

# Wheelhouse Global Equity Income Fund

## Monthly performance update

As at 30 June 2019

### Performance

	1 month	3 months	6 months	1 year	Since inception p.a.
Income	3.42%	3.45%	5.16%	8.11%	7.66%
Growth	(0.99%)	(0.14%)	3.74%	0.51%	0.93%
<b>Total Fund return</b>	<b>2.43%</b>	<b>3.31%</b>	<b>8.90%</b>	<b>8.63%</b>	<b>8.59%</b>
<b>Benchmark*</b>	<b>5.27%</b>	<b>5.19%</b>	<b>17.30%</b>	<b>11.95%</b>	<b>11.58%</b>
Income Index**	4.21%	4.31%	12.63%	8.52%	8.79%

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.

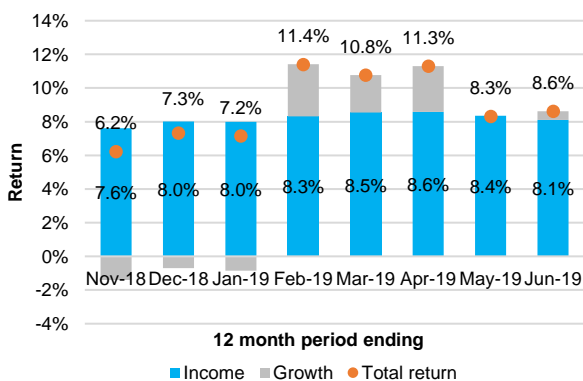
### Monthly performance review

The Fund returned 2.43% in June, behind the benchmark return of 5.27%. This return comprised:

- A return of 3.76% from the portfolio (in USD); and
- A negative return of (1.33%) from the strengthening of the Australian dollar versus US dollar.

Income distributions were 3.5c for the June quarter, taking the annual income return for FY19 to 8.11%

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

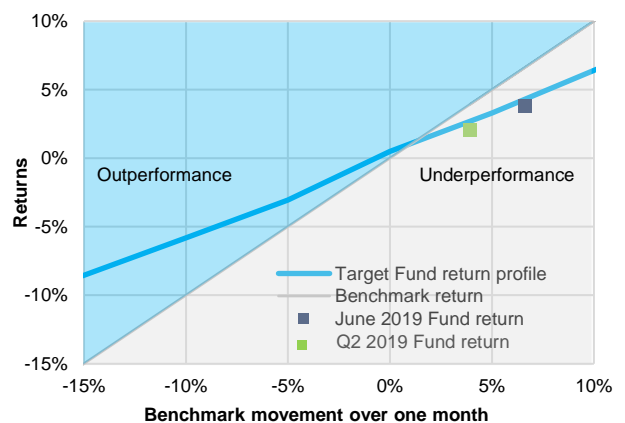


Source: Wheelhouse

### 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:

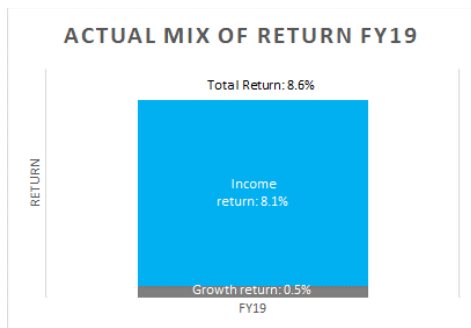
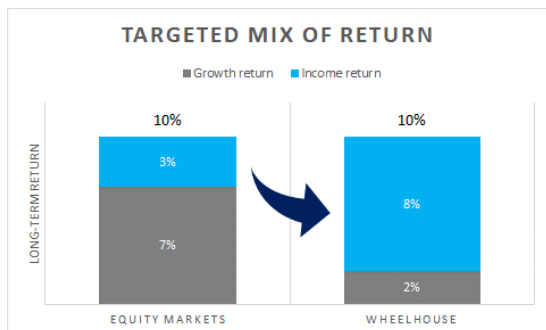
- investing in global equities as a **growth asset** to address longevity risk;
- shaping returns to be **retiree-friendly** with lower volatility, better capital preservation and consistent income; and
- delivering a **lower cost** solution to help improve outcomes.

## Wheelhouse Global Equity Income Fund Monthly performance update As at 30 June 2019

### Performance

During the June quarter the fund returned 3.31%, taking the total return for the fiscal year 2018/19 to 8.63%. The fund is designed to provide a consistent income stream and the June distribution (3.5c) was no exception taking the annual yield to 8.11%.

The 12 month returns showcase the objectives of the Wheelhouse approach, which is to deliver a consistent high yield, plus protect and grow the capital base. Over time, we believe this will lead to equity rates of return - albeit delivered mostly in yield, versus capital appreciation.



