**FUND DESCRIPTION AND FEATURES**

The Global Equities Trust (the Fund) is a long only fund that holds 30-50 companies across developed and developing markets, large and small companies.

The Fund predominantly invests in companies that deliver stable yet growing free cash flow throughout cycles (which we classify as 'Core' holdings) whilst also taking positions in more cyclical companies ('Cyclical') and those whose valuation has been materially misconstrued by the market ('Opportunistic').

We avoid investment in companies that, in our opinion, are harmful to people, animals or the environment.

**Portofolio Managers**  
Jordan Cvetanovski  
Steven Glass

**APIR code**  
HHA0002AU

**Redemption price**  
$1.8658

**Fees**  
Management Fee: 1.50% p.a.  
Refer to PDS for information on Management Costs (including reimbursable expenses)

**Minimum initial investment**  
Not open to new investors (existing investors may make additional investments)

**FUM at month end**  
$69.6m

**Strategy inception**  
1 July 2015

**Benchmark**  
MSCI All Country World Total Return Index in AUD

The benchmark was changed from MSCI World Total Return Index (net, AUD) effective 6.6.2017.

**PERFORMANCE COMMENTARY**

The Fund delivered 3.1% for the quarter while the Fund’s benchmark, MSCI ACWI, returned 2.8%. Our analysis points to stock selection being the most material contributor by a wide margin. During the quarter, the stocks making the largest positive contribution to the portfolio were Wacker Chemie, IAC and B&M European Value Retail. The only stock that delivered a notably negative return was Medtronic, which declined 12% over the quarter.

Foreign exchange also contributed to the Fund’s returns while the Fund’s cash holdings were a headwind to the relative return.

**Market Commentary**

The MSCI ACWI was up 4.3% in local currency and 2.8% in AUD terms as the AUD rallied versus the USD and JPY but depreciated versus the EUR and GBP.

The best performing sectors were Information Technology, Energy and Materials. The worst performing sectors were Consumer Staples, Health Care and Utilities. The better performing major markets were the major emerging markets; Brazil, Russia and China; while the weaker markets were in ASEAN and included Indonesia, Malaysia and Singapore. Australia was also among the weaker performers. The oil price rallied 20%, gold was up 4% and the broader commodity index, CRB Spot, declined 4%.

The Fund’s general positioning can be summarized as the following:

- 91% of the Fund is invested in equities and 9% is held in cash – 3% of the equities exposure is in gold-linked shares, implying c88% is in (non-gold) equities.
- The Fund holds a small amount of puts (portfolio protection) over the S&P500, Nasdaq and Euro Stoxx indices. Should these puts
expire worthless, it will cost the Fund approx. 90bps of performance.

- The Fund has relatively low US exposure (c44%), no direct Asian exposure, relatively high European exposure (c37%) and some Latam exposure (c3%).
- The Fund doesn’t currently hold any US banks or insurers, but 5% of the Fund is invested in European banks.
- The Fund’s largest industry exposures (using GICS) are Information Technology (18%), Materials (16%) and Financials (15%).

Below we discuss some of the implications of our positioning.

The Fund is relatively defensively positioned with: (i) approx. 12% in cash and gold-related stocks; (ii) US$ hedging, (iii) put-option holdings; (iv) large allocation to relatively defensive industries; and (v) the specific types of companies we purchase. This positioning is a headwind to the Fund participating in an exuberant market. As a result, superior stock selection will be required to generate strong relative performance if markets continue their upward march.

The Fund’s absence of US banks/insurers and the US$ hedging will be a headwind if the Fed embarks on a meaningful monetary policy tightening cycle. Equally, the Fund should benefit if the Fed’s tightening cycle proves to be less aggressive than many expect.

The Fund will benefit from a shift in global capital flows out of the US and into Europe. As we have often discussed in these pages, European stocks have been neglected relative to US stocks and are currently notably cheaper than their US peers. This is often attributed to the US supposedly having a superior economic and political environment. We believe the facts point to a different reality and Europe is presently a more attractive investment destination than the US.

When you bring these factors together, the biggest risk to the Fund’s relative performance is the US Federal Reserve aggressively increasing interest rates, which will result in US banks/insurers rallying and the US$ strengthening. On the flipside, the Fund should be a major beneficiary of the Fed not aggressively raising rates and capital flows moving back towards Europe. Both of these factors are likely to follow US political turmoil and weaker-than-expected US economic numbers.

Portfolio:

The Portfolio can be divided into three segments:

Core (60-80% of the Fund) – Core is intended to provide a stable base for the Fund. Companies in this segment are growing, yet priced attractively, have low business cyclicality, strong cash generation, a dominant presence in their industry, strong management teams and favourable structural tailwinds.

