CANACCORD Genuity

High Growth Portfolio Investor Update Q2 FY19

As at 31 December 2018

Key Facts

Inception date	5 March 2018
Investment minimum	$100,000
Minimum suggested timeframe	7 years
Estimated yield*	3.70%

Investment Objective

The investment objective is to achieve a return of CPI + 6% per annum over the long-term by investing in a diverse mix of asset classes covering Australian equities, international equities, property, infrastructure, alternatives, fixed interest and cash.

Portfolio Commentary

December was the third consecutive month of downward trending equity markets. Volatility levels remained elevated in both directions, as exemplified by the market rally of the last few days of the year. The negative market sentiment was driven by a familiar news flow: mixed signals emanating from US and China regarding trade negotiations, the growing likelihood of a hard Brexit, falling property prices in Australia and another US government shutdown. Above all, the 9th consecutive rate hike by the US Federal Reserve Bank appeared to have shaken market participants: while the move itself was widely anticipated, the market hoped that the Fed would signal a pause in its hiking cycle for 2019, which didn't occur. Amid these chaotic markets, some interesting trends are emerging: in December, global bonds finally re-established their negative correlation to equities, emerging markets posted positive returns, and the US underperformed every other major regional market.

Performance to 31 December 2018

	1 Month	3 Months	6 Months	Since Incept.
Canaccord Genuity High Growth Portfolio	-1.8%	-8.8%	-5.7%	-3.6%
Morningstar Aus Msec Aggressive TR AUD	-2.0%	-8.3%	-4.7%	-0.1%
Excess above objective	**0.2%**	**-0.5%**	**-1.0%**	**-3.5%**

All growth assets posted negative returns for the quarter. International equities led the way down (-11.1%) followed by Australian equities (-8.4%). By comparison, emerging markets faired relatively well (-4.9%), having found a "valuation floor" following the upheaval of previous quarters. Australian REITs displayed defensive characteristics over the period (-1.7%), outperforming their global counterparts (-6.0%). Finally, fixed interest assets posted positive results as investors flocked to safety. As has been the case throughout the year, Australian bonds (2.2%) outperformed global bonds (1.7%).

Despite the negative overall returns, the portfolio outperformed our internal composite benchmark, proving that our intended positioning functioned somewhat as expected. We have positioned the portfolio defensively since the start of the year while maintaining a sizeable allocation to growth assets. This meant that we were (and continue to be) exposed to market downturns, but expect to mitigate the falls. From an asset allocation perspective, our underweight to international equities added value, as did our overweights to Alternatives and Cash. This was somewhat mitigated by our underweight to fixed interest, which detracted value. At a manager level, the portfolio's international equity strategies were the standout performers, with Royal London, Munro and Robeco all adding value. On the other hand, Allan Gray, Macquarie Income and T. Rowe Price all underperformed their respective benchmarks.

December was the third consecutive month of downward trending equity markets. Volatility levels remained elevated in both directions, as exemplified by the market rally of the last few days of the year.

In December, global bonds finally re-established their negative correlation to equities, emerging markets posted positive returns, and the US underperformed every other major regional market.

Growth of $100,000 (Income Reinvested)

We have positioned the portfolio defensively since the start of the year while maintaining a sizeable allocation to growth assets.

The Portfolio underperformed its CPI+ objectives for the quarter, but as has been articulated before, the CPI+ objective is an absolute measure and needs to be taken into account over a longer cycle. Given the short history of the portfolios we have been warning investors of the risk that they may experience a period of underperformance relative to the objective, which eventuated in the December quarter. Part and parcel of investing and seeking returns means taking on risk in order to do so. Therefore, given the portfolios will always have some exposure to equities then it should be expected that the portfolios may undergo periods where they may not meet their CPI+ objective over short-to-medium term periods. Nonetheless, we estimate that under a worst-case scenario the portfolio may experience a short-term fall in the portfolio's market value of around 13%. However, at that point it is likely that markets would be offering more attractive prospective returns to which the portfolio's expected returns are likely to exceed the CPI+2% objective.

Asset Allocation (%)

	Strategic Allocation	Current Allocation
Australian Equities	44.0	43.3
International Equities	43.0	38.0
Property & Infrastructure	13.0	6.1
Fixed Interest	0	0
Alternatives	0	8.1
Cash	0	4.5

Our underweight to international equities added value, as did our overweights to Alternatives and Cash.

