

# Wheelhouse Global Equity Income Fund

## Monthly performance update

As at 30 September 2019

### Performance

	1 month	3 months	6 months	1 year	Since inception p.a.
Income	1.41%	1.47%	5.09%	7.99%	7.56%
Growth	(0.70%)	3.56%	3.42%	(1.21%)	2.34%
<b>Total Fund return</b>	<b>0.71%</b>	<b>5.03%</b>	<b>8.51%</b>	<b>6.78%</b>	<b>9.90%</b>
<b>Benchmark*</b>	<b>2.01%</b>	<b>4.65%</b>	<b>10.09%</b>	<b>9.14%</b>	<b>12.43%</b>
Income Index**	1.41%	4.65%	9.31%	6.29%	9.98%

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 0.71% in September, behind the benchmark return of 2.01%. This return comprised:

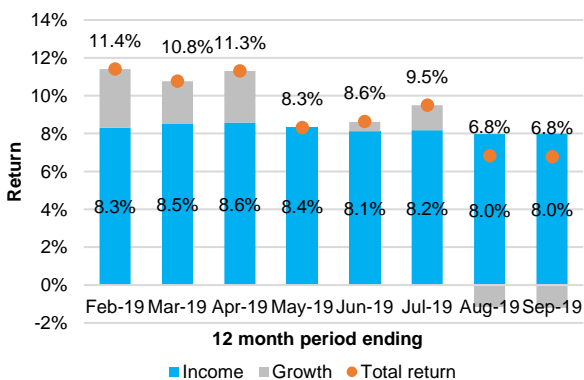
- A return of 0.81% from the portfolio (in USD); and
- A negative return of (0.10%) from the strengthening of the Australian dollar versus US dollar.

Income distributions were 1.5c for the September quarter, taking the rolling 12-month income return to 7.99%.

### Lower risk returns

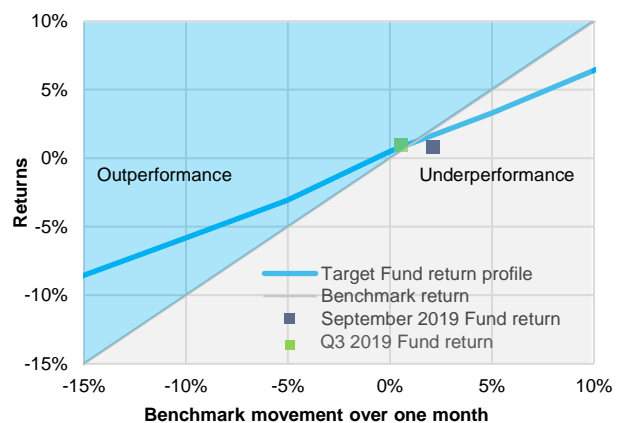
The strategy's high-income generation and active downside protection strategy are designed to lower risk and deliver equity returns with a smoother, more retiree-friendly return profile. As a result, returns are expected to add relative value in weak and low-growth markets, and to drag in more positive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

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



Source: Wheelhouse

### Targeted monthly return profile



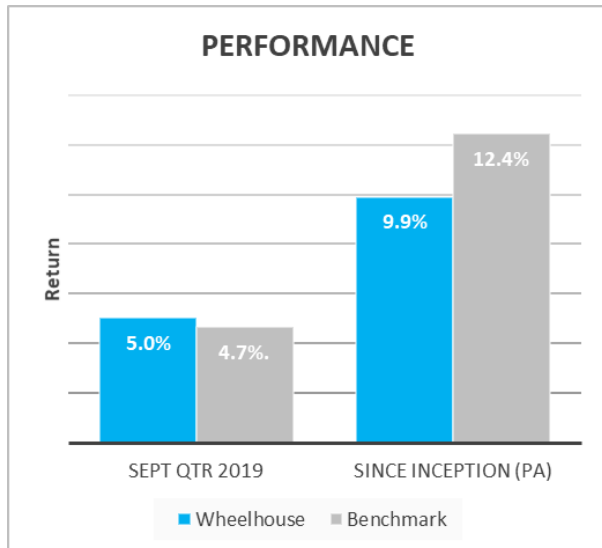
Wheelhouse is a retirement solution designed to deliver better investment outcomes to Australian retirees. Our philosophy is based on three pillars:

