

Cor Capital Fund



MONTHLY REPORT & FACT SHEET – 30 SEPTEMBER 2019

1M: +0.04% **6M:** +7.05% **12M:** +5.64% **3yr Ann:** +5.86% **3yr Vol:** 7.19%

A multi-asset investment emphasising the portfolio benefits of precious metals.

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 Total Return as of 30 September 2019 (net of fees)

		Return
1-Mth		0.0%
3-Mth		3.4%
6-Mth		7.0%
CYTD		9.8%
1-Yr	Ann.	5.6%
3-Yr	Ann.	5.9%
3-Yr	Volatility	7.2%

Past Performance is not a reliable indicator of future performance.*
Source of performance: Cor Capital

Fund Details

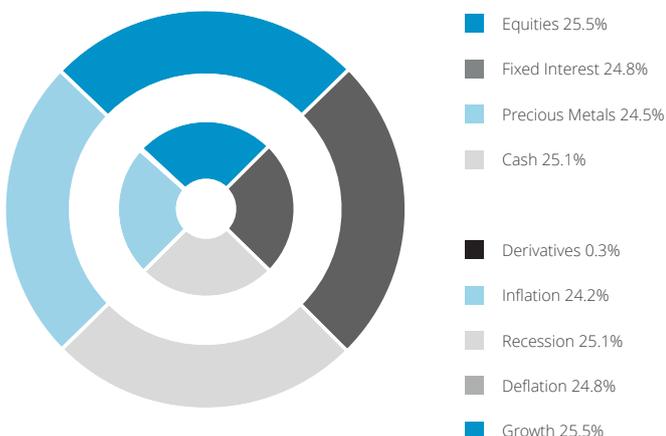
Type	Absolute Return / Alternative
Strategy	Multi-strategy / Multi-asset
Objective	Maximise return above change in CPI over 3 year periods without generating a negative return over any 12 month period
Inception date	8 August 2012
Net Asset Value / Redemption Price	1.1006/1.0989
Currency	AUD
Liquidity	Daily
Minimum investment	A\$25,000
APIR code	COR0001AU
ARSN	609 666 042

Track Record: August 2012 - September 2019

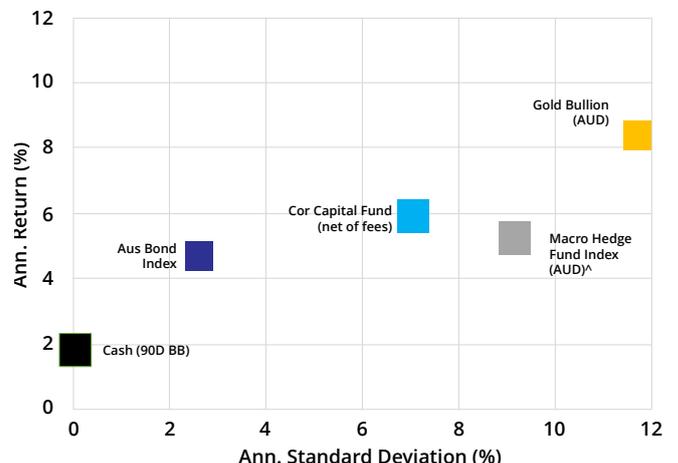


Track record chart displays the change in value of \$1000 invested in the Cor Capital Fund since its inception in August 2012. **Past Performance is not a reliable indicator of future performance.***

Asset Allocation / Risk Allocation



Risk vs Return over 3 years



Risk vs Return chart compares annualised 3-year returns to risk as measured by the annualised standard deviation of returns. Source: Bloomberg, Cor Capital

Cor Capital Fund

Quarterly Manager Commentary – September 2019

Dear Investor

The Cor Capital Fund returned **+3.4% net** for the September quarter and **+9.8%** so far for calendar 2019. Over 6 months the return was **+7.0%** and over the last 12 months **+5.6%**. The 3-year return was **+5.9%** p.a. which is **+4.2%** p.a. net of fees above CPI.

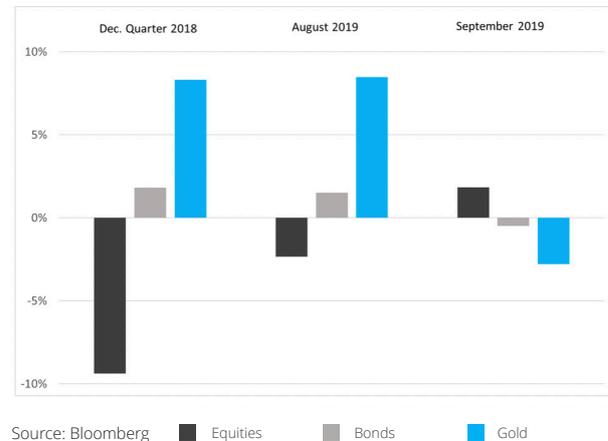
Stock prices were up over the quarter (**+2.4%**) with the ASX200 Accumulation Index gaining **+12.5%** for the past 12 months. This result has been mirrored in the bond market with the Bloomberg AusBond Composite Index up **+2.0%** for the quarter and **+11.1%** for the past 12 months. The gold bullion price measured in Australian dollars rose **+9.5%** for the quarter and **+34.6%** over the past year.

