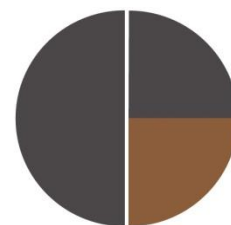


# QUARTERLY NEWSLETTER: DECEMBER 2018



**POLITIS**  
INVESTMENT STRATEGIES

## Market Update

### Market Movements

Data	31-Dec-18	Qtrly Change	FYTD Change
S&P ASX 200	5,646	-9.0%	-8.8%
Dow Jones Industrial Average	23,327	-11.8%	-3.9%
S&P 500	2,507	-14.0%	-7.8%
NASDAQ	6,635	-17.5%	-11.7%
STOXX Europe 600	338	-11.9%	-11.1%
Japan Nikkei 225	20,015	-17.0%	-10.3%
VIX Index (Volatility)	25.42	109.7%	58.0%
AUD/USD Exchange Rate	0.7040	-2.7%	-4.7%
AUD/EUR Exchange Rate	0.6158	-1.1%	-2.7%
AUD/GBP Exchange Rate	0.5528	-0.4%	-1.2%
Australian 10 Year Gov't Bond Yield	2.32%	-34.6 bps	-31.6 bps
US 10 Year Gov't Bond Yield	2.68%	-36.9 bps	-16.7 bps
Gold Price (Spot)	1,278.30	7.3%	2.2%
Crude Oil Brent Price (Spot)	53.80	-35.0%	-32.3%

