

ARCO Investment Management

ARCO Absolute Trust

Monthly report: November 2017

November was another good month for equities both locally and offshore. Company earnings growth and fiscal policy drive US equities higher. The 2018 growth outlook for our equity market isn't so compelling and company fundamentals will likely matter more for stock prices.

Performance	Month	Qtr	1 Year	3Yr(pa)	Life (pa)
Fund return (net)	1.57%	5.54%	6.88%	5.90%	8.43%
Positive months			75%	72%	80%
Worst month					(2.3%)
Volatility					3.8%
Sharpe ratio					1.22

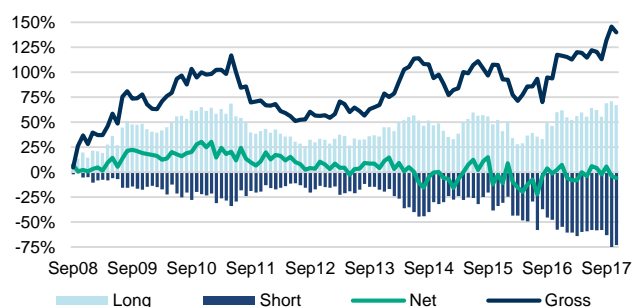
Monthly key contributors – by sector

Longs	
Positive	Resources, retail, non-bank financials
Negative	Telco, media
Shorts	
Positive	Banks
Negative	Index Futures, insurance, building material

Cumulative performance



Fund investment profile (% NAV)



Portfolio settings

% of NAV	Long	Short
Equities	67.0%	-39.2%
Debt/ Hybrids	0%	0%
Derivatives		-33.7%
Gross exposure		139.8%
Net exposure		-5.8%
Concentration by position	Long	Short
Top 5	25.2%	(19.6%)
Top 10	43.2%	(33.9%)
Top 15	55.1%	(40.2%)

Fund strategy and outlook

The Trust's objective is to steadily compound investor returns over time through stock alpha generation, with an overarching focus on capital preservation.

The Trust recorded a net return of +1.6% for the month, +5.54% for the quarter.

The ASX 200 price index cracked the 6000 mark in November, reaching its highest level since early 2008. Offshore equity markets (developed countries) performed broadly on par with our local market (in AUD terms), with the notable exception of the US market which started the month trading flat until it received yet another sugar-hit on the proposed tax reform package and rose over 3% to another record high. We've been here before!

There was no such fiscal support for the Australian market and the RBA again left its benchmark rate on hold, although expressing a desire to raise once wage growth and inflation provide a stronger basis for normalisation. This still looks some way off. Long bond rates eased on these sentiments, further supporting equity flows. Unfortunately, the only major announcement from our Government was of the 'Royal Commission we had to have' which increased the headwinds already blowing through this sector, with contagion risks into other sectors.

Looking forward, we are mindful that December is traditionally a positive month for equities but our focus is always beyond one month. Into 2018, we believe that the 'lower for longer' monetary policy of central banks will continue to be unwound and that the economic fundamentals of companies will play a greater role in their stock price valuations – as they should. Corporate Australia will continue to benefit from low domestic rates which should fuel their growth plans, though consumer weakness (indebtedness and sentiment), tightening bank credit and lack of political leadership will be a challenge to broad market earnings. Volatility in our market will likely rise.

The Fund's net market exposure remains around neutral. The expected impact of Santa Claus on December's market seems challenged by some troubling market technicals.

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Performance review

With the local market rising broadly across most sectors in November, the long positions in the fund drove its positive return, most notably from a number of long-held positions in JHG, WOW, CYB, AHG and ORE.

Limiting the fund's long exposure in banks to CBA (the only major bank that was higher in November), Macquarie and CYB was also a positive contributor to returns, as was the broader short position in the sector with the Royal Commission announcement into banks driving further headwinds through the sector.

The market's continued re-rating of Orocobre (ORE) and Pilbara Minerals (PLS) pushed their stock prices to the very upper edge of our fair value ranges. We exited PLS and trimmed ORE, although we remain vitally interested in both investment and short opportunities around the dislocative industry change associated with EV and energy storage.

We added to our exposure in Lynas Corporation (LYC) during the month, which we view as holding a highly strategic (and cash-generative) position in the rare earth market, although we expect the recent retracement in the underlying commodity prices to continue.

The Fund has generated strong returns from FXJ, and we exited our investment in the final week prior to the spin-out of Domain Group, as the 'easy' part of the re-rate is done for the time being, in our judgement. The Fund continues to be active in TLS, where we believe a solid long investment case is emerging, amidst the very competitive state of the market and the debacle that is the NBN.

The Fund's aggregate short positions were a detractor from returns during the month. We expect these positions to continue to serve their purpose of protecting investor capital in a market that we believe is increasingly over-valued.

ARCO Absolute Trust – monthly returns

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FY
FY18	0.24%	(0.29%)	2.79%	1.08%	1.57%								5.48%
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: returns are net of all fees and assume reinvestment of distributions. Fund inception date 15/09/08.

ARCO Absolute trust – distribution history

Y/e June	2009	2010	2011	2012	2013	2014	2015	2016	2017
Series 1 units	\$1.23	\$1.31	\$2.03	\$0.41	\$0.12	\$0.34	\$0.46	\$0.71	\$0.43

Fund facts

Initial series NAV	\$11.111	Distribution frequency	Yearly (bi-yearly in FY 2016)
Strategy	Long-short Australian equities	Minimum investment	Wholesale investors only, \$100k
Objective	Positive returns in all market conditions. Overarching focus on capital protection	APIR Code	OPT0001AU
Firm AUM	\$132m	ISIN	AU60OPT0014
		Fund Inception	15/9/08 (@ \$10.00 per unit)

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