Source: Wheelhouse

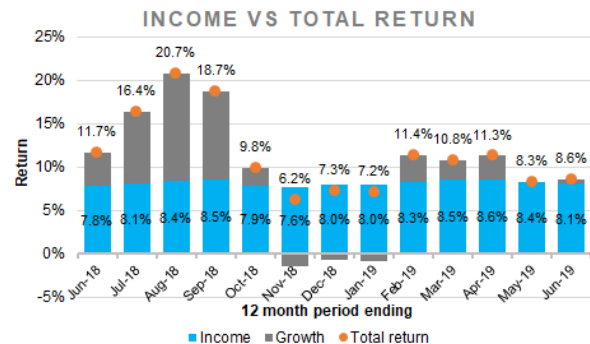
Over shorter periods we do expect our performance to deviate somewhat from our equity benchmark, as our return profile is far less volatile than global sharemarket indices. For example, our performance in the 1H dragged behind the benchmark following an exceptional start to 2019, versus significantly outperforming the benchmark during the market sell-off at the end of 2018. This is entirely consistent with our targeted return profile displayed on page 1.

Two years have passed since we launched the fund, which provides a little time to analyse how we have delivered on these objectives.

### Income

The fund's strategy was designed to deliver a consistent high income return of around 7-8%, regardless of market conditions or currency fluctuations. With the income

distribution of 3.5c for the June quarter, the rolling annual yield has proven highly consistent. Distributions are paid quarterly.



Source: Wheelhouse

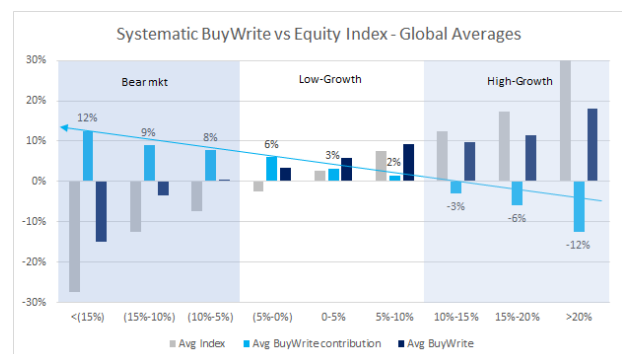
### Capital protection

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 and active crash protection) are designed to add value over different types of market declines, and across differing time horizons.

#### Systematic income generative overlays

For example, in a slow grind-down market, the real income yield of ~8% needs to be absorbed before the capital base begins to lose money. In the chart below, we analysed returns from systematic BuyWrite overlay strategies for up to 30 years, across major sharemarkets in the US, Europe, Japan and Australia.



Source: Wheelhouse. Please email Wheelhouse for the full analysis by market.

In 'Bear' markets, which we have defined as annual returns less than -5%, income generative overlays have consistently added between 8-12% of real return, which needs to be lost before the strategy returns turned negative.

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Real returns in 'Low-growth' markets are also enhanced, nudging equity returns up closer to their longer-term averages. This enhancement of real returns is critical when paying an elevated yield, and thus ensuring that income payments are genuine returns on the capital base and not simply masked returns of capital.

The quid pro quo for this far more 'real' and defensive return profile is the associated drag in 'High-growth' markets, although high returns on an absolute basis are still expected.

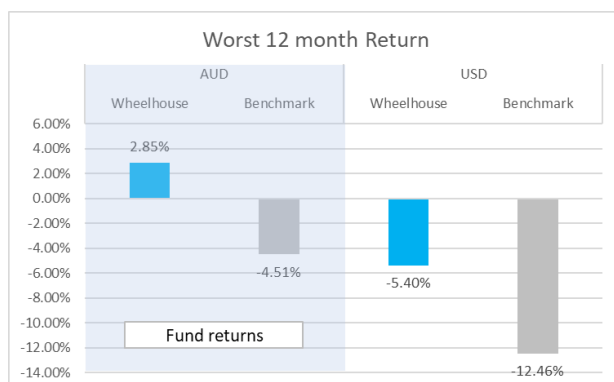
In essence, the income generative BuyWrite overlays reshape highly volatile equity returns into a far more consistent source of real return with more absolute return characteristics... and yet have delivered equity rates of return over time.

### *Active tail or 'crash' protection*

Over more aggressive market crisis across shorter time periods, capital protection needs to be considered more acutely. Discussed in more detail in prior quarterlies, our crash protection is designed to remove up to 50% of the portfolio risk in a market correction or crisis, without ever selling a single share. This protection is specifically designed for 'overnight' or more aggressive crashes, wherever they may be found.

