



Separately managed accounts

Some key learning from DNR Capital

Managed account specialist for 17 years

Snapshot

- Founded in 2001
- Employee owned

Difference

- Concentrated portfolios with high conviction ideas
- Targeted and efficient process, focused on quality
- Strongly aligned and highly accountable
- History of strong transparency



- IMAP Managed Accounts Awards - Australian Equities 2018 finalist
- Winner - Money Management/Lonsec SMA Portfolio Award 2017
- Money Management/Lonsec SMA Manager of the Year 2016 finalist
- Money Management/Lonsec SMA Manager of the Year 2015 finalist
- Golden Bull Award finalist in 2014 Australian Fund Manager Awards
- Winner - Best SMA Portfolio 2014 by Lonsec
- Golden Calf Award finalist in 2011 Australian Fund Manager Awards

Clearly positioned basket of Australian equity portfolios



As at 28 February 2019

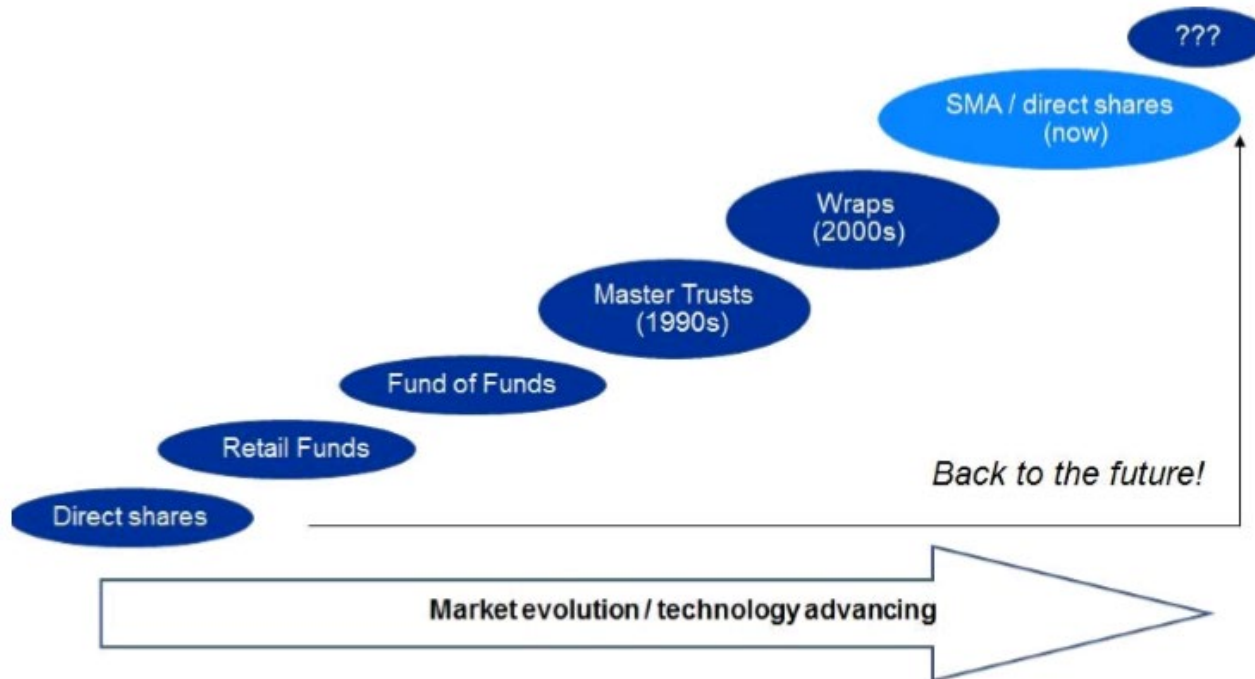
	High Conviction Portfolio	Socially Responsible Portfolio	Income Portfolio	Emerging Companies Portfolio
	Large cap	Mid cap bias	Large cap	Small cap
Experience	Est. Oct 2002	Est. June 2006	Est. Dec 2007	Est. Dec 2017
Focus	Capital growth	Socially responsible	Growing, tax effective income	Capital growth from smaller companies
Results	3.22% p.a. alpha since inception	3.71% p.a. alpha since inception	2.04% p.a. alpha since inception	16.55% p.a. alpha since inception

Quality stocks at attractive prices (style neutral)

15+ years of outperformance

Past performance is not an indication of future performance. No allowance has been made for taxation and fees are not taken into account.

