

Triple3 Volatility Advantage Fund

GRANT SAMUEL
FUNDS MANAGEMENT



QUARTERLY FUND UPDATE – A CLASS

31 December 2018

Performance

As at 31 December 2018

| | 1 month % | 3 months % | 1 year % | 3 years % pa | Since inception ¹ % pa |
|---------------------------|--------------|---------------|-------------|-----------------|---|
| Growth ² | (0.21) | 0.52 | (0.37) | (0.38) | (2.05) |
| Distribution ² | 0.00 | 0.00 | 0.00 | 0.00 | 0.09 |
| Total ² | (0.21) | 0.52 | (0.37) | (0.38) | (1.96) |

¹ Inception Date: 12 May 2014

² Fund returns are calculated net of management fees. Distribution may include income, realised capital gains, and any return of capital

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

Fund facts

Summary

| | |
|---|---|
| APIR code | GSF0009AU |
| Inception date | 12 May 2014 |
| Fund size: 31 December 2018 | \$45.7 million (Class A & S) |
| Minimum investment | \$25,000 |
| Unit valuation | Sydney Business Day |
| Applications and withdrawals | Daily |
| Distribution frequency | Generally quarterly |
| Cum unit prices ¹ at 31 December 2018 | Application \$0.9120 Withdrawal \$0.9084 |
| Responsible entity | Grant Samuel Fund Services Limited |

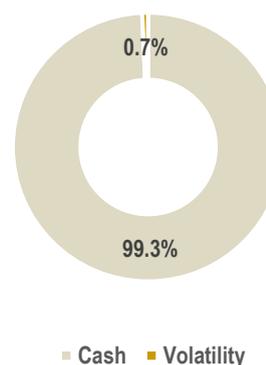
¹ Entry and exit prices for each Business Day available at www.gsfm.com.au

Fees

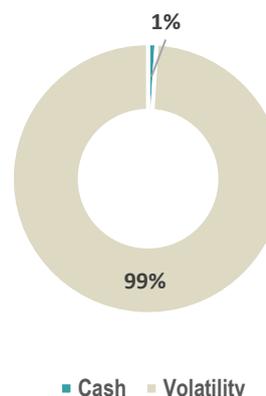
| | |
|-------------------------------|--|
| Establishment fee | Nil |
| Contribution fee | Nil |
| Withdrawal fee | Nil |
| Management costs ² | 1.45%pa of the Net Asset Value of the Class A units |
| Performance fee ² | A Performance Fee is calculated each business day as 20% of the difference between the daily dollar return of the Fund and the daily dollar return of the Performance Benchmark (RBA Cash Rate Target). |
| Buy/Sell spread | +/- 0.20% |

² Inclusive of the net impact of GST

Cash weighting of Fund



Risk weighting of Fund



The two pie charts above illustrate that although the majority of the Fund is invested in cash, it is not a traditional 'cash fund'. The majority of the Fund's risk exposure is derived from the volatility component of the investment strategy. More information can be found in 'Investment Strategy and how the Fund is managed' in Section 3 of the Fund's Product Disclosure Statement dated 22 February 2017 available at www.gsfm.com.au

Fund changes

There have been no material changes to the following since the last monthly update:

- Funds risk profile
- Funds investment strategy
- Key investment professionals for the Fund; and
- Key service providers.

Fund objective

The Fund aims to generate long-term absolute returns that are negatively correlated to Standard & Poor's 500® (also known as the S&P 500 Index®¹) (SPX), with an emphasis on positive returns when the SPX experiences falling (or 'bear') markets.

It is expected that the investment strategy will perform best in periods where the SPX is falling and volatility is high. In periods where the SPX remains stable or increases only steadily, the investment strategy is expected to generate cash-like returns. The Fund aims to achieve its investment objective by investing a portion of the Fund in CBOE Volatility Index (VIX)² options (and other volatility related options being SPX options and VXX options) to gain exposure to volatility on the SPX (the volatility component).

