redpoint Investment Management

31 MARCH 2018

QUARTERLY REPORT

REDPOINT INDUSTRIALS SMA

Model Portfolio performance as at 31 March 2018	1 month (%)	3 months (%)	6 months (%)	1 year (%)	2 years (%)	Since Inception (%) [4]
Model Portfolio return (net) [1]	-3.50	-3.42	1.15	-1.61	7.82	3.02
– Model Portfolio cash income	*0.20*	*1.07*	*2.14*	*4.45*	*4.96*	*4.96*
– Model Portfolio price return (net)	*-3.70*	*-4.48*	*-0.98*	*-6.05*	*2.86*	*-1.93*
Benchmark return [2]	-3.80	-3.82	1.56	-1.14	8.05	3.69
Active return [3]	0.30	0.40	-0.41	-0.47	-0.23	-0.67

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 31 March 2018, the net return of the Model Portfolio was -3.42%. The net return of the Model Portfolio is comprised of two (2) components: a capital (price) return of -4.48%; and an income (dividend) return of +1.07%. Over the same period, the total return of the Benchmark was -3.82%. The Model Portfolio outperformed the Benchmark by +0.40% (active return).

The Australian equity market (as represented by the Benchmark) had total returns of -0.70% in January, +0.67% in February and -3.80% in March, which resulted in a negative return for first quarter for calendar 2018 (i.e. total return of -3.82%).

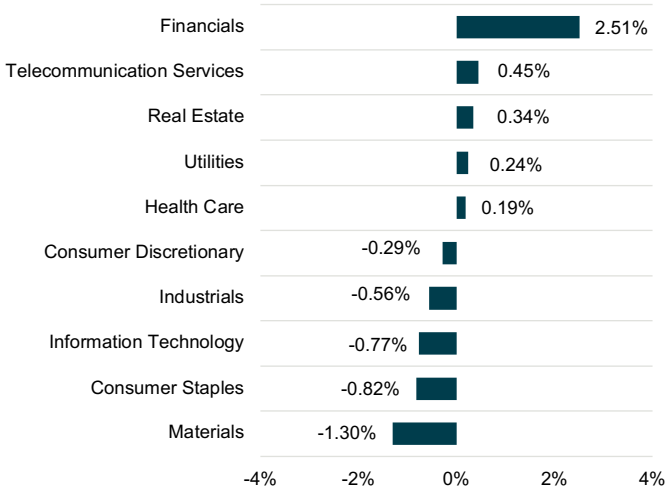
Over the quarter, the best performing sectors in the Benchmark were Health Care, Information Technology and Consumer Saples, with total returns of +7.0%, +2.9% and +1.0% respectively. All the remaining sectors of the market had negative total returns: Telecommunication Services (-11.5%), Utilities (-6.7%), Financials (-5.8%), Real Estate (-5.4%), Consumer Discretionary (-4.9%), Industrials (-4.0%) and Materials (-3.3%).

The March quarter delivered a cash yield of 1.07% for the Model Portfolio versus 1.06% for the Benchmark (on an ex-dividend basis). This was in line with our forecasts made in the December 2017 investment performance report (1.16% for the Model Portfolio and 1.14% for the Benchmark respectiively).

MODEL PORTFOLIO FACTS

Model Portfolio code	RISMA
Model Portfolio size ($)	88,165,909
Number of holdings	40
Inception date	30 April 2015

SECTOR ACTIVE WEIGHTS



TOP 10 HOLDINGS

Company	Model Portfolio (%)	Benchmark (%)	Active (%)
Commonwealth Bank of Australia	11.54	10.95	0.58
Westpac Banking Corporation	8.85	8.42	0.43
ANZ Banking Group Ltd	7.60	6.78	0.81
National Australia Bank Ltd	7.12	6.70	0.42
CSL Ltd	5.82	6.08	-0.26
Wesfarmers Ltd	4.71	4.07	0.64
Macquarie Group Ltd	3.85	2.81	1.04
Telstra Corporation Ltd	3.84	3.23	0.61
Woolworths Group Ltd	3.82	2.96	0.85
Transurban Group	2.21	2.19	0.02

