

Wheelhouse Global Equity Income Fund

Monthly performance update

As at 30 September 2018

Performance

	1 month	3 months	6 months	1 year	Since inception p.a.
Income	1.39%	1.48%	5.54%	8.52%	7.22%
Growth	(0.63%)	5.37%	7.02%	10.21%	5.06%
Total Fund return	0.76%	6.85%	12.56%	18.73%	12.28%
Benchmark*	0.55%	7.35%	13.29%	20.82%	14.94%
Income Index**	0.36%	7.00%	14.39%	19.27%	12.93%

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

*Benchmark is the MSCI World Index ex Australia.

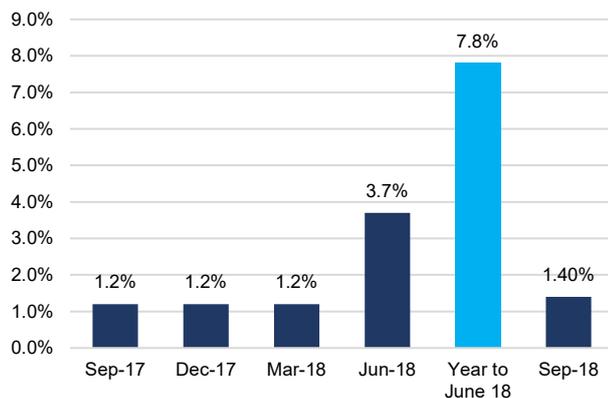
**The Income Index is used to assess the performance of the Fund over a shorter period than the longer-term investment horizon of the benchmark. It comprises 50% of the Fund's benchmark (the MSCI World Index ex Australia) and 50% of the Put Write Index, an all income index which serves as a proxy for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

Monthly performance review

The Fund returned 0.76% in September, ahead of the benchmark return of 0.55%. This return comprised:

- A return of 0.71% from the portfolio (in USD); and
- A positive return of 0.05% from the strengthening of the Australian dollar versus US dollar.

Income return

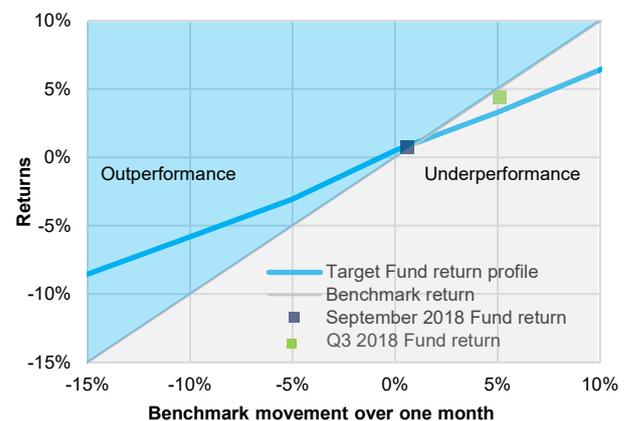


Source: Wheelhouse

Lower risk returns

The strategy's high-income generation and active tail risk program 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 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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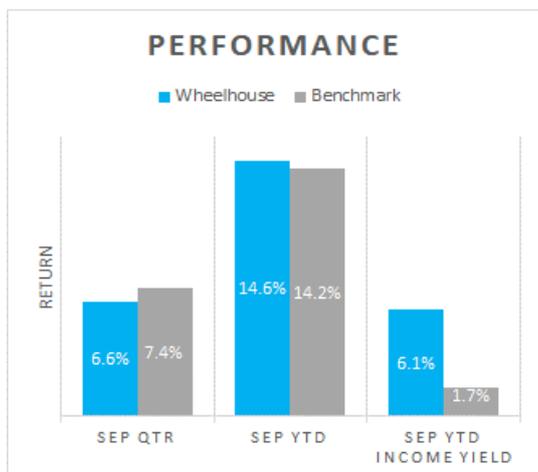
Global markets continued to grind higher during the quarter, with the benchmark in local currencies delivering a healthy 5.4% return for the three-month period. There are a number of tailwinds that supported this growth, including:

- Robust US earnings growth, driven in large part by the Trump tax cuts as they cycle out across the year;
- Continued accommodative monetary policy from the US Federal Reserve; and
- US technology sector outperformance, which continued in the 3Q but at a slower rate.

Unfortunately, all three drivers appear to be slowing. The tax benefits will be 'in the numbers' for 2019, making growth more difficult. The Fed Reserve is likely to continue its tightening bias, and forecast earnings growth for the US tech sector is currently lower than that for the broader S&P500 Index in 2019, which may cause valuations to be questioned.

Added to these slowdowns are steadily increasing chances of a meaningful global trade war, sharply higher energy costs (which are inflationary) and a persistent strong US dollar, which makes growth increasing difficult for emerging markets.

As the tailwinds fade (and we believe become headwinds), the value of strategies that can both protect capital and deliver an income-driven source of real return will likely increase, particularly for investors that require a regular source of both income and real-return to fund their living expenses.



