Grant Samuel Epoch Global Equity Shareholder Yield Funds

GRANT SAMUEL FUNDS MANAGEMENT

EPOCH

QUARTERLY FUND UPDATE

30 September 2018

Performance

As at 30 September 2018

Unhedged	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	7 years % pa	10 years % pa	Since inception[1] % pa
Fund[2]	0.49	5.29	9.81	6.38	10.87	13.31	8.27	7.75
Benchmark[3]	0.55	7.35	20.82	12.43	15.25	17.52	9.54	8.33
Value added	(0.06)	(2.06)	(11.01)	(6.05)	(4.38)	(4.21)	(1.27)	(0.58)

Hedged	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	7 years % pa	10 years % pa	Since inception[1] % pa
Fund[2]	0.56	3.60	3.57	8.80	8.66	11.82	9.75	8.02
Benchmark[3]	0.84	5.61	12.89	14.73	12.59	15.99	10.92	8.27
Value added	(0.28)	(2.01)	(9.32)	(5.93)	(3.93)	(4.17)	(1.17)	(0.25)

1. Inception date: 15 May 2008
2. Fund returns are calculated net of management fees and assume distributions are reinvested
3. MSCI World ex-Australia Index in $A, net dividends reinvested*
4. MSCI World ex- Australia Index, Net dividends reinvested, 100% hedged into $A*

Past performance is provided for illustrative purposes only and is not a guide to future performance.

Fund facts

Top 10 holdings (Alphabetical order)	Sector	Dividend yield%
Allianz SE	Financials	4.2
Altria Group Inc	Consumer Staples	4.7
Astrazeneca PLC	Health Care	3.5
AXA SA	Financials	5.5
BCE Inc.	Telecommunications	5.6
GlaxoSmithKline plc	Health Care	5.2
Munich Reinsurance	Financials	4.5
Royal Dutch Shell Plc	Energy	4.7
Total SA	Energy	4.5
Verizon Communications	Telecommunications	4.4

Regional allocation	Fund%	Index%[1]
US and Canada	52.5	66.9
United Kingdom	15.3	6.2
Europe ex-UK	26.7	16.2
Asia ex-Japan	1.7	1.7
Japan	--	8.7
Australia and New Zealand	2.5	0.1
Other	--	0.2
Cash	1.3	--
Total[2]	**100.0**	**100.0**

Sector allocation	Fund%	Index%[1]
Consumer Discretionary	4.4	12.9
Consumer Staples	12.1	8.1
Energy	10.8	6.5
Financials	16.0	15.8
Healthcare	10.5	13.0
Industrials	7.0	11.4
Information Technology	5.8	19.5
Materials	2.8	4.4
Real Estate	4.1	2.8
Telecommunications	11.5	2.6
Utilities	13.7	2.9
Cash	1.3	--
Unassigned	--	0.2
TOTAL[2]	**100.0**	**100.0**

1. MSCI World Ex-Australia Index in $A, net dividends reinvested*
2. May not total 100 due to rounding

The data presented in these tables is unaudited and may change at any time. The data is shown for informational purposes only and is not indicative of any future portfolio characteristics.

*All data is the property of MSCI. No use or distribution without written consent. Data provided "as is" without any warranties. MSCI assumes no liability for or in connection with the data.

In the Hedged Fund, the foreign currency exposure of the Fund is substantially hedged back into Australian dollars using foreign exchange contracts. While hedging activities undertaken in the Hedged Fund may protect investors from depreciations in the currencies in which the Fund invests (relative to the Australian dollar), they may also limit the benefit investors may receive, should those currencies appreciate in value relative to the Australian dollar.

The Hedged Fund gains exposure to global equity markets by investing its assets in the Unhedged Fund. References to the Fund in this Quarterly Update are to the underlying Unhedged Fund.

Market overview

Stocks rose, with strong returns in the U.S. and modest gains elsewhere. Emerging markets dipped into bear market territory from their January highs. The best results came from health care, information technology, industrials and telecommunication services. Weak results came from the real estate, materials and utilities sectors. Energy stocks also lagged despite Brent crude edging over $80 per barrel, a four-year high.

U.S. stocks touched all-time highs, shrugging off trade tensions and benefitting from exceptional profit growth. Corporate profits jumped 16% year-on-year according to the Commerce Department, helped by tax cuts and a robust domestic economy. There were, however, notable stumbles. Investors lost confidence in social media stocks as some reported disappointing quarterly results along with cautious outlooks for growth. Information technology stocks generally experienced an increase in volatility in an environment of heightened regulatory scrutiny. Specific companies hurt by tariffs also made headlines. The Federal Reserve raised interest rates for the third time in 2018 and signaled more rate increases were likely this year and next. U.S. GDP grew at a 4.2% annualized rate in the second quarter amid a pickup in hiring. The consumer price index rose 2.7% from the previous year through August, offsetting modest wage gains. Nevertheless, consumer confidence rose to nearly an 18 year high. Tariffs of $250 billion worth of Chinese goods went into full effect during the quarter, with observers debating the influence they would have on consumers.