Cyclical (0-30% of the Fund) – Cyclical contains companies we expect to benefit from shorter duration trends. As these cycles tend to be transitory, timing is more important in our investment decisions than in Core. Cyclical companies offer potential for materially larger gains than Core, however they are also riskier.

Opportunistic (0-20% of the Fund) – Opportunistic contains companies we believe are materially undervalued or companies whose growth has been under-appreciated. As with Cyclical, Opportunistic companies offer potentially more attractive shorter term gains than Core, however, also tend to be riskier. There will be times when the Fund will not hold any opportunistic stocks. Examples of these companies include: companies in the midst of a takeover, earlier stage internet/health/retail companies that are not materially cash flow positive and companies whose share prices have materially declined.

As at 30 Sep 2017, 59% of the Fund was invested in “Core”, 23% in “Cyclical” and 8% in “Opportunistic”.

The Fund’s highest sector weightings were Information Technology (18%), Materials (16%) and Financials (15%) which is mainly in European and Latam exposed banks. The Fund’s most notable sector underweight is in US Financials and it has no direct exposure to Utilities, Energy or Asian markets (including Japan).

The most material changes to the Fund during the quarter were: (i) increasing exposure to Industrials, most notably increasing the size of the investment in Wacker Chemie (classified as Materials by GICS); (ii) materially increasing the US$ hedging, to protect the Fund from US$ weakness.

Aim:

Our aim is to achieve superior AUD-denominated returns with low volatility. The superior returns aim can be disaggregated into: (i) capital preservation; (ii) capital appreciation. While these aims make no mention of the benchmark, we certainly believe that fulfilling our aims will result in superior returns to the benchmark over the medium-to-long term and, since inception, the Fund has delivered compounded returns of 8.8%, net of fees, while the benchmark has delivered 7.6%.

Major market risks:

The Fund has the same major top-down risks discussed in the Jun-17, Mar-17 and Dec-16 quarters: (i) no exposure to US financials that benefit from rising US interest rates; (ii) High European exposure (European companies and currencies); (iii) zero direct exposure to Japan; and (iv) high exposure to the AUD. Rather than repeat ourselves on these matters we encourage you to visit our website (http://www.pengana.com/funds/international-equities-fund/reports-and-others/) to review the quarters.

In this Quarterly, we believe it is timely to discuss another major risk that it is facing the entire market, namely the explosion in passive investing and ETFs.
There has been an equities bull market for a number of years. In this environment there is typically a sector that attracts hot money. In the 1970s it was the Nifty Fifty, at the turn of the Millennium it was Technology and in the mid-2000s it was real estate. When the bull market runs out of steam these hot sectors massively deflate, normally taking large parts of the market down with them. We believe that the current hot sector is passive investment vehicles (index funds and ETFs).

The typical characteristics of the bubble sectors include: (i) strong performance by that sector; (ii) massive inflows of capital into that sector; (iii) indiscriminate investor buying regardless of valuation; and (iv) an explosion of products developed by Wall Street to satisfy investor demand for those products.

Passive investments (PIs) have undeniably delivered good performance in recent times and have in general outperformed active managers. We believe this is mainly explained by the equity market in recent years demonstrating high stock correlation (the degree that stocks move together) and low dispersion (the differing size of moves by stocks), which is the perfect environment for ETFs. In a market where stocks move together (high correlation) and the rewards/punishment for doing well/badly are low (low dispersion), there are limited opportunities for active managers to demonstrate their ability. In this environment, the best strategy is often to be as close to “average” as possible, which is the definition of PIs.

The strong performance by PIs has not gone unnoticed and money has flooded into those instruments. Bernstein Research demonstrates that in the US, over the past decade, investors have sold US$1.6T of active equity funds and bought US$1.3T of PIs. This has taken PIs from c20% of AUM (Assets Under Management by investment management firms/ETF providers) to ~45% today and at current growth rates will be ~50% of AUM in early 2018. This clearly demonstrates that Passive Investment vehicles have experienced massive inflows in recent times.

PIs do not price discriminate. They are required to invest all their capital into an underlying basket of securities regardless of the securities’ prices. In fact, with most passive strategies using a market-cap weighted benchmark, they would have a bias towards more expensive securities, which (all else remaining equal) have higher weights in the underlying index. Therefore, the structure of PIs means that, by definition, as investors flock into PIs they are effectively indiscriminately investing in many securities regardless of price.

Wall Street has been more than accommodative of this investor demand. According to JP Morgan, as of May-17 there were nearly 2,000 ETFs listed in the US. It is worth pausing to consider this figure. There are 500 companies in the US (as defined by the S&P500 Index) that broadly represent the entire market, and yet there are 4x more ETFs than there are companies that represent the entire market. The ETFs are becoming increasingly specialized (read: less diversified), which means they are becoming riskier. Broad-based ETFs now represent just 30% of ETF assets and the other 70% represent some specialized asset class. We think it is fair to interpret the above as more money is going into riskier ETFs.