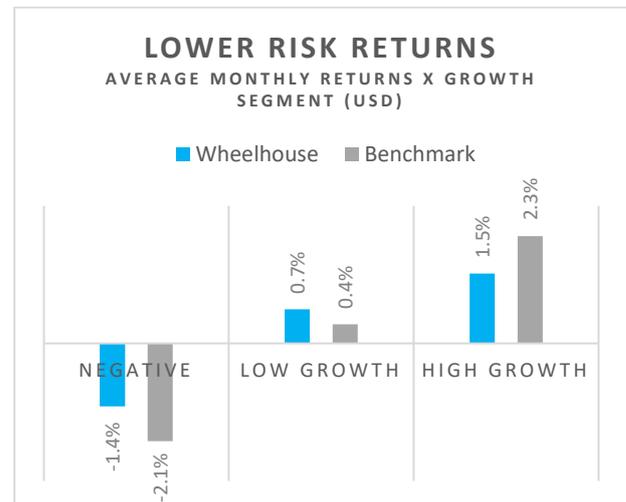
Source: Wheelhouse

The Wheelhouse Global Equity Income Fund is designed to deliver equity returns with higher income generation and active downside protection. At the headline performance level the Fund's performance was broadly

in line with equities, outperforming for the year-to-date, but dragging a little in the September quarter.

What this simple performance assessment overlooks is the fundamental lowering of risk taken to deliver these returns. The Wheelhouse approach is designed to better align equity returns with a retiree's typical investment objectives, by protecting capital when markets are weak and delivering a real income-driven return when markets are flat – while still delivering equity growth over the cycle.

These attributes and the reshaping of equity returns can be evidenced when returns are broken down into three segments – negative returns, weak returns and strong returns. We use USD returns in this analysis to better highlight the underlying share price movements.



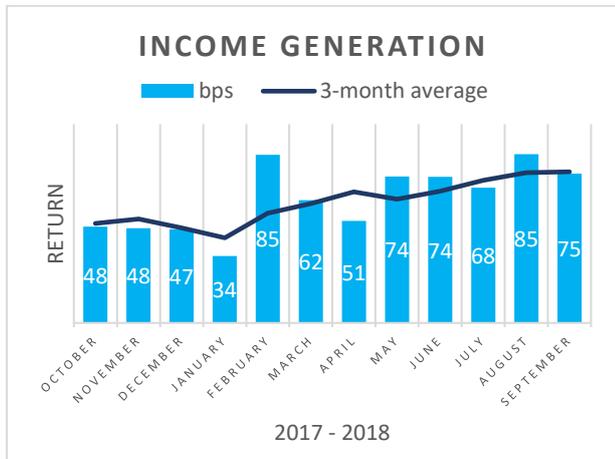
Source: Wheelhouse

As market growth slows and more volatile conditions emerge, the frequency of lower growth or negative growth markets should increase. In this more uncertain market environment, we expect our largely systematic approach will continue to deliver value.

Income generation

A key difference in our investment approach, and what makes our investment returns so aligned with a typical retiree's objectives, is that the bulk of our investment returns are income driven. By relying less on capital growth (shares going up) and more on a regular income stream, the Fund's returns are expected to be far more stable and predictable, and a source of **real** return in low-growth environments. The consistent nature of our monthly income generation is highlighted in the following chart, with the increasing trend in recent months driven by higher levels of market volatility (the higher the market uncertainty, the higher we expect our income generation to be).

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Source: Wheelhouse

Downside protection

In order to further lower risk for retirees, the Fund maintains an 'always-on' tail protection strategy that delivers significantly enhanced downside protection in market crises or crashes. The strategy allows the Fund to be fully invested at all times in the pursuit of equity returns, and not trying to time market movements.

While the US technology sector continued to outperform in the September quarter, we highlight that the outperformance has slowed and we continue to believe presents as one of the main areas of risk in the market. Aside from more muted earnings growth expectations for the sector in 2019, we also note intra-sector correlations remain extremely high, meaning most technology stocks tend to move together with less regard for stock specific issues. We continue to maintain a defensive tilt to our technology exposure to reflect these dynamics, meaning we expect to participate less should the tech rally continue, but conversely be well-positioned to protect capital should there be a tech-driven reversal.

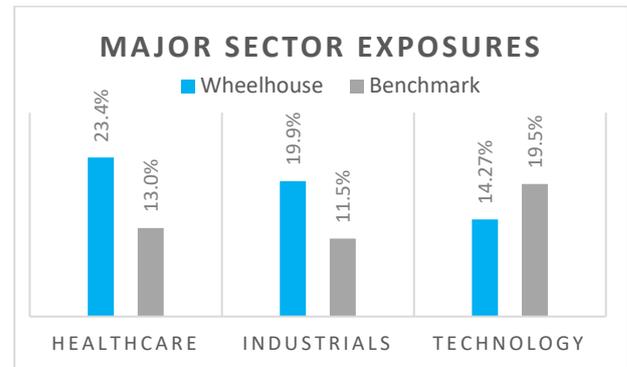
While no events triggered this protection during the quarter, the strategy allows us to sleep a little better at night, knowing our investments have an element of 'always-on' protection for market unknowns.

