

# ARCO Investment Management

## ARCO Absolute Return Fund

Monthly report: January 2019

Equity markets popped their cork for a happy new year. Global stocks rallied in January as central banks blinked and hovered over the pause button. The ASX rally was broad though trailed its global peers, awaiting a Commissioner's report and company (earnings) confessions in Feb.

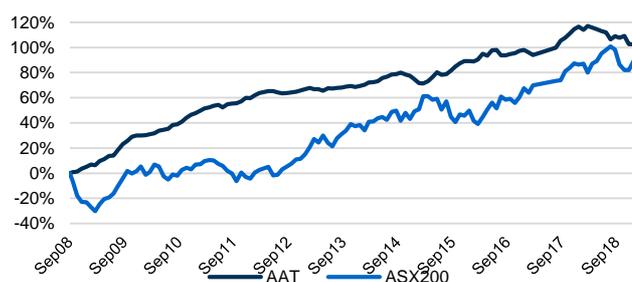
	Month	Qtr	1 Year	3 Year	Life (p.a.)
Fund return (net)	0.06%	-2.37%	-6.08%	2.34%	7.02%
Positive months			33%	64%	76%
Volatility					4.0%
Sharpe ratio					0.8

**Note:** Past performance is not a reliable indicator of future performance. The above return data for the month, qtr and 1Year 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 so performance would be slightly different over the longer time periods.

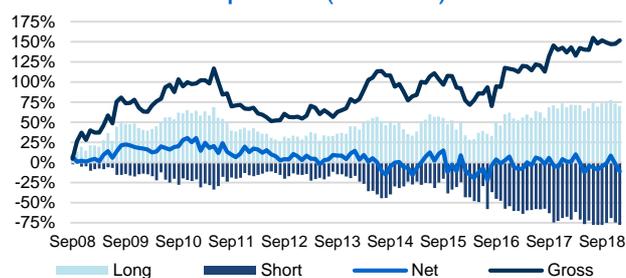
### Monthly key contributors – by sector

Longs		30 positions
Positive		Gaming, media, transport
Negative		Resources
Shorts		19 positions
Positive		Banks, healthcare
Negative		Index futures, REITs, retail,

### 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	70.2%	-44.6%
Debt/ Hybrids	0%	0%
Derivatives		-37.0%
Gross exposure		151.8%
Net exposure		-11.4%

Concentration by position	Long	Short
Top 5	25.11%	(19.89%)
Top 10	40.58%	(32.02%)
Top 15	52.88%	(40.40%)

### 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 +0.06% for the month.

Central bank sentiment turned suddenly dovish, market volatility eased and global equities rose significantly in January with the MSCI World Index rising 7.8% - its largest monthly rally since Oct 2011. The ASX rallied a more modest 3.7% for the month, with positive contributions from all sectors, other than financials – a short-lived pause as it too rallied strongly post the RC report release in early Feb.

The about-turn from Central banks was a key focus point for equity markets during the month. Investor emphasis was squarely on the return of the "central bank put", with much less interest on the causes of this change in policy direction, which seem to centre on much weaker global growth, and a reassessment of economic risk factors. Fresh on the heels of the Federal Reserve's capitulation came the RBA's shift to neutral interest rate guidance, with cuts to its GDP growth outlook. Quite how the RBA reconciles its concerns over the impact of falling house prices and weak income growth on consumer expenditure with 3% GDP growth is unclear to us. With A\$10-year bond yields now at 2.10%, it's clear that fixed income investors are looking at an emptying glass.

It's just this issue that remains key for markets. Coupon-facing investors fear being placed back on a starvation diet. Recent equity market weakness did lead to better value for some stocks of interest to us, though valuations in absolute terms are not cheap, and the RBA's position now expressly recognises elevated earnings risk in the domestic economy.

Throughout the month, we retained our cautious view of the local equity market, maintaining flat to slightly negative net market exposure. This impacted Fund performance, as substantial gains made across our long holdings were offset by losses in the short portfolio. As the market rallied during the month and leading into February's company reporting season, we acted to reduce the Fund's net market exposure by month-end.

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### Performance review

The Fund delivered a flat return in January. The size and pace of the market rebound surprised us, and the Fund's cautious portfolio risk settings allowed for limited participation in a broad-based rally.

As the market rallied, the vast majority of the long holdings performed strongly, up over 5% in aggregate for the month, led most notably by Aristocrat, Tabcorp and Worley. NEC was also a relatively strong contributor, after a poor December.

The Fund's short portfolio remains tilted towards financials, housing, and property stocks. These positions were also favourable contributors to January's result, but have negatively impacted performance early in February, with the further decline in bond yields and a 'less-bad' than feared outcome in the Royal Commission final report – although the damage on credit creation (and demand) continues to unfold, in our view.

Index futures exposure, rising iron ore prices and further gains in the REITs sector also impacted the Fund's performance from the short portfolio.

February's company earnings results will provide a key temperature check on the domestic economy, and the season will be as much one of avoiding earnings 'bombs' as picking winners.

### ARCO absolute return strategy – net monthly returns

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FY
FY19	(0.44%)	(2.51%)	1.31%	(0.69%)	0.75%	(3.16%)	0.06%						
FY18	0.24%	(0.29)%	2.79%	1.08%	1.72%	1.77%	0.89%	(1.12)%	1.35%	(0.52)%	(0.55)%	(0.65)%	Ref note
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 – distribution history

Y/e June	2018
Cents per unit (part year for FY18)	0.02

### Fund facts

Month end unit price	\$0.9595	Distribution frequency	Yearly
Strategy	Long-short Australian equities	Minimum investment	\$25,000 (\$10,000 min addition/withdrawal)
Objective	Positive return in all market conditions Overarching focus on capital protection	APIR Code	OPT7628AU
Firm AUM	\$138m	Platform availability	Netwealth, HUB24, Powerwrap, BT Panorama, Macquarie Wrap, Managed.accounts
		Fund Inception	1/11/2017 (@ \$1.00 per unit)

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