Wheelhouse Global Equity Income Fund

Monthly performance update

As at 31 March 2020

Performance

	1 month	3 months	6 months	1 year	2 year p.a.	Since inception p.a.
Income	1.40%	1.44%	2.87%	8.19%	8.35%	7.24%
Growth	(1.99%)	0.73%	(0.43%)	2.98%	2.60%	1.77%
Total Fund return	**(0.59%)**	**2.17%**	**2.44%**	**11.16%**	**10.95%**	**9.01%**
Benchmark*	**(8.32%)**	**(9.00%)**	**(5.13%)**	**4.44%**	**8.29%**	**8.12%**
Income Index**	(8.49%)	(8.88%)	(6.85%)	1.82%	6.45%	5.47%

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.

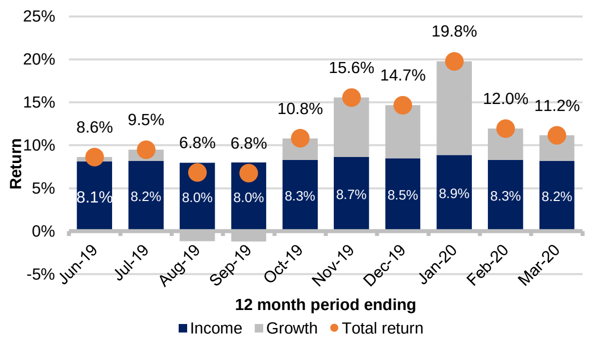
Monthly performance review

The Fund returned (0.59%) in March, ahead of the benchmark return of (8.32%). This return comprised:

- A return of (5.64%) from the portfolio (in USD); and
- A positive return of 5.05% from the weakening of the Australian dollar versus US dollar.

Income distributions were 1.5c for the March quarter, taking the rolling 12-month income return to 8.19%.

Income vs Total return (12 month rolling)

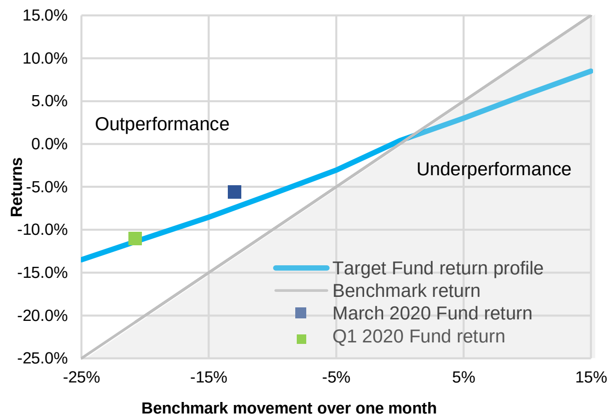


Source: Wheelhouse

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



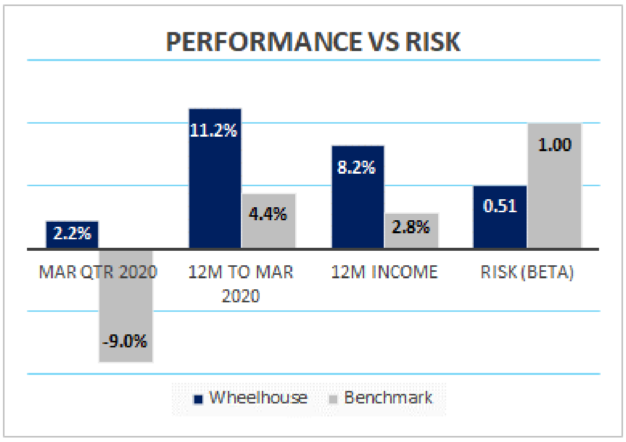
Wheelhouse is a retirement solution designed to deliver better investment outcomes to Australian retirees. Our philosophy is based on three pillars:

- 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.

Performance

The Wheelhouse Global Equity Income Fund finished Q1 2020 with a solid +2.2% return, outperforming the benchmark by 11.2% for the same period. The defensive characteristics of our investment approach has proven robust through this tragic COVID-19 induced crisis.

Wheelhouse seeks to deliver a 7-8% real income yield whilst only ever assuming half the risk of the equity market – in essence, our twin pillars of income generation and capital protection. It is timely that we re-emphasise our firm belief that income earned is only ever as good as the security of the capital that generates it.



Source: Wheelhouse

It is commonly accepted that record low interest rates in recent years have forced investors further along the risk curve in the search for more acceptable returns.

This ‘yield grab’ has, unwittingly in many cases, introduced greater capital risk into portfolios. Investors have focused on pure yield comparison without recognising the different risks inherent in the various instruments on offer.

