Grant Samuel Epoch Global Equity Shareholder Yield Funds

GRANT SAMUEL FUNDS MANAGEMENT

EPOCH

QUARTERLY FUND UPDATE

31 December 2018

Performance

As at 31 December 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]	(2.80)	(5.74)	(0.06)	4.82	7.28	12.00	8.12	6.96
Benchmark[3]	(4.27)	(11.10)	1.52	7.49	9.81	15.24	9.57	6.94
Value added	1.47	5.36	(1.58)	(2.67)	(2.53)	(3.24)	(1.45)	0.02

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]	(6.16)	(7.25)	(6.98)	4.84	5.73	9.22	10.97	7.07
Benchmark[3]	(8.32)	(13.60)	(7.58)	6.97	7.42	12.25	12.19	6.59
Value added	2.16	6.35	0.60	(2.13)	(1.69)	(3.03)	(1.22)	0.48

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	4.6
Astrazeneca PLC	Health Care	3.6
AXA SA	Financials	6.7
BCE Inc.	Communication Services	5.6
Duke Energy Corp	Utilities	4.2
Munich Reinsurance	Financials	4.5
Terna S.p.A.	Utilities	4.5
Total SA	Energy	5.5
Verizon Comms	Communication Services	4.2
Welltower, Inc.	Real Estate	5.0

Regional allocation	Fund%	Index%[1]
US and Canada	54.8	66.7
United Kingdom	14.7	6.1
Europe ex-UK	24.7	16.3
Asia ex-Japan	1.6	1.9
Japan	--	8.8
Australia and New Zealand	2.2	0.1
Other	--	0.2
Cash	2.0	--
Total[2]	**100.0**	**100.0**

Sector allocation	Fund%	Index%[1]
Communication Services	11.2	8.5
Consumer Discretionary	3.5	10.5
Consumer Staples	12.3	8.7
Energy	9.8	5.9
Financials	15.5	15.7
Health Care	11.0	13.4
Industrials	6.2	11.0
Information Technology	6.4	15.2
Materials	2.7	4.3
Real Estate	4.3	3.1
Utilities	15.0	3.5
Cash	2.0	--
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.

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 experienced a sharp downturn, falling by double digits and pulling returns for the quarter into negative territory. Investors grew concerned about a slowing global economy, higher costs pressuring profit margins, a tighter monetary policies and the escalating trade dispute between the U.S. and China. Small cap stocks fared worse than large caps. The International Monetary Fund lowered its forecasts for global economic growth, citing rising trade protectionism and instability in emerging markets.

The energy, information technology and industrials sectors had the steepest drops. The only sector to have positive returns was utilities. Energy stocks tumbled with crude oil falling into a bear market on fears of weakening demand combined with oversupply; production rose in Russia and the U.S. and hit an all-time high in Saudi Arabia prior to OPEC and Russia agreeing to production cuts in December.

The U.S. economy continued to exhibit strength, helped by robust consumer confidence and spending. Unemployment touched a 49 year low and wage growth picked up. Housing remained a soft spot. The yield curve flattened as the Federal Reserve raised short term interest rates for the fourth time in 2018 while 10-year Treasury yields fell by 54 basis points from early November through December.

Eurozone GDP slowed sharply in the third quarter, attributed in part to a slowdown in German auto production and a stagnant Italian economy. The European Central Bank cut its GDP and inflation forecasts and ended its bond buying program, although it will reinvest maturities for an unspecified period of time. ECB President Draghi stated that "the balance of risks is moving to the downside owing to the persistence of uncertainties related to geopolitical factors, the threat of protectionism, vulnerabilities in emerging markets and financial market volatility." France witnessed violent protests against president Macron's economic policies by the gilets jaunes. The U.K. government was in turmoil over Brexit, with the increasing likelihood of either a second referendum or a "hard Brexit." Italy's populist government reached a budget deficit compromise to avoid EU sanctions.

Japan's economy shrank slightly in the June to September quarter, largely due to natural disasters. The subsequent quarter appeared to return to growth, although concerns remained that any further escalation of the trade dispute between the U.S. and China could suppress a rebound. Remarks from Bank of Japan Governor Kuroda hinted that the bank's quantitative easing policy was coming to an end. The yen strengthened and the yield on the 10-year government bond turned negative in December as investors sought safe haven assets amid market volatility.

