

ARCO Investment Management

ARCO Absolute Trust

Monthly report: November 2018

The local market fell again last month, registering a negative return for the past quarter and year. Stock price retracements confirm the challenging environment that markets face, but stock-specific opportunities are opening up. We remain cautious moving into December and 2019.

Performance	Month	Qtr	1 Year	3Yr(pa)	Life (pa)
Fund return (net)	0.79%	1.4%	-0.84%	3.40%	7.49%
Positive months			42%	64%	76%
Worst month					(2.7%)
Volatility					3.9%
Sharpe ratio					1.0

note

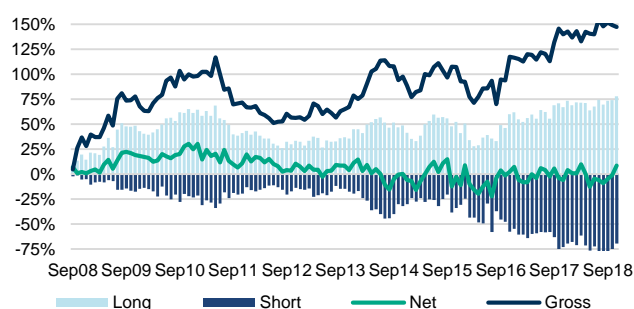
Monthly key contributors – by sector

Longs		34 positions
Positive		Resources, transport, media
Negative		Gaming, banks, building
Shorts		15 positions
Positive		Retail, building, Index futures
Negative		Banks, REITs

Cumulative performance



Fund investment profile (% NAV)



Portfolio settings

% of NAV	Long	Short
Equities	77.9%	-33.3%
Debt/ Hybrids	0%	0%
Derivatives		-36.0%
Gross exposure		147.3%
Net exposure		8.6%

Concentration by position	Long	Short
Top 5	24.9%	(17.4%)
Top 10	41.0%	(28.3%)
Top 15	54.4%	(32.8%)

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 +0.79% for the month.

The Australian equity market was the worst performer of its global peers during November with every sector in the red and ASX200 Accumulation index returns are now negative for the last month, quarter, FYTD and rolling year.

Markets are struggling to deal with a variety of local matters and offshore headwinds continue to make their mark locally – most notably the US/China trade tensions, the Brexit mess, and energy price volatility. Importantly, the recent upward trends in global interest rates broke down in November, battered by weaker economic data and flight-to-safety bond buying. The resulting inversion of certain tenors within the US Treasury yield curve is highly unusual, and is generally not seen as a good portent for economic growth.

Locally, the unholy and iterative relationship between falling property prices and tightening credit conditions is becoming more evident in the consumer economy, with weaker retail, automotive sales and building data.

We have spent the majority of 2018 with cautious risk settings, due to our overarching focus on investor capital preservation and also due to generally very challenging equity valuations. These risk settings had an impact on Trust returns during the mid-year months of strong market rises, though they have certainly been supportive during more recent months with the sharp retracement in markets and stock price volatility.

Looking into 2019, we retain cautious overall market exposure levels and have recently acted to diversify our long portfolio holdings as valuations have retreated to much more rational levels. We retain our dislike of stocks heavily exposed to the local consumer and credit, and expect market headwinds to persist. Our key focus remains one of protecting investors from significant drawdowns and keeping their capital intact, ready for when the winds change again.

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Performance review

Whilst the local equity market was down over 2% in November, the long portfolio within the Trust recorded a modest fall (down 0.3%), which was more than recovered by gains in the short portfolio.

Of our long holdings, 50% of stocks were positive contributors to performance, despite all market sectors finishing in the red. In particular, Orocobre, Mineral Resources and Qube each performed strongly. MinRes continues to feature tremendous price volatility, even as the market digested the news of the landmark sale of 50% of its Wodgina asset to US lithium major Albermale Corp. – which effectively cash pre-funds the downstream processing construction costs for MinRes.

We acted to trim exposure to a number of our resources and materials holdings by month-end, as we believe we are operating in a volatile market in which we must reposition stock weightings actively in response to material price changes.

NEC's acquisition of Fairfax has now completed, and this exposure was positive for the Trust in November. We retain a positive view of the combined group from these price levels, based on its ability to drive both earnings growth and to re-profile the company's asset mix.

Our holdings in Tabcorp and Janus Henderson were among the largest detractors from performance during the

month. We also divested our holding in James Hardie.

In the short portfolio, our positions in the retail, building and energy sectors were most beneficial to the Trust's return. These offset losses from our short financials exposure, where stock prices spiked sharply late in the month, perhaps on the view that the worst of the Royal Commission was behind us. This may be true, but if so perhaps only on the basis of news flow. The implications for costs, credit creation, and customer remediation appear much less clear-cut, in our view.

ARCO Absolute Trust – monthly returns

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FY
FY19	(0.45%)	(2.73%)	1.30%	(0.68%)	0.79%								
FY18	0.24%	(0.29%)	2.79%	1.08%	1.57%	1.76%	0.91%	(1.16%)	1.39%	(0.54%)	(0.65%)	(0.67%)	6.53%
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 is 15/09/08. FY returns are compound returns over the stated period.

ARCO Absolute Trust – distribution history

Y/e June	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Series 1 units	\$1.23	\$1.31	\$2.03	\$0.41	\$0.12	\$0.34	\$0.46	\$0.71	\$0.43	\$0.93

Fund facts

Initial series NAV	\$10.100
Strategy	Long-short Australian equities
Objective	Positive returns in all market conditions. Overarching focus on capital protection
Firm AUM	\$141m

Distribution frequency	Yearly (bi-yearly in FY 2016)
Minimum investment	Wholesale investors only, \$100k
APIR Code	OPT0001AU
ISIN	AU60OPT0014
Fund Inception	15/9/08 (@ \$10.00 per unit)

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