In this Quarterly we are going to focus on the importance, and critically the reliability, of robust capital protection. As Mr Buffet says, “It is only when the tide goes out that you discover who has been swimming naked”.

Income AND protection, that’s all we do.

Capital protection

The Fund’s performance in Q1 2020 has proven exceptionally defensive in exactly the same way as in Q4 2018. We never try to time the next market crash but rather ensure our capital protection is ‘always on’ which adds to the consistency and reliability of returns.

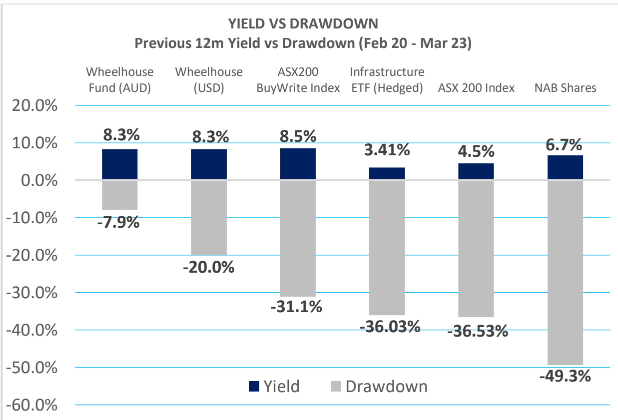
A unique characteristic of our protection strategy is that as the market falls, the equity exposure in the Fund is automatically reduced.

The Fund has 2 stages of protection: the income generative overlay which adds protection for smaller bumps and active downside protection which adds a significant buffer to capital losses in a market crash. Both forms of protection are fully integrated into the Fund and seamlessly remove risk without us having to sell a single share.

This risk profile is often the exact opposite of other equity income strategies where risk will often increase during market crises – at precisely the worst possible time.

To highlight this point, we have performed some ‘iceberg’ analysis below. Similar to an iceberg, investors have focussed on what they can see – the yield – without recognising the much larger risks that might be lurking under the water. The chart compares the historical yields of a selection of ‘income’ securities, with the market collapse that occurred between February 20 and March 23. These securities include:

- An Australian bank share (NAB);
- A global infrastructure ETF (VanEck Vectors FTSE Global Infrastructure ETF - hedged)
- An ASX 200 Index exposure;
- The S&P/ASX 200 Buy Write Index;
- and the Wheelhouse Global Equity Income Fund.



Source: Bloomberg

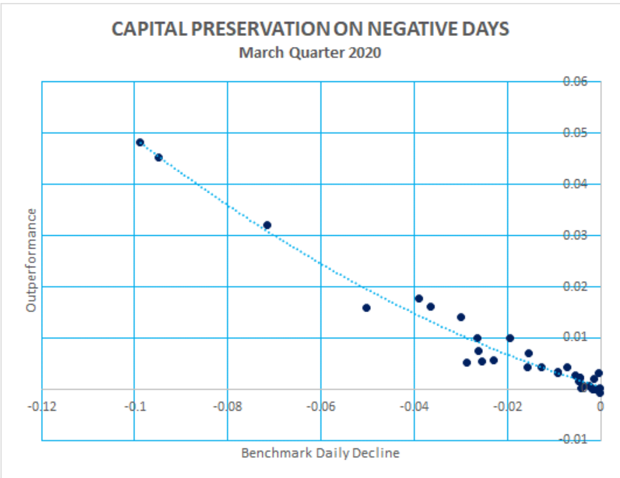
The chart clearly illustrates the lack of equity protection when the proverbial ‘tide’ runs out.

Given the current levels of uncertainty surrounding the length and economic disruption of the COVID-19 pandemic, the recovery period for these securities is also highly uncertain. This is particularly important for retirees or other investors that rely on income to fund their lifestyles. The length of the recovery period is critical in terms of how the drawdown will affect their moneyweighted returns, and therefore outcomes. The longer the recovery period, the worse these outcomes are likely to be. For more on this topic of sequencing risk please refer to our research piece ["The-Retiree-and-the-100-year-storm"]().

The Fund's ability to produce consistent, predictable returns through various market moves is largely attributable to the Wheelhouse propriety risk management platform. This institutional grade platform enables us to aggregate all the risk in the portfolio and ensure that we are adequately protected for both smaller and larger sell-offs. The risk is displayed in real-time and analyses returns for any scenario we choose to solve for. It is a key asset of the Fund in terms of delivering predictable, repeatable returns.

This high level of reliability is evident when analysing the returns of the fund for all the negative daily moves during the March Quarter. The chat below plots the level of capital protection (the outperformance) for each day the equity benchmark was negative in this period

We use USD returns to reflect the movement in the underlying security, without the impact of FX.

