Fitzpatricks
Private Wealth

FITZPATRICKS
MDA RISK TARGETED PORTFOLIOS

Monthly Report, August 2017

PERFORMANCE

AS AT 31 AUGUST 2017	Performance								Volatility	Sharpe Ratio	Inception
	1 Month	3 Months	6 Months	1 Year	2 Years p.a.	3 Years p.a.	5 Years p.a.	Since Inception	Since Inception	Since Inception	Date
Risk Targeted Moderately Conservative Portfolio	0.2%	0.0%	1.5%	1.7%	2.5%	3.6%	5.7%	7.2%	3.1%	1.0	30/09/02
Risk Targeted Balanced Portfolio	0.4%	-0.5%	2.5%	2.9%	3.4%	5.6%	8.2%	9.0%	4.5%	1.1	30/09/02
Risk Targeted Growth Portfolio	0.5%	-0.9%	3.0%	3.6%	3.8%	6.3%	9.2%	10.3%	5.5%	1.1	30/09/02
Risk Targeted High Growth Portfolio	0.5%	-0.9%	3.1%	3.7%	3.9%	6.5%	9.4%	11.4%	6.3%	1.2	30/09/02
RBA Cash Rate	0.1%	0.4%	0.7%	1.5%	1.7%	1.9%	2.2%	4.1%	0.5%	0.0	30/09/02
50-50 Australian Equity and Cash	0.4%	0.6%	1.6%	5.6%	5.7%	3.7%	6.5%	6.8%	6.4%	0.4	30/09/02
Australian Equities	0.7%	0.9%	2.4%	9.8%	9.5%	5.1%	10.6%	9.2%	12.8%	0.4	30/09/02
Australian Small Cap Equities	2.7%	5.1%	5.4%	3.2%	14.3%	5.7%	5.7%	6.9%	17.3%	0.2	30/09/02
Australian Listed Property Trusts	1.5%	-3.2%	-1.0%	-6.7%	8.4%	10.3%	13.3%	5.8%	16.5%	0.1	30/09/02
International Equities ($A)	0.8%	-3.5%	4.6%	10.1%	5.2%	12.1%	17.4%	6.1%	11.4%	0.2	30/09/02
International Equities (Local)	0.1%	1.6%	5.4%	15.6%	10.9%	7.8%	12.8%	8.4%	13.2%	0.3	30/09/02
Australian Fixed Interest	0.0%	-0.7%	1.7%	-0.7%	2.7%	3.9%	4.2%	5.7%	2.8%	0.6	30/09/02
Gold	4.1%	4.1%	6.3%	1.0%	7.9%	0.9%	-4.8%	9.9%	18.0%	0.3	30/09/02
Morningstar Multisector Conservative	0.3%	0.1%	1.5%	1.3%	2.9%	3.1%	4.3%	4.9%	2.3%	0.3	30/09/02
Morningstar Multisector Moderate	0.4%	-0.1%	2.0%	2.5%	3.5%	3.6%	5.4%	5.3%	3.5%	0.3	30/09/02
Morningstar Multisector Balanced	0.5%	0.0%	2.4%	4.8%	4.8%	4.9%	7.4%	6.1%	5.6%	0.4	30/09/02
Morningstar Multisector Growth	0.6%	-0.1%	3.0%	6.1%	5.7%	5.4%	8.8%	6.5%	7.5%	0.3	30/09/02
Morningstar Multisector Aggressive	0.7%	-0.2%	3.7%	8.4%	7.3%	7.1%	11.1%	7.0%	9.6%	0.3	30/09/02

Source: Fitzpatricks, Iress. Performance from 30 September 2002 to 31 August 2017. Performance is net of investment management fees, does not deduct portfolio administration fees and assumes reinvestment of all distributions. Inception was 30 September 2002. Performance is based on Fitzpatricks model accounts and will differ between the four risk profiles – individual client portfolio performance may be different from the results above. Market indices represent performance of; The RBA Cash rate, 50% split between The RBA Cash rate and S&P ASX 200 Accumulation Index, S&P ASX 200 Accumulation Index, S&P ASX Small Ordinaries Accumulation Index, S&P ASX 300 Listed Property Accumulation Index, MSCI World ex-Australia net $A and Local Currency, Bloomberg AusBond Composite Bond Index and the US Spot Gold price. Past performance is not a reliable indicator of future performance.