- 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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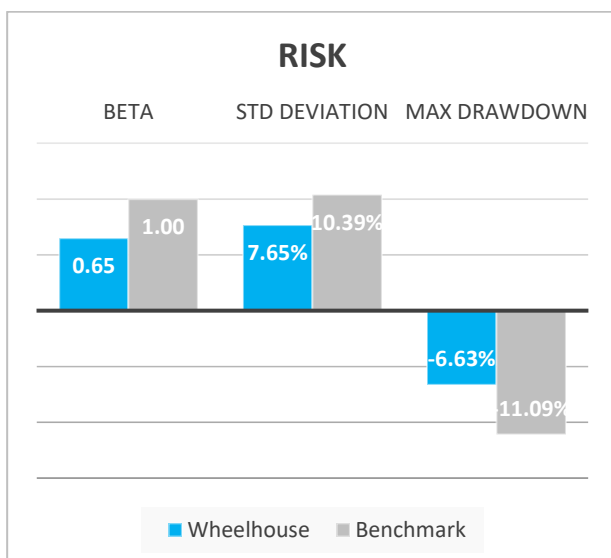
During the September quarter the fund returned 5.0% versus the equity benchmark at 4.7%. This takes annualised performance since inception to 9.9% versus 12.4%, as illustrated below.



Source: Wheelhouse

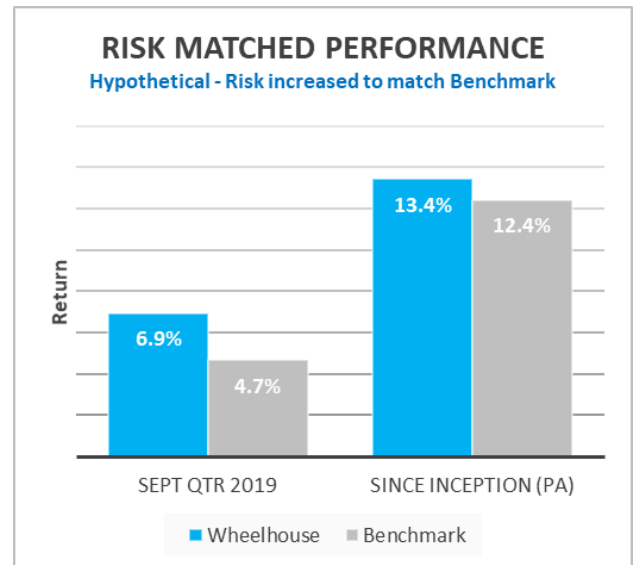
The Wheelhouse strategy is designed to achieve better than benchmark returns over the medium term whilst employing meaningfully lower risk to do so. When reviewing the fund performance, it is necessary to also consider the risk taken to generate these returns.

Lower risk can be measured by Beta (market risk), the Standard Deviation (volatility), and the Maximum Drawdown. The fund's risk numbers since inception are shown below.



Source: Wheelhouse

As an exercise we thought it would be worthwhile to compare the fund returns to the benchmark by grossing up the returns of the fund on a risk equivalent basis. That is, what would the fund returns look like were we taking an equivalent level of market risk, similar to a conventional fund with a Beta of 1?



Source: Wheelhouse

The 'Risk Matched Performance' above confirms the **superior risk-adjusted returns**, which is also reflected in risk ratios such as Sharpe, Sortino and Calmar.

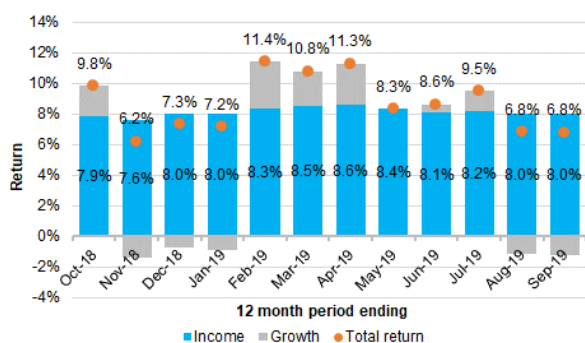
However, in recognition of the different investment objectives of retirees and charities, we seek to deliver a more conservative investment approach that (1) prioritises capital protection, and (2) delivers a more stable income-driven investment return, that is better suited to the real-world demands of retirees.

For investors seeking an objective-based investment solution, where the goal is to minimise the risk taken for the delivery of regular income, this philosophy should resonate.

