30 SEPTEMBER 2017

QUARTERLY REPORT

REDPOINT INDUSTRIALS SMA

Model Portfolio performance as at 30 September 2017	1 month (%)	3 months (%)	6 months (%)	1 year (%)	2 years (%)	Since Inception (%) [4]
Model Portfolio return (net) [1]	0.44	-0.64	-2.73	8.89	8.99	3.17
– Model Portfolio cash income	*0.40*	*1.34*	*2.38*	*5.15*	*5.21*	*5.10*
– Model Portfolio price return (net)	*0.04*	*-1.98*	*-5.11*	*3.75*	*3.78*	*-1.93*
Benchmark return [2]	0.21	-1.15	-2.66	7.98	9.65	3.81
Active return [3]	0.23	0.51	-0.07	0.91	-0.66	-0.64

1. Redpoint Industrials Separately Managed Account (SMA) (Model Portfolio) – performance is before taxes and transaction costs, but after management fees (net return).
2. S&P/ASX 100 Industrials Accumulation Index (Benchmark).
3. Active return is the difference between Model Portfolio net return and Benchmark return.
4. The Model Portfolio was established on 30 April 2015.

INVESTMENT OBJECTIVE

The Model Portfolio aims to provide a return in line with the S&P/ASX 100 Industrials Accumulation Index (Benchmark), after management fees, over rolling five-year periods. The Model Portfolio seeks to deliver the key income and growth characteristics of the Benchmark while holding less than half the companies in the Benchmark. The Model Portfolio is specifically built to capture these characteristics with low turnover.

Redpoint combines long horizon sustainable quality metrics and risk management expertise to exclude or underweight poorer rated companies. The Model Portfolio will usually hold 30 to 40 companies and aims to deliver a portfolio with low active risk relative to the Benchmark while being tilted towards companies with better quality characteristics.

PERFORMANCE COMMENTARY

For the three-month period ending 30 September 2017, the net return of the Model Portfolio was -0.64%. The net return of the Model Portfolio is comprised of two (2) components: a capital (price) return of -1.98%; and an income (dividend) return of +1.34%. Over the same period, the total return of the Benchmark was -1.15%. The Model Portfolio outperformed the Benchmark by +0.51% (active return).

Despite a positive total return of +0.21% in September, the Australian equity market (as represented by the Benchmark) had total returns of -0.98% in July and -0.38% in August, which resulted in a lacklustre third quarter for calendar 2017 (total return of -1.15%).

Over the quarter, the best performing sectors in the Benchmark were Information Technology (+3.3%), Consumer Staples (+2.5%) and Real Estate (+2.3%), while the worst performing sectors were Telecommunication Services (-15.8%), Utilities (-6.1%) and Health Care (-4.8%). Most of the negative performance for Telecommunication Services was due to Telstra Corporation Ltd, representing about 93% of the sector, which had a total return of -15.3% for the quarter.

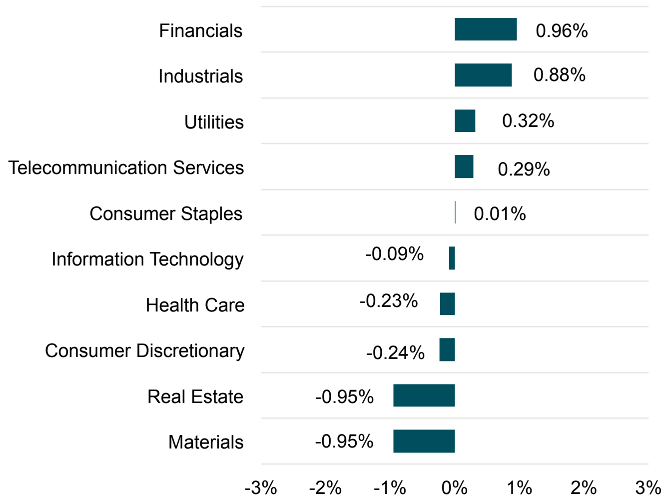
The September quarter delivered a cash yield of 1.34% for the Model Portfolio versus 1.29% for the Benchmark (on an ex-dividend basis). This was in line with our forecasts made in the June 2017 investment performance report (1.25% for the Model Portfolio and 1.27% for the Benchmark respectiively).