MARKET COMMENTARY

August saw a continued drift higher in major equity markets, despite the risks associated with North Korea and the approaching US debt ceiling deadline. Major bond markets saw yields decline with curves flattening, and credit markets were mixed with the Australian Investment Grade market being the outperformer and US High Yield widening appreciably in contrast. The Australian dollar fell slightly against the US dollar although remains elevated above 0.79 US cents, and whilst volatility spiked sharply during the month, by month end market expectations for US equity volatility had fallen to slightly above 10 (very low in an historical context).

Equity markets were again higher during the month, with the two key drivers being Materials and Information Technology. The strong performance of commodity markets during August (reflecting a mix of stronger global growth and a weakening US dollar) was a key reason for the outperformance of the Australian equity market over other major equity markets. Within the ASX 200, Resources outperformed significantly, rising 5.7% for the month and was also a driver of strong performance for certain Emerging Markets (notably Brazil). Offsetting the ASX 200 gains attributable to Resources were the Banks, with the sector falling 2.5% over the month, led by CBA as a result of allegations raised by AUSTRAC.

Overall, the Australian earnings season was mixed, with Resources earnings growth the highlight, and the market (excluding Resources) earnings remaining subdued, evidenced by muted sales data and a focus on cost containment. There were a number of company specific surprises including a large cut to the Telstra dividend and company outlook statements were generally softer than had been expected. In aggregate, there were small reductions to earnings looking into FY18, reflective of the broader economic malaise in Australia and impacts such as the rise in the Australian dollar which is a negative for domestic exporting companies. In offshore markets, the Information Technology sector continued its strong run, with this sector experiencing the largest sector gain in the US market, rising 3.3% for the month to be up almost 27% year to date. European equities fell slightly during the month mainly due to small declines in Germany (-0.5%) and France (-0.2%). The UK market gained 1.7% for the month driven by the large diversified miners.

Credit markets were mixed during August, although Australian Investment Grade credit performed well, with the widely watched 5 year Credit Default Swap Index tightening more than 6 basis points (bps) over the month, leaving it 30 bps tighter since the start of 2017. This year to date move is significantly more than what has been seen in the US Investment Grade market (~10bps tighter), and Europe (~18bps tighter). The European market in particular has been distorted by ongoing purchases by the European Central Bank under its Corporate Sector Purchase Program, which competes with private sector buyers of corporate debt. The US High Yield market has seen negative excess returns (over government debt) on a year to date basis, as spreads have widened and the effect has been particularly pronounced in the Retail sector. The Retail sector has been under pressure as fears grow around Amazon and what on-line shopping means for "bricks and mortar" retailers.

MARKET COMMENTARY CONT.

Bond markets saw yields tend to decline in a flattening move. The exception again was Australia, where yields rose over the month. As is usually the case, bond markets looked to the US Treasury market to provide a lead. 10-yr US Treasury yields fell to their lowest levels since the immediate aftermath of the November US election, declining 18bps to 2.12% at the end of the month. Shorter dated bond yields also declined, with 3-yr debt falling 8bps. There were a range of drivers of lower yields, including North Korea, the US debt ceiling deadline where a potential breach of the limit, and even a technical default on one of the October treasury bills, is seen as further reason to buy bonds. Speculation around a replacement for Janet Yellen as Chairman of the Federal Reserve has seen the market focus narrow on Gary Cohn, who is felt to be a dovish replacement, and yet again weak inflation readings have conspired to lead US bond yields lower. German bund yields fell by a broadly similar quantum, leaving the 10-yr bund at 0.36% at the end of the month, with most of the curve remaining at negative yields. Australian Government Bonds on the other hand rose slightly in yield as there was more optimism around the Australian economy, partly as commodity prices rose and Chinese data was firmer than expected. However, a key driver was at the last day of the month when the Capital Expenditure Survey was released; following the end of the commodity boom, this survey has painted a very weak picture of capital expenditure intentions, however, the second quarter survey was significantly stronger than expected and saw yields move into positive territory for the month. The market closed out August with a better than 50% chance of a 25bps hike by the Reserve Bank of Australia (RBA) over the coming 12 months.

