

Vertium Equity Income Fund

Fund Update | February 2020

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

\$20,000

APIR

OPS1827AU

External ratings

Lonsec "Recommended"
Zenith "Approved"

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 | MyNorth
Macquarie | MLC

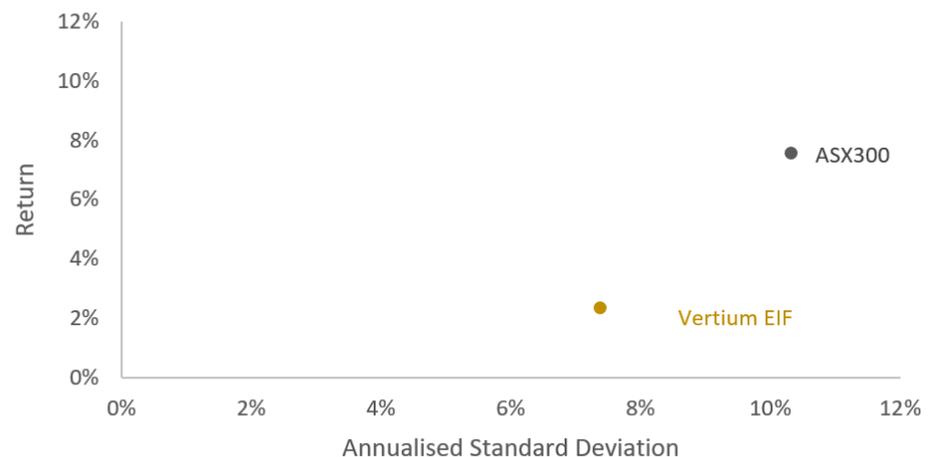
Capital preservation metrics (since inception) ^

	Fund	ASX300
Outperformance frequency in down markets	80%	N/A
Down market capture ratio	44%	N/A
Beta	0.62	1
Maximum Drawdown	-8.5%	-9.5%

Performance (%)

	1 Mth	3 Mth	6 Mth	1 Yr	2 Yr pa	Since Inc. pa
Income	0.0	1.0	2.1	8.8	7.3	5.9
Growth	-8.5	-8.9	-6.3	-8.0	-5.0	-3.6
Fund Total Return	-8.5	-7.9	-4.3	0.9	2.3	2.3
Income	0.5	0.7	1.8	4.0	4.2	4.3
Growth	-8.3	-5.9	-2.6	4.8	3.6	3.3
Index Total Return	-7.8	-5.2	-0.7	8.8	7.8	7.5
Average market exposure	77%	75%	66%	65%	68%	69%
Fund beta	N/A	0.82	0.85	0.78	0.65	0.62

Return vs risk (since inception)



Expected yield over next 12 months, including franking

6-8%

Portfolio Dashboard

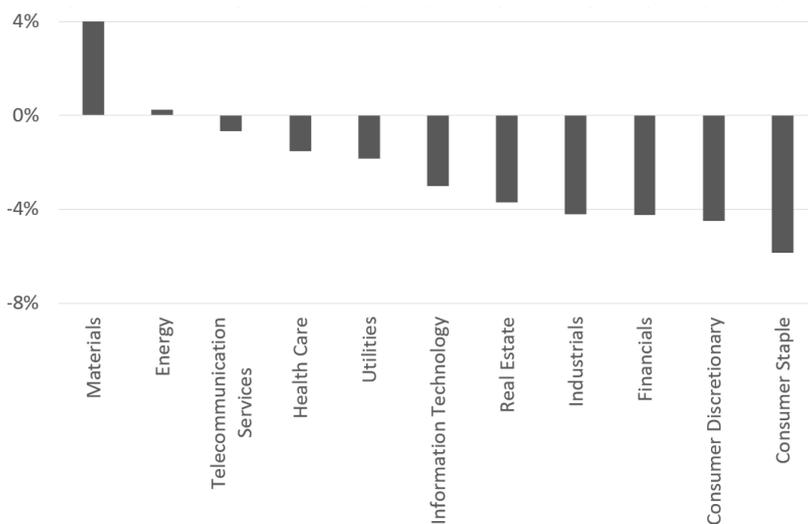
Top 10 holdings	ASX Code
CSL Limited	CSL
BHP Group Limited	BHP
Westpac Banking Corp	WBC
National Australia Bank	NAB
ANZ Banking Grp Ltd	ANZ
Lendlease Group	LLC
James Hardie Industries	JHX
Virgin Money	VUK
Boral Limited	BLD
Qantas Airways	QAN