As we have expressed before and discuss in more detail below, such widespread asset price growth comes with the accumulating risk of larger corrections. In line with our stated strategy, the gold price increase of **+12.6%** over July and August alone resulted in our trimming of the Fund bullion position back to 25% for the second time in three months. At the time of writing, the gold price has taken a breather and is down over 4 percent in Australian Dollar terms since our portfolio adjustment.

We can see above that 2019 has so far been very positive for most asset classes and an obvious question is how to protect these gains going forward. Most Australian investors have large allocations to the stock market and for a long time (when interest rates were less 'managed'), reducing the impact of significant equity market corrections was done by balancing with bonds. With bond yields so low globally, and following huge investment flows into bond funds over the past 12-months, we question whether this historic equity-debt relationship will hold up. On balance we believe that gold may prove to be a superior diversifier, particularly given its 'under-owned' status and higher price volatility (recall that a key assumption of the Cor Capital Fund is that combining uncorrelated but volatile assets can generate surprisingly positive portfolio outcomes).

Although bonds have maintained a negative correlation to Australian equity market corrections of late we would argue that gold bullion is more effective as the following chart shows:

Relative Returns



The bond market situation is interesting on another level; the benefits of compounding returns that come with reinvesting coupon payments, especially important for lower risk investments like bonds, simply don't materialize when yields are negative.

As you are aware, the Cor Capital Fund strategy does target both profit or risk reduction by regularly adjusting its gold position in response to price strength or weakness. However, its core strategic gold bullion positioning is always maintained and recently our friends at ABC Bullion in Sydney quoted the Dutch central bank's comments on why it holds gold reserves.

"Gold is the perfect piggy bank – it's the anchor of trust for the financial system. If the system collapses, the gold stock can serve as a basis to build it up again. Gold bolsters confidence in the stability of the central bank's balance sheet and creates a sense of security." – De Nederlandsche Bank

In addition to its long-term inflation protection qualities, the DNB's points are the essence of why we love having gold on the Cor Capital Fund balance sheet. It is amusing to us that many central banks stay very quiet when it comes to their growing gold reserves; why do you need insurance when you have everything under control, right?

A cursory glance at the Fund's 12-month results gives the impression of some performance leakage. We have previously discussed in detail that July through November of 2018 was challenging for our derivatives overlay. Since then the Fund has returned **+12.3%** net, with the overlay strategy having been patchy and detracting **1.7%** in performance, critically however we expect it to provide a material pay off when volatility spikes.

Cor Capital Fund

An example of this was seen recently when by the 16th of August volatility jumped and stocks were down -5.6% month-to-date, while at the same time the Fund was up +1.0%, giving a positive spread of +6.6% over the S&P/ASX200 (incl. dividends). By the end of August stocks recovered some ground and finished the month down -2.3%, with the Fund at +1.7% outperforming stocks by over +4.0%. This outperformance was attributable to the derivatives overlay as well as gold in AUD. It's also important to keep in mind that the derivatives overlay is not purely for insurance but is expected to also provide alpha (excess return) as seen in FY2017 and FY2018 (as well as gains in August and September this year).

There appears a growing trend of fixation on political events and their potential consequences. In our opinion, of greater importance are underlying economic fundamentals, and beyond simply the likelihood of a US recession. It's likely a recession is not priced into equity markets given that historical observations suggest they typically result from inflation, energy scarcity or war, and arguably none of these drivers are present. It may be the case that the US will avoid a recession for a while yet, nonetheless the economic trend does not appear favorable.

- Inflation – There's a tug-o-war as to whether inflation is low, or if in fact we have deflation, but we do not have inflation of the type that central banks are trying to dampen - given the sensitivities that became clear in late 2018.
- Energy Scarcity – The opposite is actually the case, especially given shale oil developments, which means lower systemic energy prices. However, there may be an artificial energy scarcity shock created as a function of climate change.
- War – there certainly is a US/China trade war, but all negotiating parties would benefit from a resolution (in China to continue their development journey and in the US to get re-elected). Hopefully it's just a function of time before this trade dispute is resolved, as opposed to the situation devolving into a cold war or worse.

