ARCO Investment Management
ARCO Benchmark Independent 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.

Strong stock rebound – surprisingly!

Central banks blink

Coupon investors on a new diet

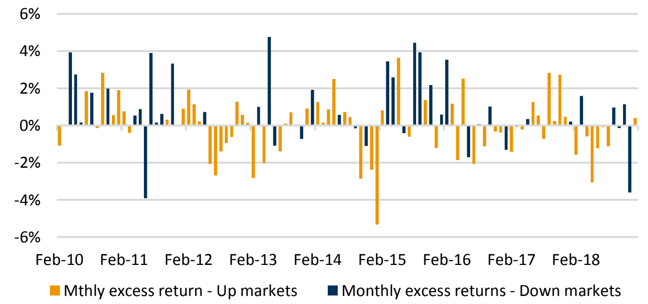
	Month	Qtr	1 Year	3 Year	Life (p.a.)
Price NAV	0.9830				
Fund (a)	4.27%	-0.79%	-6.0%	9.4%	11.3%
ASX300 Accum	3.87%	1.45%	1.4%	10.0%	6.6%

(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	31 holdings
Positive	Gaming, media, energy
Negative	Resources
Top Active	O/w – NEC, TAH, ALL, LNK U/w – BHP, WBC, CBA, CSL

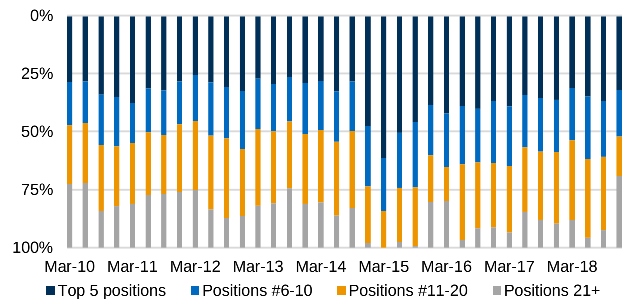
Performance: monthly excess returns



Sector weightings

	ASX300	ABIF	Active
Consumer discretionary	6.4%	18.1%	11.7%
Consumer staples	5.8%	3.1%	-2.7%
Energy	5.4%	9.8%	4.4%
Financials	32.1%	10.6%	-21.5%
Healthcare	8.8%	0.0%	-8.8%
Industrials	8.0%	15.8%	7.8%
IT	2.2%	8.8%	6.6%
Materials	18.1%	24.5%	6.4%
Real Estate	7.6%	0.0%	-7.6%
Telecommunications	3.5%	9.4%	5.9%
Utilities	2.0%	0.0%	-2.0%

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 +4.27% 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 a cautious view of the local equity market, elevating cash levels toward the top-end of our range leading into February's company reporting season.

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Performance review

Whilst the size and pace of the market rebound in January surprised us, (the largest monthly rise since October '17), the Fund outperformed the broader market driven most notably by solid moves by Tabcorp and Aristocrat (where the key drivers are not Australian consumers) and aided by our sustained underweight to the banking sector.

Worley and Qube were are also notable contributors to January's result, as was NEC, which was pleasing after its poor December.

During the month, we also took the opportunity to reduce the Fund's exposure to MIN, ORE and LYC, remaining believers in the medium to longer term outlook for these companies (for reasons detailed in last month's report) though also anticipating nearer-term price risks for stock-specific reasons.

The Fund's active underweight exposure to banks, whilst positive for January's result, has been an early drag on performance in February with the further decline in bond yields and a 'less-bad' outcome in the Royal Commission final report. This said, the damage on credit creation (and demand) continues to unfold, in our view, and we retain our modest and very selective exposure to the sector.

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.

Performance summary

	Qtr	1 Yr	3 Yrs	5 Yrs
Returns				
Fund (1)	-0.8%	-6.0%	9.4%	10.0%
Market (ASX300)	1.4%	1.4%	10.0%	7.0%
– Excess return	2.2%	-7.4%	-0.6%	3.0%
– Correlation		-0.32	-0.17	-0.27
Analytics				
Information ratio – ABIF		-1.33	-0.11	0.46
Tracking error		5.5%	5.5%	6.5%
Sharpe ratio – ABIF		-1.6	1.3	1.1
Sharpe ratio – market		-0.2	0.9	0.5

Key portfolio changes

Additions/up-weights

Additions

Up-weights

BXB, ANZ, AMC, ALL, QBE

Deletions/down weights

Deletions

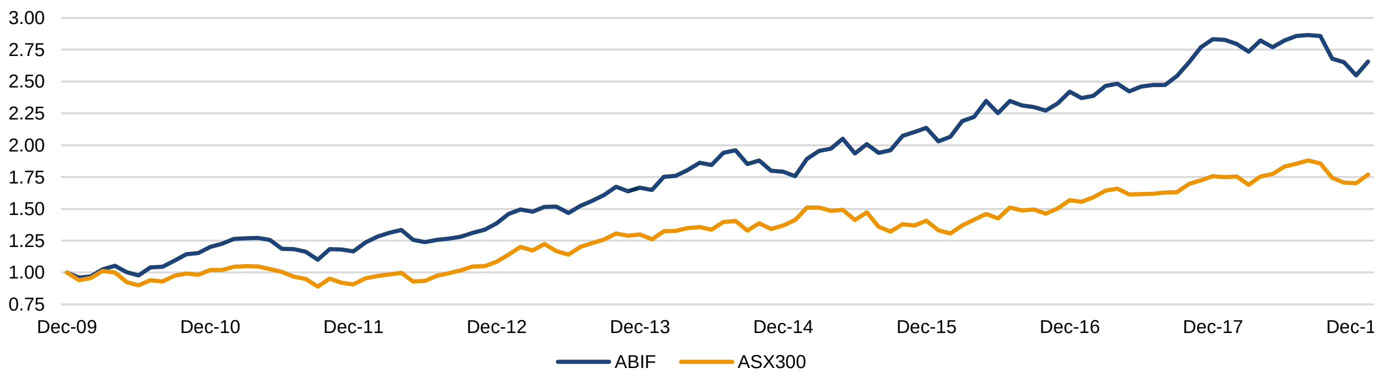
JHG, SHL

Down-weights

MIN, QUB, BLD, RRL, ORE, LYC

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

Cumulative returns since inception



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