Cor Capital Fund

MONTHLY REPORT & FACT SHEET – 30 SEPTEMBER 2018

MTD: -1.8% **12M:** 2.6% **3yr Ann:** 6.6% **3yr Vol:** 7.1%

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.

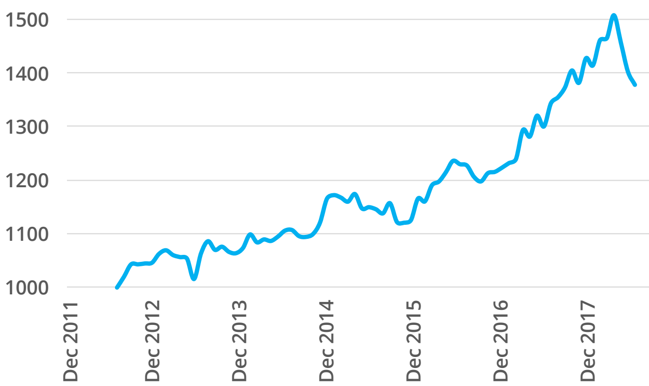
Fund Details

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	1.0565 / 1.0549
Currency	AUD
Liquidity	Daily
Minimum investment	A$25,000
APIR code	COR0001AU
ARSN	609 666 042

Fund Total Return as of 30 September 18 (net of fees)

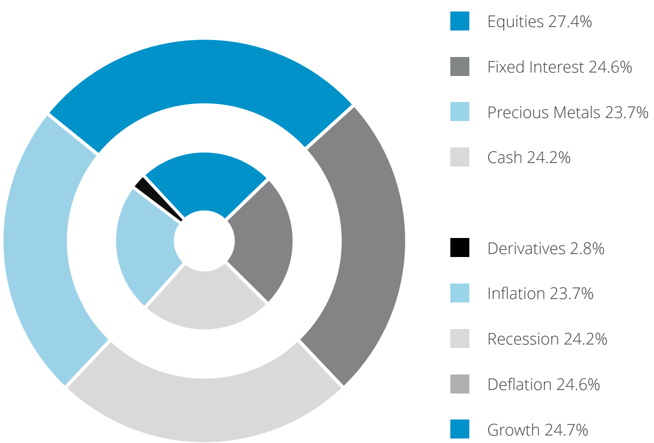
		Return
1-Mth		-1.8%
3-Mth		-8.6%
6-Mth		-2.6%
YTD		-1.9%
1-Yr	Ann.	2.6%
3-Yr	Ann.	6.6%
3-Yr	Volatility	7.1%

Track Record: August 2012 - September 2018

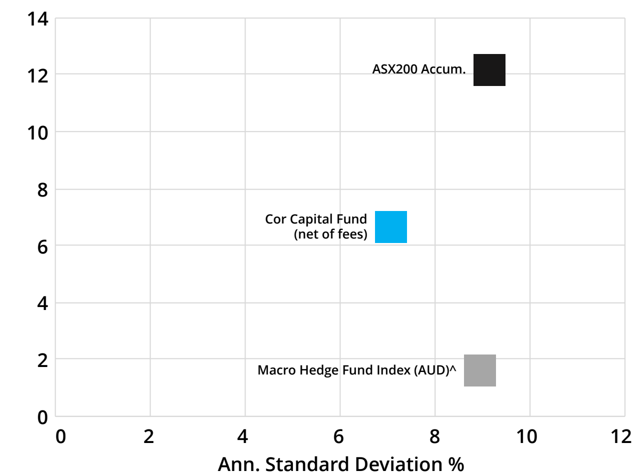


Track record chart displays the change in value of $1000 invested in the Cor Capital Fund since its inception in August 2012 .Past returns should not be taken as a prediction of likely future returns. Returns include the notional reinvestment of income.

Asset Allocation / Risk Allocation



Risk vs Return over 3 years



Cor Capital Fund

Quarterly Manager Commentary – September 2018

The Cor Capital Fund returned -8.6% for the 3 months to the end of September. The return for the last 12 months was +2.6% and the 3-year return was +6.6% per annum (all net of fees).

Following the strong 12-month return to the end of June, for the quarter to 30 September the Fund posted its largest negative result in its history. Over a six-month period, the return was -2.6% which is relatively unusual but not outside of both what we have delivered in the past, as well as what our quantitative research suggests is likely from time to time. However, volatility such as that of the last 2 quarters is contrary to our track record.

