

“Build Smarter Portfolios”

Global Alpha Plus (GAP) is a diversified portfolio that invests in companies listed on the world’s major developed market exchanges identified through our VMQ stock selection process.

The model portfolio of 150–250 stocks is created by optimising expected excess returns against investment strategy Beta constraints.

The investment objective is to add alpha to the MSCI World Value Weighted Index while delivering the Beta return.

The strategy can be implemented by professional investors according to their own regulatory and client requirements.

Benefits

- A portfolio solution to better capture preferred ‘smart’ Beta factors.
- Strong and stable excess returns — API’s ‘Alpha Plus’ — in addition to the strategy Betas.
- Greater flexibility, where we can agree strategy holding update terms and clients carry out portfolio implementation.
- A cost effective way to create ‘Alpha Plus’ smart Beta.

For additional information please visit www.apicapital.com

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As at 31 Dec 2018	Portfolio
No. of securities	230
Wtd Avg Market cap	USD 55.6bn
Fwd Price/Earnings	9.4x
Price/Book	1.5x
Fwd Dividend Yield	4.0%
Portfolio Active Risk (pa)	1.9%
Factor/Asset % of active risk	30% / 70%
Beta R ² (since inception)	0.94

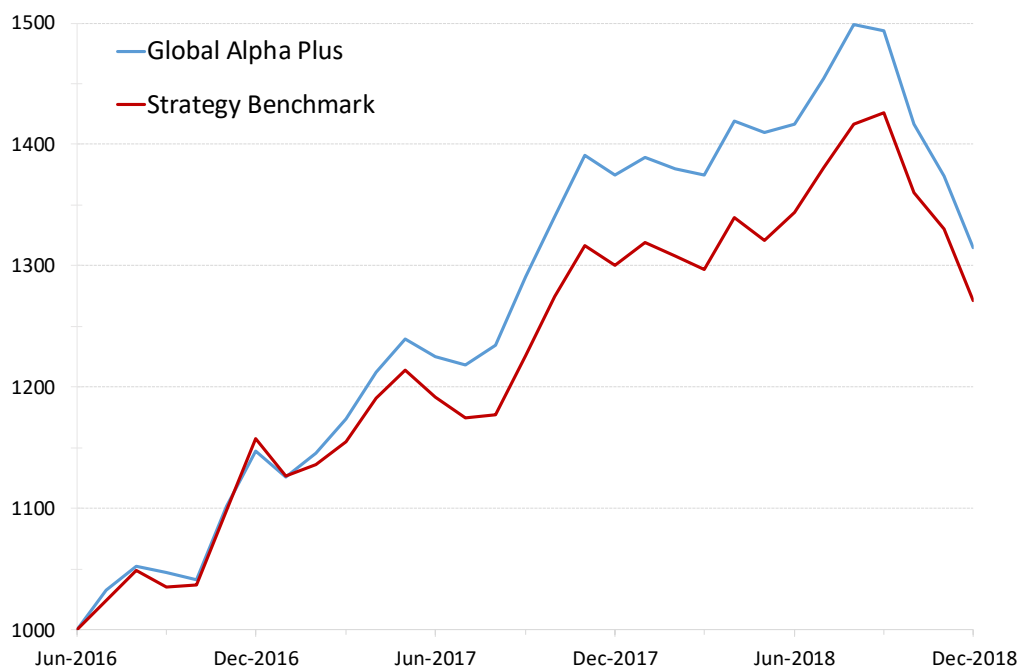
Global Alpha Plus

Strategy Update 31 December 2018



PERFORMANCE*

Value of AUD1000 since inception



Periods ended 31 Dec 2018	3 Months	6 Months	1 Year	2 Years	Since Inception
Portfolio*	-11.9%	-7.2%	-4.4%	+7.1%	+11.6%
Benchmark^	-10.9%	-5.4%	-2.2%	+4.8%	+10.1%
Active	-1.0%	-1.8%	-2.2%	+2.3%	+1.5%

*Portfolio total return net of fees and Interest Withholding Tax in AUD.

^Strategy Benchmark is MSCI World Value Weighted Index

Inception Date: 30 June 2016, returns over 1 year are per annum

PORTFOLIO REVIEW & MARKET UPDATE

- The Strategy return in AUD terms for quarter ended 31 December 2018 was –11.9%, it’s smart beta outperformance target, MSCI World Value Weighted returned –10.9%. We increased target holdings in the strategy to 230 names at the end of November, improving portfolio expected return per unit of active risk and supported the strategy to outperform the Value benchmark target for December by 0.2%.
- Strong momentum over the summer in US Tech stocks started to unwind in October as many growth stocks reported earnings below expectations.
- Trade tensions between the USA and China continue to be an unhelpful backdrop as both announced new tariffs against each other - implementation on 31 December was halted for 90 days with the hope that an agreement over the dispute can be resolved.
- The steep falls in markets we have seen across the world are now largely discounting a world recession. We have seen falls of this magnitude before - most recently in 2015 - when no recession ensued. Very few are predicting a recession in the USA for 2019 with consensus growth rate for the USA of 2.4%. Recent US job numbers were good, however we will continue to monitor data and events closely.
- Economic weakness in China is being combatted by the government through implementing tax cuts, relaxing lending requirements for banks and further increases in direct government expenditure.
- We remain fully invested in the portfolio and unhedged for AUD based investors.