SMA – evolution or revolution?



source: Morgan Stanley Research

Key growth drivers:

- Technology – the desire for transparency and speed in delivery.
- Future of Financial Advice Reforms (FOFA).
- Banking Royal Commission.

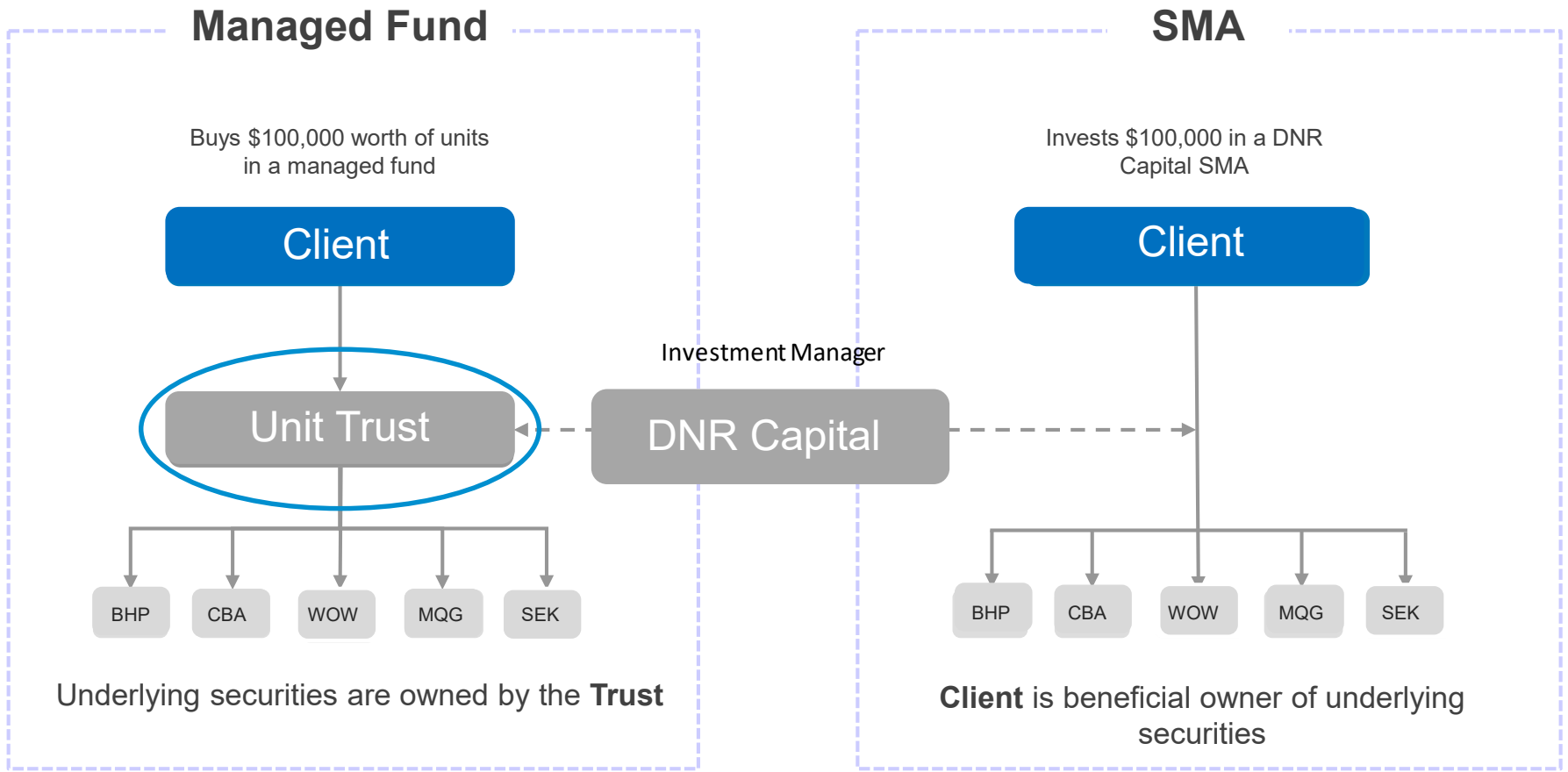
The focus of this presentation

Direct Australian equities

SMA structure

Accessed via a platform

What is a direct equities SMA?



