

ARCO Investment Management

ARCO Absolute Return Fund

Monthly report: March 2018

With the local equity market down almost 4% over Q1 2018, the recent notion of low-risk, global synchronised growth has seemingly given way to economic concerns triggered, interestingly, by the threat of a global trade war.

	Month	Qtr	1 Year	3 Year	Life (p.a.)
Fund return (net)	1.35%	1.10%	10.84%	7.82%	8.45%
Positive months			83%	78%	79%
Volatility					3.8%
Sharpe ratio					1.24

Note: The above return data for the month and quarter is for the ARCO Absolute Return Fund. Longer-term data is for the ARCO Absolute Trust. Fees charged by the Fund are not identical to the Trust and therefore would be slightly different over these longer time periods.

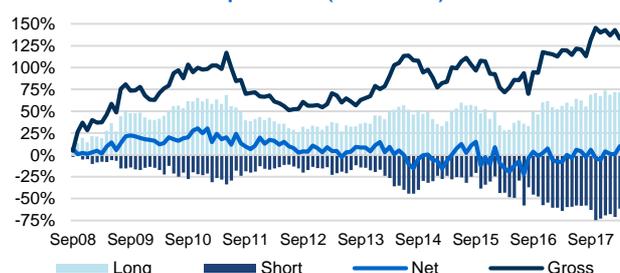
Monthly key contributors – by sector

Longs		29 positions
Positive	Resources, professional services, REITs	
Negative	NBFIs, transport, telecommunications	
Shorts		13 positions
Positive	Index futures, banks, media, insurance	
Negative	Transport	

Cumulative performance



Fund investment profile (% NAV)



NOTE: The above data is for the ARCO Absolute Trust. Fees charged to the Trust are not identical to the ARCO Absolute Return Fund, net returns would therefore be slightly different.

Portfolio settings

% of NAV	Long	Short
Equities	71.5%	-29.6%
Debt/ Hybrids	0%	0%
Derivatives		-31.9%
Gross exposure		133.0%
Net exposure		10.0%

Concentration by position	Long	Short
Top 5	23.2%	(14.1%)
Top 10	39.7%	(25.2%)
Top 15	52.5%	(28.4%)

Fund strategy and outlook

The Fund's objective is to generate consistent absolute returns through a market cycle, in excess of the RBA official cash rate, with an overarching focus on capital preservation.

The Fund recorded a net return of +1.35% for the month.

The bias of equity markets remained negative in March. Donald Trump's war of words was turned into action with the US introducing tariffs on steel, aluminium and USD50bn of various Chinese imports. Subsequently, the Chinese have retaliated in kind, introducing tariffs of their own. Furthermore, the meteoric rise of the basket of stocks known as the "FANG's" (Facebook, Amazon, Netflix and Google) which led the US market up in recent times also reversed. While our local equity market defied the trend last month by posting a modest gain, March saw the Australian bourse finish amongst the worst globally, down 3.8% for the month.

Long exercising our minds have been concerns relating to the Australian housing market and the banking system. Clearly the two are inextricably linked. While seemingly met with a fair measure of complacency, the Financial Services Royal Commission kicked off with what we would view as extraordinary confirmations by banking executives of business practices that showed incompetence at best and illegal behaviour with respect to product miss-selling at worst. Whatever the case, we believe that the driver of the property boom, loose money, could be its undoing with the Royal Commission a likely catalyst. The regulator has long been trying to reign in poor lending practices and shining the light on these via the Commission can only lead, in our view, to tighter credit conditions with a consequential negative impact on house price appreciation, development and construction, and bank credit quality.

By extension, a slowing of credit activity can have a large impact on our broad economy. Thus, we continue our preference for companies with strong offshore franchises and/or defensible "self help" strategies while also being cognisant that sharp market declines often create attractive entry points for longer term investments or topping up of existing long positions. Our net market exposure was slightly longer by month-end as a result.

ARCO Investment Management

ARCO Absolute Return Fund

Monthly report: March 2018

Performance review

In the context of an increasingly volatile equity market which traded sharply down for the month, March was a solid month for the Fund.

Unsurprisingly, the short holdings drove the positive absolute performance result, especially across the banking and insurance sectors, with the Index Futures positions also making strong contributions for the month.

