

ARCO Investment Management

ARCO Benchmark Independent Fund

Monthly report: March 2018

With the local equity market down almost 4% over Q1 2018, the recent notion of low-risk, global synchronised growth has seemingly given way to economic concerns triggered, interestingly, by the threat of a global trade war.

Equity headwinds blow harder

Credit growth under more pressure

Alpha from 'self-help' strategies

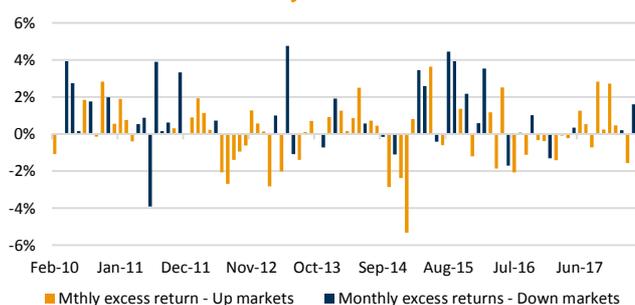
	Month	Qtr	1 Year	3 Year	Life (p.a.)
Price NAV	1.1548				
Fund (a)	-2.13%	-3.5%	11.0%	11.8%	13.0%
ASX300 Accum	-3.73%	-3.8%	2.9%	3.7%	6.7%

(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	Banks, professional services, materials
Negative	NBFI's, transport, telecommunications
Top Active	
	O/w - CYB, JHG, BLD, TLS U/w - CBA, WBC, ANZ, NAB

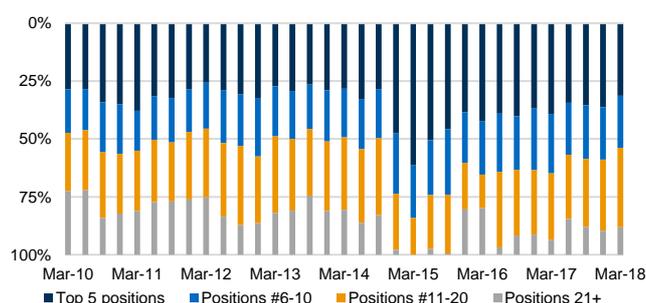
Performance: monthly excess returns



Sector weightings

	ASX300	OBIF	Active
Consumer discretionary	4.8%	6.4%	1.6%
Consumer staples	7.6%	2.9%	-4.7%
Energy	5.1%	6.5%	1.4%
Financials	34.8%	19.9%	-14.9%
Healthcare	7.8%	0.0%	-7.8%
Industrials	7.2%	11.3%	4.1%
IT	2.2%	7.9%	5.7%
Materials	18.0%	32.5%	14.5%
Real Estate	7.8%	5.6%	-2.2%
Telecommunications	2.8%	7.0%	4.2%
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 -2.13% for the month.

The bias of equity markets remained negative in March. Donald Trump's war of words was turned into action with the US introducing tariffs on steel, aluminium and USD50bn of various Chinese imports. Subsequently, the Chinese have retaliated in kind, introducing tariffs of their own. Furthermore, the meteoric rise of the basket of stocks known as the "FANG's" (Facebook, Amazon, Netflix and Google) which led the US market up in recent times also reversed. While our local equity market defied the trend last month by posting a modest gain, March saw the Australian bourse finish amongst the worst globally, down 3.8% for the month.

Long exercising our minds have been concerns relating to the Australian housing market and the banking system. Clearly the two are inextricably linked. While seemingly met with a fair measure of complacency, the Financial Services Royal Commission kicked off with what we would view as extraordinary confirmations by banking executives of business practices that showed incompetence at best and illegal behaviour with respect to product miss-selling at worst. Whatever the case, we believe that the driver of the property boom, loose money, could be its undoing with the Royal Commission a likely catalyst. The regulator has long been trying to reign in poor lending practices and shining the light on these via the Commission can only lead, in our view, to tighter credit conditions with a consequential negative impact on house price appreciation, development and construction, and bank credit quality.

By extension, a slowing of credit activity can have a large impact on our broad economy. Thus, we continue our preference for companies with strong offshore franchises and/or defensible "self-help" strategies while also being cognisant that sharp market declines often create attractive entry points for longer term investments or topping up of existing positions.