Emerging markets fell less than developed ones in aggregate. Chinese stocks suffered from the trade dispute with the U.S. and from tighter liquidity due to a government crackdown on shadow banking. Brazil reported the only double digit increase among global equity markets, helped by upward revisions to growth estimates and the election of a business friendly government.

Fund overview

The Grant Samuel Epoch Global Equity Shareholder Yield (Unhedged) Fund returned -5.74% in the fourth quarter, though strongly outperforming the broader market, which declined by 11.10% for the quarter as measured by the MSCI World ex-Australia Index in AUD. 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 portfolio holdings. However, as concerns about global uncertainties grew, the portfolio was not immune to the decline experienced by the markets during this period. The utilities and health care sectors contributed positively to absolute results, while energy, industrials and financials were the largest detractors. From a country perspective, stocks in the U.S. followed by the U.K. were the largest detractors, while Italy, Spain and Switzerland were modest positive contributors to absolute returns.

In relative terms, the portfolio strongly outperformed the benchmark by 5.36%, though the fourth quarter was a difficult time period for the markets as well as the strategy. Investors favored more defensive sectors such as utilities, and the strategy upheld its downside protection. An overweight to the utilities sector was the largest positive contributor to relative returns, bolstered by stock selection in the sector. We continue to focus on regulated utilities which operate in supportive regulatory environments thus allowing the companies to earn attractive returns on their investments. Stock selection in energy, financials and health care also contributed positively to relative results. As opposed to the first three quarters of the year, when high growth technology companies were in favor, the strategy's underweight to the information technology sector proved beneficial during the fourth quarter as investors revalued momentum driven companies. In addition, stock selection in information technology added to relative returns. Lastly, an overweight to the energy sector detracted as the price of oil declined, but favorable stock selection in energy more than offset the effect.

Stock selection in consumer staples detracted from relative results, largely due to exposure to tobacco as the markets reacted negatively to the FDA's proposed regulatory changes and remained concerned over the longer-term growth prospects. However, an overweight to the broader sector partially offset the effect. We remain comfortable with the tobacco industry's ability to adapt to changing regulations and the industry's ability to continue to drive cash flow growth through pricing and cost discipline. Additionally, stock selection in industrials and materials modestly detracted from results. Currencies slightly detracted from relative performance largely due to movements in the yen.

On the positive side, the largest individual positive contributors to absolute performance were Duke Energy and Welltower. Duke Energy Corporation is one of the largest utility companies in the U.S., serving over nine million gas & electric customers in the states of North and South Carolinas, Florida, Georgia, Indiana and Ohio. It generates a vast majority of its earnings and cash flow from regulated operations in states with supportive regulatory environments. Shares performed well along with peers as market volatility increased significantly and interest rates declined. Duke is on track to drive mid-single-digit growth mostly stemming from regulated activities. The company has stable and predictable earnings and cash flow, which allow it to continue paying an attractive and growing dividend to its shareholders. Welltower is a diversified healthcare REIT that owns senior housing communities, post-acute care facilities, outpatient medical properties and medical office buildings. Shares traded higher as sentiment improved as headwinds from lower occupancy eased and rents grew. We believe the longer term fundamental demand outlook for healthcare facilities and related services as well as the ability of Welltower to drive growth in rental revenues, net operating income and available funds from operations should support a sustainable and growing dividend.

Among the largest individual detractors were AXA and Occidental Petroleum. AXA is a diversified global insurance company engaged in multiple insurance lines (life, health, property/casualty) and asset management services. Shares were pressured by natural catastrophes (Hurricane Michael in October and the California wildfires in November) that weighed broadly on the insurance sector. AXA continues to have a transparent capital allocation policy, pay an attractive, growing dividend that is well supported by earnings and maintains a strong regulatory capital position. Occidental Petroleum is a global energy company that explores, produces and markets crude oil and natural gas. It also owns midstream, marketing and chemical assets that provide diversification in cash flow. Shares were pressured as oil prices declined significantly. Occidental's long term growth will continue to be driven by improving operating efficiency, leveraging its advantageous position in Permian basin and growing high margin productions. The company remains committed to returning cash to shareholders through an attractive and growing dividend.