Number of stocks	30
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Size exposure	%
Large Cap	58
Mid Cap	18
Small Cap	3
Effective Cash	20

Option exposure	%
Shares	90
Call Options	-3
Put Options	-8
Effective Cash	20

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

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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.

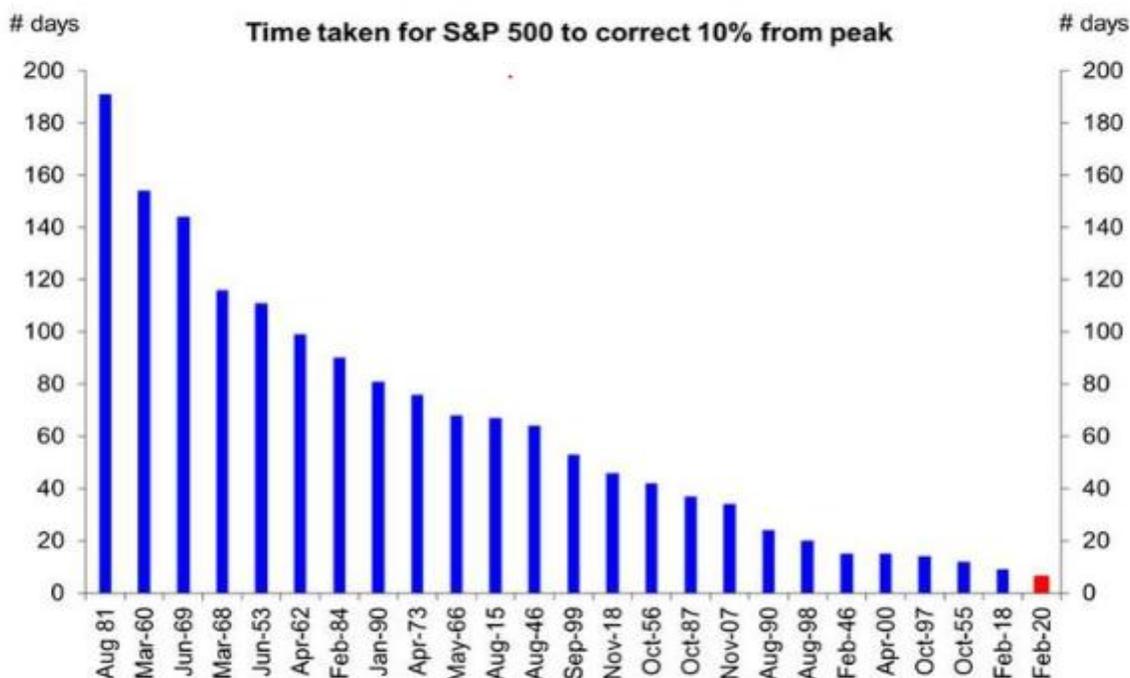
Disclaimer: The total return performance figures quoted are historical, calculated using soft close, end-of-month mid-prices and do not allow for the effects of income tax or inflation. Total returns assume the reinvestment of all distributions. The performance is quoted net of all fees and expenses. The index does not incur these costs. This information is provided for general comparative purposes. Soft close unit prices are interim unit prices struck at month end before all transactions for the month have been completed. Performance data available on the Vertium website, vertium.com.au, however, is based on hard close unit prices which are struck after all transactions for the month have been completed. ^ Month-end unit prices are hard close and cum-distribution. # In order of highest to lowest weighting at the end of the reported month. Past performance is not a reliable indicator of future performance. Positive returns, which the Vertium Equity Income Fund (the Fund) is designed to provide, are different regarding risk and investment profile to index returns. This document is for general information purposes only and does not take into account the specific investment objectives, financial situation or particular needs of any specific individual. As such, before acting on any information contained in this document, individuals should consider whether the information is suitable for their needs. This may involve seeking advice from a qualified financial adviser. Copia Investment Partners Ltd (AFSL 229316, ABN 22 092 872 056) (Copia) is the issuer of the Vertium Equity Income Fund. A current PDS is available from Copia located at Level 25, 360 Collins Street, Melbourne Vic 3000, by visiting vertium.com.au or by calling 1800 442 129 (free call). A person should consider the PDS before deciding whether to acquire or continue to hold an interest in the Fund. Any opinions or recommendations contained in this document are subject to change without notice and Copia is under no obligation to update or keep any information contained in this document current. The Lonsec Rating (10 June 2019) presented in this document is published by Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL 421 445. The Rating is limited to “General Advice” (as defined in the Corporations Act 2001 (Cth)) and based solely on consideration of the investment merits of the financial product(s). Past performance information is for illustrative purposes only and is not indicative of future performance. It is not a recommendation to purchase, sell or hold Vertium Asset Management’s product(s), and you should seek independent financial advice before investing in this product(s). The Rating is subject to change without notice and Lonsec assumes no obligation to update the relevant document(s) following publication. Lonsec receives a fee from the Fund Manager for researching the product(s) using comprehensive and objective criteria. For further information regarding Lonsec’s Ratings methodology, please refer to our website at: <https://www.lonsecresearch.com.au/research-solutions/our-ratings>. The Zenith Investment Partners (“Zenith”) Australian Financial Services License No. 226872 rating (assigned June 2018) referred to in this document is limited to “General Advice” (as defined by the Corporations Act 2001) for Wholesale clients only. This advice has been prepared without taking into account the objectives, financial situation or needs of any individual. It is not a specific recommendation to purchase, sell or hold the relevant product(s). Investors should seek independent financial advice before making an investment decision and should consider the appropriateness of this advice in light of their own objectives, financial situation and needs. Investors should obtain a copy of, and consider the PDS or offer document before making any decision and refer to the full Zenith Product Assessment available on the Zenith website. Zenith usually charges the product issuer, fund manager or a related party to conduct Product Assessments. Full details regarding Zenith’s methodology, ratings definitions and regulatory compliance are available on our Product Assessment’s and at <http://www.zenithpartners.com.au/RegulatoryGuidelines>.