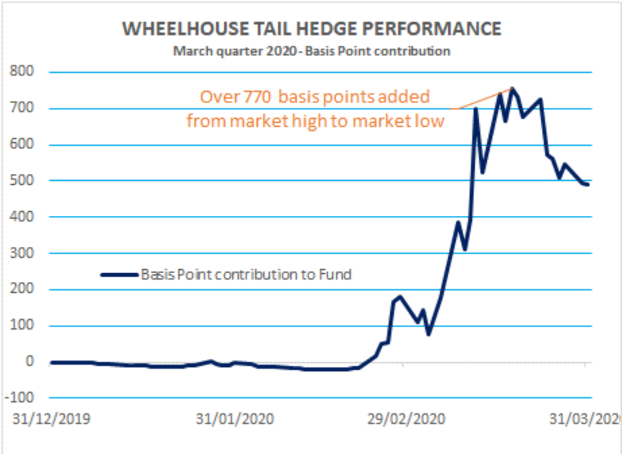


Source: Wheelhouse

In terms of consistency, there wasn't a single day when the Fund did not preserve capital better than the equity benchmark when declines were more than 0.1%. The results also dovetail nicely with another of the Fund's key deliverables that is 50-60% downside capture in markets down 10% or more. Indeed, the cumulative downside capture in March was 43%, despite being near fully invested every single day.

The chart also highlights the unique feature of the strategy, where the rate of protection increases (curves upwards) the more aggressive the market decline. In other words, risk is reduced at an increasing rate during market crises, which is precisely when it is most valuable.

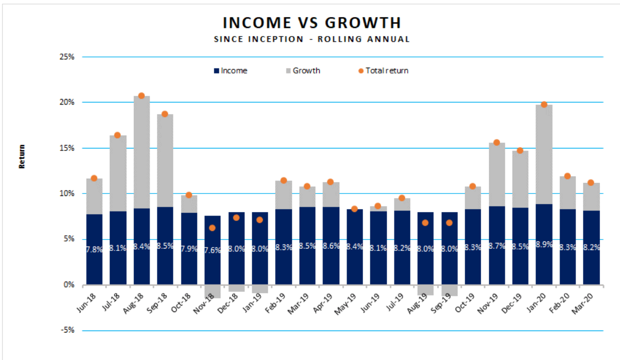
The performance of our crash protection strategy is illustrated below. The strategy contributed over 770 basis points to performance at the depths of the market. During this period, we actively managed the strategy, selling expensive hedges and replacing them with cheaper ones, whilst always maintaining the defensive 'always on' nature of the portfolio. The active management extracted over 400bp in cash from the strategy which is 'banked' and will not be given up should the market make a speedy recovery.



Source: Wheelhouse

Income

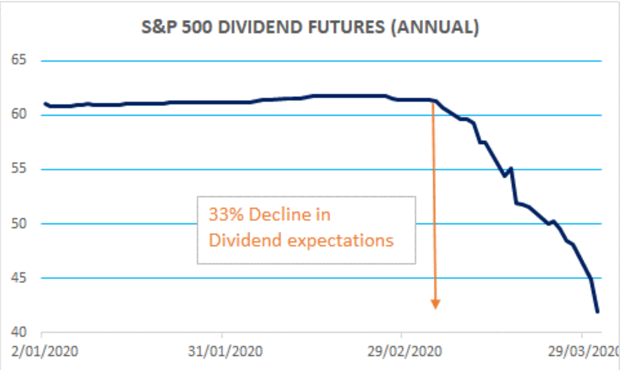
The Fund's strategy was designed to deliver a consistent, high income distribution of around 7-8%, regardless of market conditions or currency fluctuations. With the income distribution of 1.5c for the March quarter, the rolling annual yield has proven highly consistent and importantly has not come at the expense of eroding the capital base. Distributions are paid quarterly.



Source: Wheelhouse

We have received several enquiries regarding the sustainability of our income yield, with many investors concerned about the stability and reliability of future dividend income. As was the case in the GFC, many companies are expected to significantly reduce their dividend payments this year in an effort to preserve cash.

This expectation is clearly reflected in the futures contract for S&P 500 Dividends, which highlights an anticipated reduction of cash payments of more than 30%. Lower dividend expectations are also present in the local Australian market.