Active Asset Allocation

Asset Class	Dynamic Positioning	Comments
Australian Equities	*Neutral*	While Australian equities appear attractive relative to the US, they are valued more or less on-par with Europe and Japan. Since Australian equities entail greater concentration risks than their developed market counterparts, we see no compelling reason to overweight the asset class.
International Equities	*Small O/W*	Within international equities, the portfolio has a significant underweight to the US and overweights to Europe, Asia and Emerging Markets.
Property & Infrastruture	*U/W*	Property & infrastructure lagged equity markets in late 2017 and beginning of 2018, becoming less expensive, but not enough to warrant closing the underweight. Later in the year the asset class recovered some of its lost performance, and remains unattractive relative to other growth assets.
Fixed Income	*U/W*	We maintain an underweight to fixed interest, and to US duration in particular, as interest rates continue to rise. Within Fixed Interest, the portfolio maintains an exposure to duration assets in Australia, floating rate credit, and variable exposure to global duration.
Alternative	*O/W*	We are overweight Alternatives primarily because expected returns on traditionally growth assets are low by historical standards and we aim to position the portfolio defensively as a result.
Cash	*O/W*	The overweight to cash is a consequence of our underweight to fixed interest, and allows us to wait patiently until we can find more attractive investment opportunities.

At a manager level, the portfolio's international equity strategies were the standout performers, with Royal London, Munro and Robeco all adding value. On the other hand, Allan Gray underperformed its benchmark.

Underlying Manager Allocation & Performance

Performance to 31 December 2018	Weight	3 Months	6 Months	1 Year	Est. Yield*
Australian Equities	**43.3%**				
Canaccord Genuity Aus Equities Income Portfolio (I)	21.8%	-8.6%	-5.0%	0.17%	5.0%
Allan Gray Australia Equity Fund	17.3%	-11.0%	-9.0%	-7.3%	5.7%
Spheria Australian Smaller Companies Fund	4.2%	-12.6%	-9.1%	-6.3%	4.6%
International Equities	**38.0%**				
Ironbark Royal London Concentrated Global Share Fund	15.3%	-9.6%	-2.6%	6.8%	2.8%
Munro Global Growth Fund	11.3%	-9.6%	-4.5%	2.8%	1.6%
Platinum European Fund	5.5%	-11.4%	-8.4%	-5.2%	3.7%
iShares MSCI Japan ETF	1.9%	-13.1%	-7.8%	-5.0%	2.7%
Robeco Emerging Conservative Equity Fund	4.0%	-5.0%	-0.1%	1.8%	5.5%
Property & Infrastructure	**6.1%**				
Vanguard Australian Property Securities Index Fund	2.8%	-1.7%	0.2%	3.1%	5.6%
RARE Infrastructure Value Fund - Hedged	3.3%	-4.1%	-4.3%	-4.5%	4.7%
Alternatives	**8.1%**				
Ellerston Australian Market Neutral Fund	3.9%	-6.9%	-11.1%	-11.3%	0.2%
GMO Systematic Global Macro Trust	4.2%	-2.0%	-5.5%	-0.3%	0.0%
Cash	**4.5%**				
BetaShares Australian High Interest Cash ETF (AAA)	2.1%	0.5%	1.0%	2.0%	2.0%
Cash	2.4%	0.5%	1.0%	1.9%	1.0%

*Estimated Yield corresponds to the estimated dividend yield of underlying stock holdings for equity based portfolios and funds, and to the yield to maturity for fixed income funds. Income distributions may vary from the estimated yield as funds may elect to distribute capital gains.

Australian Equities Component

The S&P/ASX 300 Index returned -8.41% over the December quarter while mid-caps (-13.1%) and small caps (-13.4%) underperformed markedly. Within sectors, Energy was the worst performer (-21.6%) driven down by oil prices. Telecom (-14.9%), Consumer Discretionary (-14.2%) and IT (-14.1%) also struggled. The best performing sectors were REITs (-1.7%) and Utilities (-3.1%), both known for their defensive characteristics. The Canaccord Genuity Australian Equity Income portfolio (-8.6%) performed in line with the market over the quarter. The major positive contributors were Woolworths Group (WOW), Viva Energy (VVR) and Ramsay Healthcare (RHC). The investment performance was also supported by a cash weighting of c13%, providing ballast in a period where volatility increased measurably. The main detractors to performance were Boral (BLD), Adelaide Brighton (ABC) and Caltex (CTX). By contrast, Allan Gray underperformed over the quarter, driven down by its overweight to Energy and Materials (Newcrest, Woodside, Origin, Alumina, Sims, Oil Search). Finally, Spheria (-12.6%) slightly outperformed its small cap index.