In the medium-term this trade uncertainty has the potential to influence Australian investment portfolios in a material way. Despite high levels of government intervention, growth in Chinese industrial production has slowed to the lowest level in decades. Weakness in industrial commodity prices puts earnings at risk for many ASX listed companies and the Australian dollar may continue to come under pressure. Cor Capital Fund investors have a significant exposure to gold bullion which is partly an industrial metal.

However, it is gold's non-industrial attributes that mean its price holds up when other metal prices fall, leaving the benefits of a weaker local currency to flow to the Fund portfolio.



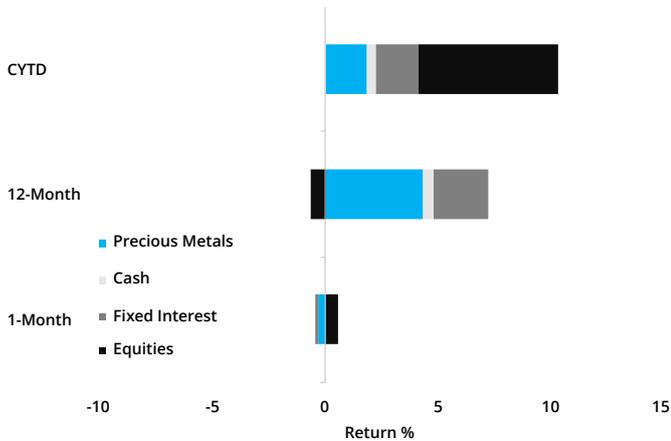
In more general terms, central bank actions continue to perpetuate asset price distortions. Public policy remains highly supportive of attempting to aid growth, even with the concerning and measurable impacts being dominated by higher asset prices and growing wealth gaps. Perhaps of greater interest is that central banking's actions continue to be in lock-step, their own view being that collective neo-monetary policies have proven to work. Labour markets appear relatively strong, so there's no urgency to deleverage, and consumption hasn't retracted. Meanwhile the economic cycle has apparently been extended relative to the past; corporate profits are satisfactory, household balance sheets are in better shape (globally not necessarily in Australia), and equity market valuations when compared to the bond market also appear attractive. So, the opportunity cost of being 'risk off' and investing conservatively is potentially too high. That's one view.

Another is that we can't ignore that US\$17 trillion of assets are currently locked into negative yields (unprecedented in centuries of bond market operations), that the economic data out of Europe and China is far less than satisfactory, that PMI numbers around the world are poor, that the US have guaranteed themselves expanding government debt well beyond 100% of GDP. And all of this is under the most accommodative monetary policies in history, that have barely moved the growth needle, yet may have created bubbles in certain areas perhaps the most glaring in global technology.

As long time Cor Capital investors know, we do not aim to solve for these questions in a binary way. However, the widening gap between economic reality and financial asset prices is of increasing concern to us, hence we believe that our role in portfolios is more important today than at any point in our seven-year history.

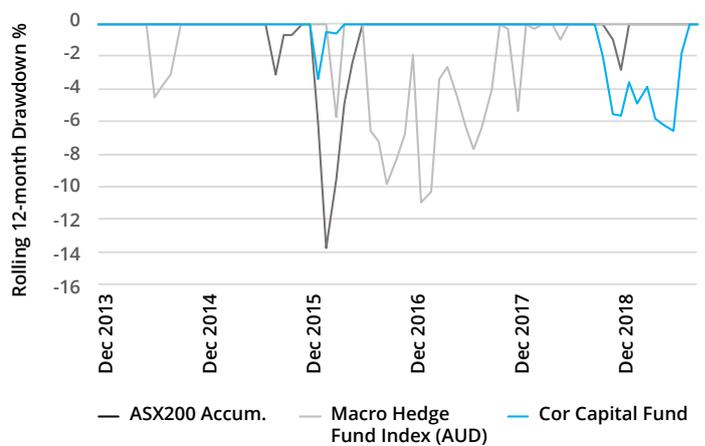
Cor Capital Fund

Attribution (gross of fees)



Attribution chart displays the contribution made by each asset class to the Total Return of the Fund over the relevant time period, as represented by the net of positive and negative contributions.

