ARCO Investment Management
ARCO Benchmark Independent Fund

Monthly report: February 2018

Early-month volatility was a reminder of the rising global inflation and interest rate reality and the vulnerability of markets. Corporate results were another 'mixed bag', favouring those with solid self-help or offshore strategies as pressure continues to mount on the local consumer sector.

Australian equities defy global peers | Volatility spikes – more to come! | Insights from reporting season

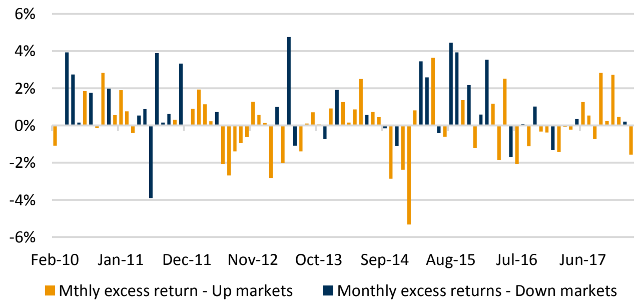
	Month	Qtr	1 Year	3 Year	Life (p.a.)
Price NAV	1.1800				
Fund (a)	-1.22%	0.9%	17.0%	13.9%	13.4%
ASX300 Accum	0.34%	1.7%	10.1%	5.0%	7.3%

(a) Returns from the long portfolio of the ARCO Absolute Trust to Jun 16; actual Fund returns thereafter.

Monthly attribution and top active investments

Attribution	
Positive	Resources, retail, software & services
Negative	Materials, telecommunications, healthcare
Top Active	O/w - CYB, WOW, AHG, JHG U/w - WBC, ANZ, NAB, CSL

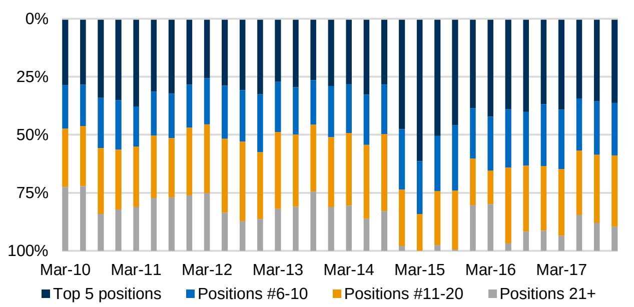
Performance: monthly excess returns



Sector weightings

	ASX300	OBIF	Active
Consumer discretionary	4.9%	6.3%	1.4%
Consumer staples	7.5%	0.0%	-7.5%
Energy	5.2%	6.3%	1.1%
Financials	34.8%	30.3%	-4.5%
Healthcare	7.3%	0.0%	-7.3%
Industrials	7.3%	8.6%	1.3%
IT	2.1%	8.3%	6.2%
Materials	17.9%	24.8%	6.9%
Real Estate	8.0%	8.4%	0.4%
Telecommunications	3.1%	7.0%	3.9%
Utilities	1.9%	0.0%	-1.9%

Stock concentration - % of equity exposure



Fund strategy and outlook

The ARCO Benchmark Independent Fund aims to deliver investors consistent growth over time, with a strong focus on capital preservation and low downside capture.

The Fund recorded a net return of -1.22% for the month.

The local equity market defied the trend of global peers and recovered some ground in February (+0.4%). Volatility also spiked early in the month, principally sponsored by US payroll data that was 'too-strong' with the consequent rise in US bond yields and the knock-on effect into our bond and equity markets. Our equity market staged a broad sell-off and subsequent recovery, with significant equity flows being redirected into a number of the interest rate sensitive stocks considered a defensive harbour in choppy waters.

We retain our view that the best days of passive beta are behind us in this cycle and that too much money is placed on the same equity 'bets' with global inflation and interest rates trending upward. More volatility spikes are the likely outcome looking forward - or worse.

Further, we continue to look at market data that points to a local property market correction that is already underway, albeit in slow motion. This will accentuate volatility in our markets as it applies increasing pressure to a heavily indebted consumer sector as well as on those institutions that extend credit to them. A slump in residential building approvals, declining consumer sentiment and still-falling credit supply are recent economic indicators of this.

