W | A | M Global

Focus: small to mid-cap international companies (ASX: WGB)

Portfolio update

October saw global markets fall significantly. The MSCI World Index fell 7.3% in USD terms and small to mid-cap stocks were hit particularly hard, with the S&P Global Mid Small Cap Index down 9.4% in USD terms. Falls were seen in all major regions with the US S&P 500 Index falling 6.9% in USD terms, the UK FTSE 100 Index falling 5.1% in GBP terms, Japan's Topix falling 9.4% in JPY terms, Europe's Euro Stoxx 50 Index falling 5.9% in EUR terms, the Chinese CSI 300 Index falling 8.3% in CNY terms and Australia's S&P/All Ordinaries Accumulation Index falling 6.5%. While all sectors were down, industrials and consumer discretionary were hit the hardest, and real estate and utilities suffered the least. Various factors were pointed to for why the market sold off so aggressively including rising interest rates, trade wars, and slowing global growth.

The US economy continues its solid run with strong gross domestic product (GDP) figures, ongoing jobs growth and record low unemployment reported. We expect equity market volatility to continue as the US Federal Reserve normalises monetary policy. Having pumped unprecedented amounts of liquidity into the system following the global financial crisis, this liquidity is gradually being withdrawn. Higher interest rates will eventually translate to greater corporate debt costs and increased discount rates that will reduce company valuations.

The US and China have so far failed to reach a resolution to their trade war, and at this point tariffs are set to rise again in January 2019. Global growth expectations will be hindered by the continuation of this geopolitical strife.

Markets were offered some relief post the October sell off with US mid-term election results as expected, with the Democrats assuming control of the House and control of the Senate remaining with the Republicans. Historically equity markets have rallied in the fourth quarter post mid-term elections. We will see if history can repeat in the face of slowing lead indicators of growth and falling earnings momentum. In Europe, concerns around Italy's fiscal situation remain and Brexit negotiations continue without resolution. Economic growth forecasts in Europe have been progressively revised down this calendar year.

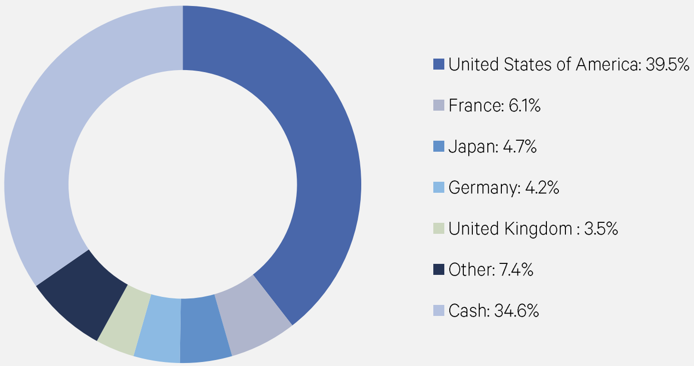
Our key area of focus is companies' earnings capacity going forward. Recent US quarterly reporting saw generally strong earnings per share (EPS) growth fuelled by tax cuts and buy backs. We are cautious on the outlook for company profit margins globally as we are seeing increasing evidence of inflation in cost bases due to rising wages, freight, energy and raw materials. We see analysts' forecasts in the US in various cases as being far too optimistic as we approach 2019, however expectations in Japan, and to some degree, in Europe, look more realistic.

^Based on the 31 October 2018 share price of $2.06 per share.

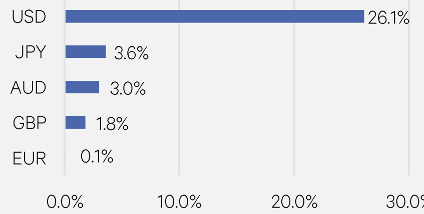
Catriona Burns
BCom M App Fin CFA
Lead Portfolio Manager

Pre-tax net tangible assets	Gross assets
$2.13	$444.9m

Portfolio composition by geographical exposure



Cash currency exposure (34.6%)



	September 2018		October 2018	
Investment type	**$m**	**%**	**$m**	**%**
Listed equities	310.3	66.4	290.8	65.4
Short portfolio	0.0	0.0	0.0	0.0
Fixed interest & cash	156.7	33.6	154.1	34.6
Gross assets*	**$467.0m**	**100.0**	**$444.9m**	**100.0**
Market capitalisation	$461.3m		$435.9m^	
Total shares on issue	211,607,623		211,607,623	

*Gross assets exclude the $6.8m Offer Costs receivable balance associated with the Initial Public Offer (repayable by the Investment Manager).

Net tangible asset (NTA) figures

NTA before tax	**213.02c**
NTA after tax and before tax on unrealised gains	**215.39c**
NTA after tax	**215.12c**

Top 20 holdings in alphabetical order

American Express Company	AXP US	USA
CDW Corporation	CDW US	USA
CME Group Inc	CME US	USA
Danone SA	BN FP	FRA
Diageo PLC	DGE LN	UK
Elis SA	ELIS FP	FRA
Entertainment One Limited	ETO LN	UK
Fresenius SE & Co KGaA	FRE GY	GER
Hasbro Inc	HAS US	USA
HCA Healthcare Inc	HCA US	USA
Huntington Ingalls Industries Inc	HII US	USA
Logitech International SA	LOGN SW	SUI
Markel Corporation	MKL US	USA
Norfolk Southern Corporation	NSC US	USA
Scout24 AG	G24 GR	GER
SMCP SA	SMCP FP	FRA
Sprouts Farmers Markets Inc	SFM US	USA
Thermo Fisher Scientific Inc	TMO US	USA
Vivendi SA	VIV FP	FRA
Waste Management Inc	WM US	USA