In our opinion, the above factors clearly demonstrate that PIs could well be the fulcrum of the next bear market. This isn’t a criticism of PIs. We are also not arguing that PIs are the cause of elevated equity markets valuation (that distinction goes to low interest rates). Finally, we think PIs play a very worthwhile role and are appropriate for many portfolios. However, it appears to us that PIs are the vehicle de-jour for hot money in the current bull market, which implies they are also likely to be the fulcrum of the next bear market.

It cannot be known exactly what a Passive Investment driven bear market will look like. Our expectation is that stocks that are overrepresented across numerous PIs (e.g. Microsoft1, Exxon2) and illiquid securities in more esoteric PIs (some of our favourites include: The Quincy Jones Streaming Music, Media & Entertainment ETF, The Obesity ETF, Whiskey & Spirits ETF and the Inspire Global Hope Large Cap ETF) will be most at risk.

Japan provides another flavour of Passive Investing. In that market, the government has been taking on the role of a passive investor and has been consistently buying local shares, seemingly regardless of price. According to Bernstein, government buying has taken the share of passive investing to a whopping 72% of total AUM!

We do not consider this buying as ‘hot’ money and the government is unlikely to cause a market meltdown by dumping the stock at some point in the future. Our issue is simply that the government buying is probably pushing prices above the level that they would be in a normally functioning market (by consistently raising the level of demand vs. supply).

There is a counterargument that the government buying is not inflating the market, because active investors should be taking advantage of any over-inflated prices and selling into them, pushing the prices back down. This is probably happening to some extent, because foreigners have been relatively strong net sellers of Japanese equities. However, the high proportion of passive money in the market, combined with the index-hugging tendencies of many active funds, suggests that the additional selling is highly unlikely to fully offset the additional buying. Either way, this is not the type of environment that excites us.

Stock Focus:

Last quarter we wrote about Dollar General, a discount general merchandise retailer in the US. This quarter we will focus on one of our European bank holdings, ABN AMRO (‘ABN’).

We have a positive view on the outlook for the European economy. Indeed, we believe that Europe has stronger economic momentum than the US (which is already at a much more advanced stage of its recovery). We are currently seeing a meaningful pickup in GDP growth right across 1 Forbes wrote an article that argued that YTD ETFs have bought $1.169m of Microsoft stock vs the theoretically correct, flow-adjusted figure of $949m.

2 Exxon is 25% of the iShares U.S. Energy ETF, 22% of the Vanguard Energy ETF as well as in a Dividend Growth ETF, Deep Value ETF, USA Quality Factor ETF, Weak Dollar ETF, Momentum Till ETF and Low Volatility ETF!
Europe, along with an improvement in employment levels, consumer/corporate confidence levels and property prices. At the same time, the level of political risk in Europe has decreased in recent times, with Austria, the Netherlands, France and Germany all rejecting far-right candidates in favour or pro-Europe/pro-business candidates.

The European banks are very well placed to benefit from this favourable economic backdrop. Following a deep and prolonged downturn in the wake of the global financial crisis, the industry has rebuilt its capital buffers and bolstered its provisioning levels. We have already begun to see an increase in loan growth (off a very low base), along with a decrease in loan losses (off a very high base), and there is plenty of room for further improvement as the economy picks up steam. The banks also stand to benefit from higher interest rates in coming years (because the income that they receive from lending tends to be more “variable” than the cost of their funds).

In order to capitalise on this theme, we own a selection of high-quality, well-managed and well-capitalised European banks at attractive valuations. One of these banks is ABN.

ABN is a full-service retail, private and commercial bank. It emerged in its current form after being nationalised by the Dutch government in late-2008 (during the global financial crisis). The business was comprehensively de-risked, re-capitalised and integrated with Fortis Bank Nederland, before being re-listed in 2015. The Dutch government currently owns 56% of the stock and is likely to continue to reduce its stake over time.

Around 80% of the group’s income comes from the Netherlands. We see the Dutch banking market as relatively stable and attractive. It is highly concentrated, with three dominant banks, resulting in scale efficiencies and good pricing power. While the level of debt-per-capita in the Netherlands is relatively high, the combination of low unemployment, social welfare benefits and the government’s NHG (national mortgage guarantee) scheme has resulted in mortgage losses well below the rest of Europe.

ABN’s largest business, Retail Banking, holds a 20-25% share of the Dutch market across most key

### FUND AND STRATEGY PERFORMANCE (NET OF RECALCULATED FEES¹)

A new strategy was implemented for the Global Equities Trust from 1 July 2017 by the Pengana team. The financial information below refers to the strategy currently employed by the Global Equities Trust. For full performance history of the Global Equities Trust, please refer to the Hunter Hall website.