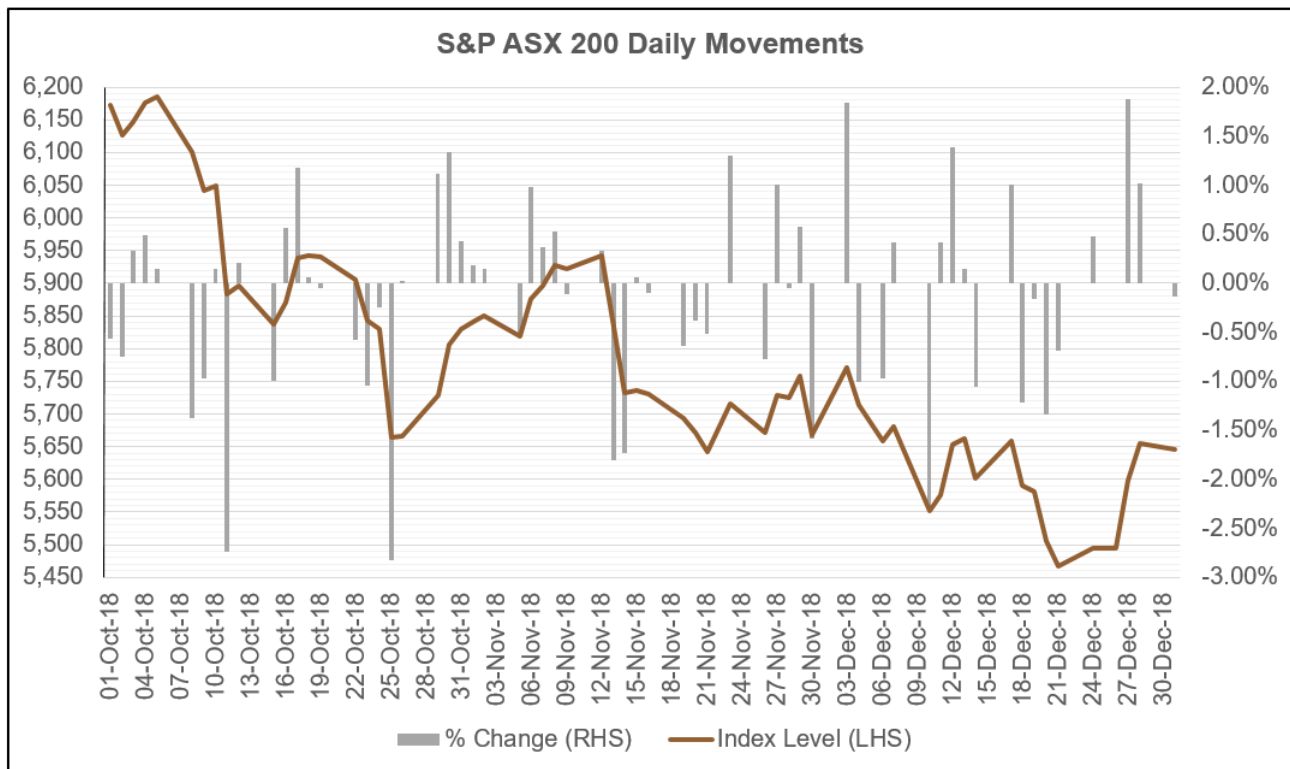
Source: FactSet

### Australian Market Sector Performance (S&P ASX 200)

Sector	Qtrly Change	FYTD Change
Property	-3.6%	-2.4%
Utilities	-4.1%	-9.6%
Materials	-5.0%	-7.7%
Consumer Staples	-6.5%	-8.5%
Industrials	-6.8%	-3.6%
Health Care	-8.2%	-5.0%
Financials Ex A-REIT	-9.2%	-10.5%
Information Technology	-14.0%	-5.5%
Consumer Discretionary	-14.5%	-14.5%
Communication Services	-14.8%	4.5%
Energy	-21.3%	-19.2%

Source: FactSet

## Australian Market Daily Performance



Source: FactSet

## December Quarter 2018 Commentary

The Australian market finished the quarter down 9.0%, with Property (-3.6%) and Utilities (-4.1%) outperforming while Energy (-21.3%) and Communication Services (-14.8%) underperformed.

The broad US market indices finished the quarter lower, with the Dow Jones Industrial Average down 11.8% and the S&P 500 down 14.0%. The technology-heavy NASDAQ finished the quarter down 17.5%. European markets finished the quarter down 11.9%.

The Chicago Board Options Exchange (CBOE) Market Volatility Index (VIX), commonly referred to as the fear index, rose over 100% during the quarter as global markets fell.

The Australian Dollar (AUD) fell 2.7% against the US Dollar (USD) to 0.7040 for the quarter.

The US 10 year Government bond yield fell 36.9 basis points (bps) to 2.68%, and the Australian 10 year Government bond yield fell 34.6 basis points (bps) to 2.32% during the quarter. These bonds influence lending rates in the global economy and provide an indication of future inflation expectations.

The gold price rose 7.3% to US \$1,278.30 and the oil (Brent) price fell 35.0% to US \$53.80 during the quarter.

## Our Market View

Portfolio returns were impacted by volatility in global equity markets during the December 2018 quarter.

Rising interest rates in the US, aggressive foreign trade policy by the Trump administration and a forecast reduction in the pace of global economic growth triggered profit taking following a period of strong growth in global equity markets.

The Australian equity market (S&P ASX 200) peaked at 6,352.20 on 29 August and bottomed at 5,467.60 on 21 December. At the time of writing the index was trading at 5,873.00.

Peak to trough, the Australian market fell 13.9% and has since recovered by 7.4% (to be down 7.5% from the August peak).

Global equity markets have observed a similar pattern. The S&P 500 in the United States peaked at 2,930.75 on 20 September and bottomed at 2,351.10 on 24 December. At the time of writing the index was trading at 2,640.00.

Peak to trough, the S&P 500 fell 19.8% and has since recovered by 12.3% (to be down 9.9% from the September peak).

We view the recent fall in global equity markets as a pullback rather than the start of a bear market. As such, we do not expect global equity markets to continue falling, however we do expect volatility to continue in 2019.

We expect global equity markets to move sideways to slightly higher during the next 12 months.

This is because the global economy continues to grow and there are few signs that suggest this trend will reverse. The warning signs of rapid inflation, stalling growth or financial crisis remain absent.

We remain comfortable with current conditions and are actively looking for opportunities to acquire quality investments at attractive prices, and when required, sell investments where the earnings outlook has deteriorated.

