Bennelong Wealth Partners

Market and Asset Allocation Views

November 2017

Dynamic Asset Allocation (DAA) Calls

Asset Class	Opportunity Set	Negative	Neutral	Positive	Change from last Qtr
Equities	Australia	○○○	○	●○○	
	US	○○●	○	○○○	▼
	UK	○○○	○	●○○	
	Europe ex-UK	○○○	○	●○○	
	Japan	○○○	○	●●○	
	Asian ex-Japan	○○○	○	●●○	▲
Property	Australia	○○○	●	○○○	
	International	○○○	●	○○○	
Alternatives	Alts Aggregate	○○○	○	●○○	
Fixed Income	AU Aggregate	○○○	●	○○○	▲
	Hybrids	○○○	●	○○○	
	International	○○○	●	○○○	
Cash	Cash	○○○	●	○○○	▼
FX	AUD	○○○	●	○○○	

Index Performance – as at 30 Sept 17

Asset Class	Index	3 Month	1 Year
AU Equity	S&P/ ASX 300 Accumulation Index	0.80%	9.02%
US Equity	S&P 500 Index USD	3.96%	16.19%
European Equity	MSCI Europe Index EUR	2.70%	16.26%
Asian Equity	MSCI AC Asia ex Japan NR Index AUD	4.23%	19.65%
AU Property	S&P/ASX 300 A-REIT TR Index AUD	1.94%	-1.97%
Int'l property	S&P Global REIT TR Index USD	1.41%	0.09%
Alternatives	Barclay CTA Index AUD Hedged	0.18%	-1.21%
AU Fixed Income	Bloomberg AusBond Composite 0+ Year Index	-0.07%	-0.75%
Int'l Fixed Income	Bloomberg Barclays Global Aggregate TR Index AUD	0.89%	0.53%
Cash	Bloomberg AusBond Bank Bill Index	0.43%	1.76%

Market and Asset Class Views

Australian Equities: ●

The ASX300 Accumulation index increased 0.8% during the Sep quarter and was up 9.0% for the year to Sep 2017. Australia economy is enjoying sustainable economic growth 2.5-3.5% pa, steady inflation around 2% pa and unemployment stable around 5.5%. Australia equity valuations are around their long-term average. All this provides a stable economic platform for the Australia equity markets and we expect steady growth to continue into the foreseeable future.

We like companies with strong defensive earnings, established disruptors that are growing strongly and tourism. We recommended being under-weight sectors that are at risk of being disrupted including retail and energy.

US Equities: ●

Strong economic fundamentals, associated with potential corporate tax cuts support the US equity market, however, many broad valuation metrics are stretched. The gap between forecast EPS vs trailing EPS is now the largest it's been since the GFC, so there is a lot of optimism built into share prices. Despite no sign of a break in the strong uptrend, some caution is warranted in the short term, particularly if US and North Korean tensions escalate.

European Equities: ●

Economic data, corporate profits, investor and business sentiment all point to support for the equities asset class generally over other asset classes. European political risks continue to diminish, business capex is on the rise and valuations are more appealing than in the US. Pension Funds, SWF's and Endowment Funds and other institutions are realising that the only way they will meet 7.5%-8% pa return targets is by allocating more to equities at the expense of other asset classes.

Asian Equities: ● ●

We are positive on the Asian region with its broad economic upswing. While inflation is still below the Bank of Japan (BOJ)'s target rate of 2%, Japanese earnings have been robust and policy continues to be very accommodative. Consumer confidence in China is high. Higher

DAA Calls enclosed proposed are for general investment purposes. Please discuss with Carnbrea the suitability of any recommendation to portfolios and the context of client SAA construct, holdings, return analysis and tax consideration. This document has been prepared and issued by Carnbrea & Co Limited ABN 33 004 739 655 ('Carnbrea'), Australian Financial Services Licence No 233763. Any advice included in this document is general in nature and does not take into account your objectives, financial situation or needs. Before acting on the advice, you should consider whether it's appropriate to you. If a product we recommend has a Product Disclosure Statement (PDS), you should read it before making a decision. Past performance is not a reliable indicator of future performance. Derivatives are leveraged products which means gains and losses are magnified and you may lose substantially more than your initial investment. We do not endorse any information from research providers that we provide to you, unless we specifically say so.
Copyright © *| 2016 |* *| Carnbrea & Co.|*, All rights reserved

demand of A-shares post MSCI's announcement of including China A-shares in the MSCI Emerging Market Index. South Korea and Hong Kong continue to benefit from external demand. Monetary policy remains easy for India, Malaysia and Taiwan.