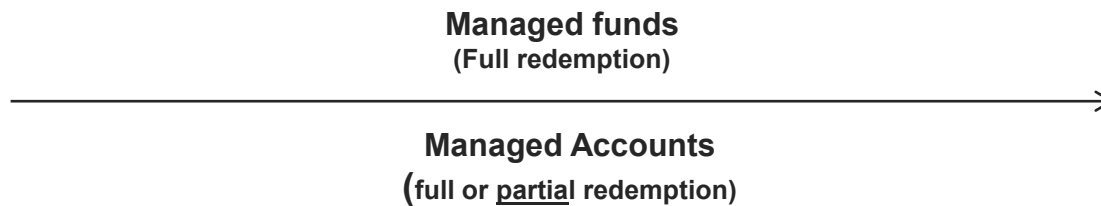
Transition flexibility – the forgotten jewel!

Feature	Managed Fund	Direct Equities (Adviser/Broker)	Managed Account
Professional portfolio management	✓	✗	✓
Corporate actions administered for you	✓	✗	✓
Tax reporting	✓	✓	✓
Full transparency	✗	✓	✓
Avoid imbedded CGT	✗	✓	✓
Individual tax efficiency	✗	✓	✓
Flexibility to transition assets	✗	✓	✓

Changing managers / strategies throughout life – what's the cost?