However, we will continue to closely monitor global economic, political, and equity market conditions and will respond by increasing our exposure to defensive assets should the environment deteriorate.

We remain focused on maximising returns to clients and limiting risk in all market conditions. Our portfolios are appropriately diversified, remain liquid and contain investments with attractive fundamentals.

## Portfolio Performance

At the start of the 2019 Financial Year we expanded our Australian Managed Discretionary Accounts to include Ethical Portfolios.

The Politis Australian Growth Portfolio, the Politis Australian Balanced Portfolio, and the Politis Australian Conservative Portfolio commenced in October 2009. All remaining portfolios commenced in July 2018.

Portfolio	3 months	6 Months	12 months	3 Years	5 Years	Since Inception
<b>Politis Australian Growth Portfolio</b>	<b>-7.69%</b>	<b>-5.39%</b>	<b>-2.85%</b>	<b>12.28%</b>	<b>27.61%</b>	<b>84.51%</b>
Target Margin CPI + 5%	1.82%	3.47%	6.78%	21.02%	36.50%	79.63%
<b>Politis Australian Ethical Growth Portfolio</b>	<b>-5.78%</b>	<b>-4.90%</b>				<b>-4.90%</b>
Target Margin CPI + 5%	1.82%	3.47%				3.47%
<b>Politis Australian Balanced Portfolio</b>	<b>-5.33%</b>	<b>-3.44%</b>	<b>-1.76%</b>	<b>13.45%</b>	<b>24.93%</b>	<b>71.89%</b>
Target Margin CPI + 4%	1.57%	2.97%	5.78%	17.74%	30.54%	65.85%
<b>Politis Australian Ethical Balanced Portfolio</b>	<b>-4.52%</b>	<b>-3.76%</b>				<b>-3.76%</b>
Target Margin CPI + 4%	1.57%	2.97%				2.97%
<b>Politis Australian Conservative Portfolio</b>	<b>-3.78%</b>	<b>-2.13%</b>	<b>-0.97%</b>	<b>14.40%</b>	<b>23.67%</b>	<b>65.47%</b>
Target Margin CPI + 3%	1.32%	2.47%	4.78%	14.53%	24.80%	53.25%
<b>Politis Australian Ethical Conservative Portfolio</b>	<b>-2.92%</b>	<b>-2.33%</b>				<b>-2.33%</b>
Target Margin CPI + 3%	1.32%	2.47%				2.47%
<b>Politis Australian Defensive Portfolio</b>	<b>-1.28%</b>	<b>-0.22%</b>				<b>-0.22%</b>
Target Margin CPI + 2%	1.07%	1.97%				1.97%
<b>Politis Australian Ethical Defensive Portfolio</b>	<b>-0.42%</b>	<b>-0.10%</b>				<b>-0.10%</b>
Target Margin CPI + 2%	1.07%	1.97%				1.97%

The Politis Diversified Growth Portfolio, the Politis Diversified Balanced Portfolio, and the Politis Diversified Conservative Portfolio commenced in May 2016. All remaining portfolios commenced in July 2018.

Portfolio	3 months	6 months	12 months	2 years	Since Inception
<b>Politis Diversified Growth Portfolio</b>	<b>-8.93%</b>	<b>-4.87%</b>	<b>-1.47%</b>	<b>7.07%</b>	<b>10.35%</b>
Target Margin – CPI + 6%	2.07%	3.97%	7.78%	16.09%	22.17%
<b>Politis Diversified Ethical Growth Portfolio</b>	<b>-6.65%</b>	<b>-3.63%</b>			<b>-3.63%</b>
Target Margin – CPI + 6%	2.07%	3.97%			3.97%
<b>Politis Diversified Balanced Portfolio</b>	<b>-6.23%</b>	<b>-2.85%</b>	<b>-0.40%</b>	<b>6.20%</b>	<b>10.57%</b>
Target Margin – CPI + 5%	1.82%	3.47%	6.78%	13.98%	19.21%
<b>Politis Diversified Ethical Balanced Portfolio</b>	<b>-5.22%</b>	<b>-2.64%</b>			<b>-2.64%</b>
Target Margin – CPI + 5%	1.82%	3.47%			3.47%
<b>Politis Diversified Conservative Portfolio</b>	<b>-4.19%</b>	<b>-2.02%</b>			<b>-2.02%</b>
Target Margin – CPI + 4%	1.57%	2.97%			2.97%
<b>Politis Diversified Ethical Conservative Portfolio</b>	<b>-3.58%</b>	<b>-1.55%</b>			<b>-1.55%</b>
Target Margin – CPI + 4%	1.57%	2.97%			2.97%

