Evans and Partners International Fund

SEPTEMBER 2018 QUARTER REPORT

For fund use only. The views expressed herein are part of a wider portfolio investment strategy and should not be considered in isolation.

PERFORMANCE TO 30 SEPTEMBER 2018

	3 MONTHS	6 MONTHS	1 YEAR	2 YEARS (P.A.)	3 YEARS (P.A.)	SINCE INCEPTION (P.A.)
Portfolio Return (AUD)	8.3%	16.7%	22.5%	13.0%	12.7%	13.4%
MSCI AC World Accum Index ex-Aust (AUD)	6.6%	11.1%	19.2%	17.5%	12.3%	13.3%
Excess Return	**1.7%**	**5.5%**	**3.3%**	**-4.5%**	**0.4%**	**0.2%**

Performance is net of investment management fees. Inception date is 18th February 2014. Numbers may not sum due to rounding. Since inception return is annualized and assumes reinvestment of distributions. Past performance should not be taken as an indication of future performance.

BOB DESMOND
Head of International Equities

ADAM CHANDLER
Portfolio Manager

CONTRIBUTION TO PORTFOLIO RETURN – SEPT 2018 (%)

TOP 5	
Visa	1.48
CDW	1.22
Ross Stores	1.20
Alphabet	0.94
Ecolab	0.65

BOTTOM 5	
TE Connectivity	0.04
RELX Group	0.15
Illinois Tool Works	0.34
Compass Group	0.39
3M	0.42

Numbers represent contribution in percentages of each stock to the percentage change in portfolio value.

SECURITIES MOVEMENTS FOR THE MONTH OF SEPT

Bought in	-
Sold out	-
Increased holding	Nordson, Ross Stores, Ecolab
Decreased holding	TE Connectivity, Compass, Alphabet, CDW

HOLDINGS AS AT 30 SEPTEMBER

	REGION	SECTOR
3M	US	Industrials
Ecolab	US	Industrials
Illinois Tool Works	US	Industrials
Nordson	US	Industrials
TE Connectivity	US	Industrials
Compass Group	UK	Business Services
RELX Group	UK	Business Services
Accenture	US	Technology
Alphabet	US	Technology
CDW	US	Technology
Experian	UK	Financial Services
Visa	US	Financial Services
Ross Stores	US	Consumer

MARKET COMMENTARY

International equity markets appreciated by 6.1% on a price basis (excluding dividends) over the September quarter (all figures are in AUD unless noted otherwise) and outperformed the Australian market, which fell by 0.2% over the same period.

The US equity market performed strongly (up 9.3% over the quarter), building on a solid performance over the last twelve months, up 25.4% (15.7% in USD terms). A clear outperformer relative to other markets, economic figures and earnings data remained robust, overshadowing concerns surrounding the escalating trade war with China. The US bull market officially became the longest in history, while US consumer confidence hit its highest level since 2000 and wage growth rose to its highest level since 2009. This supported retail sales growth over the period, with the Information Technology and Healthcare sectors also driving performance through strong earnings. The ongoing economic strength again provided scope for the Fed to increase the federal funds rate by 25 basis points (bps) during the quarter.

Positive forward-looking indicators pointing towards continued European expansion saw the region's equity market bounce back in the third quarter, appreciating 2.5% (0.8% in local currency terms). Initial fears over the potential direct impact of US tariffs on cars were lessened following a meeting in July between US President Trump and EU President Juncker. The result was an agreement to work towards zero tariffs on non-auto industrial goods. There was no change in interest rates from the European Central Bank, which stated that rates would remain on hold, at least through to summer 2019. UK equities, down 0.6% (1.5% in local currency terms), continued to be restrained by the prospect of a no-deal Brexit, with sterling weakness insufficient to offset negative sentiment.

The vulnerability of some emerging market economies to tighter US monetary policy, as well as concerns around the potential impact of global trade tensions, weighed on emerging market equities, which were flat for the quarter. China successfully slowed non-bank credit growth, however, as China deals with the US tariff headwind, authorities are now easing policy in an attempt to boost domestic growth. However, the uncertainty spooked investors, with Chinese equity markets falling 6.5% over the quarter. In other prominent emerging economies, Brazil bounced back strongly after a dismal six months, appreciating 7.2% over the quarter, while Russia continued its good run, rising 5.9% over the same period.

At a sector level, Healthcare performed strongly, increasing 12.9% over the quarter. The sector has rallied strongly over the last few months, as investor concerns over the US political stalemate appear to have eased. Information Technology (up 8.0% for the quarter) saw continued momentum, building on an exceptionally strong year which saw the sector rise 31.9% over the last twelve months. Real Estate was the only sector to fall during the quarter, ending down 0.2%.

PORTFOLIO CONSTRUCTION CONSIDERATIONS

Being disciplined on price and only buying at an appropriate discount to our assessed fair value often dictates that we spend less time thinking about or making portfolio changes and more time on company research. During the September quarter, we did a lot of research! While we made no portfolio additions or sales, the preparation was rewarded soon after month end when we initiated three new portfolio positions (adidas, AON and Sika) and trimmed a number of existing holdings following material share price gains. Interested clients may refer to our published research on the new portfolio companies and the recent portfolio changes updates.