<table>
<thead>
<tr>
<th>Fund and Strategy ¹</th>
<th>3 Month</th>
<th>1 Year</th>
<th>Since Inception p.a.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund and Strategy ¹</td>
<td>3.1%</td>
<td>19.1%</td>
<td>8.8%</td>
</tr>
<tr>
<td>Benchmark</td>
<td>2.8%</td>
<td>15.7%</td>
<td>7.6%</td>
</tr>
</tbody>
</table>

1. Please refer to the Hunter Hall website for full performance history of the Global Equities Trust.
From July 2017, performance figures are those of the Hunter Hall Global Equities Trust’s class A units (net of fees). Between July 2015 and June 2017, performance figures have been recalculated by adjusting the Pengana International Equities Fund’s (ARSN 610 351 641) net returns to reflect the management fee of the Hunter Hall Global Equities Trust. From July 2017, the Hunter Hall Global Equities Trust has been managed by the same team and with the same strategy as the Pengana International Equities Fund. The Pengana International Equities Fund’s net track record data is historical. Past performance is not a reliable indicator of future performance. The value of the investment can go up or down.

Top 10 Stocks

<table>
<thead>
<tr>
<th>Name</th>
<th>Country</th>
<th>Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>American Express Company</td>
<td>United States</td>
<td>Financials</td>
</tr>
<tr>
<td>Apple Inc.</td>
<td>United States</td>
<td>Information Technology</td>
</tr>
<tr>
<td>B&amp;M European Value Retail SA.</td>
<td>Luxembourg</td>
<td>Consumer Discretionary</td>
</tr>
<tr>
<td>Celgene Corporation</td>
<td>United States</td>
<td>Health Care</td>
</tr>
<tr>
<td>Dollar General Corporation</td>
<td>United States</td>
<td>Consumer Discretionary</td>
</tr>
<tr>
<td>IAC/InterActiveCorp.</td>
<td>United States</td>
<td>Information Technology</td>
</tr>
<tr>
<td>Medtronic plc</td>
<td>United States</td>
<td>Health Care</td>
</tr>
<tr>
<td>Novo Nordisk A/S Class B</td>
<td>Denmark</td>
<td>Health Care</td>
</tr>
<tr>
<td>Oracle Corporation</td>
<td>United States</td>
<td>Information Technology</td>
</tr>
<tr>
<td>Wacker Chemie AG</td>
<td>Germany</td>
<td>Materials</td>
</tr>
</tbody>
</table>

Largest 3 Contributors

- Wacker Chemie AG
- Medtronic plc
- IAC/InterActiveCorp.

Largest 3 Detractors

- B&M European Value Retail SA.
- Reckitt Benckiser Group plc
- Royal Ahold Delhaize N.V.

SECTOR BREAKDOWN

<table>
<thead>
<tr>
<th>Sector</th>
<th>Capitalisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Technology</td>
<td>18.1</td>
</tr>
<tr>
<td>Materials</td>
<td>15.8</td>
</tr>
<tr>
<td>Financials</td>
<td>15.0</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>12.0</td>
</tr>
<tr>
<td>Health Care</td>
<td>12.0</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>11.1</td>
</tr>
<tr>
<td>Industrials</td>
<td>4.9</td>
</tr>
<tr>
<td>Real Estate</td>
<td>1.8</td>
</tr>
<tr>
<td>Energy</td>
<td>0.0</td>
</tr>
<tr>
<td>Put Options</td>
<td>0.1</td>
</tr>
<tr>
<td>Cash</td>
<td>9.3</td>
</tr>
</tbody>
</table>

CITATION DATA

- Volatility: 10.84%
- Maximum Drawdown: -9.58%
- Beta: 0.97
- Number of stocks: 44

2. Annualised standard deviation since inception. 3. Relative to the MSCI All Country World Total Return Index in AUD.

Hunter Hall Investment Management Limited (AFSL: 219462) (“HHIML”) is the issuer of units in the Hunter Hall Global Equities Trust (ARSN 098 586 282) (the “Fund”). A product disclosure statement for the Fund is available and can be obtained from our distribution team or website. A person should obtain a copy of the product disclosure statement and should consider the product disclosure statement carefully before deciding whether to acquire, or to continue to hold, or making any other decision in respect of, the units in the Fund. This report was prepared by HHIML and does not contain any investment recommendation or investment advice. This report has been prepared without taking account of any person’s objectives, financial situation or needs. Therefore, before acting on any information contained within this report a person should consider the appropriateness of the information, having regard to their objectives, financial situation and needs. Neither HHIML nor its related entities, directors or officers guarantees the performance of, or the repayment of capital or income invested in, the Fund.