Since the market has stayed on the wave of momentum in 2017, valuations remain slightly expensive as we move into the fourth quarter. Tensions surrounding North Korea remain.

Australian Property:

Exercise extreme caution in Residential Property in Sydney and Melbourne as affordability concerns are getting louder and Chinese buying is drying up. Whilst spikes in bond markets will continue to spook the sector from time to time, the lower for longer environment still seems intact and supportive of the non-residential sub component sector.

Due to concentration in the sector and downgrading of Westfield and big retailers, suggest avoid market cap weighted ETFs and funds in favour of absolute return or equal weighted. Consider Direct Property Funds for diversified low geared commercial direct property exposure.

Alternatives:

Still an underdeveloped sector in terms of understanding of product, application to retail and wholesale portfolios, fee and performance structures, investment horizons and basic definitions. Most client portfolios remain underweight alternatives. Diversification remains paramount and as US Equity market and Global Bond markets are fully valued then continued reallocation outside of these markets is desirable. Steady build out.

Recommend Long Short funds that are effective in this market and quality Private Equity managers.

Fixed Income:

The market remains exposed to a faster tightening than anticipated by central banks so central bank decisions and commentary will need to be closely watched going forward as could unleash some volatility in bonds. US treasury rates have been rising in an anticipation.

However, fixed interest securities have a place in portfolios providing higher capital security, low correlation to other asset classes and regular income. Being more selective in the higher yielding credit space and hybrids may be a more suitable strategy going forward, floating rate securities can be used to benefit from rising rates, but need to be mindful that these securities have become expensive.

Hybrids:

Lack of new supply and the ongoing low interest rate environment is expected to support hybrid valuations over the remainder of the quarter and into 2018. As per last quarter, caution should still be exercised as many hybrids are in full or overvalued territory. Trading margins have remained fairly stable in the sector ~3.13% with some margin slippage due to price changes in securities close to maturity over the past month.

Cash:

Investors should hold healthy levels of cash. Opportunities will continue to present themselves in the stock market as we get short-term pullbacks in a longer-term cyclical rally, the equity market has been range bound locally but the US is hitting new all-time highs regularly.

Record low interest rates globally mean there is still not much reward for carrying excessive amounts of cash, BUT the tide is turning. Tightening by central banks is occurring worldwide as policymakers look to abandon emergency monetary conditions. Cash being the shortest-term instrument you can hold, this is set to benefit from this environment.

Foreign exchange:

We retain our neutral view on the AUD forward looking until 2018. In our view, AUD is highly driven by the U.S potential tax reform, domestic economic conditions and neighbor economies in Asia. An improving American economy (boosted by the tax overhaul) should support a higher USD, leading to a lower to neutral AUD.

The domestic downside risks including falling commodity prices and low interest rate may drag on AUD drifting upwards.

DAA Calls enclosed proposed are for general investment purposes. Please discuss with Carnbrea the suitability of any recommendation to portfolios and the context of client SAA construct, holdings, return analysis and tax consideration. This document has been prepared and issued by Carnbrea & Co Limited ABN 33 004 739 655 ('Carnbrea'), Australian Financial Services Licence No 233763. Any advice included in this document is general in nature and does not take into account your objectives, financial situation or needs. Before acting on the advice, you should consider whether it's appropriate to you. If a product we recommend has a Product Disclosure Statement (PDS), you should read it before making a decision. Past performance is not a reliable indicator of future performance. Derivatives are leveraged products which means gains and losses are magnified and you may lose substantially more than your initial investment. We do not endorse any information from research providers that we provide to you, unless we specifically say so.

Copyright © *| 2016 |* *| Carnbrea & Co.|*, All rights reserved