February's company reporting season added further 'spice' to our markets, wrapping-up neutral-to-positive in our view and further highlighting that company 'self-help' and non-AUD strategies are a better recipe for improved shareholder returns than a significant exposure to the local economy.

Compounding returns over time is best achieved by not having to make-up significant draw-downs - both remain our focus.

ARCO Investment Management
ARCO Benchmark Independent Fund

Monthly report: February 2018

Performance review

February was a disappointing month for the Fund as it underperformed the broader market for the first time in several months.

The market volatility did afford us the opportunity to deploy some cash as a number of our high conviction holdings retraced to the cheaper-end of their fair value range.

More specifically, ORE, TLS and WPL detracted from the Fund's performance in February and we actively rebalanced the portfolio in their favour as their prices retreated and our analysis re-affirmed the upside potential of their respective 'self-help' return strategy.

We also acted during the volatility to initiate positions in NAB and MGR which priced more attractively than they have for some time on our assessment of them.

After holding the stock since the Fund's inception in 2016, we exited WOW from the portfolio as it edged to the top-end of our fair-value range, having rewarded shareholders with the strategy refresh under Banducci but now under pressure to sustain its recent performance in the face of resurgent competition.

The Fund is now completely out of the consumer staples sector and the utility and healthcare stocks continue to screen too expensive on our analysis, though we clearly exited CSL too early.

The Fund's active share ratio remains at c70% as we act on opportunities to rebalance some of our existing positions when their prices move to the outer-edges of our fair value range and as the Fund continues its focus on minimising investor drawdown exposure, the risks for which we believe are steadily rising.

Performance summary

	Qtr	1 Yr	3 Yrs	5 Yrs
Returns				
Fund (1)	0.9%	17.0%	13.9%	13.3%
Market (ASX300)	1.7%	10.1%	5.0%	7.9%
– Excess return	-0.8%	6.9%	8.9%	5.4%
– Correlation		-0.03	-0.35	-0.38
Analytics				
Information ratio – OBIF		1.57	1.43	0.82
Tracking error		4.4%	6.2%	6.5%
Sharpe ratio – ABIF		3.3	1.8	1.6
Sharpe ratio – market		1.0	0.3	0.5

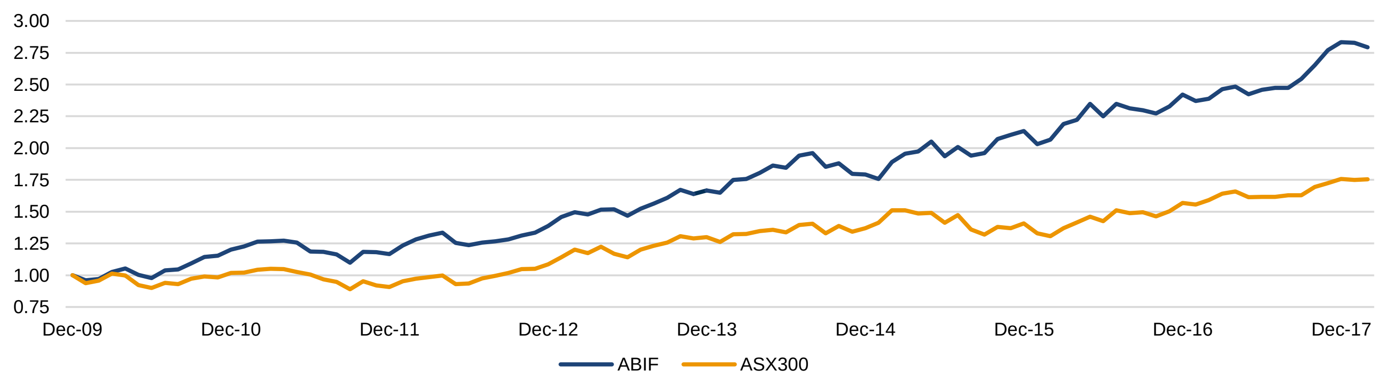
Key portfolio changes

Additions/up-weights
Additions
NAB, MGR
Up-weights
BHP, ORE, LYC, TLS, WPL

Deletions/down weights
Deletions
WOW, BAP
Down-weights
MQG, CTX, HT1, AHG

Note (1): Returns from the long portfolio of the ARCO Absolute Trust to Jun16, actual Fund returns thereafter.

Cumulative returns since inception



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