### *Combined 12 month drawdown performance*

While still only 2 years young, the Wheelhouse global fund has now invested over a range of market conditions. In the table below we illustrate the worst 12 month period for the benchmark, and respective Wheelhouse performance alongside. The fund reports in Australian dollars (and is yet to post a negative 12 month return), although in USD for the same period it was slightly negative during the aggressive drawdown in December 2018.



Source: Wheelhouse.

## Outlook

Like many investors we observe that global sharemarkets are setting record highs against a backdrop of weakening economic data. Central banks

globally have turned more accommodative and are indicating further monetary stimulus is on the way. This is an odd phase of the cycle when 'bad news is good news' and 'good news is bad news' driven by market expectations of aggressive easing policy.

The sharemarkets huge focus on Fed policy, as opposed to fundamental economic activity, can only ever be temporary. At some point market prices will reflect current economic reality, in which case 'bad news is actually bad news' or even that 'good news is not good enough!', with prices responding accordingly.

The reality for many investors and in particular retirees, is that the bills continue to arrive every month regardless of the market cycle. For these investors, a reliable income stream is critical.

Our strategy is specifically designed with this in mind. We generate a real source of income return underpinned with a 'preserve and protect' approach to the underlying capital base. We call it a 'glass half empty' approach to investing, as we are more concerned about what we stand to lose, and the bills we need to pay, as opposed to what we stand to gain by shouldering excessive risk at this point in the cycle.

So whether we're reading good news or bad news in tomorrow's headlines we can be confident our obligations are met and our assets are protected.

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As at 30 June 2019

**\*Morningstar's 'Moats'**

The Fund's underlying portfolio is based on the Morningstar® Developed Markets Ex Australia Wide Moat Index<sup>SM</sup>, 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 – Allergan**

Allergan is a major global specialty pharmaceutical company, listed in the US. Soon after being included in the portfolio in June, the company announced it is to be acquired by AbbVie. The following is reproduced with permission.



**\*Investment thesis – Allergan**

Allergan is one of the largest global specialty pharmaceutical manufacturers. The company possesses an industry-leading portfolio in the specialty markets of ophthalmology and aesthetics, which enjoy much higher barriers to entry and lower risk of generic competition than most pharmaceutical products.

Allergan's product portfolio is broadly diversified with only two products exceeding \$1 billion in revenue. The largest product, Botox, generates over \$2 billion in annual sales, and has historically been a critical ingredient of Allergan's wide moat in its aesthetics franchise. Neurotoxins like Botox require complex manufacturing processes, and as biological compounds, they also require expensive clinical trials in order to receive approval from the U.S. Food and Drug Administration.

Additionally, because each injectable neurotoxin has unique characteristics, doctors and patients remain hesitant to switch brands--a significant difference from competition on most drugs. To date, only two other neurotoxins have been approved for use in the U.S. Although Botox does face competition for its largest indication--the cosmetic removal of facial wrinkles--management has expanded Botox's market into numerous therapeutic categories where it essentially enjoys a monopoly. High barriers to entry in the neurotoxin market have enabled management to defend Botox's global market share, which stands near 70%, by our estimate.

We imagine Allergan can maintain a historical success of fending off most generic threats through patent litigation and new product launches. Moreover, we think Allergan's pipeline of injectable devices, biologic products, and reformulated neuromodulators, which introduce even greater manufacturing complexity that should help reduce the long-term risk of generic competition.

*Source: Morningstar Equity Research, as at 2 January 2019*

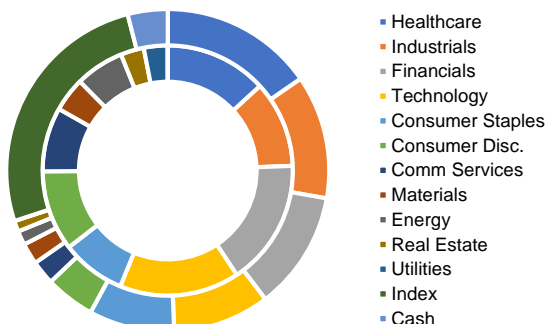


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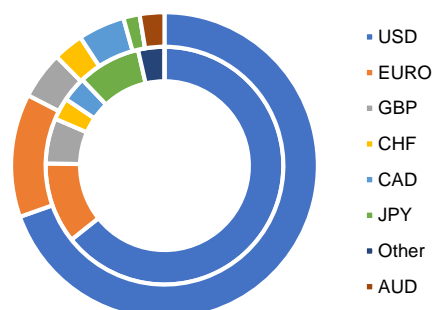
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#### Sector exposure



Outer circles: Wheelhouse  
Inner circles: Benchmark

#### Currency exposure



Contributors	Detractors
Allergan	Enbridge
KLA-Tencor	Kao Corp
Caterpillar	Reckitt Benckiser
Essilorluxottica	Charles Schwab
Safran	Google

#### 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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