With markets pricing some chance of a move by the RBA, and pricing almost no tightening for the US Federal Reserve (the market priced less than 100% certainty of one US rate hike over the next 12 months), foreign exchange markets continued to push the US dollar lower. The Australian dollar has risen over 6% against the US dollar over the past 3 months, highlighting the issue the RBA faces whereby higher rates lead to a stronger currency, which will eventually pressure exports. However, the standout in terms of currencies has been the Euro, and as the data continues to improve, the market is increasingly positioned for further Euro strength (which may be a headwind in the near term).

PORTFOLIO COMMENTARY

Most investment markets delivered a modest positive or a modest negative return for the month of August as solid company profit growth numbers in the US and Australia battled against the impact of geopolitical tensions arising from North Korea. The Portfolios' diversifying features enabled positive returns for the month with the largest contribution coming from International equities. The Australian dollar which had rallied hard in July gave back some of the prior month's appreciation and was also a solid contributor benefiting our holdings of unhedged offshore assets.

More recently, we have started to see higher levels of volatility and sectoral rotation within risk asset classes albeit with overall headline asset levels remaining supported. This is a result of generally positive economic data releases and ongoing healthy levels of corporate profitability across most markets balanced with heightened levels of geopolitical uncertainty and valuation levels sitting above long run averages. The Portfolios currently have a defensive tilt reflecting our view that the major asset classes on a global basis are not cheap and are generally trading above long run historical valuation levels, despite the impact of lower interest rates which positively influence the pricing of assets (such as equities and bonds). This is reflected in the higher cash levels within the Portfolios which we see as appropriate based on our views of valuations and expected future returns which are below historical averages. However, in the event we see markets move downwards and begin to offer greater value, we would realise the value of holding cash as volatility increases and look to actively capitalise on any weakness via increasing our risk weightings, as we expect any pullback to be short term in nature and not an extended bear market driven by an economic recession.

Looking across the asset class components equity markets had mixed results during the month in local currencies. In Australia the all-important Australian company reporting season dominated news flow and market moves throughout August with the S&P/ASX 200 Accumulation Index recording a gain of 0.71%. It was a mixed report card for Australian company profits and in our view, the reporting season was marginally disappointing both in terms of profit results delivered, but more so due to a range of softer than expected outlook statements and company guidance into FY18. The growth drivers for FY17 were quite varied with Resource and Mining companies reporting strong results after rebounding from a low base in the previous year, and non-resource companies reporting low levels of growth including many of our largest companies such as Telstra, Woolworths and the large banks. International equity markets had mixed results in local currencies with the US S&P 500 (+0.3%) posting a modest positive gain, Japan (-1.3%) and MSCI Europe (-0.8%) delivering losses and MSCI Emerging Markets rally +2.1. Australian dollar returns for International equities were assisted by a 0.7% fall in the Australian dollar, in part reversing the strong appreciation of the previous month.

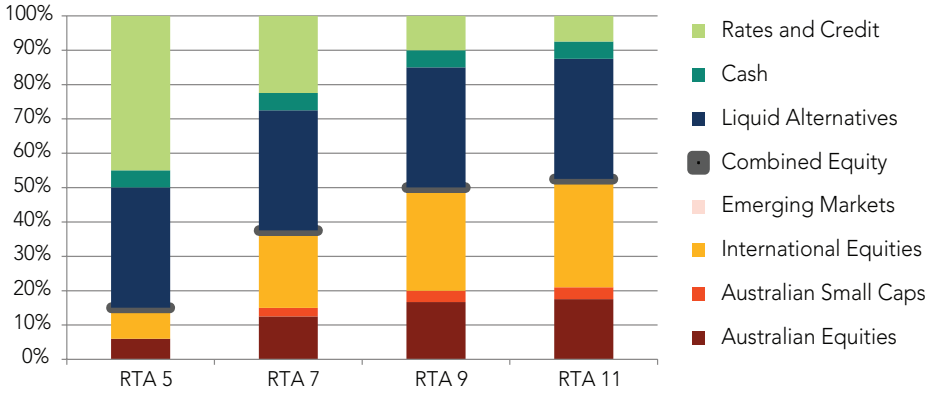
PORTFOLIO COMMENTARY CONT.