Top 10 holdings

Company	Weight
Woodside Petro	6.1%
BHP Group Ltd	4.6%
Woolworths Group	4.5%
QBE Insurance	4.3%
Newcrest Mining	4.2%
Alumina Ltd	4.2%
Brambles Ltd	3.6%
Vang MSCI AUS SM	3.4%
Origin Energy	2.9%
Aust and NZ Bank	2.7%

Estimated dividend yield

Estimated Fwd P/E ratio

Sector exposures

Market cap exposures

International Equities Component

The MSCI World ex-Australia index was down -11.1% over the December quarter, while hedged equities performed even worse (-13.6%) due to a weakening Australian dollar. The only bright spot came from emerging markets (-4.9%) driven by the election of a market-friendly president in Brazil (+11.9%), and good relative performance in India (-0.2%). By contrast, every region in developed markets performed poorly, led by Japan (-16.8%), US (-13.5%), Germany (-13.8%) and France (-13.6%). Only the UK, where it appears that a no-deal Brexit is at least partially priced-in, performed slightly better (-9.6%). In this context, the portfolio's two core managers Royal London (-9.6%) and Munro (-9.6%) both managed to limit losses. Royal London's performance was helped by exposure to select Healthcare stocks (Eli Lilly, Johnson & Johnson) while Munro relied on its short stocks and option hedging (long puts) strategy. Platinum European (-11.4%) slightly underperformed its European Index (-10%) over the quarter. Its holdings include many companies that are sensitive to the economic cycle, which have suffered disproportionately in this market. Like Munro, Platinum Europe holds short positions and variable cash amounts, which helped offset the underperformance of cyclical stocks but didn't prove sufficient. After having performed exceptionally well in recent quarters, the Robeco Emerging Conservative fund (-5%) performed in line with its emerging market index. Finally, the portfolio was negatively impacted by its small overweight to Japan.

Top 10 holdings

Company	Weight
Microsoft Corp	2.5%
Amazon.com Inc	2.2%
Alphabet Inc-A	2.0%
Suncor Energy	1.9%
Berkshire Hath-B	1.8%
Eli Lilly & Co	1.7%
Steel Dynamics Inc	1.6%
TJX Cos Inc	1.6%
Bandai Namco Hol	1.6%
Safran SA	1.5%

Estimated dividend yield

Estimated Fwd P/E ratio

Sector exposures

Regional exposures

Property Component

The A-REITs market was down -1.7% over the quarter. Despite positive performances by Schopping Centres (+9.2%), Charter Hall (+8.9%) and BWP (+8.3%), the sector was weighed down by Stockland (-12%), Cromwell (-5.2%) and Mirvac (-4.9%).

Top 10 holdings

Company	Weight
Scentre Group	18.5%
Goodman Group	15.2%
Dexus	9.5%
GPT Group	8.5%
Stockland	7.6%

Estimated dividend yield

Estimated Fwd P/B ratio

Sectors

Retail REITs	38.9%
Diversified REITs	29.1%
Industrial REITs	16.3%
Office REITs	12.0%
Residential REITs	0.6%
Health Care REITs	0.6%
Specialized REITs	2.6%

Infrastructure Component

Top performers for RARE, the portfolio's dedicated Infrastructure manager, included US electricity and gas company SCANA, US electric Emera and Australian toll operator Transurban. On a regional basis, USA & Canada were the top detractors from quarterly performance, of which US gas Williams Company and US electric PG&E were the lead detractors. The recent California wildfires impacted the share price of PG&E Corporation which sold off on the back of heightened market speculation that utility equipment had started the fires.

Top 10 holdings

Company	Weight
Enbridge Inc	6.5%
National Grid PL	5.1%
Emera Inc	5.1%
Williams Cos Inc	5.1%
United Utilities	4.9%
Transurban Group	4.8%
Atlantia Spa	4.4%
Crown Castle Int	4.0%
Union Pac Corp	4.0%
American Electri	3.5%

Estimated dividend yield

Estimated Fwd EV/EBITDA

Sectors

Highways & Rail	20.7%
Electric Utility & Production	18.4%
Water, Gas & Multi-Utilities	26.9%
Oil & Gas Storage & Transportation	14.9%
Airports & Marine Ports	7.0%
Construction & Engineering	5.5%
Cable & Satellite	0.0%
Specialized REITs	4.0%

Regions

North America	48.0%
Europe ex UK	12.5%
UK	15.8%
Other Developed	13.8%
Emg Mkts - Other	7.5%
Emg Mkts - Asia	2.4%

Alternatives

The exposure to alternatives is diversified across two differentiated strategies: a relativly defensive one, Ellerston Australian Market Neutral Fund and a more growth oriented one, GMO Systematic Global Macro Trust.

