HYPERION GLOBAL GROWTH COMPANIES FUND (CLASS B)
DECEMBER 2018

HYPERION ASSET MANAGEMENT
a different horizon...

OBJECTIVE: LONG-TERM CAPITAL GROWTH AND INCOME BY INVESTING IN HIGH QUALITY GLOBAL COMPANIES.

High-conviction portfolio of quality global listed equities from a research driven, bottom-up investment philosophy.

Our Philosophy

High quality, structural growth businesses produce attractive shareholder returns over the long-term.

Long-term capital preservation is paramount.

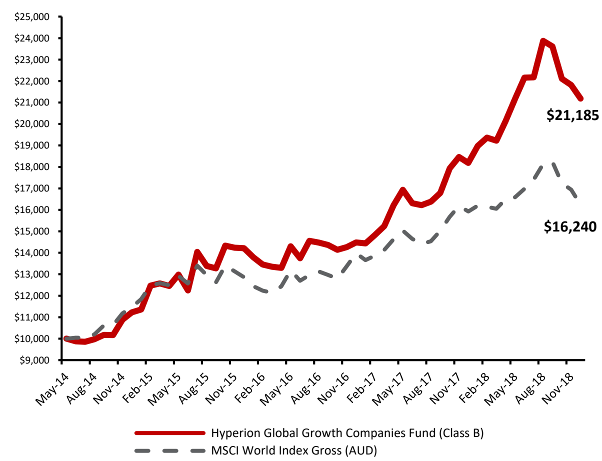
We believe companies in our portfolio have:

- Predictable earnings
- Low debt
- High interest cover
- Sustainable competitive advantages
- High return on capital
- Strong free cash flow
- Organic growth options
- Experienced and proven management teams

GLOBAL MARKET OVERVIEW

Global equity indices fell sharply during December, as geopolitical concerns, a slowing Eurozone and global monetary tightening continued to weigh on markets. In the U.S., the S&P 500 returned -9.0% after the Federal Reserve raised its benchmark lending rate range by 25bps and the U.S. government entered a partial shutdown, following political disagreement on its federal funding plans. In Europe, the FTSE 100, Euro STOXX 50 and German DAX all finished lower, returning -3.5%, -5.2% and -6.2% respectively, after weeks of protests led French President Emmanuel Macron to announce fiscal stimulus measures which could see the country's fiscal deficit exceed the European Union's 3% limit. In addition, U.K. Prime Minister Theresa May postponed the parliamentary vote on her Brexit deal. Australia's S&P/ASX 300 Accumulation Index was the best performing developed global index, returning -0.2%. Energy (+6.5%), materials (+6.1%), and communication services (+5.5%) were the best performing sectors, whilst utilities (-4.5%), industrials (-0.9%) and health care (-0.5%) were the worst performers. Global bond yields fell during December. Bulk commodity prices generally rose during the month, with thermal coal and iron ore prices trading higher. Coking coal and oil declined. The U.S. Dollar rose against most of the G10 currencies except against the Euro, Japanese Yen and Swedish Krona.

Net Performance - Growth of AUD $10,000*



	Portfolio – Net (%)	Benchmark^ (%)	Excess Performance (%)
1 Month	-2.9	-4.1	1.2
3 Months	-10.3	-10.9	0.6
1 Year	16.5	2.0	14.5
3 Years (p.a.)	14.2	8.1	6.1
Inception (p.a)**	17.8	11.1	6.7

*Investment of $10k since inception. **Inception date: 1st June 2014. ^ MSCI World Index Gross (AUD).
Returns are net of applicable fees, costs and taxes.
Past performance is not a reliable indicator of future performance.
Data as at 31ST December 2018.

MORNINGSTAR Awards 2016

Hyperion named AUSTRALIAN FUND MANAGER OF THE YEAR
in the Morningstar 2016 Awards, Australia.

PORTFOLIO HOLDINGS UPDATE

Costco Wholesale Corporation (COST-US)

Primary Exchange	NASDAQ
GICS Sector	Consumer Staples
Market Cap (US$m)	89,732

Costco Wholesale Corporation (COST-US) released its first quarter FY19 results, announcing net sales growth of 10% to $34.3b and net income growth of 20% to $767m. Membership renewal rates remained strong at 90.5% in the U.S. and Canada with Worldwide rates now 88%. COST-US's gross margin decreased 26bps, as fulfilment costs rose and fresh food margins came under pressure from increased competition. The company expects to open 23 net warehouses in FY19, with 75% in the U.S. and 25% internationally.