In Europe, quarterly profits grew but lagged those of U.S. counterparts while trade tensions and the selloff in emerging markets dampened sentiment. Economic growth in the eurozone hit a soft patch, with GDP growth for the second quarter reported at 0.4%. While business activity ticked up, export growth slowed, and business confidence declined. The European Central Bank confirmed plans to wind down quantitative easing by halving monthly bond purchases starting in October, citing a strong labor market.

Worries about the Italian budget putting the country's debt on an unsustainable course along with exposure to the Turkish currency crisis weighed on bank shares, especially in the periphery. Italy's anti-establishment government widened its budget deficit target for 2019. The full budget will be released in October when it will be scrutinized by the European Union.

U.K. Prime Minister May faced rejection of her Chequers plan by the EU, raising prospects of a hard Brexit. The Bank of England raised rates for the first time in ten years, reversing the cut in August 2016 following the Brexit vote. The BOE said it would raise rates further to reduce an "extraordinary degree of accommodation" if growth continues.

In the Pacific, the Nikkei Index touched a 27 year intraday high while Prime Minister Abe was elected to an unprecedented third term. The Japanese economy returned to growth despite deepening labor shortages and threats of a global trade war. Wages jumped, with cash earnings rising 3.6% year over year. The Bank of Japan left no doubt about its commitment to quantitative easing by intervening in bond markets after the yield on 10 year government debt hit an 18-month high.

Fund overview

The Grant Samuel Epoch Global Equity Shareholder Yield (Unhedged) Fund returned +5.29% for the quarter while the MSCI World ex-Australia Index in $A, net dividends reinvested, returned +7.35%.

The Grant Samuel Epoch Global Equity Shareholder Yield (Hedged) Fund returned +3.60% for the quarter while the MSCI World ex-Australia Index net dividends reinvested, 100% hedged into $A returned +5.61%.

The Fund generated positive returns for the quarter. Companies within the diversified portfolio continued to grow free cash flow and remained committed to consistently returning cash to shareholders through a combination of cash dividends, share buybacks and debt reduction. There were no dividend cancellations or reductions among the Fund holdings. Health care, followed by financials and technology were among the largest positive contributors to absolute results, while consumer discretionary and real estate detracted. From a country perspective, the U.S., followed by France, was the largest positive contributor to absolute returns while the U.K. modestly detracted.

In relative terms, the Fund's total return lagged the benchmark. As has been the case throughout 2018, many high-quality stocks that pay substantial dividends and other forms of shareholder yield have not kept pace with the overall gains in information technology and e-commerce companies. These two "hot" areas, which are underrepresented in the Fund, are dominated by companies that are reinvesting nearly all free cash flow back into the business and have dividend yields that are quite low or nonexistent. In contrast, the Fund continues to deliver a dividend yield roughly 80% higher than that of the benchmark. Companies that can pay and grow dividends, buy back shares and pay down debt tend to be mature and well established, with the ability to withstand downturns in markets and economies and steadily grow their business throughout business cycles.

The other main detractor for the period was the Fund's relatively high weighting in the utilities sector. While our utility holdings as a group rose in the quarter and added to total return, our overweight to this lagging sector held us back relative to the index. We continue to focus on regulated utilities which operate in supportive regulatory environments thus allowing the companies to earn attractive returns on their investments.

On the positive side, stock selection was beneficial to returns in several areas, especially financials. The Fund's dividend paying holdings in the information technology sector including Qualcomm and Cisco fared better than average, although as we noted earlier, the Fund has a much smaller weight than the benchmark in this sector. Also, the Fund's pharmaceutical holdings had strong absolute returns. Pfizer, AstraZeneca, Merck and Novartis all had double digit returns.

Pfizer shares traded higher following solid 2Q18 results, modestly upgraded 2018 guidance, and improving sentiment around drug pricing. The company also announced plans to reorganize into three distinct businesses to better position each unit to achieve its growth potential. Subsequently, the company reported promising Phase III trial results for a cardiology drug, and noted that it views 2020 as a base year from which sales and cash flow growth should accelerate as it moves past the loss of exclusivity on select drugs. Pfizer has a strong balance sheet, and free cash flow comfortably covers the attractive, growing dividend and steady share repurchases. AstraZeneca shares traded higher on improving sentiment around drug pricing and expectations of accelerating growth, as new products sales increasingly offset declines in legacy product sales. New products and a broad pipeline of drugs in development provide support for expected future cash flow growth. Cash flow at AstraZeneca supports the attractive dividend.