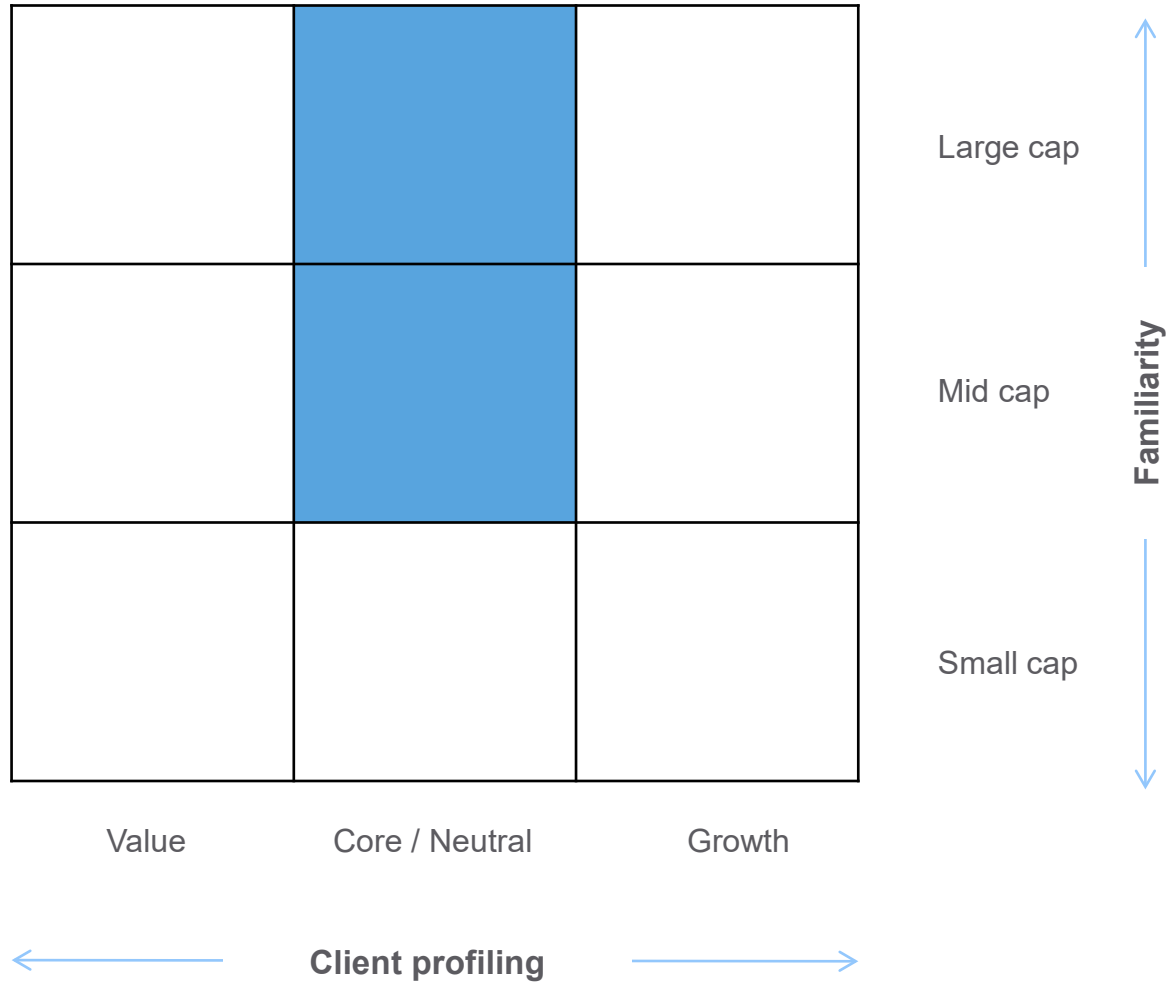


Age 30

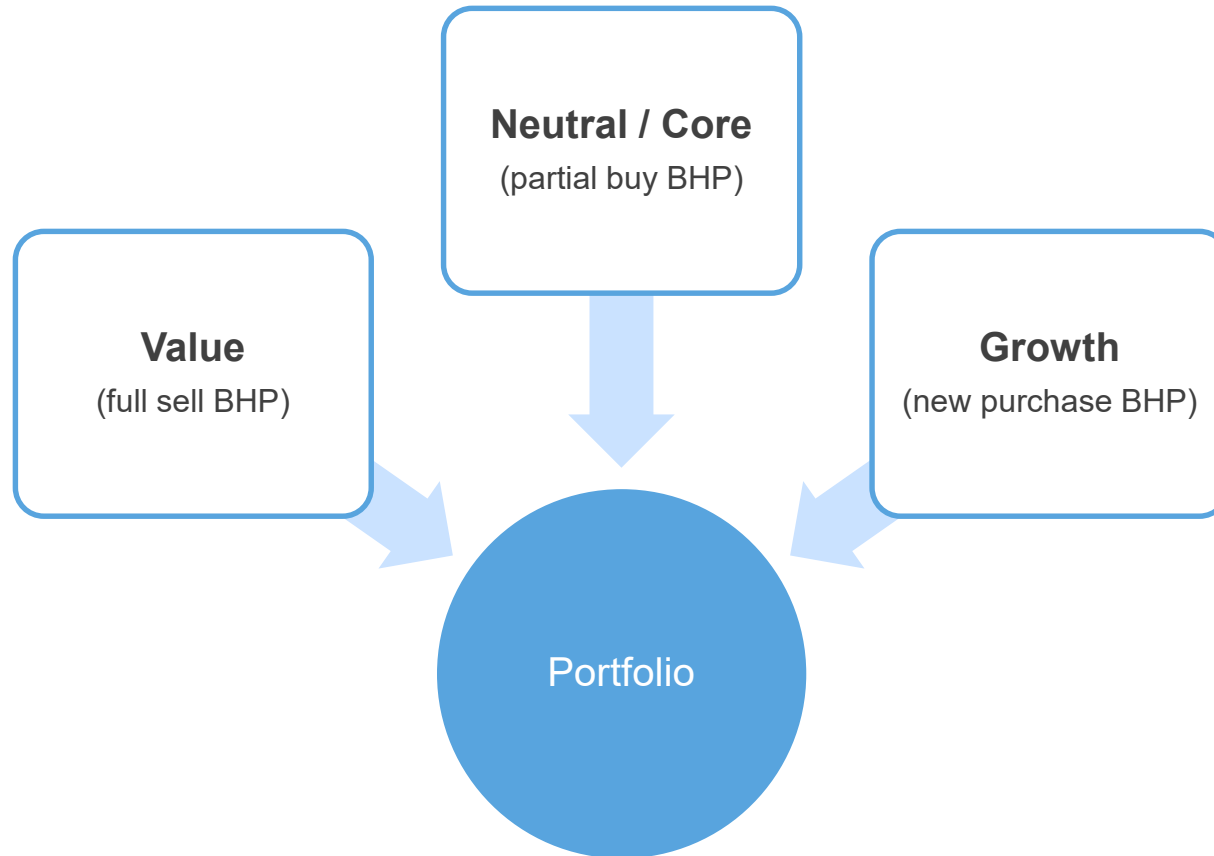


Age 70

Style analysis in a transparent environment



Diversification – the one free lunch?