Disclaimer - Please note our percentage returns and accumulated valuation figures are calculated using a methodology which accounts for realised and unrealised gains or losses over the specified period (net of share brokerage costs) in addition to investment income including franking credits. Our Returns are calculated on a pre-tax basis and exclude all fees. The performance information reported above is based on historic returns and there is no assurance that these returns are indicative of future returns.

## Portfolio Additions and Removals

### Additions – Australian and Diversified Share Portfolios

The following shares were purchased in the December Quarter 2018:

Investment	Investment Type	Date of Purchase	Purchase Price
Aristocrat Leisure Limited (ALL)	Top-up	17-Oct-18	\$29.66
Amcor Limited (AMC)	Top-up	17-Oct-18	\$13.40
Webjet Limited (WEB)	New Investment	17-Oct-18	\$14.23
Commonwealth Bank (CBA)	Top-up	12-Nov-18	\$71.68
Westpac Banking Corporation (WBC)	Top-up	12-Nov-18	\$27.81
Webjet Limited (WEB)	Entitlement Offer	21-Nov-18	\$11.50

### Removals – Australian and Diversified Share Portfolios

The following shares were sold during the December Quarter 2018:

Investment	Full or Part Sale	Date of Sale	Sale Price	Average Unit Cost
Lend Lease Corporation (LLC)	Full Sale	12 November 2018	\$13.38	\$19.91

#### Aristocrat Leisure Limited (ALL)

On 17 October the holding of Aristocrat Leisure Limited (ALL) was increased in the Politis Investment Strategies Australian and Diversified Portfolios.

The Investment Committee continues to favour the company for its strong growth outlook.

ALL is expected to grow earnings at 17% on average for the next two years, underpinned by momentum in gaming operations in the Americas (approximately 54% of group profit).

The company is trading at a 20.4x Price-to-Earnings (PE) multiple and this looks attractive when compared to the earnings outlook.

#### Amcor Limited (AMC)

On 17 October the holding of Amcor Limited (AMC) was increased in the Politis Investment Strategies Australian and Diversified Portfolios.

The Investment Committee continues to favour the company for its attractive valuation.

AMC is trading at a 14.5x Price-to-Earnings (PE) multiple compared to the historical average of 15.2x. The company also has a good dividend yield of 5.1%.

The company announced the US \$6.8 billion acquisition of Bemis Company on 6 August.

AMC has a quality management team and the Investment Committee expects them to successfully integrate Bemis Company and deliver the targeted cost savings (US \$180 million).

### Webjet Limited (WEB)

**Initial Purchase:** - On 17-19 October the holding of Webjet Limited (WEB) was established in the Politis Investment Strategies Australian and Diversified Portfolios.

The Investment Committee is attracted to the company for its robust growth outlook.

In particular, WEB's international business (approximately 27% of group profit) is growing strongly with revenue increasing by 203% in FY18.

This growth is being driven by an agreement between WEB and the Thomas Cook Group in the United Kingdom. The company is trading at a 21.2x Price-to-Earnings (PE) multiple and is expected to grow earnings at 41% on average for the next two years

**Rights Issue:** - Webjet (WEB) announced the acquisition of a global travel business called Destinations of the World on 5 November 2018.

Webjet raised approximately \$150 million to fund the acquisition through a 1 for 9 entitlement offer, priced at \$11.50 per share.

The offer was accepted in the Politis Investment Strategies (Australian and Diversified) Managed Discretionary Accounts on 21 November 2018.

