

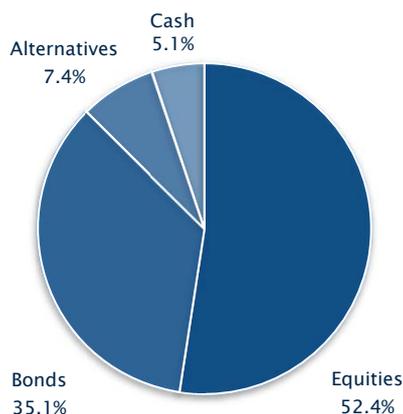
OMI BENTLEY AUSTRALIAN DOLLAR BALANCED FUND

31ST MARCH 2019

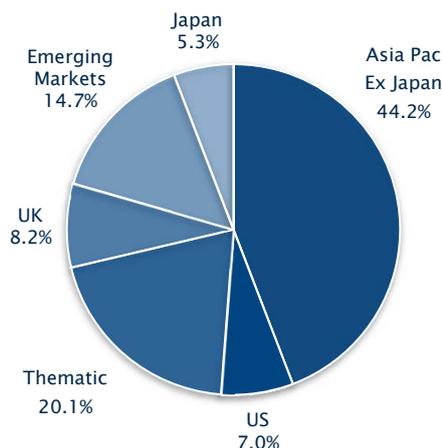
INVESTMENT OBJECTIVE

The fund seeks to achieve an average annual return of CPI + 3% over any 5-year period, after all fees, with about half the risk of a pure equity exposure. Though the mandate favours equity investment, the investment manager has the latitude to actively allocate between different asset classes to protect values and reduce volatility. The fund aims to maximise returns in AUD terms.

ASSET ALLOCATION



EQUITY BREAKDOWN



QUARTERLY INVESTMENT REPORT

The major Central Banks have staged a complete U-turn since the start of the year by promising to end their tightening plans, whilst laying the foundations for a return to rate cuts and potentially more QE.

Equity markets drew upon the positives with the prospect of a fresh liquidity boost helping stock markets to recover from their 15-20% falls in late 2018; the Australian ASX 200 index rebounded by 11% over the quarter. Whereas bond markets have focused on the sharp economic slowdown that precipitated the policymakers' response; government bond yields have tumbled. The 10-year Australian bond yield hit a new all-time low of 1.7% in March.

The fund retains the conservative positioning that served it well during last year's market turmoil, but it still produced a 3.4% gain over the quarter. Strong performances from the fixed income and EM equity positions compensated for our continued aversion to US equities.

continued overleaf

PERFORMANCE (NET OF FEES) *

	3 MONTHS	YTD	1 YEAR	3 YEAR (ANN.)	5 YEAR (ANN.)
Fund	3.4%	3.4%	2.9%	2.5%	3.2%
Inflation (AUS CPI)**	n/a	n/a	1.3%	1.8%	1.6%

12 MONTHS TO	31 MAR 19	31 MAR 18	31 MAR 17	31 MAR 16	31 MAR 15
Fund	2.9%	2.4%	2.2%	-4.0%	13.1%

* the fund's return is calculated net of the Insurance Bond Wrapper cost

** the CPI figure is the actual inflation figure and is not adjusted to show the fund's target return. The 3 and 5-yr figures are annualised averages.



BENTLEY REID

EQUITIES 50.3%

Asia Pac ex Japan 22.3%

Hermes Asia ex Japan	2.4%
iShares MSCI Australia	10.7%
Xtrackers S&P ASX 200	9.2%

UK 4.1%

Janus Henderson UK Absolute Return \$ Hdg	4.1%
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US 3.5%

DB X-Trackers S&P Inverse	3.5%
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Japan 2.9%

Vanguard FTSE Japan	2.9%
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Emerging Markets 7.4%

1167 High Income	2.1%
iShares MSCI China A ETF	1.0%
Stewart Latin America	2.0%
Schroder EM Debt Absolute Return AUD Hdg	2.3%

Thematic 10.1%

Fundsmith Equity	3.6%
Jupiter Global Abs Ret \$ Hdg	1.9%
Kennox Strategic Value	3.3%
Merian Gold & Silver	1.3%

ALTERNATIVES 7.3%

Pictet Physical Gold	7.3%
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BONDS 34.9%

Swisscanto AUD Bond	17.0%
UBS AUD Bond	13.8%
iShares Index Linked	4.1%

CASH 7.5%

On balance, we remain of the view that most stock markets have peaked, but as we noted last quarter we are not inclined to further de-risk the fund. At some stage, our next steps will be to raise its return potential by reducing the cash and defensive holdings in favour of equities and other risk assets. How and when we re-risk will depend much on how the economic trends develop from here. For us to have confidence that this year's rally is sustainable, recession risks must fall significantly. Otherwise, the bond market will be justified and stock markets will likely weaken again. Recent data sides mostly with the bond market, providing limited evidence of a nascent economic recovery, but we remain open-minded; any signs that the recent stimulus is morphing into stronger growth, particularly in the US and China, will encourage us to raise the fund's risk profile from its all-time low.

Unsurprisingly, the fund's "insurance" holdings, that made solid gains during the Q4 sell-off, were last quarter's worst performers; the inverse S&P 500 position lost 13% as US large-cap stocks bounced strongly. Its 20% gain in the prior quarter had pushed it to a 5% weighting, prompting us to book some profits early in the New Year. The long/short managers, which are still betting against expensive US stocks, also struggled with Jupiter Global Absolute losing 4%. We opted to redeem the 2.5% allocation to City Financial due to poor performance and the manager's departure for another firm. All of the bond positions fared well, particularly the 2068 index-linked gilt, which surged in response to the fall in UK inflation-adjusted (real) yields; the result of falling nominal yields and "sticky" inflation. It gained 16% over the quarter, after a 26% intra-month spike in March that led us to book some profits on the position around its highs.

Many of the overseas equity holdings produced high single or double-digit gains. Fundsmith was the best performer with an 16% rally as the return of a low-rate regime boosted its growth-based strategy. Both the EM debt and equity positions made solid progress over the quarter. Hermes Asia rallied 9%, and a strong bounce in Brazilian stocks helped the Stewart Latin American fund to a 5% gain. EM equities are no longer as cheap as when we first bought them in 2016, but they still offer better value than most developed world stocks. However, we are mindful that any meaningful rise in the US dollar would hurt the fund's EM allocation. Were we to conclude that a much stronger greenback is probable, we would seek moderate our EM exposure.

We are seeking to identify idiosyncratic investment opportunities that can help the fund produce a positive return whilst we await a more constructive general view on markets. In this regard, we have initiated dedicated positions in gold mining equities (as the return of monetary easing should boost the gold price) and mainland Chinese (A-share) stocks. After last year's falls, the latter are cheap and stand to benefit from the structural buying support that comes from their recent inclusion in global equity benchmarks.

PORTFOLIO ACTIVITY

DECREASE EQUITY EXPOSURE (52.5% to 50.3%):
Sell City Financial UK Absolute Equity (-2.5%)
Buy Merian Gold & Silver (+1.3%)
Buy iShares MSCI China A (+1%)
Sell iShares S&P 500 US Financials (-2%)

KEY FACTS

Price	A\$1.9090
Fund Size	A\$1.4m
Benchmark	AUS CPI + 3%
Launch Date	31/05/1998
Prices Published	www.bentleyreid.com

CONTACTS

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DISCLAIMER

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