Monthly update | **the Markets**

February 2020 marked reporting season and many companies reported solid results. This was reflected in the Fund with about two-thirds of the portfolio stocks meeting or exceeding earnings expectations.

However, in the last 5 days of February global share markets experienced extreme levels of volatility due to the exogenous shock of Coronavirus. Company results or fundamentals mattered little as the world became fixated on the pandemic. This sudden change in market sentiment away from fundamentals was highly unusual and adversely impacted global stock markets.

Fastest correction in the S&P500 on record



Source: Deutsche Bank Research

The portfolio was also affected by the abrupt shift in sentiment as it did not allow enough time to assess and protect some positions. Accordingly, the Fund underperformed the ASX300 Accumulation Index, which fell 7.8%, by 0.7% during February. Specifically, February was a tale of two halves. In the first 3 weeks, the portfolio lagged the bullish market. However, in the final week of February the Fund outperformed but did not do so at the magnitude we would ordinarily have expected.

While indiscriminate selling has had a meaningful impact on the Fund, stocks related to commodities and travel and leisure were hardest hit by the pandemic fear. While Coronavirus uncertainty is rapidly evolving by the day, the medium-term prospects for many of our portfolio stocks remain sound.

However, with ongoing uncertainty the Fund has taken short-term protection using options on some positions. This measure will help mitigate short-term downside risk if there is further volatility. The economic impact from Coronavirus is rapidly developing and we will have a clearer idea by the end of March whether the pandemic is a temporary shock that the world can quickly recover from or may cause a systematic economic slowdown.

The portfolio's cash levels are currently 20% as at the end of February. If the markets continue to experience further volatility the Fund's cash levels will rapidly rise given the hedge protection. The maximum cash limit for the Fund is 50%.

