Vertium Equity Income Fund

Fund Update | September 2019

Key Facts

Investment objective vs benchmark

1. Greater income yearly
2. Lower absolute risk yearly
3. Greater returns over 5 years

Benchmark index

S&P/ASX 300 Accumulation Index

Inception date

April 2017

Number of stocks

20 - 40

Distribution

Quarterly

Management fee

0.97% p.a.

Buy/Sell spread

+0.25%/-0.25%

Minimum investment

$50,000

APIR

OPS1827AU

External ratings

Lonsec "Recommended"
Zenith "Investment Grade"

Suitable investors

1. Low-risk or low-tax investors
2. Pre-retirees and retirees
3. Endowments and charities

Key Platforms

Asgard | BT Wrap | BT Panorama
CFS | HUB24 | IOOF | Netwealth
Praemium | Linear

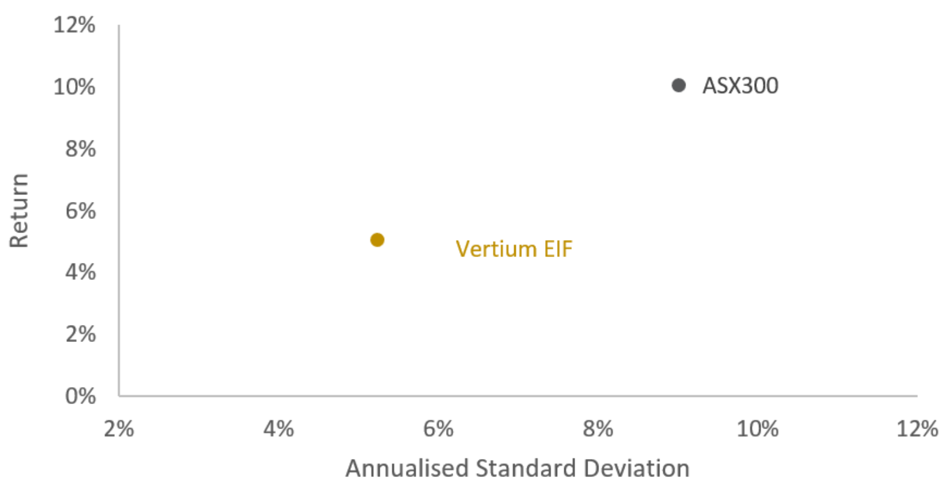
Capital preservation metrics (since inception) ^

	Fund	ASX300
Outperformance frequency in down markets	75%	0%
Down market capture ratio	45%	100%
Beta	0.48	1
Maximum Drawdown	-5%	-9%

Performance (%)

	1 Mth	3 Mth	6 Mth	1 Yr	2 Yr pa	Since Inc. pa
Income	1.0	1.0	6.6	8.9	7.3	6.5
Growth	0.1	1.5	0.3	-1.8	-2.3	-1.4
Fund Total Return	**1.1**	**2.5**	**6.9**	**7.1**	**5.0**	**5.1**
Income	0.6	1.3	2.1	4.4	4.3	4.5
Growth	1.3	1.3	8.7	8.2	9.0	5.6
Index Total Return	**1.9**	**2.6**	**10.8**	**12.6**	**13.3**	**10.1**
Average market exposure	**52%**	**52%**	**61%**	**66%**	**70%**	**69%**

Return versus risk (since inception)



Minimum expected yield over next 12 months, including franking **6%**

Portfolio Dashboard

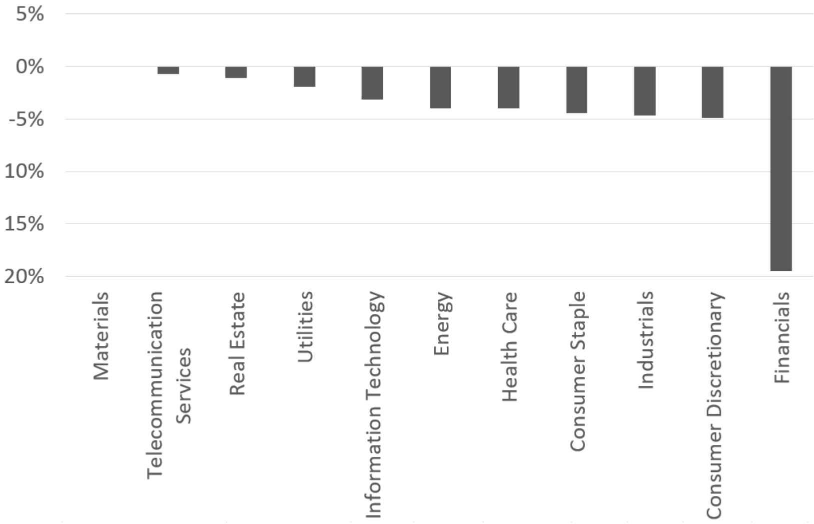
Top 10 holdings	ASX Code
CSL Limited	CSL
Lendlease Group	LLC
James Hardie	JHX
BHP Group	BHP
ANZ Banking Group	ANZ
Boral	BLD
Star Entertainment Group	SGR
National Australia Bank Ltd	NAB
Commonwealth Bank	CBA
Amcor	AMC

