

Cor Capital Fund



MONTHLY REPORT & FACT SHEET – 31 AUGUST 2018

MTD: -3.7%

12M: 7.9%

3yr Ann: 7.0%

3yr Vol: 7.0%

Description

The Cor Capital Fund is an Australian registered managed investment scheme that seeks to generate stable positive returns, regardless of prevailing economic or financial market conditions.

It is commonly used as an alternative asset within a broader strategic asset allocation or as a standalone medium-term absolute return investment.

The objective of the Fund is to generate medium to long term returns, without significant interim drawdowns, by investing and trading in developed-market equities, precious metals, fixed interest and cash. The Fund portfolio is highly liquid and diversified.

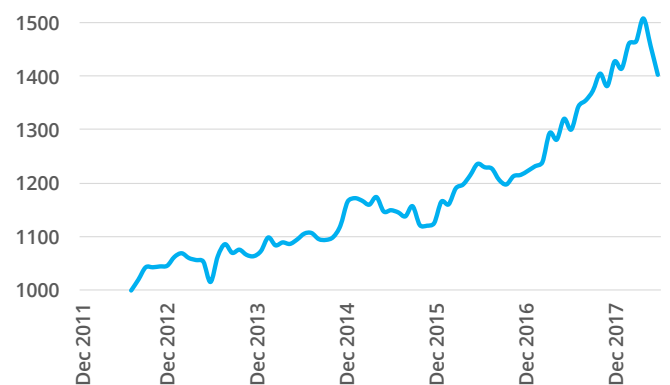
Fund Details

| | |
|------------------------------------|---|
| Type | Absolute Return / Alternative |
| Strategy | Multi-strategy / Multi-asset |
| Objective | Maximise return above change in CPI over 3 year periods without generating a negative return over any 12 month period |
| Inception date | 8 August 2012 |
| Net Asset Value / Redemption Price | 1.0754 / 1.0738 |
| Currency | AUD |
| Liquidity | Daily |
| Minimum investment | A\$25,000 |
| APIR code | COR0001AU |
| ARSN | 609 666 042 |

Fund Total Return as of 31 August 18 (net of fees)

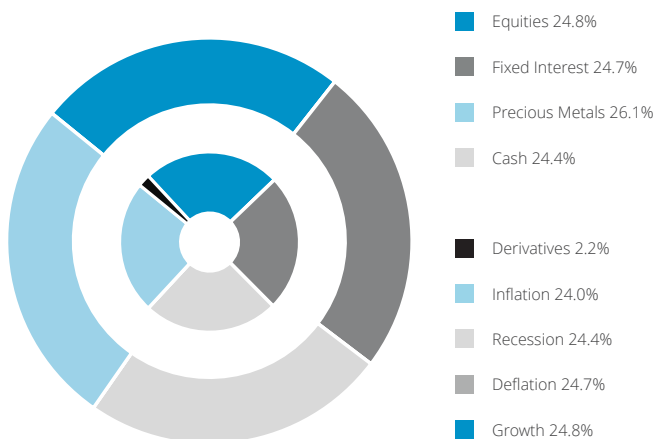
| | | Return |
|-------|------------|--------|
| 1-Mth | | -3.7% |
| 3-Mth | | -4.3% |
| 6-Mth | | -1.7% |
| YTD | | -0.2% |
| 1-Yr | Ann. | 7.9% |
| 3-Yr | Ann. | 7.0% |
| 3-Yr | Volatility | 7.0% |

Track Record: August 2012 - August 2018

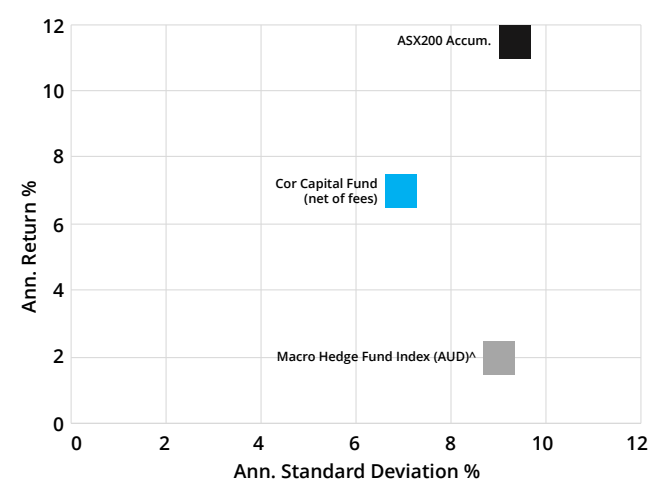


Track record chart displays the change in value of \$1000 invested in the Cor Capital Fund since its inception in August 2012. Past returns should not be taken as a prediction of likely future returns. Returns include the notional reinvestment of income.

Asset Allocation / Risk Allocation



Risk vs Return over 3 years



Cor Capital Fund

Quarterly Manager Commentary – June 2018

The Cor Capital Fund returned +6.6% for the 3 months to the end of June. The return for the last 12 months was +17.7% and the 3 year return was +9.5% per annum (all net of fees).