We designed the Fund to be a liquid diversified alternative investment, and a diversifier for lowering overall portfolio risk, so it is important to discuss recent performance in context of our track record and objective of absolute returns well above inflation, no 12-month drawdowns (negative returns), and single digit annualised volatility.

As is always the case, recent events will add value to our ongoing research and development in support of Fund goals into the future. At this time there is nothing visible to us that avoids recent losses while still capturing the more significant gains over the 18 months to 30 June 2018. The goal over time of every absolute return manager is to achieve a reduction in exposure to losses without giving up too much upside potential; the challenge is to achieve this while avoiding growing complexity.

You may recall we discussed risk management in the June report:

...our preferred risk indicator is rolling 12-month drawdowns (losses)... 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.

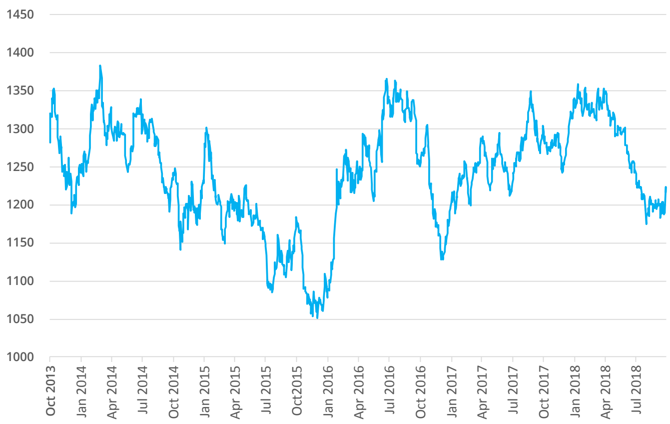
...always keep an eye on the allocation pie chart on Page 1 of this report and particularly the derivatives exposure 'sliver' in black. This is a high risk, high return part of the portfolio and should always remain small in size – less than 5 percent of assets unless we are in the process of realising 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.

Following the September quarter results, we would add further detail regarding the derivatives overlay. At any given time the portfolio may have a small amount of capital 'asymmetrically' exposed to significant but largely unpredictable events whether they turn out to be positive or negative for performance. Recent results demonstrate that a chain of positives may sometimes be followed by a chain of negatives even if the overall result is within the bounds of expectations and fund goals.

Negative performance this last quarter came predominantly from the effect of a fall in precious metals prices on our derivatives overlay results. Commenting on the gold price generally, in the case of our core portfolio we maintain a position for a range of reasons including the profit opportunities presented by its volatility and low correlation to other assets, as well as the protection it provides against currency debasement (inflation). It works best as a 'haven' when financial system and financial asset fears arise – e.g. an equities collapse.

Gold – 5 years

US$/oz



However, developed market equities continued to move higher over the quarter with the ASX200 September monthly move of -1.3% an exception. At the same time short-selling gold became the trade of choice through July and August for speculators wishing to ride the wave of US dollar strength resulting from trade frictions and developing interest rate and growth differentials. This snowballed somewhat as gold ETF investors started to sell.

In our experience such reactions are overdone often enough that systematically positioning 'against the crowd' for a price reversion (given certain criteria) will be profitable, which is the approach we take in the derivatives overlay.

Cor Capital Fund

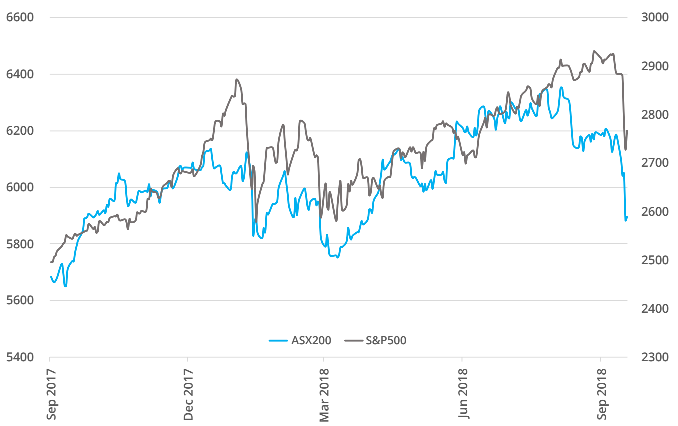
In this case, however, precious metals prices trended downwards at an unusually steady and persistent rate and our returns suffered as a result. Last year the opposite occurred when precious metals prices range-traded with greater volatility (more in line with long-run behaviour), and we were able to harvest double digit returns in rising and falling precious metal markets.