PORTFOLIO PERFORMANCE

The Evans & Partners International Fund appreciated by 8.3% for the quarter, outperforming the broader market by 1.7%, which appreciated by 6.6% on a net basis (includes dividends).

Key positive contributors to performance for the quarter were **Visa**, **CDW** and **Ross Stores**:

- **Visa** – Strong payments volume growth drove solid top line performance, with high margin cross-border volumes also growing strongly. The company continues to see repricing opportunities in Europe as it looks to a better digital offering and value-added services. Visa Europe has traditionally been a very debit-centric network focused on the UK and France. Management will be placing greater emphasis on credit and expanding Visa's presence in countries across the European region, indicating it is "moving from the integration to the growth phase". The acquisition of Visa Europe is expected to be double-digit EPS accretive and is running two years ahead of schedule. We expect core EPS growth of just over 30% for FY18, of which 9–10% is tax related and 3% is attributable to FX. We forecast the company will continue to grow at an estimated rate of 15% per annum over the medium term.

- **CDW** – Another strong set of results saw net sales increased 7.6% to $4.2bn (sales increased 7.0% on a constant currency basis). There was widespread growth across all divisions, with the UK and Canada proving to be exceptionally strong (up 34%). Government end-market sales fell 5.7%, partly due to the prior corresponding period including a large Department of Defense contract. Assisted by customer mix and an improved performance in software and cloud sales, EBITDA margins were up 10bps to 8.2%. Adjusted EPS increased 35% to $1.38 over the quarter, boosted by the effective tax rate falling 11% to 26%. Management increased the quarterly dividend by 31% to $0.21.

- **Ross Stores** – The company reported its 2Q18 earnings during the quarter, with strong sales growth of 9% and EPS growth of 27%. Importantly, comparable store sales growth accelerated (up 5%), beating consensus expectations of a 2.7% rise. Higher traffic numbers and average basket size drove the strong results, with the company also highlighting high inventory levels in the market – which should offer further support to sales and margins. Margin contraction is expected in the short term due to the impact of wage increases comes through. The company raised its long-term store rollout target from 2,500 to 3,000, underpinned by a growing target demographic. This enhances long-term growth opportunities (they currently have a store base of 1,500); however, we expect management will remain disciplined, restricting store openings to approximately 100 stores p.a.

Notable detractors from the portfolio were **TE Connectivity** and **RELX**:

- **TE Connectivity** – Trade tariffs and weaker sentiment towards the automotive industry weighed on TE Connectivity, as this end market comprises approximately 40% of the group's net revenue. Further, the company recently announced the sale of its Subsea Communications business, which will be marginally EPS dilutive in the near term but which is ultimately expected to improve earnings consistency and management's focus on further improving core operations. The company currently trades at 12.8x next twelve months earnings, which we believe is an attractive multiple given the strong organic growth across the group and the margin expansion opportunity in the company's industrials segment.

- **RELX** – The company's share price was, in part, impacted by the elimination of its dual listed corporate restructure and consequential institutional selling. Following the removal of the Euronext listing, the company now has a single UK listing which presents potential country holding limitations for some funds. Simultaneously, one sell-side research house reinitiated questioning of the journal business's subscription model (which comprises approximately 15% of RELX's group revenue). This has been an intermittent market concern for well over a decade despite the proven resilience of the model. However, we will continue to monitor the situation and, as always, remain vigilant to potential competitive threats.

PORTFOLIO CHANGES – STOCKS ADDED TO THE PORTFOLIO

There were no new positions added to the portfolio during the quarter.

PORTFOLIO CHANGES – STOCKS REMOVED FROM THE PORTFOLIO

There were no stocks removed from the portfolio during the quarter.

COMPOSITION OF PORTFOLIO PERFORMANCE

	3 MONTHS	6 MONTHS	1 YEAR	2 YEARS (P.A.)	3 YEARS (P.A.)	SINCE INCEPTION (P.A.)
Local currency return	6.7%	13.3%	15.4%	9.5%	15.9%	9.8%
+/- currency impact on return	1.6%	3.3%	7.1%	3.5%	-3.2%	3.7%
Portfolio return (AUD)	**8.3%**	**16.7%**	**22.5%**	**13.0%**	**12.7%**	**13.4%**

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PORTFOLIO CHARACTERISTICS – 3 YEARS TO JUNE 2018

Standard deviation	10.9%
Realised beta	1.02
Tracking error	6.1%
Upside capture ratio	1.00
Downside capture ratio	0.96

FUND NAME	EVANS AND PARTNERS INTERNATIONAL FUND
APIR Code	ETL0390AU
ARSN	166 708 792
Responsible Entity	Equity Trustees
Number of stocks	10-15
Maximum cash weighting	10%
Maximum single stock weighting	10%
Currency exposure	Unhedged
Benchmark	MSCI All Countries World Accum Index ex-Australia (A$)
Minimum Investment	$20,000
Distribution Frequency	Bi-annually
Investment Management Fee	1.25% incl GST
Buy/sell spread	0.10% / 0.10%
Fund Inception	18th February 2014