Transaction Statement - Example

Transaction date	Security	Description	Transaction type	Quantity	Market price (\$)	Market value (\$)
04/04/2019	BHP	BHP Group Limited	Sell	500	39.43	19,715.00
04/04/2019	BHP	BHP Group Limited	Partial buy	150	39.01	5,851.50
04/04/2019	BHP	BHP Group Limited	Buy	350	40.15	14,052.50

Manager communication and engagement

Ask about the manager’s communication strategy early in the process. What's available?

- Trade and market updates
- Stock commentary and portfolio positioning updates
- Access to the investment team (boardroom / client sessions)
- Different communication media - print, audio, video etc
- Portfolio transition and analysis assistance

Stock trade update



Australian Equities High Conviction Portfolio changes – as at 5 April 2019

Sale of ALS (ASX:ALQ)

We have exited our position in ALQ. This has been a strong position for us but we had been reducing into a strong run. While the company retains some quality characteristics, we see it as through the peak of the cycle and remain uncertain regarding their rate of recovering in life science profit margins.

Purchase of Aristocrat Leisure (ASX:ALL)

ALL designs, develops and distributes gaming content, platforms and systems, including electronic gaming machines, casino management systems and digital social games. It is a market leader in this regard.

Investment Thesis

Its growth can be sustained for longer than the market is anticipating given an ability to maintain market share

4. Management—Ability to manage talent has been a key component of the strategy. Recent investment in digital social games has resulted in some uncertainty and will likely take some time to resolve.

5. Environmental, social and governance (ESG)—ALL is involved in gaming which has a high social risk. However, they largely operate in areas of significant regulatory oversight which, given their scale, they have greater ability to comply.

Key risks

In addition to regulatory risks around social casinos, the key risk is a maturing of its traditional land based operation and the emergence of a competitors game which could gain market share. To offset this risk, ALL are pushing into adjacencies, where it has a lower share, and into digital gaming.

Portfolio insight report

Portfolio Valuation

Sample Portfolio

A sample portfolio we would hold for you is as follows. The selection of the investments is subject to market conditions and changing circumstances, and as a result may change on a daily basis.

Australian equities		Market Value (\$)	Percentage Portfolio (%)
ALQ	ALS Ltd	19,847	2.96
AZJ	Aurizon Holdings Ltd	12,981	1.94
BHP	BHP Billiton Ltd	51,055	7.82
BXB	Brambles Ltd	27,065	4.13
CBA	Commonwealth Bank of Australia	63,194	9.43
FXJ	Fairfax Media Ltd	11,826	1.77
H3O	Henderson Group PLC	15,918	2.38
H5O	Healthscope Ltd	21,791	3.25
IRE	IRESS Ltd	13,372	2.00
LLC	Lendlease Group	35,197	5.25
MQA	Macquarie Atlas Roads Group	15,970	2.38
MQG	Macquarie Group Ltd	31,026	4.63
MYO	MYOB Group Ltd	12,230	1.83

Technology can lower barriers

‘Quality’ according to the Oxford dictionary

“The standard of something as measured against other things of a similar kind”

Maintain a focus on the four P’s:

- People
- Philosophy
- Process
- Performance

Things to look for:

- Types of clients / scale / financial viability / break even FUM levels.
- Due diligence – IFSA, operational DD, GS007, corporate governance structures.
- Independent and external verification of the offering (e.g. research ratings).

And understand why the manager has chosen to enter the managed account space?

- **Adviser value proposition may change** : *“How do I tell clients I’m no longer managing their direct shares?”*
 - Technology advancement is making new services accessible to retail investors.
 - You do lose some control so understand what this is (e.g. corporate actions).

- **Level of control is different**: *“I build bespoke solutions for my clients”*
 - Consider SMAs for non-bespoke and new clients.
 - Portfolio preferences and tailoring exists for SMAs:
 - Substitute for another asset/ cash
 - Replace
 - Do not hold/ exclude
 - Lock existing holdings (no. of units remains)
 - Don’t sell below xxx units
 - Don’t buy above xxx units

- For ‘Direct Equities’ practices SMAs can increase fees:
 - Have you assessed the cost of delayed execution for clients?

- Transaction costs / brokerage: % vs. \$ matters depending on the investment chosen.

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