Wheelhouse Global Equity Income Fund

Monthly performance update

As at 30 September 2020 – Wholesale investors only

Performance

	1 month	3 months	6 months	1 year	3 years p.a.	Since inception p.a.
Income	1.99%	1.95%	3.79%	6.63%	7.69%	7.27%
Growth	0.25%	(1.81%)	(4.20%)	(4.61%)	1.27%	0.22%
Total Fund return	**2.24%**	**0.14%**	**(0.41%)**	**2.03%**	**8.96%**	**7.49%**
Benchmark*	**(0.31%)**	**3.78%**	**9.94%**	**4.30%**	**11.21%**	**9.94%**
Risk (Beta)**				0.33	0.49	0.59

Performance figures are net of fees and expenses. Past performance is not indicative of future performance. Inception date is 26 May 2017.

*Benchmark is the MSCI World ex Australia Index. **Risk is defined as Beta and sourced from Morningstar Direct. A Beta of 1.00 represents equivalent risk to the Benchmark. A minimum of 12 months data is required for this calculation.

Currency impact

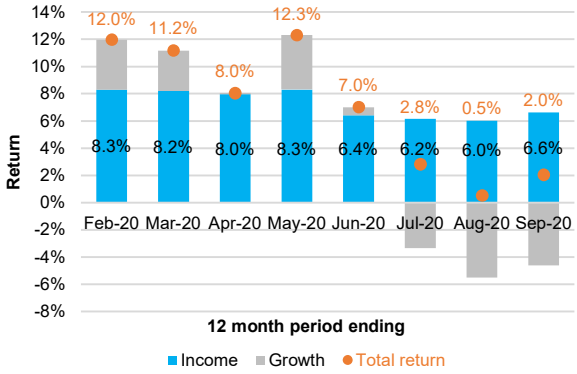
	1m	3m	1y	3y
Fund return	**2.2%**	**0.1%**	**2.0%**	**9.0%**
USD impact	3.1%	(4.2%)	(6.4%)	3.3%
USD return	**(0.9%)**	**4.3%**	**8.4%**	**5.7%**
USD benchmark	(3.4%)	8.0%	10.8%	7.9%
USD capture	*27%*	*53%*	*78%*	*72%*

Source: Wheelhouse

Income and protection

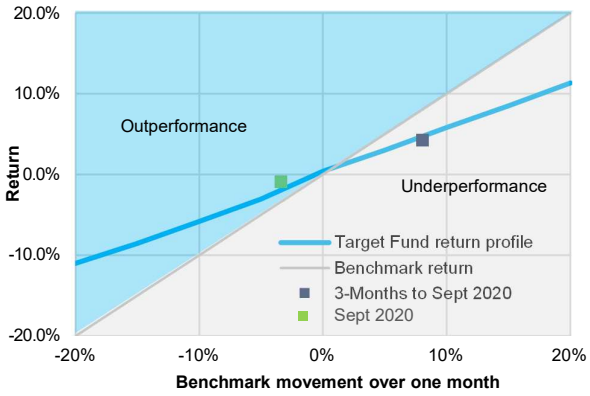
The strategy's high-income generation and active tail risk program are designed to lower risk and deliver equity returns with a smoother, more retiree-friendly return profile. As a result, returns are expected to add relative value in weak and low-growth markets, and to drag in more positive markets. We assess this return profile in USD to strip out the influence of the AUD/USD currency movements.

Income vs total return (12 month rolling)



Source: Wheelhouse

Targeted monthly return profile



Wheelhouse is a retirement solution designed to deliver better investment outcomes to Australian retirees. Our philosophy is based on three pillars:

- investing in global equities as a **growth asset** to address longevity risk;
- shaping returns to be **retiree-friendly** with lower volatility, better capital preservation and consistent income; and
- delivering a **lower cost** solution to help improve outcomes.

