WaveStone Dynamic Australian Equity Fund
Monthly Fund Report - February 2017

	Month (%)	Quarter (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	Since inception (% p.a.)[3]
Fund return (including franking credits)[1]	3.0	3.7	13.3	7.7	13.0	11.8
Less: Franking credits[2]	0.2	0.2	1.3	1.4	1.3	1.4
Total return[1]	**2.8**	**3.4**	**12.1**	**6.3**	**11.6**	**10.4**
S&P/ASX 300 Accumulation Index	2.2	5.8	22.0	6.4	10.4	9.8
RBA Cash Rate	0.1	0.4	1.7	2.1	2.5	3.1
Average Daily Net Equity Exposure	82	79	73	76	79	81

Past performance is no indication of future performance.
[1] After all fees and expenses and assumes all distributions are reinvested. Numbers may not add due to rounding.
[2] Franking credits accrued as received by the Fund
[3] The Fund's inception date is 2 July 2009

Fund facts as at 28 February 2017	
Fund size	$210.3m
Inception date	2 July 2009
Benchmark	S&P/ASX300 Accumulation Index[1]
Exit price	$1.5191

[1] 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 reporting season during February was slightly ahead of expectations, with profit beats outpacing earnings disappointments. The S&P/ASX 300 Accumulation index rose 2.2%, boosted by defensive sectors such as Consumer Staples (+6.0%), Real Estate Investment Trusts (+4.3%) as well as Financial stocks (+4.1). Laggard sectors included Materials falling 3.2%, despite delivering very strong earnings growth, and Telcos falling 3.1% against a backdrop of increasing industry competitiveness.

Higher commodity prices and ongoing cost control drove the substantial growth in Resources earnings and was the major component of aggregate earnings growth across the market. Overall the key themes from reporting season were reasonable revenue growth, solid cost control and a notable increase in capital management initiatives (higher dividends, increased buybacks and conservative capital expenditure guidance). Outlook statements contained cautious optimism.

Performance and activity

The Fund delivered a pleasing total return of +2.8% (after fees), solidly ahead of the market index increase of +2.2%. The outcome was achieved despite a modest drag from 82% NEE and single name shorts in a generally rising market.

On balance, the portfolio enjoyed a broadly positive reporting season with positive earnings surprises and capital management initiatives, standouts included CSL, Transurban, AGL and Super Retail. From a performance perspective, the Fund benefitted from the share price recovery in Mayne Pharma and the decision to have no exposure to Telstra. However, an underweight position in ANZ bank did drag on relative performance.

Telstra fell 4% after posting a disappointing result, with reported Earnings Before Interest Taxes Depreciation and Amortisation falling 4% to $5.2bn and full year revenue guidance downgraded to 'mid-single digit growth'. A decline in Mobile earnings for the first time since 2011 highlighted the intense competitive environment.

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.

While in Fixed Broadband, Telstra's momentum of net broadband adds also slowed, from a 49% share in 1H16 to 43% in 1H17. Against the background of intense competition across the telco sector, we consider the maintainability of the current dividend will be up for serious discussion as part of Telstra's capital management review.

Mayne Pharma rose 17% after reporting a solid H1 result, post the acquisition and integration of the Teva portfolio. We assess the Teva portfolio is delivering ahead of guidance on both sales run-rate and gross margins. Looking forward, additional costs saves should be realised over the medium term as the Teva portfolio shifts contract manufacturers as well as the partial in-housing of production.Whilst the Doryx branded division had a tough Q1 following a generic entry, it recovered strongly in Q2 benefiting from the launch of a new patent protected MPC formulation. We expect this dermatology franchise will be enhanced by further product launches (i.e. Fabior).

ANZ Bank reported a better than expected 1Q 17 result and the stock rallied 6%. Holding an underweight position detracted from relative returns. The result was boosted by strong trading income, asset sales and lower Bad and Doubtful Debt charges due to provision releases. We remain concerned, over declining returns on capital and higher funding pressures. On balance we assessed the profit result as a low quality beat and remain comfortable with our underweight position with a preference for the banks with a superior growth outlook.

Outlook

For the last six months, there has been growing evidence of increased global economic activity. The worries about deflation from a year ago have largely dissipated. Higher commodity prices have meant that nominal profits are up – raising hopes of an investment cycle. Trump's infrastructure push rhetoric in the US has meant that cyclical shares have rallied strongly in anticipation.

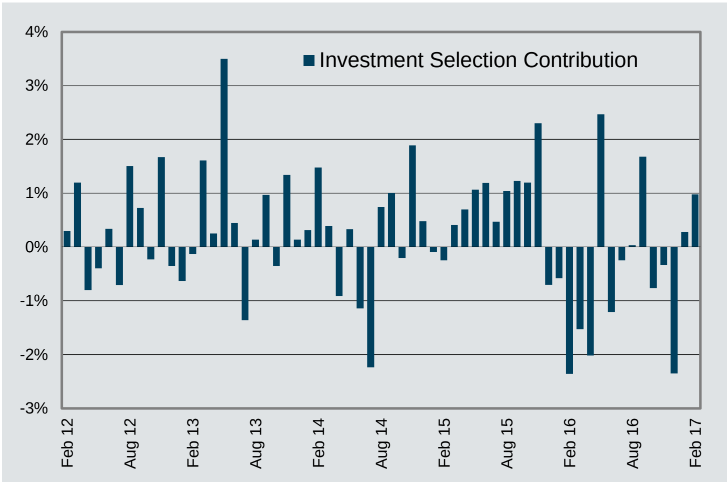
In the meantime, WaveStone remains focused on high quality franchises with embedded Superior Corporate DNA that are well positioned to benefit from a combination of structural and/or cyclical industry tailwinds.

Stock exposure analysis as at 28 Feb 2017

Company	% of Fund capital
Westpac	9.8
National Australia Bank	7.3
CBA	7.2
CSL	5.6
Transurban Group Stapled	4.4
Top 10	**53.7**
Ex-100 exposure	14.9
Net equity exposure	87
Cash/ (gearing) (ex SPI futures)	3.6

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
Feb-17	2.2%	82	1.8%	1.0%	2.8%



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