The acquisition is consistent with Webjet's strategy and is expected to add to the company's earnings per share (EPS). The Investment Committee remains attracted to Webjet's valuation and robust growth outlook.

The stock is trading at a 15.9x price-to-earnings (PE) multiple and is expected to grow earnings at 44% on average for the next two years.

### Commonwealth Bank of Australia Limited (CBA) & Westpac Banking Corporation (WBC)

On 12 November the holdings of Commonwealth Bank (CBA) and Westpac Banking Corporation (WBC) were increased in the Politis Investment Strategies Australian and Diversified Portfolios.

The Investment Committee decided to take advantage of recent weakness in the share price of each company and add to the existing positions.

CBA reported a better than expected result for the first quarter of FY19 on 7 November. The stock is trading at a 12.6x Price-to-Earnings (PE) multiple and has a 6.2% Dividend Yield.

WBC reported an in-line FY18 result on 6 November. The stock is trading at a 11.7x Price-to-Earnings (PE) multiple and has a 6.8% Dividend Yield.

### Lend Lease Corporation (LLC)

On 12 November the holding of Lendlease Group (LLC) was sold in the Politis Investment Strategies Australian and Diversified Portfolios.

LLC released a disappointing update in the Australian Engineering and Services Business on 9 November.

The company took a \$350 million after tax provision against a small number of projects due to lower productivity at NorthConnex, excessive wet weather, access issues and remedial work arising from defective design.

The Investment Committee decided to exit the position as the share price is not expected to recover in the short term



## Portfolio Allocations as at 31 December 2018

Portfolio Name	Australian Shares	Australian Infrastructure	Australian Property	International Shares	International Currency	Australian Debt Securities	Cash	Total
Politis Australian Growth Portfolio	74.72%	8.92%	5.96%			0.00%	10.40%	100.00%
Politis Australian Ethical Growth Portfolio	60.38%	8.81%	5.90%			12.85%	12.06%	100.00%
Politis Australian Balanced Portfolio	51.48%	7.15%	4.79%			14.50%	22.08%	100.00%
Politis Australian Ethical Balanced Portfolio	50.07%	7.23%	4.86%			26.52%	11.32%	100.00%
Politis Australian Conservative Portfolio	37.73%	5.33%	3.59%			27.16%	26.19%	100.00%
Politis Australian Ethical Conservative Portfolio	37.18%	5.39%	3.62%			41.79%	12.02%	100.00%
Politis Australian Defensive Portfolio	18.52%	2.62%	1.78%			48.13%	28.95%	100.00%
Politis Australian Ethical Defensive Portfolio	18.11%	2.62%	1.78%			66.36%	11.13%	100.00%
Politis Diversified Growth Portfolio	48.95%	6.04%	4.10%	30.24%	0.00%	0.00%	10.67%	100.00%
Politis Diversified Ethical Growth Portfolio	35.21%	5.40%	3.63%	31.36%	0.00%	12.71%	11.69%	100.00%
Politis Diversified Balanced Portfolio	29.87%	4.30%	2.90%	24.61%	0.00%	5.31%	33.01%	100.00%
Politis Diversified Ethical Balanced Portfolio	28.38%	4.27%	2.88%	26.03%	0.00%	26.20%	12.24%	100.00%
Politis Diversified Conservative Portfolio	22.45%	3.19%	2.17%	19.38%	0.00%	41.63%	11.18%	100.00%
Politis Diversified Ethical Conservative Portfolio	21.76%	3.18%	2.16%	19.80%	0.00%	41.44%	11.66%	100.00%

# Financial Planning News

---

## Work Test Exemption Confirmed

The Work Test Exemption that was proposed as part of the May 2018 Federal Budget has now been legislated. The exemption will be available from 1 July 2019.

Under current rules, if you are over 65 and wish to make a contribution to superannuation, you must have met the work test in the financial year in which the contribution is made. The work test requires you to be gainfully employed for more than 40 hours in any 30 day period during the financial year.