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SECTOR ATTRIBUTION

Sector	Model Portfolio Average Active Weight (%)	Sector Allocation (%)	Stock Selection (%)
Real Estate	0.72	0.13	0.14
Financials	1.32	-0.02	0.24
Health Care	-0.18	-0.01	0.22
Consumer Discretionary	-0.14	0.00	0.08
Materials	-1.20	-0.01	0.07
Industrials	0.31	-0.05	0.09
Information Technology	-0.46	-0.03	0.05
Telecommunications	0.20	-0.02	0.03
Utilities	0.29	-0.02	-0.05
Consumer Staples	-0.85	-0.05	-0.36
Total	**0.00**	**-0.10**	**0.50**

Note: Contributions shown here are to the active return of the Model Portfolio.
Period: 29 December 2017 to 29 March 2018.

ATTRIBUTION COMMENTARY

For the March quarter, stocks in the Benchmark held by the Model Portfolio detratcted -0.09% from active return, whereas stocks in the Benchmark not held by the Model Portfolio contributed +0.49% to active return.

We are quite pleased with recent performance of the Model Portfolio as it highlights the defensive positioning of the portfolio and validates our strategy of seeking to invest in better quality companies for the long term. The recent market falls have shown that poor quality companies can be at risk during periods of market stress. The stock by stock attribution shows that value add was fully contributed by the companies in which we had no holding. Unfortunately, The A2 Milk Company Ltd (ASX: A2M) was added to the S&P/ASX 100 Index during the quarter and the Model Portfolio has not taken a position in this company. This was by far the largest detractor to relative performance (-0.24%). We remain comfortable of not owning A2M at current price levels, preferring a more diversified exposure to the retailing of consumer staples via Woolworths Group Ltd and Wesfarmers Ltd at this time.

A returns-based attribution shows that active return is comprised of two (2) key components: sector allocations, which detracted -0.10% from active return; and stock selection within the sectors, which contributed +0.50% to active return.

From a sector allocation perspective, an overweight position in the Real Estate sector contributed +0.13% to active return. On the other hand, overweight positions in Financials, Industrials, Telecommunication Services and Utilities and underweight positions in Health Care, Materials, Information Technology and Consumer Staples collectively detracted -0.22% from active return.

Stock selection in the Financials, Health Care and Real Estate sectors added the most value, contributing +0.24%, +0.22% and +0.14% respectively to active return. Some of the best performing stocks for the quarter were overweight positions in Flight Centre Travel Group Ltd (Consumer Discretionary), ResMed Inc (Health Care), Qantas Airways Ltd (Industrials), CSR Ltd (Materials) and Lend Lease Group (Real Estate) and underweight positions in Vicinity Centres (Real Estate, not held), Ramsey Health Care (Health Care, not held), Aurizon Holdings Ltd (Industrials), Bendigo & Adelaide Bank Ltd (Financials, not held) and Bank of Queensland Ltd (Financials, not held), which collectively contributed +0.84% to active return. Flight Centre Travel Group Ltd had a total return of +30.1% for the quarter and the overweight position in this stock contributed +0.16% to active return.

LARGEST CONTRIBUTORS

Company	Model Portfolio Average Weight (%)	Benchmark Average Weight (%)	Contribution (%)
Flight Centre Travel Group	0.85	0.25	0.16
ResMed Inc	1.57	0.55	0.12
Qantas Airways Ltd	1.37	0.80	0.09
Vicinity Centres	0.00	0.69	0.08
CSR Ltd	1.14	0.22	0.08
Ramsay Health Care Ltd	0.00	0.72	0.08
Lend Lease Group	1.55	0.81	0.06
Aurizon Holdings Ltd	0.50	0.77	0.06
Bendigo & Adelaide Bank	0.00	0.45	0.06
Bank of Queensland Ltd	0.00	0.40	0.06

LARGEST DETRACTORS

Company	Model Portfolio Average Weight (%)	Benchmark Average Weight (%)	Contribution (%)
The A2 Milk Company Ltd	0.00	0.59	-0.24
Challenger Ltd	1.31	0.62	-0.15
CIMIC Group Ltd	1.19	0.39	-0.12
Stockland Corporation Ltd	1.60	0.85	-0.08
Tabcorp Holdings Ltd	1.17	0.82	-0.08
AGL Energy Ltd	1.92	1.25	-0.07
Treasury Wine Estates Ltd	0.00	1.02	-0.06
AusNet Services Ltd	0.96	0.25	-0.06
Medibank Private Ltd	1.27	0.73	-0.05
Telstra Corporation Ltd	3.98	3.48	-0.05

Note: Contributions shown here are to the active return of the Model Portfolio.
Period: 29 December 2017 to 29 March 2018.

