Evans and Partners Diversified Fixed Income Portfolio

Quarterly Portfolio Review March 2016

EVANS & PARTNERS

Description/Strategy

The Portfolio is designed to provide a secure and predictable income stream. It also aims to complement a balanced asset allocation strategy via the capacity to bias the portfolio heavily in favor of government debt if the macro outlook dictates.

Investment Objectives

The Portfolio will invest in various securities across Government Bonds, Investment Grade Corporate Bonds and Hybrid Securities. The Portfolio Manager will implement and manage the portfolios to provide income approx. 2% above cash rates whilst targeting a moderate level of capital appreciation through the typical business cycle.

Current Return Profile

Running Yield:	5.79% (incl franking)
YTM:	6.44% (incl franking)
Margin over bills:	4.10% (incl franking)

Portfolio Characteristics

Average years to maturity	3.34
Fixed Exposure	4.0%
Floating Exposure	96.0%
Duration	0.34
No. Securities held	30

Top 15 Holdings as at 31 March 2016

Code	Name	% Holding
CNGHA	Colonial Sub Note	6.0%
ANZPA	ANZ MCPS	6.0%
AQHHA	APT Pipelines Sub Note	5.5%
MQGPA	Macquarie Group Capital Note	5.2%
AYUHB	Australian Unity Bond	4.8%
PCAPA	CBA PERLS III Step Up Pref	4.6%
CGFPA	Challenger Capital Note	4.5%
GMPPA	Goodman Group Sub Note	4.4%
NABHA	National Income Securities	4.2%
CWNHB	Crown Sub Note	4.1%
SUNPD	Suncorp Capital Note	4.1%
CTXHA	Caltex Sub Note	3.9%
MBLPA	Macquarie Bank Capital Note	3.9%
ORGHA	Origin Sub Notes	3.3%
MXUPA	Multiplex Sites Perp'l Pref	3.1%
TOTAL		**67.6%**

Investment performance to 31 March 2016	3 months	6 months	1 year	3 years (pa)	Since Inception (pa)
Portfolio Return	**-0.5%**	**0.6%**	**-0.5%**	**4.0%**	**5.7%**
Benchmark Return	**0.6%**	**1.0%**	**2.0%**	**2.9%**	**3.7%**
Excess Return	-1.1%	-0.4%	-2.5%	1.1%	2.1%
Portfolio Cash Income*	***1.2%***	***2.4%***	***4.6%***	***5.1%***	***5.3%***

*Investment Performance **does not** include investment management fees. Investment performance incorporates any benefit from franking credits. **Numbers may not sum due to rounding.** Benchmark is the performance of 50% Bloomberg AusBond Bank Bill Index, and 50% Bloomberg AusBond 0-3 years Composite Index. These figures represent historical performance of the model portfolio only and should not be construed as an indication of future performance. Individual client returns may vary depending on investment timing and slight variances in individual stock weightings. An investment in this fund incorporates risk, including loss of principal invested. Inception date 14th June 2011. *As calculated by E&P*

Relevant Australian Index returns to 31 March 2016

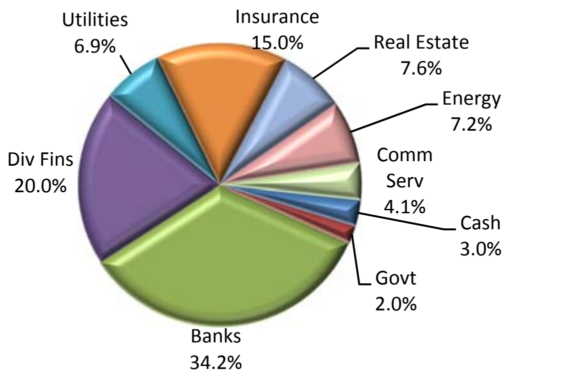
Index	3 month return	12 month return
Cash (BB Bank Bill Index SBCBB)	0.58%	2.24%
BB Australian Govt Bond (SGBALL)	2.33%	1.58%
BB Corporate Bond (SCRALL)	1.42%	2.22%
BB Composite Bond (SCPALL)	2.05%	1.97%
ASX Bonds and Hybrids; All Issues*	-0.49%	-0.99%

Source: IRESS, *Evans and Partners

BB = (Bloomberg AusBond Index)

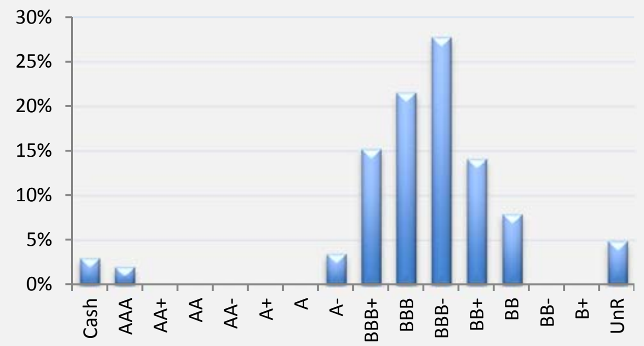
**The inclusion of franking would add 0.92% to the All Bonds and Hybrids index 12 month performance.