Morningstar portfolio

On an absolute basis, the Fund's exposure to the healthcare sector provided the greatest positive return for the quarter and marks a change from the past few quarters where technology was the primary driver. Healthcare is now the largest single exposure for the Fund in an absolute sense, plus also from a relative perspective when compared to the Benchmark.

Towards the end of the quarter the Fund's exposure to the Healthcare sector was increased, with additions to our GlaxoSmithKline, Biogen and Zimmer Biomet positions plus a new position in Roche Holdings. These

additions were predominantly funded by sales in our tech exposures, with Cerner exited and Adobe and Microchip Technology positions trimmed.



Source: Wheelhouse

In addition to these portfolio adjustments which lower the risk in our technology exposure, we continue to maintain a defensive tilt with our remaining technology investments. This may mean we see less of the upside should the technology rally continue (but we expect to be far better prepared for a reversal).

Outlook

We continue to believe we are in the early innings of a lower growth, more volatile investment climate. We believe this presents significant risks for retirees who rely on their capital to generate an income to live off. Without some growth in real terms, these investors may be forced to eat into their capital base at unsustainable rates.

While the Fund has an equity benchmark that we feel is an appropriate hurdle over the long term, in lower-growth and negative periods the value of our approach is more evident: delivering real returns when they are needed most and protecting capital bases so they are well-positioned to grow when the sun is shining again.

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*Morningstar's 'Moats'

The Fund's underlying portfolio is based on the Morningstar® Developed Markets Ex Australia Wide Moat IndexSM, a semi-active index that was constructed specifically for Wheelhouse Partners.

The stocks comprising the Index are based on the fundamental view of Morningstar's team of more than 100 stock research analysts. The Index composition changes quarterly, based primarily on selecting the most attractively-valued securities in the coverage universe.

The concept of economic 'Moats' underpins the Morningstar investment philosophy and can be categorised into the following five sources.

- **Cost advantage** - Matters most when price is a big factor in a purchase decision. Typically sourced from cheaper processes, better locations or unique assets.
- **Efficient scale** - Absolute size is less important than relative size (better to dominate a niche market).
- **Intangible assets** - Brands, patents and regulatory licences. Often found in Consumer and Industrials, and less so in Financials.
- **Network effect** - Extremely powerful, where the product value increases with the number of users. Dominant networks get larger at the expense of smaller.
- **Switching costs** - Sticky customers, spans many industries but particularly present in Financials.

New addition – Roche Holdings

Roche is a Swiss biopharmaceutical and diagnostic company that was added to the portfolio in September. The following is reproduced with permission.



*Investment thesis – Roche Holdings

We think Roche's drug portfolio and industry-leading diagnostics conspire to create sustainable competitive advantages. As the market leader in both biotech and diagnostics, this Swiss healthcare giant is in a unique position to guide global health care into a safer, more personalized, and more cost-effective endeavour.

Roughly 90% of operating profits stem from Roche's pharmaceutical division, as cancer biologic therapies Rituxan, Herceptin, and Avastin continue to expand their approved indications and geographic reach. Three fourths of Roche's pharmaceutical sales are from biologics, which we believe insulates the firm from rapid erosion of blockbuster drugs, even after patents expire.

Biosimilars (follow-on versions of branded biologics) are associated with significantly higher costs of manufacturing, clinical trials, and marketing than traditional small-molecule generics, and therefore we do not expect them to have as dramatic an impact on markets after patents expire.

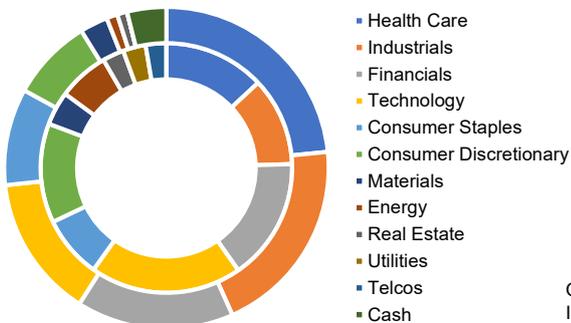
Roche's diagnostics business is also strong. With a 20% share of the global in vitro diagnostics market, Roche holds the number-one rank in this industry over competitors Siemens, Abbott, and Ortho. Pricing pressure has been intense in the diabetes-care market, but new instruments and immunoassays have buoyed the core professional diagnostics segment.

We think Roche's wide moat is stable. While we do expect biosimilars to eventually erode sales of Roche's top drugs, we think the firm is doing an excellent job of extending its franchises. Roche's biologics focus and innovative pipeline are key to the firm's ability to maintain its wide moat and continue to achieve growth as current blockbusters mature.

Source: Morningstar, as at 9 October 2018

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Sector exposure



Currency exposure



Outer circles: Wheelhouse
 Inner circles: Benchmark

Contributors	Detractors
Express Scripts	Wells Fargo
Union Pacific	Microchip Technology
Hoshizaki	Richemont
Safran	Julius Baer Gruppe
Pfizer	Unilever

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

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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