Number of stocks	30

Size exposure	%
Large Cap	37
Mid Cap	13
Small Cap	2
Effective Cash	48

Option exposure	%
Shares	57
Call Options	-6
Put Options	0
Effective Cash	48

Sector Weightings



"Our equity income fund is designed with conservative investors in mind. We seek to deliver the benefits of equity exposure including attractive, tax effective income - with a commitment and focus on capital preservation."

Jason Teh
Chief Investment Officer
Vertium Asset Management

CONTACT COPIA 1800 442 129 clientservices@copiapartners.com.au www.copiapartners.com.au

Notes of Performance: Due to participation in various off market buybacks, the headline performance was negatively impacted. On a tax-exempt basis, these buybacks contributed positively due to imputation credits. The following shows the negative impact on performance and the imputation benefit in brackets: Nov 2018 RIO -0.33% (+0.87%); Dec 2018 BHP -0.63% (+1.25%); Apr 2019 CTX -0.01% (+0.21%) . ^Based on monthly data.

Quarterly perspective | **the Markets**

The S&P/ASX 300 Accumulation Index rose 2.6% over the September quarter. While the benchmark delivered a positive return, it was marked by high levels of volatility. Specifically, the index experienced a fall of 6% from its peak to trough in the middle of the quarter.

Not surprisingly, there were mixed performances across the GICs sectors. The best performing sector was Consumer Staples (+11.6%) driven by grocery retailers Woolworths (+13.9%) and Coles (+17.2%). Despite the strong performance by the Consumer Staples sector, other defensive sectors such as REITs (+0.5%), Utilities (+1.6%) and Telecommunication services (-3.4%) underperformed the broader market. The worst performing sector was Metals and Mining (-4.8%) which was largely driven by a fall in the iron ore price (-20.2%).

Australia's annual rate of GDP growth decelerated to 1.4% in the second quarter of 2019, the lowest growth rate since the Global Financial Crisis in 2009. The unemployment rate edged up to 5.3%, the highest jobless rate since August last year.

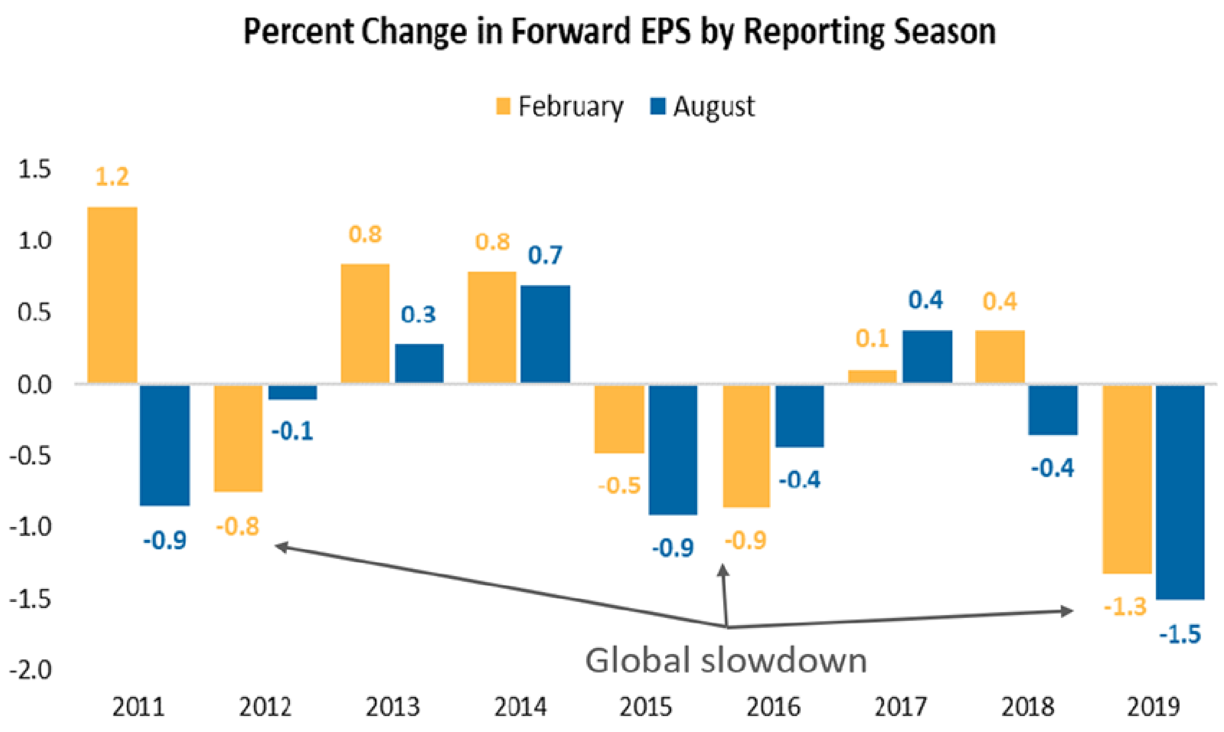
The annual inflation rate rose to 1.6% in the June quarter from a 2-year low of 1.3% in the prior quarter. In response to the slowing economy and benign inflation outlook, the Reserve Bank of Australia cut the cash rate by another 25 basis points in July.