We obviously see this period as a classic test of fundamental investment principals versus the short-term fear gripping financial markets. Volatility begets volatility but it also creates opportunities. Our cash is ready to be deployed on companies where there is a substantial disconnect between their underlying fundamentals and share price.

Historical Perspective – Pandemics and Stock Markets

We don't profess to be experts on Coronavirus, but we can analyse the impact on financial markets from previous pandemics. Prior to the Coronavirus outbreak there have been five pandemics spanning two decades. The following table highlights the impact of pandemics on the ASX300 Accumulation index.

ASX300 Accumulation Index performance around the month of pandemic outbreak

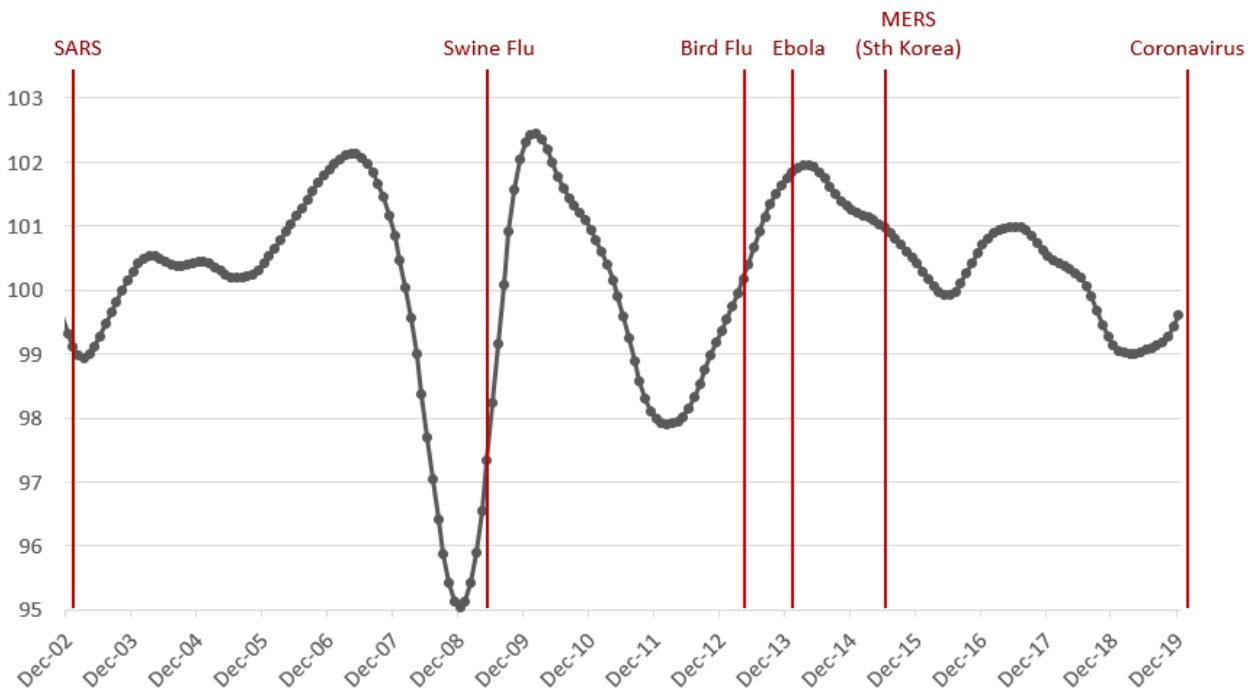
Pandemic	Month of outbreak	1 month return	3 month return	6 month return	Max drawdown from peak during 6 month window
SARS	Jan-03	-1.6%	7.2%	15.7%	-11.5%
Swine Flu (H1N1)	Apr-09	5.7%	13.1%	18.7%	-6.5%
Bird Flu (H7N9)	Mar-13	-2.3%	2.4%	7.2%	-10.6%
Ebola	Dec-13	0.8%	1.3%	6.1%	-5.5%
MERS	May-15	0.4%	-6.4%	-1.3%	-11.7%
Median		0.4%	2.4%	7.2%	-10.6%
Coronavirus	Jan-20	4.9%	?	?	?