### 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 1.5c for the September 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.

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



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 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.

### Outlook

In our last quarterly we spoke of 'bad news being good news', and the market's focus on Central bank policy at the expense of fundamentals.

Recent market gyrations support this view, with movements in the S&P500 Index on the 3<sup>rd</sup> October providing an insight into investor psychology at present.

Following disappointing US industrial production data released an hour into trading on the 3<sup>rd</sup> October, the market fell 1.2% in the ensuing minutes as 'bad news' was priced in. Very shortly after however, the realization became apparent that the weak data may increase the likelihood of additional rate cuts in the US, with the market then responding with a 1.9% bounce off the lows, followed by a further 1.4% gain the following day.

### S&P500 Index: Intra-Day move, October 3 2019



Source: Wheelhouse

Similar to our view last quarter, the stock market's 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. By utilizing a more conservative level of risk in the portfolio with a higher income component than more traditional funds our returns are more absolute in nature. As such, we believe our strategy is well suited for many investors who have clear and more absolute return focused objectives - such as retirees or charities.

At Wheelhouse we seek to deliver on these real-world investment objectives.

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**Monthly performance update**  
As at 30 September 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 – Nike**

Nike is the largest athletic footwear and apparel brand in the world. Footwear generates about two thirds of its sales, with key brands including Nike, Jordan, Converse and Hurley. The stock was included in the portfolio during the quarter. The following is reproduced with permission.



**\*Investment thesis – Nike**

Nike's brands have proven staying power, supporting our view that it can continue to earn economic profits for at least the next 20 years. Michael Jordan signed with Nike in 1984 and retired from basketball in 2003. Many millennials are not even old enough to have seen him play. Yet, the Jordan brand produced more than \$3 billion in (wholesale-equivalent) sales in fiscal 2019. If it was an independent company, the Jordan brand would be the third-biggest athletic footwear brand in the U.S. behind only other Nike footwear and Adidas. While Jordan is Nike's biggest star, Bryant and James have also proved they can sell shoes over a long period.

Nike, which ships about twice as many pairs of shoes worldwide as Adidas, has developed franchises with unusual longevity. We think Nike's key brands support our view that it has a wide moat based on its brand intangible asset.

Nike faces significant competition, but we believe it has proved over a long period that it can maintain share and pricing. In mid-2017, Nike announced a consumer-focused realignment. It is investing in its direct-to-consumer network while reducing the number of retail partners that carry its product. The firm is reducing its exposure to mediocre, undifferentiated retailers while increasing distribution through a small number of retailers. Nike's consumer plan is led by its Triple Double strategy to double innovation, speed, and direct connections to consumers. Triple Double includes cutting product creation times in half, increasing membership in Nike's mobile apps, and improving the selection of key franchises while reducing its styles by 25%. We think these strategies will allow Nike to hold share and pricing.

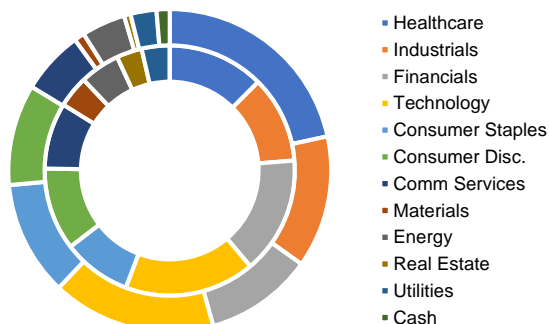
*Source: Morningstar Equity Research, as at 30 September 2019*

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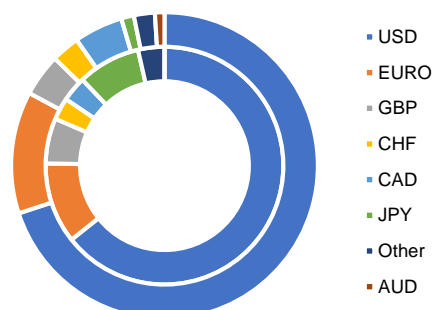
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#### Sector exposure



Outer circles: Wheelhouse  
Inner circles: Benchmark

#### Currency exposure



Contributors	Detractors
Emerson Electric	Canadian Pacific Railway
Guidewire Software	Amgen
KLA Corp	Salesforce.com
Safran	Unilever
Sanofi	ServiceNow

#### 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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