The income distribution for the June half was 7.5 cents per unit, nearly double the size of the December half year amount. This equates to a 9% yield over the last year which is higher than it has been historically and a result of an increase in the proportion of realised profits coming from the shorter-term overlay strategy rather than the four broader core exposures.

We continue to carefully develop our investment process from what we believe is a unique perspective. Our strategy is to combine a large allocation to a conservative 'all-weather' portfolio with a small allocation to a higher risk, higher return derivatives overlay. Over the last 12 months both the core portfolio and the overlay strategy have performed well in absolute terms and relative to other investments. However this will likely not be the case over every future period and below we revisit the issue of risk and how we view and manage it as our investment process evolves.

Over this last financial year the Fund outperformed all of its constituent asset class benchmarks by a significant margin, including Australian equities which delivered a 12 month total return of +13% (ASX200) after being +4.2% for the 9 months to the end of March.

The equities portfolio within the Cor Capital Fund returned +14.9% for the year with strong contributions from our relatively large allocation to the energy sector and smaller allocation to Telstra and the banks.

Equity portfolio changes of note over the last quarter included trimming Coca-Cola Amatil and Santos with the latter surging following the (since rejected) takeover bid at the beginning of April. We added to AMP after its shares were hammered through April in the face of the Royal Commission, class actions and a regulator probe. Our CSL position was reduced on price strength as was APA Group in the utilities space following a takeover bid from Hong Kong's CK Group. A portion of the proceeds were used to top up Telstra which has recently downgraded its earnings and is down a third in market capitalisation over the past year.

This strong share market performance pushed our equities allocation at 30 June beyond our defined risk limit and we have since trimmed it back to 25% and redistributed capital to cash, bonds and gold bullion.

It is our intention to always remain prepared for a range of economic and market outcomes. With that in mind we note that the US economy may be showing signs that rates have been too low for too long, and that any resulting Fed catch up attempt

(beyond increases to date) could have major ramifications for currency markets, commodities, and emerging markets.

Adding political risks and the introduction of tariffs to the equation means we see the possibility of violent market moves increasing. We have been saying this for a long time and volatility has remained low, but investors are now beginning to respond to actual US rate increases rather than questioning whether it will happen at all! The 'smokescreen' is that (even artificially) inflated asset values make the average person (or lender) more likely to believe all is fine. Any erosion to this confidence can hurt global growth and earnings very quickly. Make no mistake, the world remains in uncharted waters as it exits the largest monetary policy experiment in history.

In the near term, with rising US interest rates and a stronger US dollar comes lower USD commodity prices. This has certainly been the case with precious metals since mid-May (USD gold price down 7.4%) although our Cor Capital Fund position has been partly insulated via the weaker Australian dollar and by holding put option protection. Recently we have been increasing the Fund's precious metals exposure via our derivatives overlay.

Risk

Whenever an attractive, double digit 12 month return is achieved by a strategy that claims to be conservative, the question of risk should be revisited; *what sort of additional risks are the portfolio managers of the Cor Capital Fund taking to achieve additional returns?*

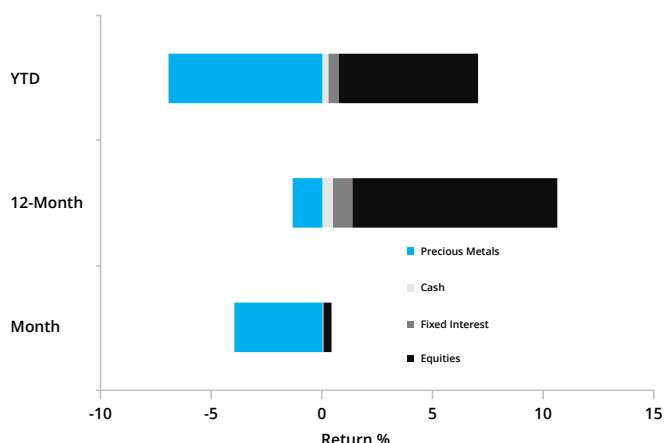
A common measure of risk is volatility which we report to you regularly and which has averaged about 6% per annum over the last three years (see Page 1 of this report). However, our preferred risk indicator is rolling 12-month drawdowns (losses) which you can view from the diagram on Page 3 of this report. Reviewing the size and regularity of past drawdowns can provide an indication of how peak to trough moves could reduce the value of your investment given certain adverse events.

The introduction of the derivatives overlay strategy at the end of 2016 increased our annualised volatility expectation from 5 percent to 8 percent (still much lower than equities markets). However we would argue that our regular de-risking of the portfolio means that the strategy's 12-month drawdown profile should remain attractive relative to other investments.

