Quarterly Review
Q4 2017

Wenlock Global Fund

Wenlock Global Fund
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Wenlock Global Fund

Performance (net of Fees)^	3 Months	Since Inception
Wenlock Global Fund	+3.7%	+5.7%
MSCI World Net Total Return (AUD)	+5.8%	+8.6%

Highlights

Profit taking from strong performers during the period

New investments in superlative businesses as prices became attractive

Outlook remains stable but cautious about a pullback

Dear Investors,

This is our inaugural quarterly review since the fund was launched and duly as part of our commitment to our investors endeavour to provide insight into the decisions we make when investing your money. Please do feel free to reach out to us regarding any aspect of the Fund.

As a reminder, the fund's strategy is to invest in superlative businesses across the world that are experiencing long term secular growth but at the same time employing a level of explicit protection to insure against a significant market correction.

Cash flow generation is very important to us when we examine the attractiveness of businesses. Attributes of cash flow we spend a considerable time analysing include:

- Operating and Free Cash Flow growth
- Adjusted Free Cash Flow return on investment (adjusted for capex and share dilution where appropriate)
- Free Cash Flow yields
- Capital Allocation

Marrying superlative with strong secular growth will mean we will often look to invest in businesses that maybe described as eclectic, by building on investment themes that others would traditionally avoid. At times, this will mean we will hold investments in businesses that have depressed reported profits but generate sufficient cash profits taking into account reinvestment to support the growth they are experiencing. We do not handicap companies because their reported or forecast profits appear optically inferior to peers, but to the contrary, we would spend a disproportionate amount of time ascertaining the meliority of businesses by scrutinising their cash generating capabilities, even if they are not apparent in the near term. For this reason, an extemporaneous examination of valuation ratios such as P/E or EV/EBIT on these businesses does not provide the correct valuation assessment.

Performance Review

Performance was disappointing during the quarter as some of the satellite positions give up some of their strong gains since they were acquired at the inception of the Fund in August. In fact, it wasn't until the last two days of November did the fund start to underperform. This has since started to reverse in the early weeks of January 2018.

For the fourth quarter of 2017 (30th September 2017 to 31st December 2017) the Fund's NAV returned +3.65% net of fees compared to the MSCI World Net Total Return Index of +5.84%. Throughout most of the quarter the Fund had outperformed the Index until the last two days of November. Our paucity in Bank and Energy investments also contributed to this drag. Top contributors were Paypal, Amazon, Estee Lauder, Novo Nordisk and Microsoft. Top detractors were LendingClub, Swatch, Cognex, TripAdvisor and Celgene.

History tells us that even great businesses experience short term declines but it's the long term that matters. Take Nike, in its over 30 years of being listed there have been periods of significant declines (for example a 50% fall during 97 – 98), despite this it has generated c20% pa returns over those 3 decades, and that's without dividends.

^Calculations are based on total returns and net of all fees but before tax or the buy/sell spread. Performance figures are in AUD. **Past performance is not a reliable indicator of future performance**.

We believe this quarter's underperformance is temporary and are confident that the businesses we hold should deliver strong long term results. Some of the businesses are on the cusp of some large secular trends that we believe will be profound. For instance, Kion Group AG, a German manufacturer of factory automation capital equipment is currently benefiting from the Automation trends in factories. Another one is our investment in Estee Lauder, which is benefiting from millennial's amour-propre with the use of mobile phones that is driving growth in their make-up and skincare products.

Portfolio Review

The quarter was anomalous in terms of activity as we took advantage in initiating exposure to themes we had been observing for some time. Those themes include, Testing and Certification, Automation, AI, Big Data and Consumer Trends.

The Fund increased the number of investments from 32 to 36 businesses over the period. Our aim is to consolidate this to 30 or less. During the quarter, there was notable activity, mainly driven by profit taking from some of the strong performers during August and September. Partial proceeds of which were reinvested in existing positions like Novo Nordisk and Celgene.

Notable changes in the Fund included exiting the entire positions in SAP, Swatch, Cognizant, IDEXX and Experian. We initiated new positions in Unilever, Comcast, Fortive and Arista Networks and a small position in Tesla. We do not anticipate this level of activity going forward as we took advantage of price appreciation for our exited positions and took the opportunity to acquire businesses with stronger secular tailwinds at attractive prices.

Hedging

For the quarter the fund was hedged 71% of the NAV on average. In addition, a select few investments were individually hedged to reduce the effects of volatility during the earnings season.

With volatility at low levels, the low cost of protection provides an attractive risk reward profile. We understand this is a drag on overall performance and we aim to reduce this with hedging strategies that ensure asymmetric payoffs.

Outlook

It is always difficult to provide short term forecasts and so our focus is on the longer-term outlook. The secular themes inherent within the portfolio have long term tailwinds which can distort valuations. We are reminded by Google's valuation soon after it listed in 2004 its forward P/E ratio was over 50x when the share price (adjusted for splits) was c$100 and its forward Free Cash Flow yield in 2007 was a little over 2%. Today that figure stands at 4.2% and its forward PE is 27x. Take Facebook, when it listed in 2012, its forward Free Cash Flow yield was 0.6% and its forward PE was over 50x. Equally there are other businesses that have not been as successful, so it our job to identify those that are likely to succeed. We are confident that our investments can exhibit similar characteristics and hence provide investors with solid long-term returns

A complete dearth of volatility in markets creates unease yet fuels it higher. The waiting game hasn't paid off and so we are seeing investors capitulate. Volatility is at least still alive, if only barely breathing. Scott Miller at Greenhaven Road Capital provides an interesting analogy with sharks and 'watching the water in moments of calm and panic'. Candidly, we have no clue as to when the market will correct. The fund will not benefit from the panic selling but our hedges will mean we remain calm and ready to invest in opportunities that present themselves.

