

# WaveStone Dynamic Australian Equity Fund

## Monthly Fund Report - January 2017

	Month (%)	Quarter (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	Since inception (% p.a.) <sup>3</sup>
Fund return (including franking credits) <sup>1</sup>	-0.3	2.6	6.5	8.5	12.8	11.5
Less: Franking credits <sup>2</sup>	0.0	0.3	1.3	1.4	1.3	1.4
<b>Total return<sup>1</sup></b>	<b>-0.3</b>	<b>2.3</b>	<b>5.2</b>	<b>7.1</b>	<b>11.5</b>	<b>10.1</b>
S&P/ASX 300 Accumulation Index	-0.8	6.4	17.3	7.4	10.4	9.6
RBA Cash Rate	0.1	0.4	1.7	2.1	2.5	3.2
Average Daily Net Equity Exposure	79	75	72	76	79	81

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

<sup>1</sup> After all fees and expenses and assumes all distributions are reinvested. Numbers may not add due to rounding.

<sup>2</sup> Franking credits accrued as received by the Fund

<sup>3</sup> The Fund's inception date is 2 July 2009

### Fund facts as at 31 January 2017

Fund size	\$197.2m
Inception date	2 July 2009
Benchmark	S&P/ASX300 Accumulation Index <sup>1</sup>
Exit price	\$1.4782

<sup>1</sup> From 1 January 2014, the benchmark of the Fund changed to the S&P/ASX 300 Accumulation Index. Prior to this, the benchmark of the Fund was the RBA Cash Rate.

### 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 total return of -0.3% (after fees), modestly ahead of the broader market's which fell -0.8%. The Funds' relative outperformance benefited from a lower Net Equity Exposure (NEE) of approximately 79% as well as a positive contribution from individual name short positions. Noteworthy performers in the period were CSL and Rio Tinto whilst BT Investment Management impacted on the downside.

**CSL** jumped 12% in January after announcing a substantial upgrade to earnings guidance mid-month, lifting expected FY17 growth to 18-20% at constant currency on FY16 earnings. The company's continuing investment in expanding its network of Plasma collections centres has provided an opportunity to grow market share as underlying IVIG 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.

As required by ASIC regulations, we confirm there have been no changes to key service providers for the Fund since the ASIC Benchmarks and Disclosure Principles Report was issued on 26 August 2015, there have been no material changes in the Fund's risk profile or strategy and there has been no change in the individuals playing a key role in the investment decisions for the Fund.

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.

Shares in **BT Investment Management** fell 12.1% in January following the announcement Gavin Rochussen (Group Executive, International) had resigned from JO Hambro and was leaving the BTIM Group for a competing UK boutique asset management firm. This was a disappointing announcement as we held Gavin in high regard. In addition to this news is the expectation for lower performance fees over the 2016 calendar year as a large proportion of the funds underperformed. The positive news was the \$1.9bn net Funds Under Management inflow over the quarter, predominantly from the global operation.

## 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.

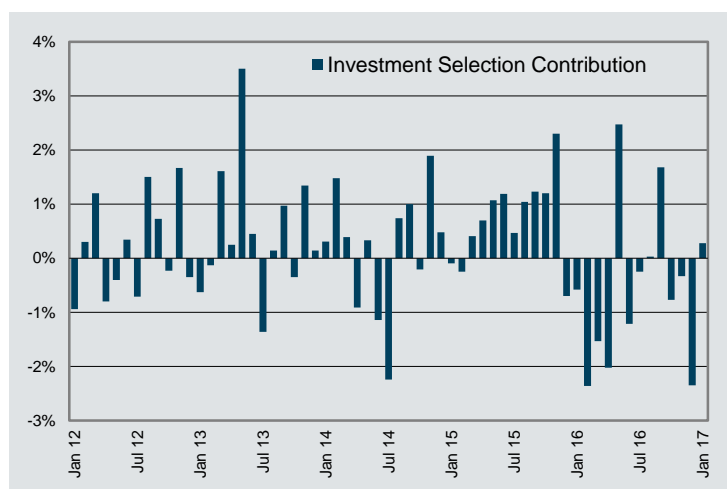
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## Stock exposure analysis as at 31 Jan 2017

Company	% of Fund capital
Westpac	8.8
Commonwealth Bank of Australia	7.1
National Australia Bank	6.1
CSL	5.2
Macquarie Group	4.8
<b>Top 10</b>	<b>51.8</b>
Ex-100 exposure	12.7
Net equity exposure	79
Cash/ (gearing) (ex SPI futures)	1.8

## Monthly investment selection contribution

	Market return x NEE = Mkt Contribution + Investment Selection Contribution = Total Return				
	Market return	x NEE	= Market contribution	+ Investment Selection contribution	= Total return
Jan-17	-0.8%	79	-0.6%	0.3%	-0.3%



Source: WaveStone Capital

This table represents the part of the Fund's monthly Total Return that is attributable to WaveStone's investment selections. Investment selection contribution is defined as Total Return (after all fees and expenses and assumes all distributions are reinvested) less market benchmark adjusted by the Fund's Average Net Equity Exposure (NEE).

**Past performance is not indicative of future performance**