We have not discussed the core 'all-weather' component of the portfolio in detail in this update given the last quarter's overall negative return stemmed from the overlay strategy. The stable core makes up more than 95% of the portfolio overall and is expected to generate circa 50 percent of the Fund's long-term returns. For the record the core portfolio returned +5.2% over the 12-months to 30 September 2018 before fees with the largest contributor being the Fund's share portfolio which returned +15.5%, and on which we took some profits during July after our risk limit was reached.

We take the view that asset class price moves don't occur in a vacuum – the more prices and sentiment move in one direction the more violent the snap back in price as market participants respond. This isn't always the case – such as with structural changes – but is the case often enough.

Stock market indices have corrected sharply so far during October with the ASX200 down 4.5%, SP500 down 5.8%, and the Euro Stoxx 50 down 6.0%. The gold price subsequently rose back through US$1200/oz and traded as high as US$1230/oz. This modest recovery in the gold price doesn't suggest any significant investor 'fear' in our opinion so it is likely that this stock correction (so far) is being viewed as a buying opportunity that may play out like February.

Stock Markets

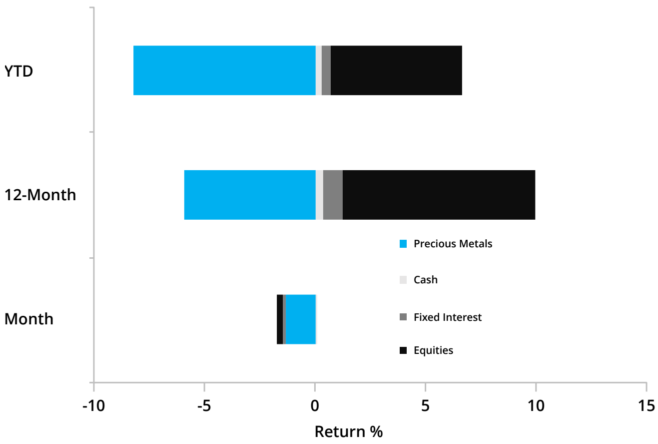


The Cor Capital Fund has a medium-term investment time horizon and so must be positioned for a broad range of outcomes whether that be a recession and bear market, or the continuation of a very long bull market in most assets.

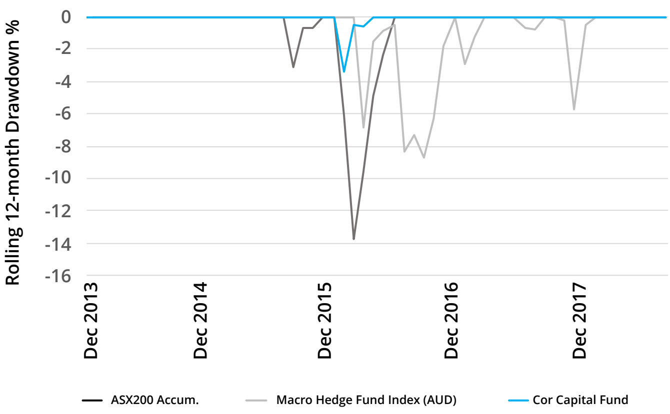
We are certainly uncomfortable with our recent turbulence, but reiterate our earlier view that US government debt levels along with Fed tightening are reasons genuine prosperity is only likely after a recessionary period (or US dollar denominated debt restructure!). This is contrary to the opinion of many who suggest that "the US economy is sustainably strong". USD strength and trade wars will hurt the global economy, and this is ultimately not good for the US economy or stock markets either. Hence, we believe that being carefully positioned on the opposite side of consensus, even if it hurts a little for short periods of time, represents worthwhile diversification.

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	**31.3%**
Aus Fixed Interest	**-19.7%**
Aus Equities	**35.9%**
Gbl Equities (AUD)	**-13.3%**
Hedge Funds (AUD)	**17.8%**

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%	-1.76%	-	-	-	**-1.91%**
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%**

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