Source: Vertium, Iress

Based on the past five outbreaks, the Australian market has experienced minor corrections (10.6% median drawdown) within the six-month period after the outbreak. Importantly, the corrections were temporary as the median 3- and 6-month total return of the market from the month of the outbreak were 2.4% and 7.2% respectively.

Pandemics have proven to be temporary because financial markets are driven by larger economic forces. For example, after the SARS and Swine Flu outbreaks the 6-month return was strong as it coincided with global growth accelerating from its lows in 2003 and 2008 respectively. On the other hand, the 6-month return was weak during the MERS pandemic as it coincided with global growth decelerating. Currently, the Coronavirus outbreak is occurring when global growth is recovering from its 2019 cyclical lows.

Month of pandemic outbreak and global growth (OECD CLI)

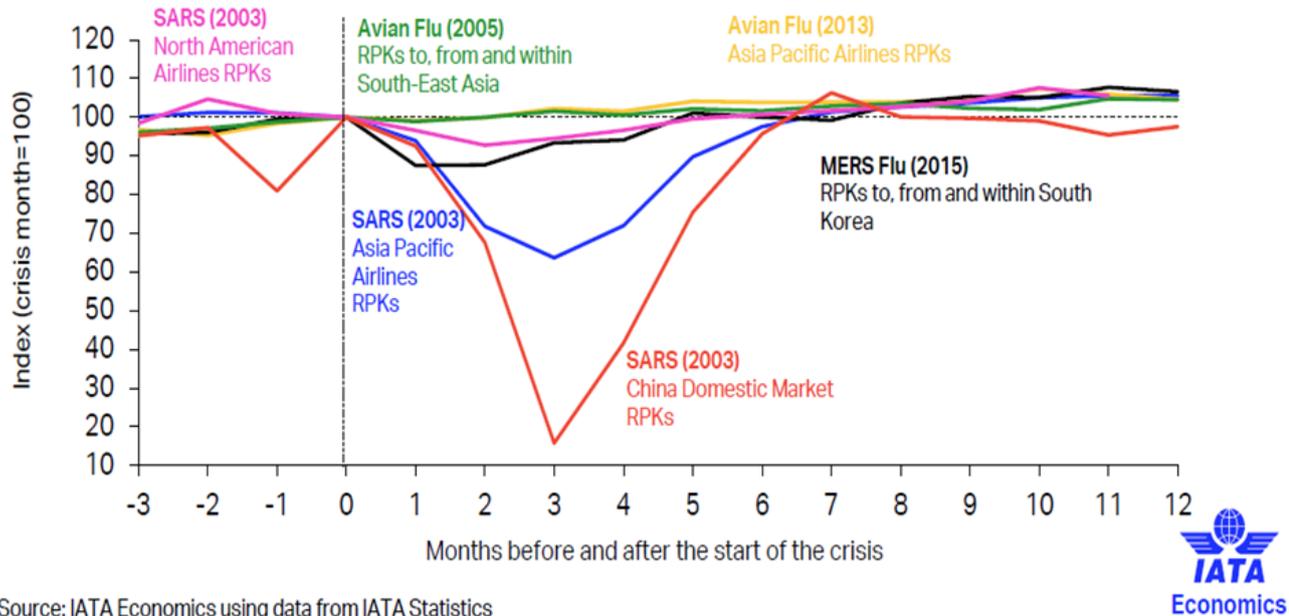


Source: OECD, Vertium

The short-term economic impact of Coronavirus is very real and the closest comparison to it was the SARS pandemic in 2003. The chart below compares the demand for air transport after disease outbreaks, measured by Revenue Passenger Kilometers (RPK) an airline industry metric that shows the number of kilometers travelled by paying passengers.

Back then there were travel bans and travel demand for Asia Pacific airlines fell about 35% for three months. However, demand quickly recovered in the following months.

