

INSYNC OUTLOOK

OCTOBER 2018



A Volatile Month

October lived up to its reputation as a historically volatile month for equities with the MSCI World index falling by 5.56% in Australian dollars. The powerful sell-off was initially triggered by surging Treasury Bond yields, which were boosted by signs of stronger-than-expected U.S. economic activity and a potential re-emergence of global inflationary pressures.

Additional pressures included a rising \$US, which continues to pressure emerging economies, a slowing European economy and increase trade related tariffs.

A number of companies that had contributed to this year's performance gave back some of their gains. This arbitrary selling of good performers is symptomatic of this type of sharp market decline and not a signal of a more worrying malaise specific to these companies. This is reflected in a number of our top holdings reporting solid results and providing strong forward guidance.



Performance

The Fund's unit price decreased by 5.83% after the cost of protection in October, compared to -5.66% for the benchmark.

For the 12 months to the end of October the fund is up 9.97%, after the cost of protection, versus the benchmark return of 7.73%.

The VIX index, a measure of market volatility, increased as the markets fell during the month. Whilst the level of volatility was elevated, compared to recent history, they are still well below crisis levels to have a meaningful positive impact on the value, with the index puts providing a positive contribution of 50 basis points.

The performance was driven by positive contributions from our holdings in Twenty-First Century Fox, Zoetis, Walt Disney Co and Estee Lauder. The main negative contributors were Intercontinental Hotels Group, Wirecard AG, Nvidia Corp and Amadeus IT.

Many of the quality growth stocks suffered a loss in line with the market. In periods of high downside volatility, the utilities, telecommunications and consumer staples tend to outperform as they are seen as more defensive. This proved to be the case again in October. As Insync tend to focus on high ROIC companies with a long run way of growth, utilities and telecommunications do not fit the criteria.

Historically the fund has had a higher exposure to consumer staples as many have them have had trusted brands with pricing power and growth opportunities in emerging markets. Over the last two years many of these big consumer brands have come under pressure due to changes in consumer preferences and digital disruption allowing many upstart brands to take market share over a short period of time. Our analysis shows that volume growth for many of these companies will be much harder to achieve and, whilst they are proving to be defensive in the short term, they are no longer the compounding businesses that they once used to be.



Outlook

Whilst many of the strong performers over the past 12 months within the portfolio suffered a pullback in line with the market, the long-term outlook for the portfolio continues to be very compelling as the opportunity to reinvest into powerful secular trends remain unchanged.

The current market correction is providing attractive entry points into these compounding businesses.

For this reason, we remain focused on our disciplined investment process and consider it dangerous to rotate into sectors that may prove to hold up better in falling markets but do not provide the long term growth we are seeking in the fund. Quality growth stocks outperform over a full investment cycle whereas rotating from one sector to another depending on the prevailing market conditions is difficult to get right on a consistent basis.

Currency & Options

The Fund continues to have no foreign currency hedging in place as Insync consider the main risks to the Australian dollar to be on the downside. Insync continues to utilise out of the money index put options to buffer sharp falls in equity markets. These are falls in excess of 20% over a short period of time normally associated with a sharp increase in volatility.



Global Beauty: The Vanity Megatrend

One area that is less susceptible to disruption, that many consumer brands are facing today, are indulgent brands in the beauty and cosmetics area. Consumers care a lot about what goes on their skin, so cosmetics tend to be less susceptible to the economic cycles and tend to hold some pricing power.

Whilst consumers of many goods, from cars to snacks, can only consume so much, the scope for consumption of cosmetics is almost limitless. A recent study, for instance, showed that the average Korean woman uses 11 beauty products and spends 40 minutes every day on her beauty regime. Few sectors offer such scope to sell more products to existing customers. Many consumer surveys indicate that the beauty regime is among the last to be cut even when times are tight. That is why the cosmetics market has proven to be less discretionary than one might imagine.

The cosmetics industry has consistently grown at 4-5% pa since the early 1990s with pricing power. The global cosmetic products market was valued at USD 530 billion in 2017 and is expected to reach a market value of USD 800 billion by 2023. Three major tailwinds driving the growth in the industry are the trend towards buying premium products, the increased consumption of make-up amongst millennials and Gen Z's and the increased rate of women entering the workforce in emerging markets. Insync's focus is on the more profitable and faster growing prestige and luxury segment.

Insync Disclaimer

While the information contained in this report has been prepared with all reasonable care, Insync Funds Management Pty Ltd (ABN 29 125 092 677, AFSL 322891) ("Insync") accepts no responsibility or liability for any errors or omissions or misstatements however caused. This is general securities information only and is not intended to constitute a securities recommendation. This information does not take into account your personal investment objectives, particular needs or financial situation. Applications can be made by reading the Insync Global Titans Fund Product Disclosure Statement (PDS) and then completing the associated application form. Both documents can be found on Insync's website at <http://www.insyncfm.com.au> under the 'How To Apply' tab, or by contacting Insync on +61 2 8094 1255. Potential investors should consider the PDS before deciding whether to invest, or continue to invest, in the Fund. Past performance is not an indicator of future performance

Insync Funds Management
Pty Ltd Level 4, 261 George
+ 61 2 8094 1255

Website 