We added two stocks to the portfolio during the period: Broadcom and Chevron. Broadcom is a designer and manufacturer of digital and analog semiconductors focused on connectivity. It also develops and maintains software for mainframe applications. It invests in leading edge technology to remain at the forefront of cloud, enterprise and wireless connectivity technology solutions. Cash flow growth is driven by expanding connectivity needs on the wired side requiring faster speeds and greater bandwidth in wired connections and the increasing complexity of today's cellular networks on the wireless side. The software portfolio is transitioning to a subscription model which will reduce costs and increase cash flow. Broadcom returns cash to shareholders via an attractive dividend with a target of paying out 50% of free cash flow. The balance of cash generation is used to fund debt reduction, share repurchases and/or accretive M&A. Chevron is a global integrated energy company that explores, produces, and markets crude oil and natural gas. It also owns and operates downstream assets that include refining, chemicals, lubricants & additives, and fuel retail & marketing. Its integrated business model, geographic and product diversification, strong balance sheet, and continued efforts to manage costs and improve capital efficiencies allow the company to generate sustainable cash flow through commodity price cycles. Cash flow growth is driven by production volume growth, structural margin improvements and expansion into new markets. Chevron returns cash to shareholders via an attractive and growing dividend and share repurchases using excess cash.

We also recently closed positions in a few companies, including Equinor and Swisscom. Equinor is an offshore oil and gas producer in Norway with an expanding global footprint. Management delivered faster and deeper cost reductions during the commodity down cycle which brought down project break-evens significantly and led to strong cash flow generation when commodity prices recovered. Shares performed well leading to a lower dividend yield. We exited the position to fund more attractive shareholder yield companies. Swisscom is the leading communication provider in Switzerland that offers wireless, traditional wireline telephone and services of cable, internet and telephony. Through Fastweb, Swisscom is a leading provider of cable, internet and telephony in Italy. The company pays a regular annual dividend that is supported by strong underlying free cash flow. Potential competitor consolidation in Switzerland and expanded ambitions in Italy decrease visibility into medium term cash flow growth and as such we exited the name.

Outlook

We expect three themes to be key influences in 2019 and beyond: tighter monetary policy regimes, trade dynamics and technology. The end of quantitative easing is not a new theme, but it will continue to hold sway across capital markets. While the Federal Reserve is furthest ahead on the curve, other major central banks have either begun to raise rates or at the very least have signaled their bond purchasing programs have run their course. The soaring U.S. budget deficit and a wall of corporate maturities could put additional upward pressure on interest rates. Declining liquidity implies less support for equity valuations and a higher level of volatility, making a company's ability to generate consistent free cash flow increasingly important.

The next theme is trade tension, primarily between the U.S. and China. It has been just over a decade since Thomas Friedman's "The World Is Flat" painted globalization as a seemingly unstoppable trend. It may have marked globalization's peak. During the past few years global supply chains have begun to buckle, with the world's two giant economies decoupling. Globalization's retreat will have more losers than winners, leaving the elevated margins enjoyed by manufacturers vulnerable. Longer term, overcapacity may be a key feature of industries targeted by the Made in China 2025 initiative.

On a more positive note, the Digital Age and the transition from “atoms” to “bits” implies a capital-light economy in which technology is being substituted for labor and physical assets. This transition points to higher ROE – in fact, all three components should rise (profit margins, asset utilization and leverage). With the pace of technological change advancing at an exponential rate, we believe this transformation has only just begun. The ability of companies to generate free cash flow will become increasingly dependent on how they adapt their business models to the Digital Age.

As we enter a new year we are mindful that the quantitative easing, which supported valuations and suppressed volatility, is now moving in the other direction. And industries whose profit margins have benefited from global trade are grappling with setbacks. At the same time, companies that can successfully apply new technologies will be able to operate with less capital. Each of these trends will influence industries and individual companies in markedly different ways. We believe our investment approach is well suited to this environment, where investment returns are more closely linked to company fundamentals. 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 0.543104 CPU for the Unhedged Fund and 0.100000 for the Hedged Fund will be paid for the quarter ended 31 December 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

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Before making an investment decision in relation to a Fund, investors should consider the appropriateness of this information, having regard to their own objectives, financial situation and needs. Prospective investors should read and consider the product disclosure statements for the Funds dated 1 March 2018 and the Additional Information to the Product Disclosure Statement which can be obtained from www.gsfm.com.au or by calling 1300 133 451.

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