Impact of past disease outbreaks on aviation

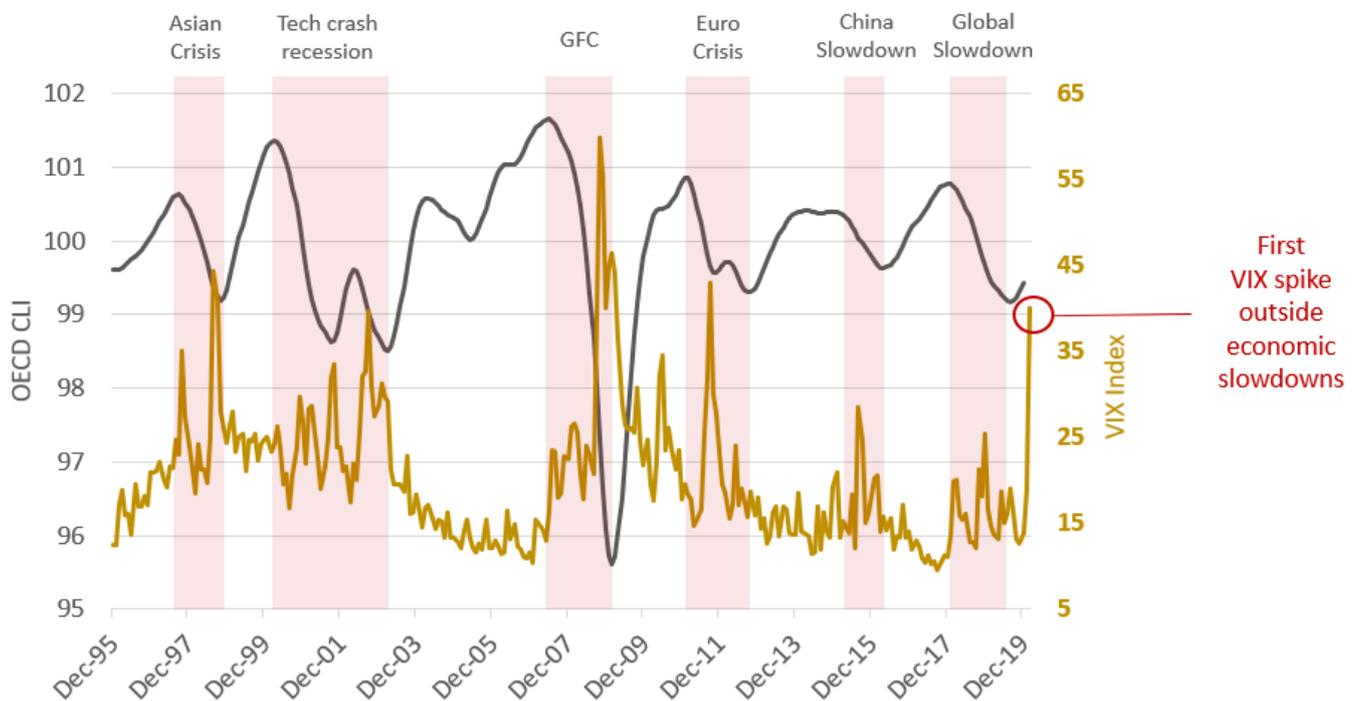


Source: IATA Economics using data from IATA Statistics

Other pandemics had very little influence on global travel. It is important to note that pandemic shocks eventually dissipate, and the world carries on with business again.

Regarding the current share market volatility, many stocks have been indiscriminately sold irrespective of their fundamentals. Typically, extreme volatility (as represented by the CBOE VIX Index) occurs during global slowdown periods. Over the last quarter of a century these periods were 1998, 2002, 2009, 2011, 2015, and 2018.

Global growth (OECD CLI) vs CBOE VIX Index



Source: OECD, Iress

During global slowdowns company fundamentals deteriorate and share prices tend to collapse, which is the source of the volatility. The current bout of volatility is extraordinary because global economic growth was improving. Further, the magnitude of the volatility is also unusual given that it is on par with its VIX levels during the Euro-crisis when the European banking system was on the brink of failure.

Exogenous shocks that lead to extreme share price volatility are rare. The key question is whether the economic impact from Coronavirus will be temporary or will lead to a severe economic slowdown. We are analysing events very closely and will continue to identify risks and opportunities in a very fluid and uncertain environment.