Drawdowns



Drawdowns chart compares 12-month rolling negative total returns, where applicable, for each Fund or index. Source: Bloomberg, Cor Capital

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	-6.05	Oct-18	-3.68	2.37
3	-5.48	Jan-16	0.43	5.91
4	-5.38	Sep-14	-1.03	4.35
5	-5.30	Jun-15	-2.29	3.02
6	-4.50	May-13	-0.28	4.23
7	-3.77	Mar-18	-0.92	2.85
8	-3.25	Nov-14	0.48	3.74
9	-3.03	Jan-14	0.92	3.95
10	-2.96	Sep-15	-0.66	2.29
11	-2.75	May-17	4.38	7.14
12	-2.45	Jun-16	1.45	3.91
13	-2.36	Aug-19	1.73	4.08
14	-2.32	Jun-13	-3.61	-1.29
15	-2.21	Nov-18	-2.31	-0.10
Total	-59.61		-5.71	53.90
Av.	-3.97		-0.38	3.59

Past Performance is not a reliable indicator of future performance.*
Source of performance: Bloomberg, Cor Capital

12-Month Return Correlations

Balanced 60/40	74.0%
Aus Fixed Interest	37.9%
Aus Equities	69.6%
Gbl Equities (AUD)	56.0%
Hedge Funds (AUD)	61.4%

Correlation measures the degree to which two strategies or indices move in relation to each other with 100% implying a perfect positive relationship.

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. 3-year Distribution Yield	5.9% p.a.

Cor Capital Fund

Monthly Performance History (net of fees)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CYTD
2019	0.46%	1.92%	0.17%	1.12%	-0.01%	2.42%	1.57%	1.73%	0.04%	-	-	-	9.79%
2018	-1.64%	3.31%	-0.92%	3.30%	0.29%	2.91%	-3.41%	-3.70%	-1.76%	-3.68%	-2.31%	2.25%	-5.62%
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%

Past Performance is not a reliable indicator of future performance.*

Source of performance: Cor Capital

Contact Us

T +61 3 9221 6255

E contact@corcapital.com.au

*Past Performance is not a reliable indicator of future performance. Net-of-fees performance is based on end-of-month redemption prices after the deduction of fees and expenses and the reinvestment of all distributions. Gross-of-fees performance is the net return with fees and expenses added back. Figures include changes in principal value. Investment return and principal value will vary, and an account may be worth more or less at termination than at inception. For further details, please refer to the fund's product disclosure statement and reference guide which are available from EQT or Cor Capital.

^Hedge Fund Research HFRX Macro/CTA Index

Disclaimer:

Important Information: This report ("Report") has been produced by Cor Capital Pty Ltd ("Cor Capital") ABN 37 155 801 817, AFSL 419924 and has been prepared for informational purposes only and does not constitute an offer to sell or a solicitation of an offer to purchase any security of financial product or service. Any such offer or solicitation shall be made only pursuant to a Product Disclosure Statement or other offer document (collectively "Offer Document") relating to a Cor Capital financial product or service. A copy of the relevant Offer Document relating to a Cor Capital product or service may be obtained by calling Cor Capital on 03 9225 5273 or by visiting www.corcapital.com.au. This Report does not constitute a part of any Offer Document issued by Cor Capital. Past performance is not necessarily indicative of future results and no person guarantees the performance of any Cor Capital financial product or service or the amount or timing of any return from it. This material has been provided for general information purposes and must not be construed as investment advice. Neither this Report nor any Offer Document issued by Cor Capital takes into account your investment objectives, financial situation and particular needs. In addition to carefully reading the relevant Offer Document issued by Cor Capital you should, before deciding whether to invest in a Cor Capital financial product or service, consider the appropriateness of investing or continuing to invest, having regards to your own objectives, financial situation or needs. Cor Capital strongly recommends that you obtain independent financial, legal and taxation advice before deciding whether to invest in a Cor Capital financial product or service. The information contained in this Report may not be reproduced, used or disclosed, in whole or in part, without prior written consent of Cor Capital.

Equity Trustees Limited ("Equity Trustees") (ABN 46 004 031 298), AFSL 240975, is the Responsible Entity for the Cor Capital Fund. Equity Trustees is a subsidiary of EQT Holdings Limited (ABN 22 607 797 615), a publicly listed company on the Australian Securities Exchange (ASX: EQT) and is the Responsible Entity. This Monthly Report and Fact Sheet has been prepared by Cor Capital Pty Ltd ("Cor Capital") (ABN 37 155 801 817, AFSL 419924), to provide you with general information only. In preparing this Monthly Report and Fact Sheet, we did not take into account the investment objectives, financial situation or particular needs of any particular person. It is not intended to take the place of professional advice and you should not take action on specific issues in reliance on this information. Neither Cor Capital, Equity Trustees nor any of its related parties, their employees or directors, provide and warranty of accuracy or reliability in relation to such information or accepts any liability to any person who relies on it. Past performance should not be taken as an indicator of future performance. You should obtain a copy of the Product Disclosure Statement before making a decision about whether to invest in this product.