The majority of the Fund is invested in cash and cash-like instruments, which include derivatives such as OTC interest rate investment contracts (for example Total Return Swaps) and bank bill futures traded on the Australian Securities Exchange (ASX) (Cash), and is expected to generate cash-like returns in periods where the SPX remains stable or increases only steadily and volatility is low (the cash component).

Fund review

The US equity market had a very volatile last quarter of 2018. The Volatility Advantage Fund returned +0.52% for the quarter while the S&P 500 index had a major decline of -13.97% in US dollar terms.

After two positive quarters the S&P 500 went into a tailspin in the last few months of 2018 caused by softer corporate earnings, a more hawkish Federal Reserve and trade war tensions amongst other geo-economic concerns. In October and December the S&P 500 had the worst monthly returns since September 2011. The VIX index significantly under-reacted to increasing market volatility. Back in 2011 it spent two full months fluctuating in the 30-50 range. This time it was stuck mostly between 17 and 27 while the realised volatility of the S&P 500 for the quarter stood at 24.

Throughout the quarter the Fund held modest long VIX option positions. Due to the unusually muted response of the VIX index (more so for VIX futures), the Fund only generated a small positive return for the period. This was disappointing and with the benefit of hindsight we would have achieved a better outcome had we used S&P put options.

Important information

The information contained in this document reflects, as of the date of publication, the views of Triple Three Partners Pty Ltd (Triple3) and sources believed by Triple3 to be reliable. There can be no guarantee that any projection, forecast or opinion in these materials will be realised. The views expressed in this document may change at any time subsequent to the date of issue.

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Past performance information given in this document is given for illustrative purposes only and should not be relied upon as (and is not) an indication of future performance. None of Grant Samuel Fund Services, its related bodies or associates nor any other person guarantees the repayment of capital or the performance of the Fund or any particular returns from the Fund. No representation or warranty is made concerning the accuracy of any data contained in this document. This document is issued on **17 January 2019**.

To start 2019, our forecasting models are signalling the most elevated level of equity market risk since 2011. We have accumulated both long VIX call positions and increased allocation to S&P index put options.

Key investment professionals

Simon Ho, Chief Investment Officer

Simon founded Triple Three Partners Pty Ltd (Triple3) in 2009. He has over 20 years' industry experience, having held senior options trading and risk management roles at firms including Goldman Sachs London, Merrill Lynch New York, and JP Morgan Singapore. He is involved in various initiatives within the options industry to develop volatility-based products and is a regular options expert contributor to various TV and print media outlets. Simon completed a Bachelor of Social Science (Economics) at the University of New South Wales in 1992.

As the CIO, Simon spends a substantial amount of his time overseeing the management of the Volatility Advantage investment strategy.

John Zhu, Portfolio Manager

John has over 8 years' experience in financial markets, in both quantitative research and trading. His previous roles include quantitative trading at ABN Amro and Royal Bank of Scotland and options market-making at Optiver. John completed his BSc Honours (First Class) in Applied Mathematics specialising in quantitative finance at Sydney University in 2006, where he won the prestigious University Medal.

John is responsible for implementation of the strategy of the Fund on a day to day basis. John primarily spends his time on investment activities applicable to the Volatility Advantage investment strategy

*The investment strategy is made up of two components: Volatility and Cash. A portion of the Fund is invested in volatility as an asset class, while the majority of the Fund is invested in cash and cash-like instruments.

More information about the Fund weightings and the Fund asset allocation can be found in 'Investment Strategy and how the Fund is managed' in Section 3 of the Fund's Product Disclosure Statement dated 22 February 2017 available at www.gsfm.com.au

For more information about the Triple3 Volatility Advantage Fund, please go to www.gsfm.com.au

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² The CBOE Volatility Index® (VIX®) is a Registered Trademark of the Chicago Board Options Exchange (CBOE).