The 10-year bond yield hit a record low of 0.9% as growth expectations were revised down by the bond market.

Commodity prices in general fell during the quarter. The iron ore price (-20.2%) fell from its highs when Vale resumed some production after their tailings dam disaster. Brent oil price (-7.9%) and copper price (-4.1%) fell on fears of global growth concerns. Despite interest rates falling significantly during the quarter, the gold price only managed to gain +4.4%.

Reporting season in Australia saw a significant amount of negative earnings revisions being put through the market. The chart below illustrates the change in forward EPS (earnings revision) by reporting season for Industrial companies.

On average, forward earnings were revised down by about 1.5% during the August 2019 reporting season. Historically, significant negative revisions occurred during periods of economic slowdowns. It is noteworthy that the magnitude of the current period negative earnings revisions is the worst since the Global Financial Crisis. Despite the negative earnings momentum, the market is trading close to its all time high. Typically, high stock prices with weakening fundamentals lead to more market volatility.



Source: FactSet, Macquarie Research, September 2019

Quarterly perspective | **the Portfolio**

The Vertium Equity Income Fund delivered a 2.5% return for the quarter, roughly in line with the market return. The result was pleasing given that the market experienced a period of volatility and our conservative strategy delivered returns with substantially less risk. For example, in August 2019 the market fell 2.3% and the fund outperformed by 1.5%.

The Fund also paid a 1 cent per unit distribution for the September quarter. This is in line with the Fund's objective of delivering higher levels of income than the benchmark over the coming year.

The returns delivered this quarter were driven predominantly from stocks that the fund took advantage of when their share prices were weak early in the year. Lendlease (+37.4%) performed well when the company confirmed that their troubled engineering division did not need any more provisions and its sale process was on track for the end of the calendar year. James Hardie (+32.9%) gained as US new home sales continued to improve while their profit margins expanded.

Carsales.com (+14.9%) was extremely oversold early this year when industry car sales growth was very weak. The stock has re-rated as the weak trends have decelerated with some signs of stabilisation ahead. Both Lendlease and Carsales.com positions have been reduced.

Detractors of the portfolio for the quarter included Orora (-8.8%), Worley (-10.5%) and Whitehaven Coal (-11.5%). Orora weighed on performance because their US profit margins contracted more than expected. Orora's current PE multiple is the cheapest it has been over the last five years, which highlights that the market is likely extrapolating the cyclical weakness in profits. Worley's performance was soft due to the weak oil price over the quarter.

We believe the market is overestimating Worley's operating risk to the oil price given that it is more diversified after their recent acquisition. Whitehaven Coal's share price fell despite the Newcastle thermal coal price stabilising during the quarter (+4.1%). To minimise portfolio risk, we exited the position given the upcoming seasonal weakness in coal demand when European gas storage levels are drawn down over the winter and there are signs that Chinese coal production is increasing.

Another stock sold from the portfolio in the quarter was Caltex (+7.6%). On the surface, Caltex looks relatively cheap however we believe it is masking deteriorating fundamentals. In February 2019, Viva Energy renegotiated their pricing agreement with the Coles Express petrol network. Under the new agreement, Viva plans to lower petrol prices to regain market share. This watershed moment will likely reduce industry profitability and affect all participants including Caltex.

Volatility provides opportunities. Typically, more opportunities appear during economic slowdowns when market expectations are substantially revised down. Our current market exposure is lower than usual as we believe market expectations for many stocks are still too high. In other words, many stocks do not offer a significant margin of safety to deliver returns in a low risk fashion. When the opportunity appears to buy a reasonable quality business at good valuations the fund's capital will be deployed prudently. Until such time, we will keep our powder dry.

The Fund aims to provide a good exposure to equities with strong income and capital preservation characteristics. We are grateful for managing your capital and thank you for your support.