The Model Portfolio delivered a cash income yield of 5.15% over the past year and 5.10% per year since inception. These numbers are slightly better than the Benchmark yields of 4.96% and 5.00% per year respectively. These income figures do not include franking credits, which we estimate at approximately 1.59% over the past year and 1.42% per year since inception.

MODEL PORTFOLIO FACTS

Model Portfolio code	RISMA
Model Portfolio size ($)	80,554,712
Number of holdings	40
Inception date	30 April 2015

SECTOR ACTIVE WEIGHTS



TOP 10 HOLDINGS

Company	Model Portfolio (%)	Benchmark (%)	Active (%)
Commonwealth Bank of Australia	11.97	11.32	0.65
Westpac Banking Corporation	9.81	9.41	0.40
ANZ Banking Group Ltd	8.00	7.55	0.46
National Australia Bank Ltd	7.84	7.34	0.49
CSL Ltd	4.93	5.26	-0.34
Wesfarmers Ltd	4.69	4.07	0.62
Telstra Corporation Ltd	4.17	3.61	0.56
Woolworths Ltd	3.60	2.83	0.77
Macquarie Group Ltd	3.34	2.50	0.84
Transurban Group	2.38	2.12	0.26

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SECTOR ATTRIBUTION

Sector	Model Portfolio Average Active Weight (%)	Sector Allocation (%)	Stock Selection (%)
Materials	-0.05	0.01	0.18
Health Care	-1.02	0.05	0.11
Industrials	1.37	0.01	0.10
Consumer Staples	-0.59	-0.03	0.09
Real Estate	-0.35	0.00	0.01
Consumer Discretionary	-0.36	0.01	0.00
Financials	0.14	0.01	0.00
Information Technology	-0.10	0.00	0.00
Energy	0.00	0.00	0.00
Utilities	0.65	-0.03	0.03
Telecommunications	0.30	-0.05	0.02
Total	**0.00**	**-0.03**	**0.54**

Note: Contributions shown here are to the active return of the Model Portfolio.
Period: 30 June 2017 to 30 September 2017.

ATTRIBUTION COMMENTARY

For the September quarter, stocks in the Benchmark held by the Model Portfolio contributed +0.08% to active return, whereas stocks in the Benchmark not held by the Model Portfolio contributed +0.43% to active return.

A returns-based attribution shows that active return is comprised of two (2) key components: sector allocations, which detracted -0.03% from active return; and stock selection within the sectors, which contributed +0.54% to active return.

From a sector allocation perspective, an underweight position in the Health Care sector contributed +0.05% to active return. Offsetting this positive return, an underweight position in the Consumer Staples sector and overweight positions in the Telecommunication Services and Utilities sectors detracted -0.03%, -0.05% and -0.03% respectively from active return.

Stock selection in the Materials, Health Care, Industrials and Consumer Staples sectors added the most value; contributing +0.18%, +0.11%, +0.10% and +0.09% respectively to active return. For example, underweight positions in Ramsay Health Care Ltd (ASX: RHC) (Health Care), James Hardie Industries (Materials), Healthscope Ltd (Health Care) and Coca-Cola Amatil Ltd (Consumer Staples) and overweight positions in CSR Ltd (ASX: CSR) (Materials) and CIMIC Group Ltd (Industrials) collectively contributed +0.56% to active return. The largest contributors to active return were RHC (+0.12%) and CSR (+0.11%).

RHC, the largest private hospital operator in Australia, and one of the largest in the world, had a total return of -14.3% for the quarter as investors continue to be concerned about the near-term growth prospects for the company as it expands operations in France and the UK, where the business environment for health care services is not as strong as it is in Australia.