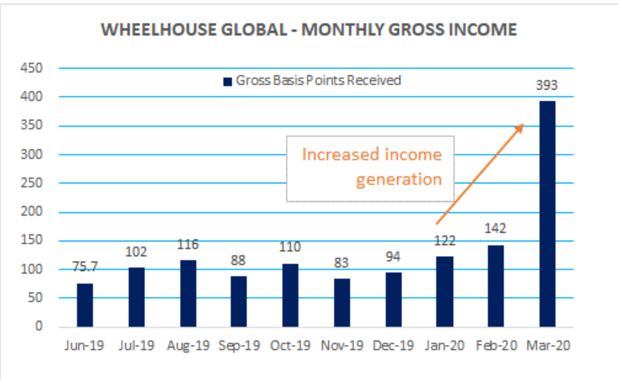


Source: Wheelhouse

Importantly, dividends only account for a small proportion of the total income yield in the Fund, historically around 100 basis points annually – a fraction of our targeted 7-8% yield.

By far the more important driver of our income yield is option premium, which historically increases during periods of heightened uncertainty and volatility.

This additional income generation is already being reflected in our returns as per the chart below and underpins our expectation of maintaining a consistent 7-8% yield for the coming year despite the current expectations of materially eroded dividend returns.



Source: Wheelhouse

Outlook

We find that analogies of previous crises such as the September 11 terrorist attacks or the GFC only go some way to understanding where we are in the current COVID crisis.

Most businesses were never designed to endure such an immediate and sudden destruction of demand. Usually during a more cyclical downturn, where the slowdown manifests itself over a period of months, many businesses struggle to right-size their cost base in time to prevent significant margin erosion. However, when revenue turns off almost overnight, as it has done particularly in the hospitality and travel sectors, that challenge is all but impossible.

With the US earnings season approaching later this month, we expect to witness the initial impact of the crisis on company earnings and the economy. As the length of the lockdown remains highly uncertain we believe that the full economic cost is almost impossible to calculate at this time. It would be surprising to us if company outlook statements saw a clearer path for a return to normalcy.

On the bright side, the speed and size of the monetary and fiscal stimulus response, globally, has been unprecedented, however longer-term implications on debt servicing and potentially inflation remain unknown.

If one comparison can be drawn from the September 11 attacks, which like the COVID-19 pandemic was an event-driven crisis, it is that we are entering a protracted period of increased market volatility where one of the primary sources of uncertainty is not economic. This is an important distinction from most other crises which are more purely economic in nature.

We recall living in New York and London in the years following Sept 11, and the very real sense of heightened fear that prevailed for many months afterwards. Smaller events - no less fearful - such as suspected anthrax attacks, or bomb scares, created an enduring environment of uncertainty, which was often reflected in the stock market.

We believe we may be entering a similar period, where the market see-saws between optimism and fear, as a virtuous cycle of declining infection rates followed by a relaxation of social distancing laws which in turn trigger secondary outbreaks of infections - until such time as either a vaccine is developed or herd immunity takes effect. The big difference with the Sept 11 aftermath is that the prescription for these outbreaks is additional lockdown, which continually delays the economic recovery.

In such a scenario the Fund is extremely well placed to achieve our two key deliverables of a 7-8% income yield whilst ensuring the investors' capital is protected. New

York State Governor Andrew Cuomo, who is doing an inspirational job at managing the crisis, recently quoted Disraeli in a speech when he said: “Hope for the best but prepare for the worst”.

At Wheelhouse we are completely aligned with this adage. We make no attempt to time market falls, instead relying on an ‘always on’ level of protection that we believe presents the most reliable, most predictable and most certain protection for the capital that we are entrusted to manage.

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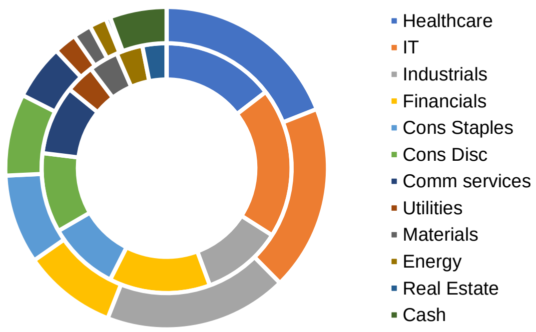
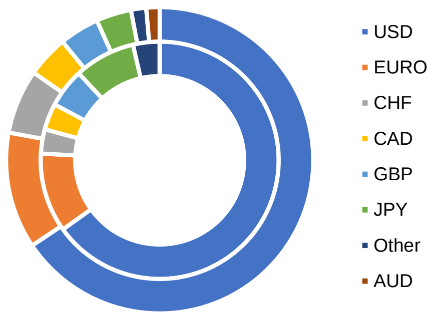
Sector exposure



Currency exposure



Outer circles: Wheelhouse
Inner circles: Benchmark

Contributors	Detractors
Kao Corp	Guidewire Software
Veeva Systems	United Technologies
Novo Nordisk	Microchip Technology
Roche	Zimmer Biomet
Reckitt Benckiser	Enbridge

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.