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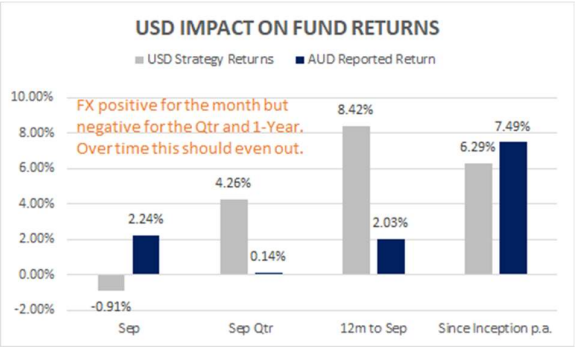
Currency Effect

The fund returned 0.14% for the September quarter, with reported returns negatively impacted by a material strengthening of the Australian dollar. FX movements can be material over the short-term but over the longer-term currencies are typically mean reverting and are not expected to have a material positive or negative impact on returns. This year serves as a rather extreme example but helps illustrate the point.



Source: Wheelhouse. Post-fee returns.

For example in September the impact was 3.1% positive, but for the 12 months to September the impact was 6.4% negative. Over the longer-term, we expect the currency impact to even out (as is occurring in our longer term (since inception) returns).

Historically being unhedged on currency has proven defensive for Australian investors during periods of market stress. We believe this is a valuable characteristic in terms of preserving the capital base during these periods and thus supporting income generation, particularly when other asset classes may be compromised. For this reason we are comfortable accepting some FX volatility over the short-term.

To better understand the impact of currency on our returns we have included a Currency Impact table on page 1 of our performance report and will continue to do so going forward.

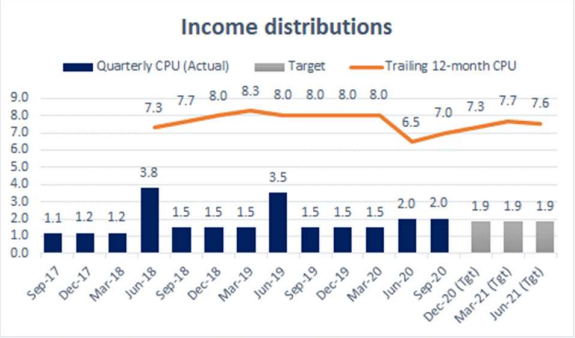
Relative returns

Due to the Fund taking lower risk than typical long-only equity funds, we do expect short-term underperformance during stronger markets in exchange for preserving capital much better during periods of market weakness. Across a full cycle, we expect the underperformance and outperformance to balance out and generate a return similar to equities.

These characteristics were evident again in September (a weaker month) with the Fund posting strong outperformance versus the benchmark.

Income Generation

The Fund distributed 2.0c per unit for the September quarter with underlying market conditions remaining favourable for income generation.

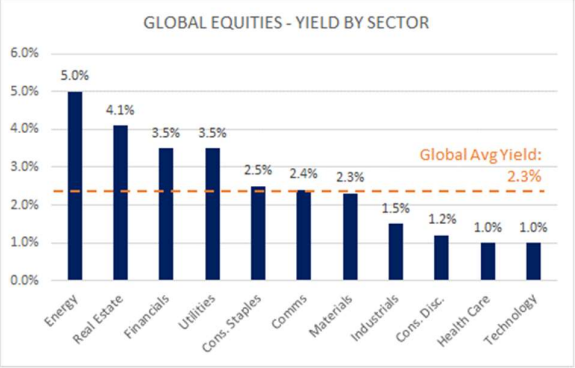


Source: Wheelhouse. Targeted distributions are illustrative only.

Investors may notice a slight change to the distribution approach whereby distribution payments will be more uniform across all four quarterly distribution dates. Previously the distribution payments were skewed towards the June quarter. There is no change to the Fund's objective of 7-8% annual yield.

An important differentiator of our investment approach is that most of our income return is sourced from the receipt of option premium, with only a small component (~1.5% annually) sourced from dividend income.

By removing the focus on companies paying high dividend yields, the portfolio can be far more balanced and diversified than if dividends were the primary source of income return. Many traditional income-seeking global portfolio exposures exhibit high sector concentrations across the Energy, Real Estate, Financials and Utilities sectors, many of which are highly sensitive to movements in interest rates.