CSR had a total return of +11.8% for the quarter as investors seek exposure to the strong housing construction market. CSR sells a large range of building products ranging from bricks, plasterboard, insulation, glass, aluminium, cement and roof tiles. Exposure to all phases of house construction is being viewed positively by investors.

Although stock selection in the Telecommunicaion Services sector was relatively neutral, an overweight position in Telstra Corporation Ltd (ASX: TLS), which had a total return of -15.3% for the quarter, detracted -0.11% from active return.

LARGEST CONTRIBUTORS

Company	Model Portfolio Average Weight (%)	Benchmark Average Weight (%)	Contribution (%)
Ramsay Health Care Ltd	0.00	0.77	0.12
CSR Ltd	1.23	0.18	0.11
James Hardie Industries	0.00	0.70	0.10
CIMIC Group Ltd	1.05	0.35	0.10
Aristocrat Leisure Ltd	0.19	1.15	0.08
APA Group	0.00	0.83	0.08
Healthscope Ltd	0.00	0.29	0.07
Lend Lease Group	1.64	0.85	0.07
Coca-Cola Amatil Ltd	0.00	0.38	0.06
Suncorp Group Ltd	0.93	1.50	0.06

LARGEST DETRACTORS

Company	Model Portfolio Average Weight (%)	Benchmark Average Weight (%)	Contribution (%)
Telstra Corporation Ltd	4.66	4.04	-0.11
AGL Energy Ltd	2.47	1.37	-0.07
Navitas Ltd	0.76	0.00	-0.07
Mirvac Group	0.19	0.70	-0.06
Flight Centre Travel Group	0.14	0.22	-0.06
Commonwealth Bank	12.25	11.80	-0.05
Bank of Queensland Ltd	0.00	0.41	-0.05
Treasury Wine Estates Ltd	0.00	0.85	-0.04
IOOF Holdings Ltd	0.00	0.24	-0.04
Bendigo & Adelaide Bank	0.00	0.47	-0.03

Note: Contributions shown here are to the active return of the Model Portfolio.
Period: 30 June 2017 to 30 September 2017.

TLS shares have been sold down heavily over the past year (-32.6%) as analysts and investors discount the value of TLS's fixed line businesses, given that the National Broadband Network (NBN) will change the way broadband is delivered and priced. Adding to this selling pressure is TPG Telecom Ltd's plan to launch a 5G mobile network, which may disrupt TLS's lucrative mobile phone business. In August, TLS confirmed that it would be reducing its dividend payments in future to a smaller percentage of its operating earnings versus prior years. The Model Portfolio continues to hold a position in TLS, which is slightly above Benchmark weight. This overweight position is mostly due to not holding any shares in its competitors such as TPG Telecom Ltd and Vocus Group Ltd. Our long horizon quality metrics continue to prefer TLS over these two (2) sector peers.

Stock selection in the Financials sector was also relatively neutral, however, underweight positions (not held at all) in Bank of Queensland Ltd, IOOF Holdings Ltd and Bendigo & Adelaide Bank Ltd, which had total returns of +13.4%, +16.6% and +7.8% respectively for the quarter, collectively detracted -0.12% from active return.

ATTRIBUTION COMMENTARY (CONT'D)

An overweight position in Navitas Ltd (subsequently deleted from the Benchmark and the Model Portfolio) and an underweight position in Flight Centre Travel Group Ltd (both Consumer Discretionary), which had total returns of -6.8% and +19.9% respectively for the quarter, collectively detracted -0.13% from active return.

An overweight position in Commonwealth Bank of Australia (ASX: CBA) (Financials), which had a total return of -6.5% for the September quarter, detracted -0.05% from active return. CBA shares have underperformed recently due to poor sentiment after the announcement of potential financial penalties associated with its inadvertent money laundering activities. The Model Portfolio made a small increase to its position in mid-August, when the share price reacted to initial media reports. This trade also allowed the Model Portfolio to receive slightly more dividend income on 16 August, when CBA shares traded ex their final dividend of $2.30 per share (the dividend was also full franked, meaning that it carried a tax credit of almost $1 per share).