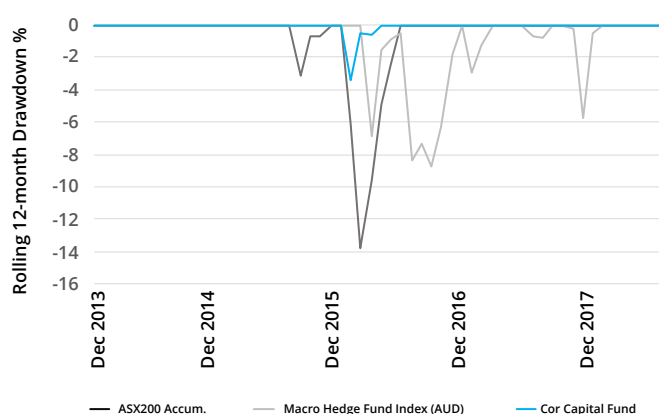
To monitor risk in the Cor Capital Fund always keep an eye on the allocation pie chart on Page 1 of this report and particularly the derivatives exposure 'slicer' in black. This is a high risk, high return part of the portfolio and should always remain small in size – less than 5 percent of assets unless we are in the process of realising highly profitable positions. Most of the portfolio then remains invested conservatively for the four main macro risks and financial system instability as has been the case since the Fund's inception.

Cor Capital Fund

Attribution (gross of fees)



Drawdowns



Tail Risk Analysis: Worst of ASX200 v. Fund

| Rank | Lowest ASX200 Return (%) | Date | Fund Return (%) | Diff. |
|--------------|--------------------------|--------|-----------------|--------------|
| 1 | -7.79 | Aug-15 | -0.34 | 7.45 |
| 2 | -5.48 | Jan-16 | 0.43 | 5.91 |
| 3 | -5.38 | Sep-14 | -1.03 | 4.35 |
| 4 | -5.30 | Jun-15 | -2.29 | 3.02 |
| 5 | -4.50 | May-13 | -0.28 | 4.23 |
| 6 | -3.77 | Mar-18 | -0.92 | 2.85 |
| 7 | -3.25 | Nov-14 | 0.48 | 3.74 |
| 8 | -3.03 | Jan-14 | 0.92 | 3.95 |
| 9 | -2.96 | Sep-15 | -0.66 | 2.29 |
| 10 | -2.75 | May-17 | 4.38 | 7.14 |
| 11 | -2.45 | Jun-16 | 1.45 | 3.91 |
| 12 | -2.32 | Jun-13 | -3.61 | -1.29 |
| 13 | -2.21 | Mar-13 | -0.83 | 1.38 |
| 14 | -2.15 | Oct-16 | -1.71 | 0.44 |
| 15 | -1.76 | Feb-16 | 3.57 | 5.33 |
| Total | -55.11 | | -0.42 | 54.69 |
| Av. | -3.67 | | -0.03 | 3.65 |

12-Month Return Correlations

| | |
|--------------------|---------------|
| Balanced 60/40 | 25.6% |
| Aus Fixed Interest | -27.0% |
| Aus Equities | 30.8% |
| Gbl Equities (AUD) | -16.7% |
| Hedge Funds (AUD) | 2.6% |

Additional Information

| | | | |
|--------------------------|------------|--|-----------------|
| Management Fee | 1.0% p.a. | Responsible Entity | Equity Trustees |
| Performance Fee | N/A | Custodian | BNP Paribas |
| Fund expenses | 0.35% p.a. | Distribution Frequency | 6-monthly |
| Unit price spread | 0.15% | Hist. 12-month Distribution Yield | 8.98% |

Cor Capital Fund

Monthly Performance History (net of fees)

| Year | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | CYTD |
|------|--------|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|
| 2018 | -1.64% | 3.31% | -0.92% | 3.30% | 0.29% | 2.91% | -3.41% | -3.70% | - | - | - | - | -0.15% |
| 2017 | 0.20% | 0.63% | 0.70% | 0.60% | 4.38% | -0.93% | 3.03% | -1.52% | 3.33% | 0.83% | 1.34% | 2.33% | 15.80% |
| 2016 | 0.43% | 3.57% | -0.44% | 2.59% | 0.59% | 1.45% | 1.73% | -0.50% | -0.21% | -1.71% | -0.71% | 1.29% | 8.26% |
| 2015 | 4.00% | 0.56% | -0.40% | -0.65% | 1.23% | -2.29% | 0.20% | -0.34% | -0.66% | 1.67% | -3.04% | -0.12% | 0.00% |
| 2014 | 0.92% | 2.34% | -1.34% | 0.50% | -0.26% | 0.76% | 1.01% | 0.10% | -1.03% | -0.13% | 0.48% | 1.93% | 5.35% |
| 2013 | 1.57% | 0.63% | -0.83% | -0.36% | -0.28% | -3.61% | 4.71% | 2.14% | -1.49% | 0.55% | -0.90% | -0.22% | 1.70% |
| 2012 | - | - | - | - | - | - | - | 2.03% | 2.25% | 0.02% | 0.16% | 0.13% | 4.64% |

Contact Us

T +61 3 9225 5273

E contact@corcapital.com.au

^Credit Suisse Global Macro Hedge Fund Index in Australian Dollars.

Disclaimer:

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