We expect the Australian dollar likely to remain supported in the near term as commodity prices remain elevated, however, we expect this commodity impact to begin to fade in later 2017. Pleasingly, all of our international managers delivered encouraging results in August. Our allocation to the Magellan Global Equities Mandate returned 1.96%, as large positons in well performing US Technology stocks supported performance. Our allocations to Northcape Global Emerging Markets and Antipodes Global Fund – Long Only delivered 2.93% and 1.06% respectively which were well supported by buoyant Emerging Market returns which strongly outperformed Developed Markets.

The Alternatives allocation within the Portfolios was relatively flat for the month as volatility returned to global markets in August largely thanks to a mid-month spike in geopolitical tensions. The US dollar however, typically a beneficiary of such "flight to quality" conditions, continued to slide against most major currencies with the weakness proving a mixed blessing for the Alternatives Portfolio in August. Asian based macro manager Alphadyne continued to benefit from holding the Chinese Yuan, whilst the P/E Global FX Alpha Fund again suffered from holding US dollar positions against the Euro and Japanese Yen. Our trend following managers were able to take advantage of moves higher in bond prices thanks to tepid inflation data, a dovish US Federal Reserve and the aforementioned geopolitical tensions that kept bonds well supported in August. The Bennelong Long Short Equity Mandate had a difficult Australian earnings season, getting caught on the wrong side of some volatile stock moves. Positions in BlueScope Steel Limited which had been one leg of their best performing pairs over the last 3 years proved to be the biggest detractor. In comparison, the Tasman Market Neutral Fund fared much better, assisted by fundamentally strong results in the Healthcare sector, specifically a long exposure to aged care provider Estia Health.

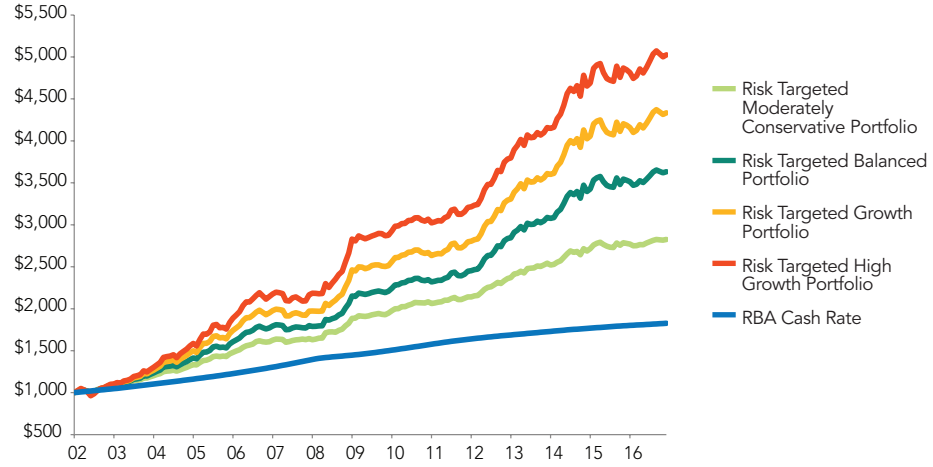
The Fixed Income allocation of the Portfolios returned 0.22% for August, with positive contributions from all underlying investments with the exception of the JP Morgan Global Strategic Bond Fund which detracted from performance in August. Following an extensive due diligence process, an allocation to the Daintree Core Income Trust managed by Daintree Capital was added as a new exposure to the Portfolios.

We believe the Portfolios remain appropriately positioned in the current market environment of elevated risk asset valuations and geopolitical tensions with a defensive tilt to current allocations. If we are right and markets move lower in an effort to re-establish a greater degree of value from current levels, the Portfolios would benefit as we actively reallocate risk given we expect any pullback to be temporary and opportunistic in nature and not reflective of recessionary bear market conditions. The Portfolios remain well diversified and positioned to achieve their portfolio objectives, and we expect would benefit further from greater levels of volatility in investment markets as the benefit of holding higher cash levels provides us with greater flexibility to take advantage of mispricing in varying market conditions.



Source: Fitzpatricks, Iress. Asset allocation as at 31 August 2017.