POSITION CHANGES

As at 30 September 2017, the Model Portfolio holds 40 of the 84 companies in the Benchmark universe. Turnover for the Model Portfolio continues to be relatively low. During the quarter the Model Portfolio took up new positions in Aristocrat Leisure Ltd, Cochlear Ltd, Flight Centre Travel Group Ltd and Mirvac Group and sold completely out of DuluxGroup Ltd, Harvey Norman Holdings Ltd, Investa Office Fund, Sonic Healthcare Ltd and Navitas Ltd (deleted from the Benchmark universe). These changes were due, in part, to new information received during the recent annual reporting season and our ongoing assessment of portfolio risk and diversification. The Model Portfolio also reduced its positions in Goodman Group, Sydney Airport Holdings Ltd, AGL Ltd, Adelaide Brighton Ltd, Aurizon Ltd, Qantas Airways Ltd, CSR Ltd and Macquarie Group Ltd. At the same time we increased exposure to Woolworths Ltd, Brambles Ltd, Westpac Banking Corporation, Ansell Ltd and CBA.

While our long-term views on some companies have changed (prompting a rebalance) we have also witnessed an increase in active risk versus the Benchmark due to the outperformance of the Model Portfolio. Notwithstanding these trades, the Model Portfolio has enjoyed minimal turnover over the past two (2) years and we retain our focus on delivering the key income and growth characteristics of the Benchmark, while taking an appropriately risk manged long-term perspective.

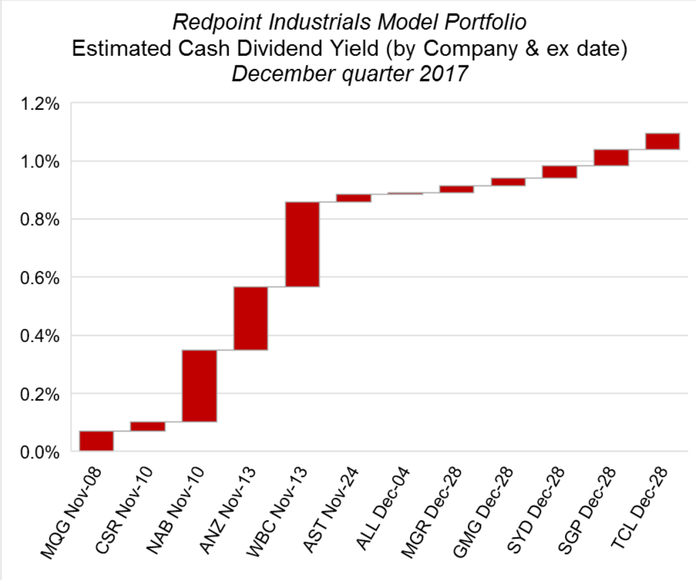
The S&P/ASX will review index memberships in December and any additions/deletions to the Benchmark may prompt a rebalance of the Model Portfolio at that time.

DIVIDEND INCOME

A key characteristic of the Model Portfolio is its focus on capturing the key income and growth drivers of the Benchmark over the longer term in a low turnover, risk managed portfolio. To deliver this outcome we utilise a combination of risk management and long horizon quality metrics to select a diversifed set of companies that we wish to hold for the longer term.

Cash dividend income expectations for the Model Portfolio for the December 2017 quarter are currently estimated at 1.10% versus the Benchmark at 1.27%. The Model Portfolio is forecast to receive dividends from 13 companies; the Benchmark is expected to have dividends declared by 27 companies. Dividend income will be derived from a range of companies across a variety of sectors. For example, companies such as National Australia Bank Ltd, CSR Ltd and Transurban Group NPV are due to declare dividends in the December 2017 quarter.

The chart below shows the dividends expected to be earned by the Model Portfolio over the course of the December 2017 quarter.



Source: Redpoint, Bloomberg

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