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Performance review

In the context of an increasingly volatile equity market which traded sharply down for the month, March was a reasonable month for the Fund.

Whilst the portfolio generated a negative overall return, it performed notably better than the underlying market with positive returns from almost half of our holdings and particularly strong contributions from a number of our positions with stock-specific share price drivers such as Lynas, Brambles and AWC Alumina.

On the negative side, a sell-off in lithium producers, including our long held position in Orocobre, came on the back of a broker report incorporating lower

forecasts for electric vehicles (and hence lower lithium demand) than we believe to be the case. Therefore, we took the opportunity to add to our lithium exposure via new positions in Mineral Resources (MIN) and Pilbara Minerals (PLS). Notably, Orocobre announced short term production issues after month end, a situation which we continue to monitor.

Another new position is Nufarm, a global agricultural chemical producer and distributor. Its relatively new management have importantly rationalised the product portfolio and strengthened working capital levels, implementing sound controls and

providing the pathway for profitable growth. This includes two recent acquisitions, as well as its canola seed project with Omega 3, a product that is expected to take share in a supply-constrained, growing market.

The Fund's active share ratio was 77% for the month as we acted on opportunities to not only initiate new positions but also to rebalance some of our existing holdings as their prices moved to the outer-edges of their fair value range. The Fund continues its focus on minimising investor drawdown exposure, the risks for which we believe continue to rise.

Performance summary

	Qtr	1 Yr	3 Yrs	5 Yrs
Returns				
Fund (1)	-3.5%	11.0%	11.8%	13.1%
Market (ASX300)	-3.8%	2.9%	3.7%	7.6%
- Excess return	0.3%	8.1%	8.1%	5.5%
- Correlation		-0.12	-0.37	-0.36
Analytics				
Information ratio – OBIF		1.85	1.53	0.84
Tracking error		4.5%	6.1%	6.5%
Sharpe ratio – ABIF		1.9	1.5	1.6
Sharpe ratio – market		-0.1	0.1	0.4

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

Key portfolio changes

Additions/up-weights

Additions

MIN, NUF, WES, SUL, TCL, PLS

Up-weights

AMP, BHP, CTX, BXB, WFD

Deletions/down weights

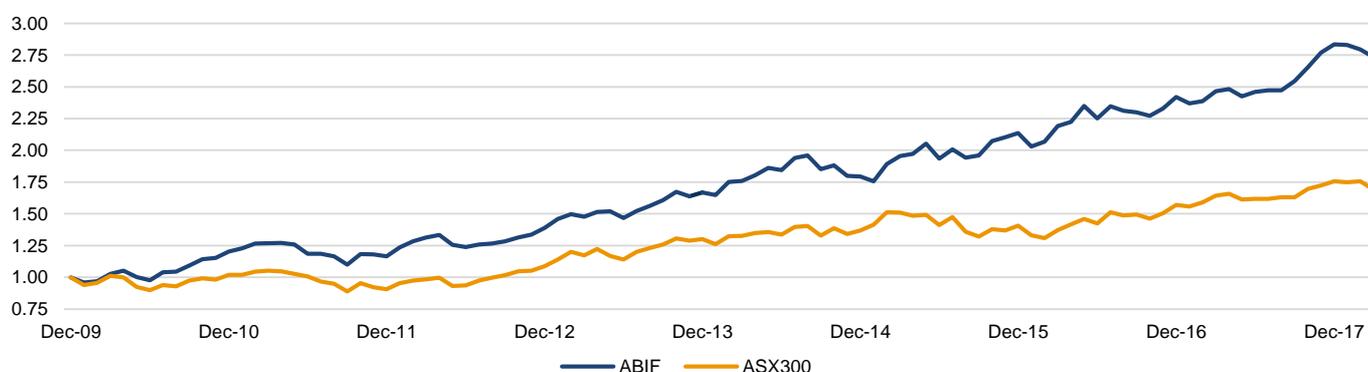
Deletions

CBA, SCG, NAB, MQG, MQA

Down-weights

AHG, LYC, WPL

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

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