PERFORMANCE CHART



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AS AT 31 AUGUST 2017	Manager Historical Performance				
	1 Month %	3 Months %	6 Months %	1 Year %	3 Years % p.a.
PRESERVERS					
CASH					
Cash	0.1%	0.4%	0.7%	1.5%	1.9%
RATES AND CREDIT					
Atrium Enhanced Fixed Income Fund	0.2%	0.7%	1.5%	2.7%	-
GROWTH					
EQUITIES - AUSTRALIAN					
Atrium Equity Opportunities Fund	-0.6%	-1.1%	0.6%	4.1%	-
Bennelong ex-20 Australian Equity Fund	2.9%	1.8%	8.8%	1.8%	13.0%
SGH ICE Fund	1.4%	2.1%	7.4%	-0.3%	8.6%
EQUITIES - INTERNATIONAL					
Magellan Global Equities Mandate	2.0%	-3.7%	6.4%	10.7%	14.6%
Antipodes Global Fund - Long Only	1.1%	-0.4%	11.9%	17.4%	-
Northcape Capital Global Emerging Markets Fund	2.9%	-1.5%	14.3%	8.0%	11.2%
DIVERSIFIERS					
LIQUID ALTERNATIVES AND PRIVATE MARKETS					
Atrium Alternatives Fund	0.1%	-0.1%	0.1%	-2.3%	-
Crown Atrium Segregated Portfolio (USD)	1.6%	-0.4%	-2.6%	-3.8%	-
Bennelong Long Short Equity Mandate	-6.6%	-6.7%	0.5%	-0.7%	8.0%
Regal Tasman Market Neutral Fund	2.1%	6.5%	4.9%	-9.2%	-0.2%
P/E Global FX Alpha Fund	-1.9%	-6.0%	-	-	-
GMO Global Systematic Macro Fund	0.5%	0.4%	2.7%	1.7%	5.6%
Henderson Alphagen Long Short Agriculture Fund	0.3%	1.9%	2.9%	2.6%	4.4%
Henderson Alphagen Relative Value Agriculture Fund	-0.6%	0.5%	0.8%	0.5%	5.8%
Core Commercial Property Assets					
Barwon Healthcare Property Fund	1.8%	4.3%	5.3%	11.1%	9.4%
Primewest Diversified Income Trust	2.5%	9.5%	11.9%	-	-
APN Regional Property Fund	0.0%	5.6%	5.9%	15.8%	24.1%
Value Add Property Assets					
Exchange Tower Trust	-1.7%	1.4%	1.1%	23.5%	-
Opportunistic Equity Assets					
Woolloomooloo Investment Trust	-1.7%	0.0%	2.7%	-0.4%	7.9%
Albion Investment Trust	-9.9%	-9.9%	-9.9%	-9.9%	-
Barwon Childcare Property Fund	1.4%	4.4%	9.5%	19.6%	-
Private Debt					
Dickson Trust	1.3%	3.8%	4.8%	-	-
Bankstown Trust 2	1.8%	4.9%	-	-	-
Caringbah Trust	1.8%	2.7%	-	-	-
Greenwood Trust	2.2%	-0.7%	-	-	-
Throsby Trust	1.9%	-	-	-	-
Essential Secured Notes	0.7%	1.5%	-	-	-
Smarter Money Active Cash	0.2%	0.7%	1.3%	3.2%	3.2%
Liquidity	0.1%	0.4%	0.7%	1.5%	1.9%

Source: Atrium and External Investment Manager / Administrator websites or reports. Performance to 31 August 2017. Performance is net of investment management fees, does not deduct portfolio administration fees and assumes reinvestment of all distributions. Holdings within the Atrium Alternatives Fund are given on a look through basis, individual clients will not hold these funds directly. Past performance is not a reliable indicator of future performance. The Magellan Global Equities Mandate is a separately managed portfolio managed by Magellan Asset Management Limited in a manner consistent with the Magellan Global Fund. The Bennelong Long Short Equity Mandate is a separately managed portfolio managed by Bennelong Long Short Equity Management Pty Ltd in a manner consistent with the Bennelong Long Short Equity Fund.

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Performance figures relate to the model portfolios offered by Fitzpatricks, with investment management implemented by underlying investment managers selected by Fitzpatricks. The details of each model portfolio may change and you should keep this fluidity in mind when considering figures. Actual performance will differ among clients depending on the timing of their investment, the ability of an investor to nominate stocks they do or do not wish to hold and the level of variation from the models. Performance is net of investment management fees, does not deduct portfolio administration fees and assumes reinvestment of all distributions. They do not take into account inflation or tax or adviser fees.