This was offset by stock selecton within the Consumer Staples and Utilities sectors, which detracted -0.36% and -0.05% respectively from active return. Some of the worst performing stocks for the quarter were underweight positions in The A2 Milk Company Ltd (Consumer Staples, not held) and Treasury Wine Estates Ltd (Consumer Staples, not held) and overweight positions in Challenger Ltd (Financials), CIMIC Group Ltd (Industrials), Stockland Corporation Ltd (Real Estate), Tabcorp Holdings (Consumer Discretionary), AGL Energy Ltd (Utilities), Ausnet Services ((Utilities), edibank Private Ltd (Financials) and Telstra Corporation Ltd (Telecommunication Services), which collectively detracted -0.96% from active return. The A2 Milk Company Ltd had a total return of +55.5% for the quarter and having an underweight position (i.e. not held) in this new addition to the Benchmark detracted -0.24% from active return.

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POSITION CHANGES

As at 31 March 2018, the Model Portfolio holds 40 of the 84 companies in the Benchmark universe. Turnover for the Model Portfolio continues to be relatively low.

The Model Portfolio participated in a capital raising in Transurban Group and these shares were allocated to client accounts in early February. During the quarter the Model Portfolio took up a new positions in Dexus Property Group and Challenger Ltd. These purchases were primarily funded by selling completely out of The Star Entertainment Group Ltd and Aurizon Holdings Ltd.

There were no other significant changes to the Model Portfolio in the March quarter. The S&P/ASX will review index memberships in June 2018 and any additions/deletions to the Benchmark may prompt a rebalance of the Model Portfolio at that time.

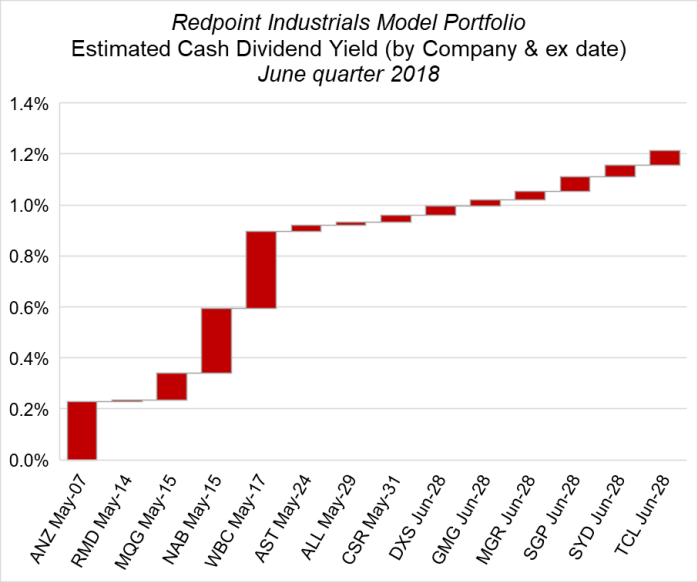
DIVIDEND INCOME

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 June 2018 quarter are currently estimated at 1.21% versus the Benchmark at 1.13%.

The Model Portfolio is forecast to receive dividends from 14 companies; the Benchmark is expected to have dividends declared by 28 companies. Dividend income will be dominated by the banks in May with ANZ Banking Group, Macquarie Group Ltd, National Australia Bank Ltd and Westpac Banking Corporation all expected to declare dividends – these four (4), in aggregate, should deliver approximately a 0.90% cash dividend yield to investors. Other companies expected to declare dividends are: building materials stock CSR Ltd; transport companies such as Sydney Airport Holdings Ltd and Transurban Group; plus property trusts Dexus, Goodman Group, Stockland Corporation Ltd and Mirvac Group.

The chart below shows the dividends expected to be earned by the Model Portfolio over the course of the June 2018 quarter.



Source: Redpoint, Bloomberg

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