“Build Smarter Portfolios”

We select stocks by combining quantitative portfolio construction processes and stock selection tools with relevant ‘fundamental’ analysis.

We rank stocks quantitatively based upon their alpha attributes:

- Value
- Momentum
- Quality

We build portfolios by trading off the expected returns on the VMQ scale against the main investment objective of delivering the strategy Betas.

We constrain the active risk to be mostly stock specific.

This approach results in “smarter portfolios” - we aim to deliver alpha plus ‘smart’ beta.

Smart beta alone makes dumb portfolios.

Benchmark(s): MSCI World Value Weighted Index

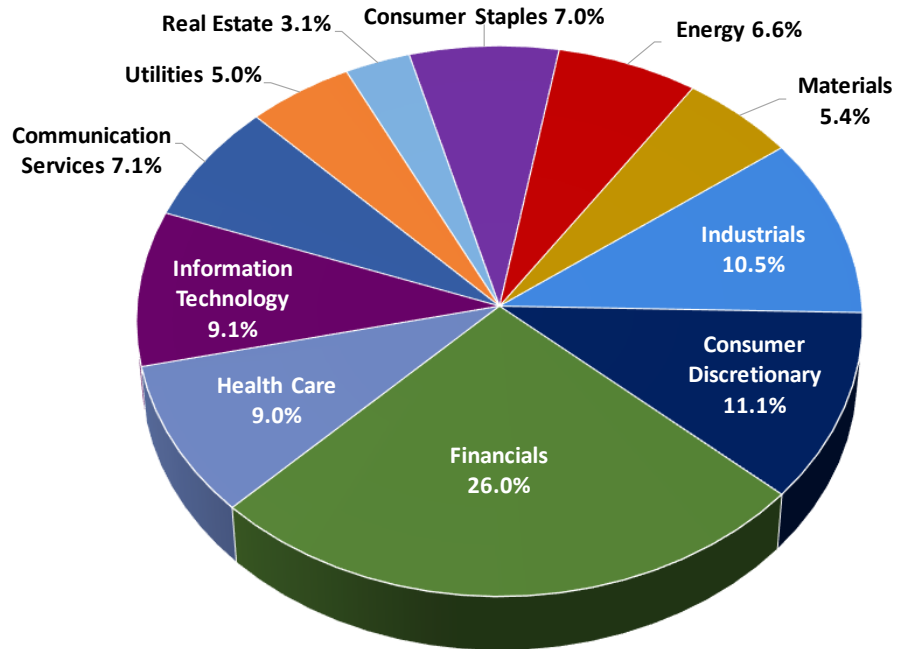
Investment Objective: Outperform the Benchmark by 2-4% pa over rolling 5 year time periods.

Portfolio Manager(s): Robert Swift, Roger McIntosh, Karl Hunt

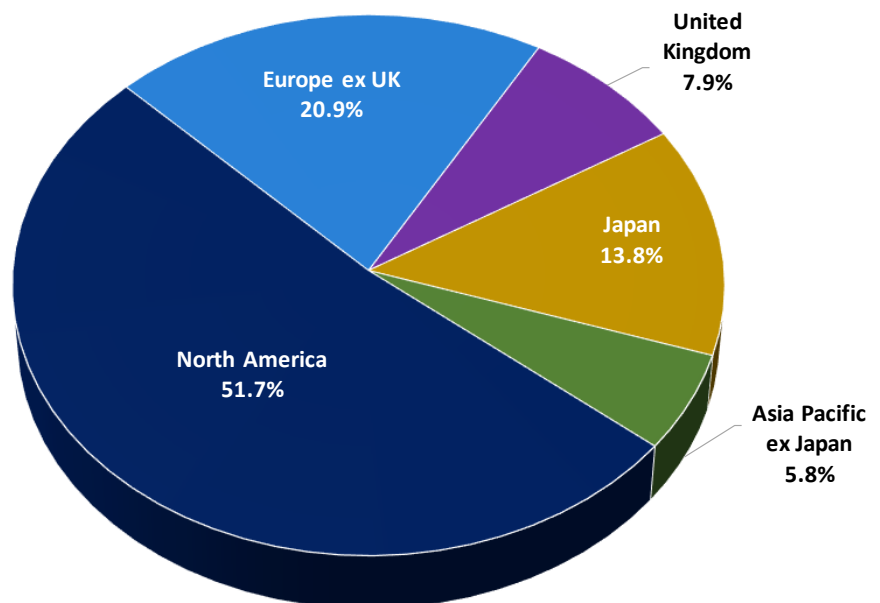
TEN LARGEST HOLDINGS

Company Name	Country	Portfolio
Apple Inc.	USA	1.5%
Verizon Communications Inc.	USA	1.2%
Total SA	France	1.1%
Pfizer Inc.	USA	1.0%
Mizuho Financial Group Inc.	Japan	1.0%
Mitsubishi UFJ Fin. Group Inc.	Japan	1.0%
Intel Corporation	USA	0.9%
Gilead Sciences Inc.	USA	0.9%
Roche Holding AG	Switzerland	0.9%
Siemens AG	Germany	0.9%
TOTAL		10.4%

SECTOR ALLOCATION



REGION ALLOCATION



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