Sector Diversification



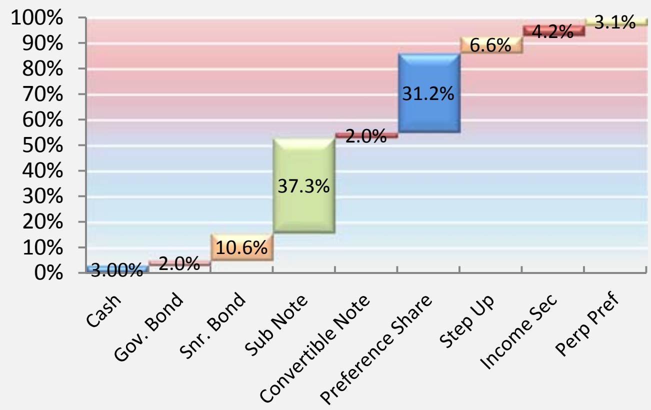
Source: IRESS and E&P analysis

Ratings Profile



Source: IRESS and E&P analysis

Capital Structure Summary



Source: IRESS and E&P analysis

Market Summary

The first quarter of 2016 opened with a jump in volatility in all markets, driven by large falls in commodity prices, concerns over a slowing Chinese economy and fallout from the first cash rate rise in the US for over 8 years. The US Fed reserve also indicated a series of cash rate rises to come over 2016. This contributed to the market volatility given its potential negative effect on the economy and its potential to push the USD higher. The volatility led to falling long term bond rates with 10 year rates in the US and Australia close to all-time lows. Credit spreads also jumped globally resulting in falling prices for corporate bonds, despite little balance sheet stress outside the commodity sector. In the latter half of the quarter, several factors led to market stability: the ECB enacting new forms of quantitative easing, good US economic data, and the stabilisation of commodity prices. More recently US Fed commentary has indicated that the Fed has pared back their forecasts of further cash rate rises. The Fed now only expects 1-2 rises in the second half of 2016 rather than four over the whole year. The overall message is that the pace of US cash rate normalisation will be slow. Additionally the US Fed is quite cognisant of the recent heightened market volatility and sluggish global GDP growth.

Australia has not been immune from the global market volatility. Equity markets were extremely weak in January followed by poor credit markets in February with the added worry of some European banking concerns. However, markets have recovered well in the past month along with global peers. In Australia the most recent GDP data was strong as well as the labour force data exceeding expectations. On the other hand the recent strong AUD may concern the RBA. Low inflation and a cooling property market gives the RBA room to move, with markets now expecting a 0.25% cash rate cut by the last quarter this year to 1.75%. The low level of rates is still here for some time to come, especially in the context of non-US economies still struggling and experiencing very low levels of inflation.

Portfolio Activity

Total Portfolio performance for the quarter was -0.50%. The cash income was 1.20% including franking credits. The performance this quarter has been as a result of market volatility in January which adversely affected the market pricing of several held bonds and hybrids. This was partially reversed in March as the market recovered.

The benefit of holding corporate interest rate securities are to receive returns well above cash rates. However the pricing of nearly all bonds and hybrids are subject to how markets are pricing credit risk overall. This often ignores the credit profile of individual companies and follows general financial market volatility. Hence for the added return above cash rates, holders of corporate bonds and hybrids are subject to market moves and may at times experience poor market pricing. Of course the opposite can also occur where markets can perform well and prices strongly rise. The saving grace is that unlike equities that are effectively perpetual, most bonds and hybrids are repaid and hence price recovery eventually occurs. In the interim however there may be a period where market prices are below the price paid for the security creating an unrealised capital loss (note however income is still being received).

This has been the case for some bonds and hybrids held in the portfolio the past 12 months, in particular three holdings, National Australia Bank income securities, Crown Resorts notes and Multiplex perpetual hybrids. There are no credit concerns for any of these securities or others in the portfolio. These three have underperformed for individual reasons.

NAB income securities are held for a special situation where we view a significant return can be made over time whilst collecting good income. We have a view that NAB will repay the security at a significant premium to market in the next three years. Meanwhile for this holders collect 5.44% income per annum with the solid credit exposure that NAB provide. However in the interim, holders may have to wear pricing volatility (as has just happened).

The second example is Crown Resorts notes. The various forms of Crown Resorts debt have all fallen in price due to press reports that the major shareholder may embark on capital management. Crown Resorts themselves have stated they are unaware of such activity. Close analysis shows that a leverage buyout of Crown Resorts is very unlikely given government requirements that casino operators maintain a high credit grade. We are in regular contact with Crown and are very satisfied with the company's performance. This situation should realign over the next few months as the uncertainty is resolved and the price of the notes recover.

Thirdly the portfolio holds Multiplex hybrids. The credit profile of Brookfield Multiplex is very sound. The hybrids offer a running yield of 8.56%. However given their perpetual nature the price is very sensitive to the level of the equity market, despite the issuing company not being listed. As the recent equity market volatility has subsided, the price of Multiplex hybrids has recovered. Given the time frame of the portfolio, such investments can be included and can deliver significant returns. The portfolio has been active in the quarter building a shorter maturity profile and adding government bonds, both actions intended to provide a buffer if volatility returns. The portfolio has a running yield of 5.80% and a YTM of 6.28%, an annual return level we expect to deliver over a time frame of 3-5 years.

IMPORTANT INFORMATION

The Evans and Partners Diversified Fixed Income Portfolio "Portfolio or Fund" is issued by Linear Asset Management Ltd (ABN 11 119 757 596, AFSL 304542) as the Responsible Entity for the Portfolio. Evans and Partners Pty Ltd ("EAP") ABN 85 125 338 785, AFSL 318075 is the Investment Manager of the Portfolio.

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