HORIZON
INVESTMENT SOLUTIONS

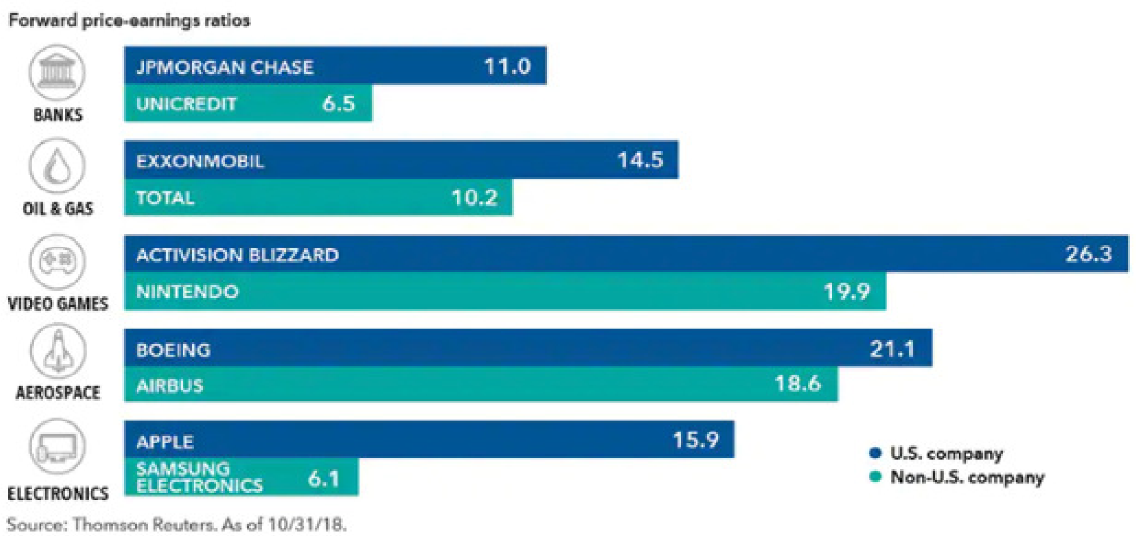
December 2018 — Over the Horizon Market Commentary by David Offer

12 months ago, the 2018 calendar year started full of promise stemming from synchronised world growth. However, as the year progressed, many share markets including our own started to trend down, with the worst of the falls experienced in the last quarter of the calendar year. This was off the back of global economic growth subsiding along with additional concerns including rising US interest rates, an escalating US China trade war, Brexit and the general indebtedness of many of the world's nations. Domestically, our falling East Coast residential property market has also worried investors.

A summary of the performance of our and major global share markets over the year is detailed in the table below;

Market	**Time Frame**	**% Change**
ASX All Ordinaries	December 2018	-0.7%
ASX All Ordinaries (Accumulation)	December 2018	-0.4%
ASX All Ordinaries	July to December 2018	-9.2%
ASX All Ordinaries (Accumulation)	July to December 2018	-7.3%
ASX All Ordinaries	Calendar 2018	-7.4%
ASX All Ordinaries (Accumulation)	Calendar 2018	-3.5%
US Dow Jones Index	Calendar 2018	-5.6%
US S&P 500	Calendar 2018	-6.2%
US Nasdaq	Calendar 2018	-3.4%
UK FTSE 100	Calendar 2018	-12.5%
German DAX 30	Calendar 2018	-18.3%
France CAC 40	Calendar 2018	-10.9%
Italian MIB30	Calendar 2018	-16.1%
Japan Nikkei	Calendar 2018	-12.0%
Hong Kong Hang Seng	Calendar 2018	-13.6%
Singapore Straits Times	Calendar 2018	-9.8%
China Shanghai Composite	Calendar 2018	-24.6%

Of note is that Asian and European share markets have been hit hardest in the last 12 months. From a valuation perspective, it does appear that when compared to the US share market, the rest of the world is presently 'on sale'. This is illustrated with some company comparisons provided below;



One way we have been gaining exposure to more attractively priced Asian and European equities is the listed Platinum International Equity fund, which we highlighted in the August monthly letter.

To date, for the month of January, our share market has bounced a little and at the time of writing is up 3%, with the All Ordinaries index presently trading at 5881 points.

Our current view on the outlook for the Australian share market is that a number of factors that are adversely impacting on our market will be addressed (for better or worse) in the upcoming months. This includes the Royal Commission into Banking and Finance due to report in early February and our Federal Election in May. Globally, the Brexit outcome should be known by March and hopefully a more positive outcome for US China trade will be reached sooner rather than later. As these events pass, so will the uncertainty they bring. As such, while we would not be surprised for further share market weakness in the current quarter, we believe there is scope for a market recovery in the second half of the year, if only on valuation grounds, as shares that have been excessively sold down start to recover.

Turning to stock specific issues, at the current time there are a number of ‘soft’ takeovers on shares held within portfolios;

Healthscope – $2.30 (pre-takeover $2.05). Brookfield is offering $2.55 for a full takeover and $2.42 for a partial takeover (acceptances greater than 50.1%). This offer is subject to numerous conditions, including internal investment committee approval, meaning Brookfield could walk away at any time. If the takeover did progress, proceeds would be expected late April or early May. There is a competing bid for Healthscope by BGH Capital at $2.36, though this may not be endorsed by the Healthscope board in the event the Brookfield takeover does not proceed.

MYOB - $3.36 (pre-takeover $3.00). Private equity firm KKR is offering $3.40 cash. In the event that no competing bid emerges (we consider this unlikely as KKR already holds 19.9% of MYOB), directors have recommended to accept this bid. The scheme meeting is targeted for 16 April with payment early May. We are disappointed that MYOB’s directors have endorsed this lowball KKR bid and believe it undervalues the Company. There is the possibility that shareholders will not support the KKR offer.

Graincorp - $8.90 (pre-takeover $7.40). Long term Asset Partners (LTAP) are offering to acquire 100% of Graincorp at $10.42 by way of a scheme of arrangement. LTAP has been established specifically to acquire Graincorp and the offer is almost entirely debt funded. This, coupled with the strategic nature of the Graincorp assets (a takeover for Graincorp has been blocked in the past), has created cynicism in the market as to whether the offer will proceed.

As such, we are not adverse on taking profits on the above shares and reinvesting in quality shares that we view as being excessively sold down in recent times. This includes Origin, Sonic Health, Amcor, Lend Lease and Boral. These are all companies we have discussed in recent months in our monthly covering letter.

On a broader investment note, over the Christmas and New Year period, a number of thought provoking articles crossed our desk on investing in general. A few of these I thought appropriate to share with you.
In particular Noel Whittaker provides his ‘**20 commandments of wealth for retirees’**. Industry publication Cuffelinks recirculated a publication on ‘**mistakes that made us better investors**’ as shared by 34 fund managers and other prominent industry participants. Finally, Shane Oliver, chief economist for AMP provides his **outlook** for 2019.

As a final note, I will be taking a week's leave at the end of January. As such I will be out of the office from Friday, 25th of January and will be back on Tuesday, 5th of February. As always, please do not hesitate to contact our office on any matters concerning your investment portfolio.

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