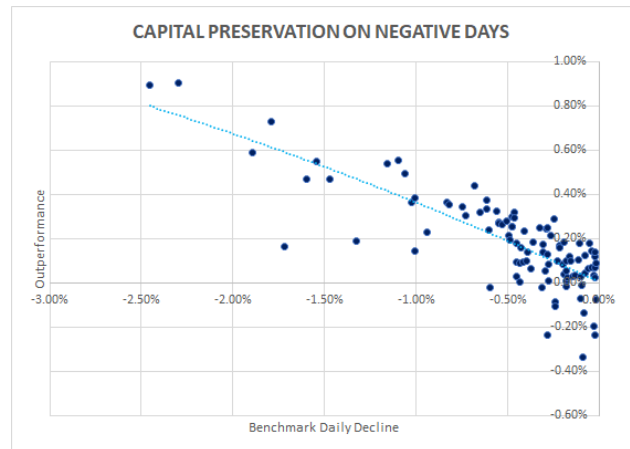
### Capital protection

During 2019 there were only 2 months of negative returns on a USD basis, with downside capture during these months averaging only 45% during these periods.

For income to be reliable and consistent, the capital supporting the yield needs to be protected. We believe this is best achieved by generating a real income return on the capital base, plus adding tailored crash protection for more acute market falls.

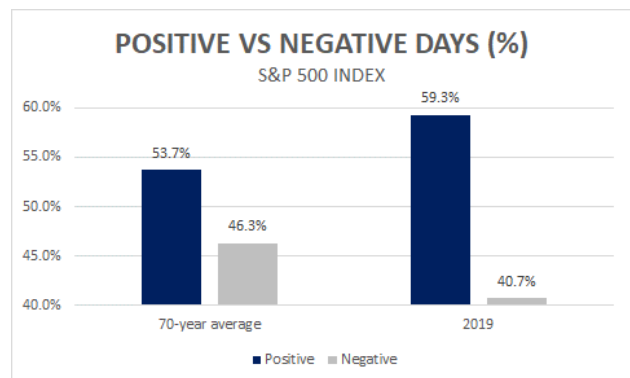
These twin mechanisms (of income generation and active crash protection) are designed to add value over different types of market declines, and across differing time horizons. The consistent income generation assists with slower, more protracted 'grind-down' scenarios, whereas the active 'crash protection' is designed to add value in more acute market falls when the market falls 10% or further in a short space of time.

Both protections are 'always-on' and designed to lower risk across any version of market drawdown where asset prices are going down. This is evident when daily moves are assessed, with the Fund outperforming every single day the decline was greater than 100bps, and 95% of the time when the decline was greater than 25bps (the fund outperformed 87% of the time for every single negative day, which includes very small movements).



Source: Wheelhouse

After a near 30% returning year for the S&P 500 Index, it's not surprising that the frequency of negative days during 2019 was one of the lowest ever recorded. Having always on downside protection may prove more valuable, in a relative sense, over a fuller economic cycle.



Source: Crestmont Research

### Outlook

Twelve months on from the near bear market of December 2018, the S&P500 Index is higher than any of the professional forecasters from the major banks expected. Most forecasters expected the S&P 500 Index to close at around 3000 points, which would have made an approx. 20% gain from the December 2018 close. The S&P500 Index actually closed at 3230.8 points in December 2019 for a 28.9% gain.

While these forecasts are usually to be taken with a grain of salt, the 2019 forecast of ~20% was unusually bullish in its magnitude, with most years the pundits playing it safe and hugging the long-term equity averages of around 10%.

That's why the 2020 consensus forecast of 3350 points, or about 3-4%, is notable also – but for its conservatism. It would be very unusual for estimates to ever suggest market declines (investors need to make their own



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preparations for negative markets!), so this is as bearish a forecast as we can recall.

The reasonings are in general sound, and typically include a variety of concerns regarding economic contraction, peak margins, yield curve inversion, plus a recognition that valuations remain particularly elevated in a prolonged low-interest rate environment.

For our investors, typically retirees, these concerns translate into the very real risks of a richly valued sharemarket (and indeed every other asset class), combined a dearth of genuine income generating opportunities. Our strategy is designed to squarely address these twin concerns. Protecting capital and generating a sustainable 7-8% real return, that is all we do.

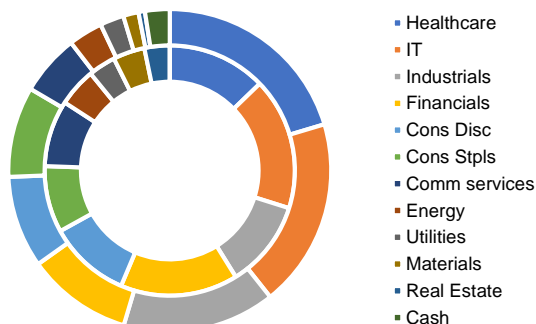


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### Monthly performance update

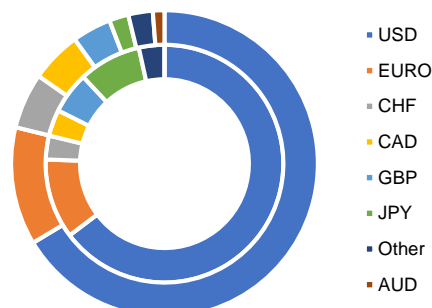
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#### Sector exposure



Outer circles: Wheelhouse  
Inner circles: Benchmark

#### Currency exposure



Contributors	Detractors
Bristol-Myers Squibb	Guidewire Software
Nike	Essilorluxottica
Sanofi	Toronto-Dominion Bank
Canadian Pacific Railway	Unilever
Microchip Technology	Safran

#### How to invest

The Fund is open to investors directly via the PDS, available on our website, or the following platforms.

##### Platforms

Hub24 (Super, IDPS), Netwealth (Wrap, IDPS), Powerwrap (IDPS)

#### Contact us

For more information, call 1800 895 388 or visit [wheelhouse-partners.com](http://wheelhouse-partners.com)

#### Fund at a glance

APIR Code	BFL3446AU
Benchmark	MSCI World Index (ex-Australia)
Stock range	50 to 100 stocks
Buy/sell	+/- 0.30%
Cash limit	0-10%
Recommended investment period	Medium to longer term (five years plus)
Investment amount	Initial investment minimum: \$10,000
Fees and charges	0.79% p.a. (including GST net of reduced input tax credits) of the NAV of the Fund. There is no performance fee.
Inception date	26 May 2017

Note returns are expressed in AUD unless USD is specified, and are net of fees and expenses unless specified as gross.

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