Whilst the long portfolio generated a negative overall return, it performed notably better than the underlying market with positive returns from almost half of our holdings and particularly strong contributions from a number of our positions with stock-specific share price drivers such as Lynas, Brambles and

AWC Alumina. On the negative side, a sell-off in lithium producers, including our long held position in Orocobre, came on the back of a broker report incorporating lower forecasts for electric vehicles (and hence lower lithium demand) than we believe to be the case. Therefore, we took the opportunity to add to our lithium exposure via new positions in Mineral Resources (MIN) and Pilbara Minerals (PLS). Notably, Orocobre announced short term production issues after month end, a situation which we continue to monitor.

Other new positions include Nufarm, a global agricultural chemical producer and distributor. Its relatively new management have importantly rationalised the product portfolio and

strengthened working capital levels, implementing sound controls and providing the pathway for profitable growth. This includes two recent acquisitions, as well as its canola seed project with Omega 3, a product that is expected to take share in a supply-constrained, growing market.

Despite the modestly net long position at month-end (a result of portfolio rebalancing into market weakness), we continue to be wary of increasing risks coming more to the fore in equity markets globally. As such, minimising investor drawdown remains front of mind in our stock selection and portfolio rebalancing activity within what we expect to remain a volatile market.

ARCO absolute return strategy – net monthly returns

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FY
FY18	0.24%	(0.29)%	2.79%	1.08%	1.72%	1.77%	0.89%	(1.12)%	1.35%				
FY17	(2.28)%	0.02%	0.56%	0.35%	0.95%	0.29%	(1.00)%	(0.98)%	0.94%	0.07%	0.17%	1.88%	0.93%
FY16	0.31%	1.52%	1.79%	1.42%	1.01%	(0.11)%	0.02%	0.77%	2.34%	(0.69)%	2.29%	0.11%	11.21%
FY15	1.03%	0.06%	0.64%	(0.71)%	(0.53)%	(1.53)%	(1.88)%	(0.08)%	0.98%	1.96%	2.04%	(1.09)%	0.80%
FY14	0.36%	0.14%	0.43%	0.32%	(0.52)%	0.54%	0.57%	1.06%	0.04%	0.57%	1.38%	0.63%	5.64%
FY13	(0.54)%	0.26%	0.29%	0.37%	0.57%	0.66%	0.46%	(0.50)%	(0.06)%	(0.70)%	1.22%	(0.18)%	1.86%
FY12	1.69%	0.29%	0.29%	0.97%	1.63%	(0.09)%	1.51%	1.03%	0.46%	0.46%	0.00%	(0.60)%	7.88%
FY11	2.34%	0.36%	1.45%	2.23%	1.66%	0.86%	1.36%	1.26%	0.50%	0.74%	0.57%	(1.38)%	12.57%
FY10	4.00%	3.88%	2.00%	2.68%	0.78%	0.09%	0.17%	0.52%	0.68%	1.45%	0.59%	0.57%	18.75%
FY09			0.67%	0.59%	2.19%	1.47%	1.81%	(0.56)%	3.10%	1.37%	2.43%	0.09%	13.90%

Note: Monthly returns (net) are for the ARCO Absolute Trust (companion fund) to October, 2017 and the **ARCO Absolute Return Fund** thereafter.

ARCO Absolute Return Fund - Fund facts

Month end unit price	\$1.0466
Strategy	Long-short Australian equities
Objective	Positive return in all market conditions Overarching focus on capital protection
Firm AUM	\$142m

Distribution frequency	Yearly
Minimum investment	\$25,000 (\$10,000 min addition/withdrawal)
APIR Code	OPT7628AU
ISIN	AU60OPT76287
Fund Inception	1/11/2017 (@ \$1.00 per unit)

ARCO Investment Management Pty Ltd
ABN 48 129 937 837 AFSL 325 159

Level 2, 121 Flinders Lane
Melbourne VIC Australia 3000

T +61 (3) 9660 9500
F +61 (3) 9660 9599

E info@arcoim.com
arcoim.com

This report is prepared for investors in the ARCO Absolute Return Fund. Returns and prices are quoted net of all expenses, management fees, and accrued performance fees. This is neither an offer to sell nor a solicitation of any offer to buy Units in the Fund. Any such offering can only be made to qualifying 'wholesale investors' pursuant to the Fund's Information Memorandum, and the relevant Subscription Application.