

# WaveStone Capital Absolute Return Fund

## Monthly Fund Report – January 2017

	Month (%)	Quarter (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	10 years (% p.a.)	Since inception (% p.a.) <sup>2</sup>
Fund return (incl. franking credits) <sup>1</sup>	-0.4	1.8	5.0	7.7	12.6	9.6	10.7
RBA Cash Rate	0.1	0.4	1.7	2.1	2.5	3.8	3.9
S&P/ASX 300 Acc Index	-0.8	6.4	17.3	7.4	10.4	4.1	5.2
Average Daily Net Equity Exposure	72	70	69	69	75	76	76

**Past performance is no indication of future performance.**

<sup>1</sup> After all fees and expenses and assumes all distributions are reinvested and inclusive of franking credits received.

<sup>2</sup> From the close of business 5 September 2006

### Fund facts as at 31 January 2017

Fund size	\$67.5m
Inception date	5 September 2006
Unit price - cash only	\$1.3198
Unit price - including franking	\$1.3282

### Month in review

The Australian equity market declined modestly in January falling -0.8%. The month began positively for equity markets, on expectations of an improving global economic outlook. However sentiment was stifled somewhat mid-month by early policy missteps from the newly inaugurated Trump administration raising fears of trade protectionism and heightened geo-political risks. From a local perspective a raft of pre-reporting season profit warnings and soft retailer related feedback (suppliers, landlords, media reports) over the key Christmas and summer trading period has fuelled some investor anxiety.

### Performance and activity

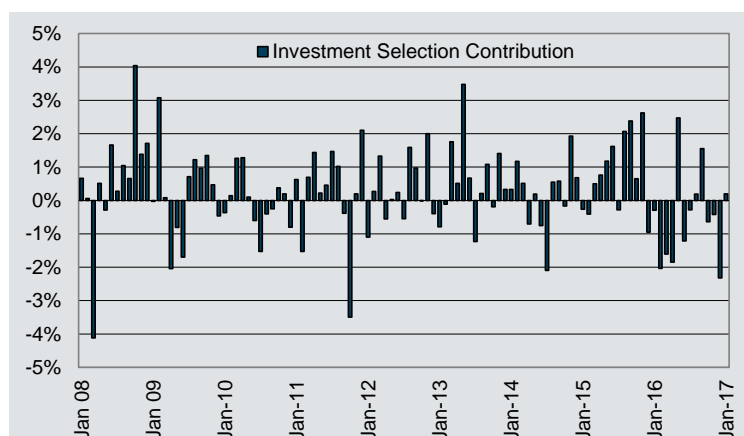
The Fund delivered a return of -0.4% (after fees), below its cash benchmark but modestly ahead of the broader market's which fell -0.8%. The Funds' performance benefited modestly from a lower Net Equity Exposure (NEE) ~72% and a positive contribution from individual name short positions. Noteworthy performers in the period were

**CSL's share price** jumped 12% in January after announcing a substantial upgrade to earnings guidance mid-month, lifting expected FY17 growth to 18-20% on a constant currency basis on FY16 earnings.

### Monthly investment selection contribution

	Market return x NEE = Mkt Contribution + Investment Selection Contribution = Fund Return				
	Market return	x NEE	= Market contribution	+ Investment Selection contribution	= Fund return

Jan-17	-0.8%	72	-0.6%	0.2%	-0.4%
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Source: WaveStone Capital

This table represents the part of the Fund's monthly Fund Return (defined above) that is attributable to WaveStone's investment selections. Investment selection contribution is defined as Fund Return less market benchmark adjusted by the Fund's Average Net Equity Exposure (NEE).

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The company's continuing investment in expanding its network of plasma collections centres, has provided an opportunity to grow market share as underlying IVIG demand continues to grow solidly at a time when some competitors have under invested in front end collections while others are impacted by specific plant production issues. The group's specialty products portfolio continues to exhibit strong growth with KCentra coagulant product and Berinert (HAE) generating standout revenue growth. More detail will be provided at the full year result and full year FY17 guidance appears conservatively struck.

**Rio Tinto's** share price rose 11% over the month, supported by a strong iron ore price, along with a reasonable quarterly production update. The Chinese government decision to curtail steel production from induction arc furnaces (which use scrap as raw material) has been interpreted by the markets as positive for iron ore demand. We expect Rio's full year result to be a standout for reporting season. The decision by Rio to sell Coal and Allied to Chinese company Yancoal for US\$2.5bn will likely lead to capital management initiatives.

The Fund's position in **Brambles** detracted from returns as the stock fell 16%. During the month the company provided a half year trading update which stated half year revenue growth had been 5% with underlying profits up 3%. At its AGM in November, the company had confirmed revenue guidance of 7-9% growth and 9-11% growth in underlying profit. Following the election of Trump, the stock had rallied and we were trimming our position based on valuation. We have meetings lined up with the new CEO post their February result to understand his perspective on strategy as well as analyse the result and outlook.

## Outlook

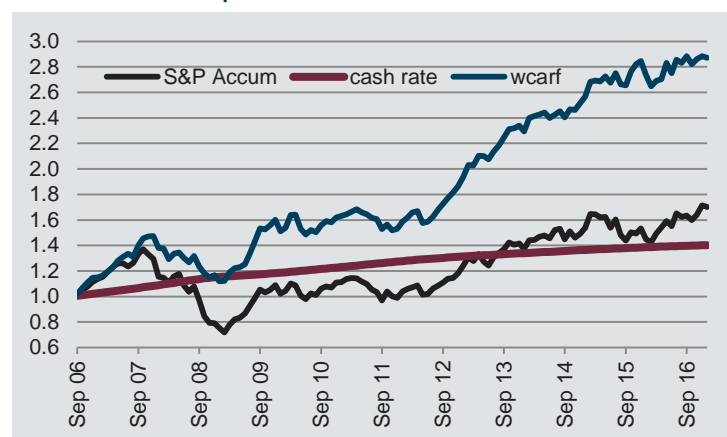
Moving into February, the half yearly reporting season will be the major focus for the Investment team. Outside of the commodity price driven upgrades across the resources sector, we assess earnings growth will be muted, and require careful stock selection. In preparation we have trimmed and exited a few positions where we identified heightened earnings or derating risk. Notwithstanding this period of intense individual stock scrutiny, we still expect investment markets to remain sensitive to major economic and geopolitical developments.

Overall global economic indicators are trending positive and recent announcements out of China supporting increased infrastructure spending should be constructive for Australian bulk resources demand at least through the first half of 2017. However, the upcoming election in France and the next steps in Brexit could place more strain on the Eurozone. While the market seems to respond to the each tweet emanating from the POTUS, investors are anxiously awaiting details of Trump's tax policy which will hopefully provide a building block to stimulate US economic activity.

## Stock exposure analysis as at 31 Jan 2017

Company	% of Fund capital
Westpac	8.2
Commonwealth Bank of Australia	6.7
National Australia Bank	5.7
CSL	5.0
Macquarie Group	4.7
<b>Top 10</b>	<b>49.1</b>
Ex-100 exposure	12.8
Net equity exposure	73
Cash/ (gearing) (ex SPI futures)	1.0

## Accumulated performance



The above graph tracks the Unit price (assuming distributions are reinvested and inclusive of franking credits as received) of the Wavestone Capital Absolute Return Fund against comparable benchmarks since inception. Inception date for the Fund is 5 September 2006. The benchmarks returns assumes dividends have been reinvested and have been prepared on the basis that the benchmark was \$1 at inception.