Ellerston is an absolute return strategy that tends to have a low correlation to equity markets. The fund invests mainly in relative value, or "pair trades", i.e. "long" one stock and "short" the other, thereby avoiding market risk. A small portion of the fund is also allocated to special situations, including share recapitalisations, mergers, takeovers, restructures, security conversions, placements, IPOs, sell downs and share buybacks.

Market conditions continued to hamper performance during the December quarter, with the Fund declining in value by 6.9% in the period. There were no real winners within Relative Value, with the strategy contributing -2.8% (gross) to the Fund's return. Within Special Situations, Johns Lyng (+29.3%) was the standout, however the strategy still contributed a gross return of -4% in the quarter.

Gross exposure once again increased modestly in the period, closing the month at 151% (from 145% at the end of November). Net exposure was +24% with a beta-adjusted net of +0.6%. The GMO Systematic Global Macro Trust uses a quantitative investment model to tactically allocate between equities, bonds, commodities and currencies, using futures and forward contracts. The strategy can be long or short any of these markets. The model is based on Value factors (which compare the price of an asset to its economic fundamental value) and Sentiment-based factors (which reflect consensus risk aversion, analyst behaviour and momentum).

The fund also experienced a negative quarter (-2%). While it is disappointing that both our Alternative strategies weren't able to protect capital in down markets, we still believe the allocations are warranted and the funds can recover.

Volatility Index 2017 & 2018

Contact

Australia

Canada

China

France

Germany

Guernsey

Ireland

Isle of Man

Jersey

Singapore

Switzerland

United Kingdom

United States

E invest@canaccord.com.au

T +613 8688 9100

This report is prepared by InvestSense Pty Ltd ABN31 601 876 528 ("InvestSense") based on data and information provided by HUB24 Custodial Services Ltd (ABN 94 073 633 664, AFS licence No. 239 122) ("the Operator" of HUB24 Invest (the Service)) and ((("the Promoter" of HUB24 Super (the Fund)), who is the Investor Directed Portfolio Service ("IDPS") provider to this portfolio. InvestSense provides investment advisory services to Canaccord Genuity Australia Limited ABN 19 075 071 466, AFSL 234666 ("CGAL") who is the Portfolio Manager of this Portfolio. The information contained in this document is not intended to be a definitive statement on the subject matter nor an endorsement that this Portfolio is appropriate for you and should not be relied upon in making a decision to invest in this Service or Fund. The information in this report is general information only and does not take into account your individual objectives, financial situation, needs or circumstances. The material in this report is not, and under no circumstances should be construed as, a solicitation to act as a securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. No representations or warranties express or implied, are made as to the accuracy or completeness of the information, opinions and conclusions contained in this report. In preparing this report, HUB24 has relied upon and assumed, without independent verification, the accuracy and completeness of all information available to HUB24. To the maximum extent permitted by law, neither HUB24 or its directors, employees or agents accept any liability for any loss arising in relation to this report. No representation or warranty, expressed or implied, is made by InvestSense or CGAL, their affiliates or any other person as to its accuracy, completeness or correctness. All estimates, opinions and other information contained in this presentation constitute the authors' judgment as of the date of this presentation, are subject to change without notice and are provided in good faith but without legal responsibility or liability. The suitability of the Service or Fund to your needs and the suitability of a particular Investment Choice depends on your individual circumstances and objectives and should be discussed with your Adviser. Potential investors must read the FSG and IDPS Guide and/or Super PDS along with any accompanying materials. CGAL is not a registered tax (financial) adviser under the Tax Agent Services Act (2009) and therefore you should consult your registered tax agent for tax related advice. Investment in securities and other financial products involves risk. An investment in a financial product may have the potential for capital growth and income, but may also carry the risk that the total return on the investment may be less than the amount contributed directly by the investor. Past performance of financial products is not a reliable indicator of future performance. HUB24, its Trustee, InvestSense and CGAL do not assure or guarantee the performance of any financial products offered. Information, opinions, historical performance, calculations or assessments of performance of financial products or markets rely on assumptions about tax, reinvestment, market performance, liquidity and other factors that will be important and may fluctuate over time. Canaccord Genuity, InvestSense and HUB24, its associates and their respective directors and other staff each declare that they may, from time to time, hold interests in Securities that are contained in this Service or Fund.