Among the largest individual detractors were Las Vegas Sands and Vodafone Group. Las Vegas Sands is the world's largest developer, owner, and operator of integrated casino resorts. Shares traded lower on several concerns, primarily related to Macao, including decelerating revenue growth, casino concession contract renewal uncertainty, potential regional competition, Chinese economic conditions, a U.S.-China trade war, and the impact of Typhoon Mangkhut in September. Overall, we believe the company's cash flows are secure and will continue to grow, driven by increasing visits and higher spending per visit among its relatively stable mass market client base. Las Vegas Sands is committed to maintaining a strong balance sheet and consistently returning cash to owners through attractive and steadily increasing dividends, supplemented by share repurchases. Vodafone, a provider of telecom services in Europe, Asia, and Africa, underperformed on worries about competitive pressures in Spain and Italy. The recently closed joint venture in India and the pending close of the Liberty Global assets created additional uncertainty. Its main market of Germany remains constructive, and overall the company continues to increase its cash generation. Vodafone remains committed to growing free cash flow and paying a progressive dividend.

We added three stocks to the portfolio during the period: Hanesbrands, LyondellBasell Industries and Kraft Heinz. Apparel manufacturer Hanesbrands' brands include Hanes, Champion, DIM and Bonds. Cash flows are sustained by the stable replenishment nature of its products, the company's strong brands in heavily branded categories, and its low cost manufacturing operations. Cash flow growth drivers include organic sales growth, margin expansion via operating leverage, acquisition integration, and cost reduction. Hanesbrands returns capital to shareholders via an attractive dividend as well as through share repurchases and debt reduction. LyondellBasell is a global producer of petrochemicals. Cash flows are driven by the growing long term demand for building-block chemicals used in the manufacture of a wide variety of plastic products. The company's plants enjoy a cost advantage by virtue of their U.S. Gulf Coast location, utilizing feedstocks derived from shale gas. The company generates significant free cash flow and returns cash to shareholders with an attractive, growing dividend and consistent share repurchases. Kraft Heinz is a packaged food and beverage company with strong brands and solid market share positions. Management continues to drive growth through brand investment, product innovation and renovation, data-driven marketing, and cost containment. Management remains committed to returning cash to shareholders through dividends and debt reduction.

Outlook

Stocks have the support of a robust global economy, policy rates that remain negative in real terms, and the broad adoption of technology that reduces the need for capital and labor. The U.S. is also benefitting from the Tax Cuts and Jobs Act, which has boosted corporate profits. As its effect wanes and financial conditions tighten, we expect both economic and profit growth to moderate. Europe is likely to continue underperforming other developed regions, with cash flows and earnings per share growing less quickly (partially reflecting a lower weight in information technology). Further, the euro zone's reform agenda has stalled, undermining medium term growth prospects. In Japan, the outlook has improved, with wage growth finally increasing and stocks appearing attractively priced. Our main concern is the slow pace of improvement regarding companies' capital allocation policies. We believe progress in this area would send the Topix markedly higher, especially given the cash rich balance sheets of Japan's big corporations. Emerging markets with large current account deficits and excessive hard currency debts are likely to continue to struggle with the stronger U.S. dollar and the reduction in dollar liquidity.

While the economic underpinnings for equities in developed markets remain supportive, several threats loom on the horizon. While tariffs thus far have only had limited impact, an escalating trade war could inhibit economic growth, disrupt global supply chains and dent the profit margins of manufacturers. More importantly for stocks, monetary policies are becoming less accommodative. Higher policy rates will be a headwind for valuation multiples. Just as quantitative easing supported a broad-based expansion of valuation multiples, we expect quantitative tightening will do the opposite. Fast growing U.S. budget deficits and a wave of corporate bonds maturing could add additional upward pressure on interest rates. With valuation multiples no longer supported by easy money, equity gains will be dependent on the underlying fundamentals of individual companies. We believe our investment approach is well suited to this environment. As always, we seek companies that can generate a growing stream of free cash flow and can allocate that cash effectively for the benefit of shareholders.

Distributions

The Fund aims to pay distributions on a quarterly basis. A distribution of 0.861303 CPU for the Unhedged Fund and 0.100000 for the Hedged Fund will be paid for the quarter ended 30 September 2018.

Fund disclosure

The Fund has certain regular reporting and continuous disclosure obligations pursuant to the Corporations Act. All continuous disclosure notices are available at www.gsfm.com.au

For more information about the Grant Samuel Epoch Global Equity Shareholder Yield Funds, please go to www.gsfm.com.au