Source: Wheelhouse, Bloomberg.

As the chart below highlights, the Fund sector weightings are almost the complete opposite to the typical high-yield

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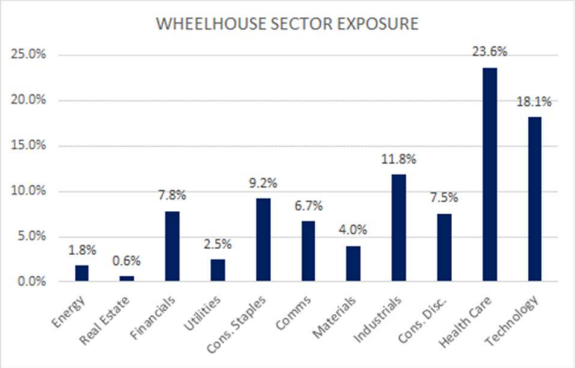
sectors, with sector exposures far more representative of the broader market and thus economy.



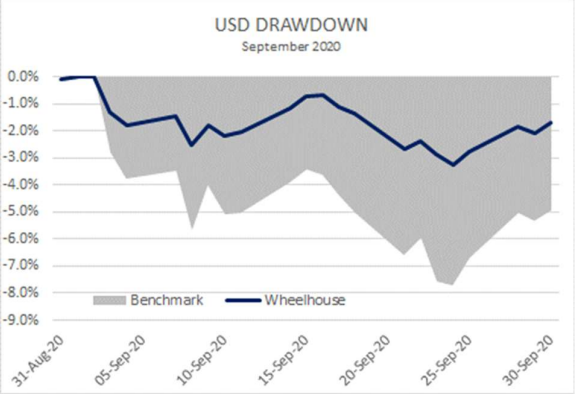
Source: Wheelhouse. Gross exposures as at 30 September 2020.

By having a more balanced and fully diversified portfolio exposure, with far less reliance on dividend yields for income, both total returns and income generation are sourced more broadly with less risk of surprises (positive or negative).

Capital preservation

Since the Covid pandemic hit markets in February and March there has been little opportunity for defensive strategies to demonstrate their capital preservation qualities.

September provided such an opportunity and we highlight the drawdown performance of the Fund in USD, which translated into meaningful capital preservation.



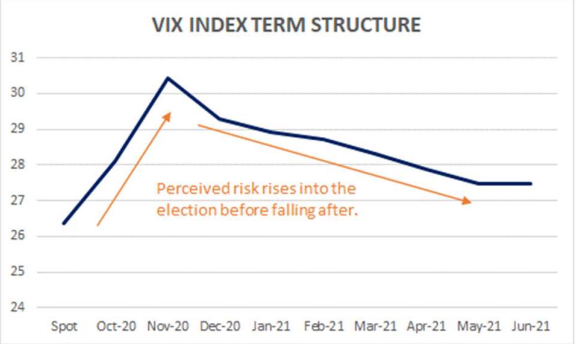
Source: Wheelhouse. USD strategy pre fee returns illustrated.

In percentage terms the Fund participated in 27% of the market decline for the month, a small fraction of the total portfolio exposure that was otherwise invested in the pursuit of income generation.

Outlook

In the near-term, markets are clearly very focused on the perceived risk of the US Federal election in early November and the broad range of potential outcomes.

This perception of risk is well captured in the options market, which is forward looking by design and attempts to put a price on this uncertainty. Future implied volatility levels are reflected in the term structure, which illustrates the levels of anticipated market risk at given points in the future.



Source: Wheelhouse, Bloomberg. As of 9 October 2020.

The VIX term structure above exhibits a kink which is unusual as volatility over time usually trends back towards its mean (which can be upward sloping or downward sloping). The kinked profile clearly highlights the event-risk of the US election being priced by the market.

