

## Surrey Australian Equities Fund

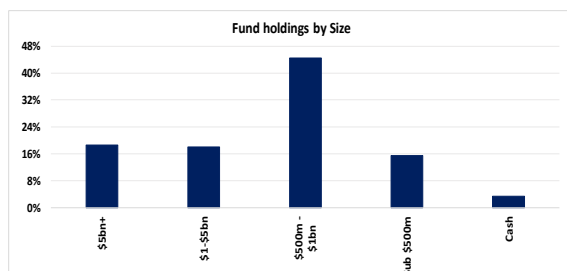
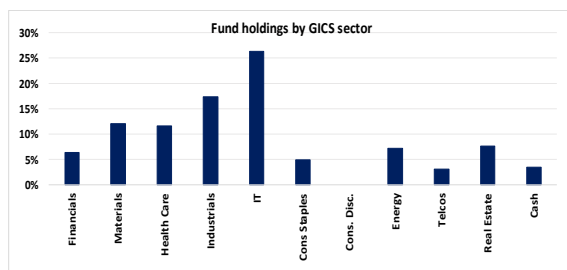
### PORTFOLIO UPDATE

February was a challenging month for stock markets. After a very strong 2019 and January 2020 the market caught Corona virus in February with the Small Ordinaries Index (XSOAI) falling 8.7% and US 10-year treasury yields declining to a staggeringly low level where we are now effectively paying governments in real terms to lend to them!

February also saw Australian reporting season where the majority of our companies posted results. Pleasingly all our holdings reported earnings that were in line or ahead of our expectations. Over time earnings growth should drive share prices so this was a very positive outcome for longer term shareholder returns.

As markets fell in the final week of February, we used the opportunity to buy particular stocks at what we believe represents compelling value. This does not mean they won't fall in the near term but we have high conviction that over the medium term they will generate excellent returns for unit holders. While this buying cost us short term performance, we remain more than comfortable given we believe we have an excellent portfolio which will deliver for unit holders over the coming months and years.

The Fund's cash balance at the end of the month totalled 3.5%, down from 10.8% at the end of January.



### FUND PERFORMANCE

We are very conscious of the risks the Corona virus poses - both regarding the health and economic impacts. However, we believe the hysterical reaction to this virus has created share price dislocations which we have used to buy what we believe are strong companies at very attractive valuations (some people buy toilet paper in times of panic whereas we buy stocks). These investments are not directly exposed to Corona either on the supply or demand side.

As we mentioned in last month's report, we remain positive on equity markets in 2020 although we are more cautious relative to this time last year. Following a very positive reporting season which reinforced our view on existing holdings while encouraging us to buy certain new companies we believe our portfolio is in a very strong position to deliver positive returns over the medium term. While the recent market volatility has created absolute panic, we hold the view that volatility is not risk rather it is opportunity. We intend to capitalise on this.

As a reminder for unit holders many of the Fund's investments pay dividends during February and March. The attached franking credits are distributed to Unit Holders at the end of this Financial Year.

Time Period	Fund Absolute Return <sup>^</sup>	Benchmark Return <sup>*</sup>	Fund Relative Performance
1 Month	-9.9%	-8.7%	-1.2%
12 months	+3.6%	+1.6%	+2.0%
Since Inception	-0.2%	+1.0%	-1.2%

<sup>^</sup> After deduction of all fees

<sup>\*</sup> S&P/ASX Small Ordinaries Accumulation Index (XSOAI)

Inception date June 1, 2018

### FUND TOP HOLDINGS (in alphabetical order)

- Centuria Capital Group (CNI)
- Fisher & Paykel Healthcare (FPH)
- IMF Group (IMF)
- Imricor Medical Systems (IMR)
- Xero Limited (XRO)

**FUND OUTLOOK**

January 2020 started the decade positively for the Australian equity market. Much of this was a result of the US and China reaching a preliminary trade agreement, an easing of tensions in the Middle East, a continuation of very low bond yields and positive earnings results from some large US listed companies including Microsoft, Amazon and Tesla.

However, February hit with a corona, hysterical panic causing equity markets & bond yields to fall sharply.

**US 10 Year Government Bond Yield**



We completely understand that in today’s world where Instagram “stars” make stock recommendations and where the media peddles panic that markets will act swiftly and often overly dramatically. Without downplaying the severity of the Corona sickness, we do not think this will lead to long term loss of capital. To the contrary we believe it presents us with an opportunity to invest for significant long term shareholder returns.

As we have seen over time there will always be reasons to sell:

**Reasons to Sell**



In terms of the portfolio, we do not have any travel businesses or a material exposure to companies directly focussed on the Chinese consumer market. However, when it comes to the global economy, everything is interconnected with nothing more dangerous to markets than fear. As such we remain cautious but are focussing on the facts as opposed to reacting to the constant stream of dramatic headlines – some true and some false.

This is best highlighted by the February reporting season where we met with a large number of company management teams. Focussing on what we can observe and measure as opposed to the next minutes’ news headlines we came away upbeat. All our portfolio holdings reported in line or better than expected earnings with all indicating positive outlooks. This places us in an excellent position to rebound strongly when stock markets shake off this current fear.

As always, we appreciate your support in entrusting us with your capital and welcome any ongoing queries you may have.

**SURREY ASSET MANAGEMENT**

Surrey Asset Management is an investment management company established in 2017 to manage the Surrey Australian Equities Fund. It is wholly owned and managed by Nicholas Maclean & Michael Woolhouse who have in excess of thirty years of combined financial markets experience. Both Fund Managers have significant personal investments in the fund.

The Fund offers investors exposure to ASX listed companies with the objective of earning returns in excess of the S&P/ASX Small Ordinaries Accumulation Index over rolling 5-year periods. This is done by following a defined investment process within the construct of our core values of fact-based investing, transparency, authenticity, accountability and humility.

Surrey Australian Equities Fund	
<b>Managers</b>	Nicholas Maclean (B.Com, B.Arts, Grad. Dip. Applied Finance & Investment) Michael Woolhouse (B.Com, Accounting & Finance)
<b>Investment Benchmark</b>	S&P/ASX Small Ordinaries Accumulation Index. (XSOAI)
<b>Fund Objective</b>	To provide investors exposure to ASX listed companies with the objective of earning returns in excess of the S&P/ASX Small Ordinaries Accumulation Index over rolling 5-year periods, with a strict focus on capital preservation.
<b>Typical Portfolio / Active stock limit</b>	20-40 active stock holdings. No one individual stock can represent more than 15% of the portfolio
<b>Debt / Derivatives / Shorting</b>	Nil
<b>Fund administrator</b>	Mainstream Fund Services
<b>Fund Trustee</b>	Specialised Investment & Lending Corporation Pty Ltd
<b>Unit Pricing / Applications / Redemptions/ Performance Reports</b>	Monthly
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**APPLICATIONS**

Further information on the Surrey Australian Equities Fund and how to invest can be found by downloading an Information Memorandum and applying online via our website, and/or contacting the investor services team on the details below:

**Surrey Online Applications:** [www.surreyassetmanagement.com/how-to-invest/](http://www.surreyassetmanagement.com/how-to-invest/)

**Surrey Asset Management Website:** [www.surreyassetmanagement.com](http://www.surreyassetmanagement.com)

**Surrey Asset Management Phone:** +61 3 9691 5490

**Mainstream Fund Services Phone:** 1300 133 451

**Disclaimer**

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