The work test exemption allows individuals aged 65 to 75 to make voluntary contributions to superannuation for an additional 12-month period from the end of the financial year in which they last met the work test, subject to their total superannuation balance being less than \$300,000 at the last 30 June.

Any contribution made using the exemption will be subject to the usual concessional and non concessional limits, and the opportunity to utilise the 3 year bring forward rule and the carried forward concessional contributions will be available. It is also worth noting that the recently introduced down-sizer super contribution is available in addition to this new exemption.

The following example illustrates how an individual can take advantage of this new exemption.

Frank turns 65 in October 2019, he intends to retire at 30 June 2019. Frank has always been self-employed and has never paid much attention to accumulating a balance in superannuation. His current balance in superannuation is \$130,000. Frank has however paid off a home valued at \$1.1 million. As part of his retirement plans he intends to sell this house which has been his residence for the last 25 years and move into a low maintenance villa valued at approximately \$500,000.

Frank lists the property for sale in February 2019, hoping for a sale before 30 June 2019 so he can make a \$300,000 contribution to superannuation using the 3 year bring forward rules.

30 June passes, Frank retires, but the property has not sold. It is not until the November (after Frank has turned 65), that he receives an offer he is happy with and enters into a contract to sell the property. The settlement proceeds are received in January 2020.

Because of the new work test exemption Frank is still able to make a \$300,000 non concessional contribution to superannuation (as he was under 65 at 1 July 2019, he met the work test in the year before the contribution is made, and his super balance was below \$300,000 at 30 June 2019). In addition, Frank can make a down-sizer contribution of up to \$300,000 with the remaining sale proceeds. Frank can now commence a tax free income stream from his superannuation balance that is in excess of \$700,000. If Frank had found himself in these circumstances in the 2018 financial year he would not have been able to make any contribution to superannuation.

To illustrate how the work test exemption operates with the bring forward rule, consider the same set of facts except Frank works through to his 65<sup>th</sup> birthday in October 2019 and the house has not been sold until June 2020. The settlement proceeds won't be available in time to make a contribution pre 30 June 2020. Fortunately though Frank has received an inheritance of \$110,000.

As Frank was 64 at 1 July 2019, and he has met the work test in the 2020 year, he is able to make a \$110,000 non-concessional contribution under the normal contribution and bring forward eligibility rules. At 30 June 2020 his balance in super is boosted to \$250,000.

The settlement proceeds for the house are received in July 2020. Under the new work test exemption Frank is able to use up the remaining \$190,000 of the \$300,000 brought forward cap (as his balance at 30 June 2020 was still under \$300,000). He can also make the \$300,000 down-sizer contribution.

If Frank had any taxable income in the 2021 year, he could also look to make concessional contributions of up to \$25,000, or perhaps more if he had not fully utilised the \$25,000 limit in the prior financial years (under the carried forward concessional cap legislation).

With careful planning, the Work Test Exemption may prove to be an effective way to boost superannuation savings of those moving into retirement, particularly when used in conjunction with other newly introduced contribution rules. Note the above examples illustrate the benefits for a single retiree. Each member of a couple can use this exemption, making the benefits even greater.

**Disclaimer** - The information in this newsletter is general in nature and does not take into account your personal circumstances, financial needs or objectives. Before acting on any information in this newsletter, you should consider the appropriateness of it having regard to your objectives, financial situation and needs. In particular, you should seek financial advice prior to acting on any of the information.

## POLITIS INVESTMENT STRATEGIES

---

### Head Office Location

1st Floor, NCYC Commercial Centre  
91 Hannell St, Wickham NSW 2293

### Head Office Postal

PO Box 168, Wickham NSW 2293

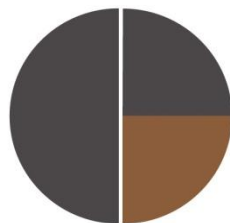
### Head Office Contact

T: (02) 4962 5525

F: (02) 4962 5526

[reception@politis.com.au](mailto:reception@politis.com.au)

[www.politis.com.au](http://www.politis.com.au)



**P O L I T I S**

INVESTMENT STRATEGIES