Another interesting learning from the options market can be inferred from the put / call ratio. This is the ratio of the number of puts versus the number of calls held by market participants. The ratio is currently quite low by historical standards and when coupled with a rise in option volatility, this implies that the market is better positioned for a market rally than a market sell-off. Investors actually seem under-hedged relative to previous elections, which we believe is mostly due to the high absolute level of volatility that has been present in recent months, particularly during September, which has made buying protection expensive.

This bullish view on the election result is gaining traction in the polls which point to a more decisive outcome, particularly one where the Democrats win all three elections (Presidency, Senate and House) and thus are able to effect decisive policy action and economic stimulus.

We believe that whether the Democrats or the Republicans win is a relatively mute point in the longer term compared the decisiveness of the victory. A close election would most likely increase uncertainty in the

markets whereas a clear winner would be able to swiftly implement their trillion dollar stimulus packages.

The Federal Reserve has made it clear that they have done their part in supporting the economy via very accommodative monetary policy and expressed that this is now is the time for government to play their role in the form of fiscal stimulus. We view this as the Fed recognising the limits of monetary policy, plus acknowledging some risk of contested election results or a disorderly transition of power in the immediate aftermath. There could still be some major bumps in the road before we make it to 2021.

While mega stimulus packages are good reasons for the market to buy, the disconnect with fundamentals remains and markets still appear to be pricing a smooth return to business as usual, from both an unemployment and a Coronavirus perspective.

Through maintaining full exposure to equity markets across all regions and sectors, but by targeting an income stream to deliver returns and preserve the capital base, we remain confident we'll deliver on our objectives without having to place bets on winners or losers. 'Winning by not losing' seems the safest bet to us.

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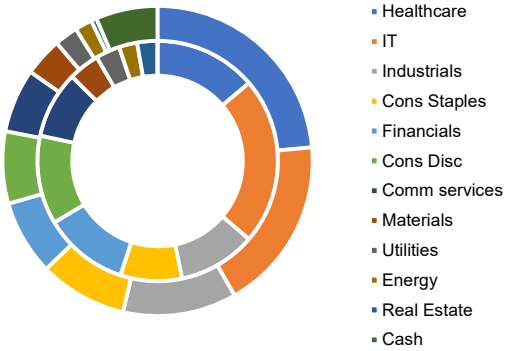
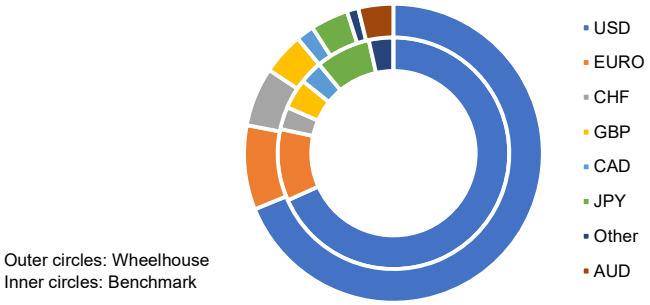
Sector exposure



Currency exposure



Contributors	Detractors
Nabtesco	Julius Baer Gruppe
Nike	Salesforce.com
Yaskawa Electric	Safran
Compass Minerals	Kellogg
Comcast	Western Union

How to invest

The Fund is open to investors directly via the PDS, available on our website, or the following platforms.

Platforms
Hub24 (Super, IDPS), Netwealth (Super, Wrap, IDPS), Powerwrap (IDPS), Praemium (IDPS), Wealth02 (IDPS).

Contact us

For more information, call (07) 3041 4224 or visit www.wheelhouse-partners.com

Fund at a glance	
APIR Code	BFL3446AU
Benchmark	MSCI World Index (ex-Australia)
Stock range	50 to 100 stocks
Buy/sell	+/- 0.30%
Cash limit	0-10%
Recommended investment period	Medium to longer term (five years plus)
Investment amount	Initial investment minimum: $10,000
Fees and charges	0.79% p.a. (including GST net of reduced input tax credits) of the NAV of the Fund. There is no performance fee.
Inception date	26 May 2017

Note returns are expressed in AUD unless USD is specified, and are net of fees and expenses unless specified as gross.