According to Longview Economics research titled "The Great Reset", a US recession usually occurs as a result of or from a combination of:

i An overstretched corporate sector;
ii Tightening of money ie monetary, financial via credit conditions;
iii A shock, be it a bubble bursting or some exogenous events, which leads to point ii.

These appeared to play in 2001, 1991, 1980's double dip recession and the two 1970's recessions.

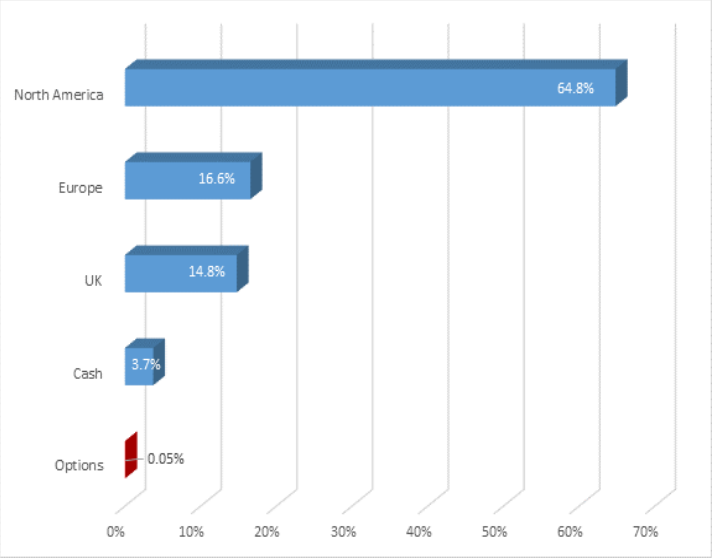
Today the first two points seems to be stable but its point iii. which causes perturbation in us. With geopolitical issues in the Middle East to the Far East in North Korea, this could portend significant volatility. Notwithstanding this, the global economy appears to be edging upwards with low inflation and good job growth. Economic conditions remain stable, but we are keeping a keen eye out on Monetary conditions as the US shifts to a tightening stance. Concerns over China's Wealth Management and State-Owned Enterprises persist and could dislocate markets.

Despite these risks, we are not distracted from the positive secular trends that will experience multi-year growth. We remain upbeat on some of these themes and look to invest in business we feel will benefit from such trends. Areas the Fund has exposure to include:

- Robotic Surgery
- Novel Drug Therapies to treat Cancer and Rare Diseases
- Automation
- Next Generation Databases and Data Network Management
- Millennial Consumer Trends
- Payments

Top 10 Holdings	Sector
Accenture	Technology
Alphabet	Technology
Apple	Technology
Celgene	Healthcare
Richemont	Consumer Discretionary
Comcast	Consumer Discretionary
Estee Lauder	Consumer Staple
Microsoft	Technology
Novo Nordisk	Healthcare
Visa	Technology

Country Allocation % of NAV

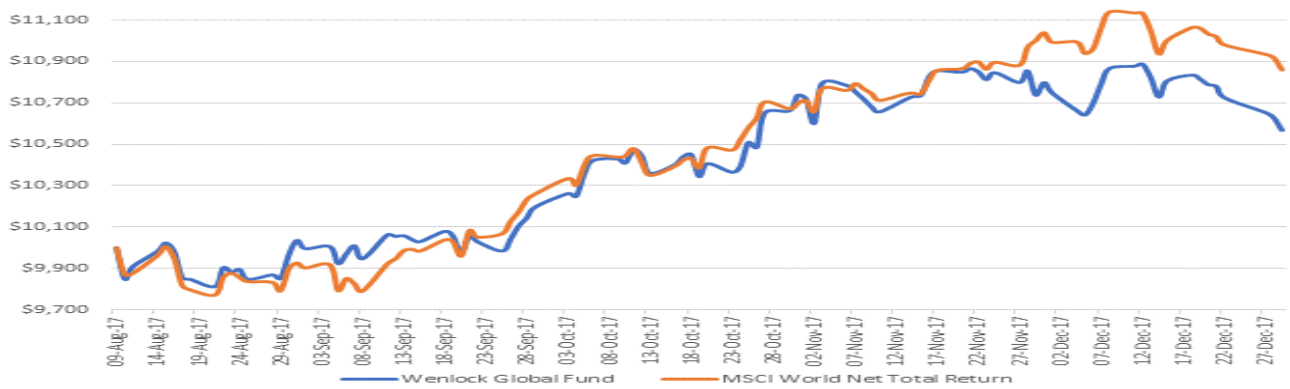


Fund Statistics - December 2017

Sector Allocation (ex cash)	% of NAV
Technology	35%
Healthcare	24%
Consumer Discretionary	18%
Industrials	10%
Consumer Staples	8%
Financials	2%

Currency Exposure	% of NAV
US Dollar	66%
UK Pound	15%
Euro	7%
Danish Krone	5%
Swiss Franc	4%
Australian Dollar	2%

Performance growth of AUD $10,000^



Wenlock Global Fund

- The Wenlock Global Fund targets long term capital growth whilst ensuring capital preservation . The Fund invests in 20-40 superlative businesses across the world that are exhibiting strong long term secular trends. At times, the fund employs protection to mitigate against large falls in asset prices.
- These superlative businesses are selected after rigorous fundamental bottom up research which provides the Fund potential long term capital returns

Investment Style	|	Bottom - Up Fundamental Research based on Cash Flow Returns
Number of Holdings	|	20-40
Inception Date	|	9 August 2017
Currency	|	AUD
Minimum Investment	|	$10,000