HYPERION ARTICLES

Beware the index! (Part 2)

Last month we discussed in more detail the four key observations of broad-based equity indices which are important considerations for savvy investors. Our final of the four observations, covered the Australian stock market. We highlighted that the Australian stock market has the advantages of a relatively large economy, high living standards with a large middle class, below average levels of corruption and a good legal system. However, despite these positive attributes, we argue that the main constituents of the key Australian equity indices are low growth and low quality. The main indices are dominated by materials and energy businesses which are inherently low quality, in addition to financials (mainly banks).

This month's article will focus in on the financials, with a particular focus on the banking sector. This sector is highly geared and heavily reliant for growth on an already highly geared Australian household sector, coupled with a structurally challenged old-world business sector. Additionally, we are now in a declining residential property market, with material price falls being experienced particularly in Sydney and Melbourne, placing further pressure on households.

Financials represent the largest sector of the Australian stock market by value, with the sector dominated by the banks and in particular the "big 4" banks (CBA-AU, WBC-AU, ANZ-AU, NAB-AU). The banks enjoyed strong credit demand for several decades leading up to the Global Financial Crisis (GFC), mostly funded by foreign debt. Australian household leverage has been positively correlated with a significant appreciation in national house prices, with particularly high rates of growth experienced in the Sydney and Melbourne markets. Household debt to GDP has increased from approximately 40% in the 1980s to 122% in December 2017.

The rise in household debt was a key driver of the robust double-digit system credit growth that was experienced in the decades prior to the GFC, with a large proportion of this debt being used to buy residential real estate. Decades of easy credit availability, loose lending standards, declining interest rates, robust foreign investor demand and strong population growth in the major cities has pushed residential house prices significantly higher.

Residential property prices appear to have been heavily influenced by simplistic and optimistic affordability assumptions, rather than more sophisticated valuation mechanisms. This means the residential property market exhibits at least some characteristics of speculation. This characteristic is not unique to Australia and can be seen across a number of other western economies, in particular the US, UK, Canada and New Zealand.

The banking Royal Commission has and is likely to continue to have a negative impact on the availability of credit as banks and financial institutions tighten lending standards. The loose lending standards adopted by the banks prior to the Royal Commission are likely to have resulted in many households taking on too much debt given their likely future income.

In our view, the longer-term outlook for credit demand in Australia is poor. The key headwinds for future credit growth include: elevated household debt levels, likely modest future wage growth, an ageing population, tightening lending standards, a continuing hollowing-out of the middle class, high residential property prices and low levels of housing affordability. This weak outlook for credit demand will severely restrict the major banks' ability to grow their revenues and profits going forward. In addition, bad debts are likely to increase over time from their currently very low levels with wage growth pressure and the displacement of middle-income jobs.

Banks have high levels of inherent financial gearing and thus their profitability is severely impacted during economic downturns. This is because it only takes a small percentage of their loan book to default to cause significant losses. During difficult times, banks are likely to be forced to raise significant equity at depressed share prices to shore up their capital position. Highly dilutive equity raisings will result in material declines in the banks' earnings per share. This was evident during the late 1980s and early 1990s and during the GFC (2008 and 2009). Australian banks raised significant equity and increased their share counts substantially. The share counts for the 7 largest Australian listed banks and financial institutions increased by 34.7% in 1988, 19.7% in 1992 and 24.7% in 2009, whilst earnings were declining. This is not an Australia-specific issue, with the 4 largest US and UK banks increasing their share counts by 40.6% and 160.3% respectively in 2009.

In conclusion, the long-term return profile for Australia's banks is modest given the weak long-term outlook for credit growth. Furthermore, if there is a material economic downturn, the return profile deteriorates as expensive equity raisings permanently dilute long-term earnings per share. This issue is not isolated to Australia's banks – history has shown that banks across a number of developed economies have a similar experience.

Next month, we will look at the capital-intensive industries in the market, in particular the materials and energy sectors and the impact of renewable energy on these sectors.

More insights from the Hyperion investment team can be found on our website.

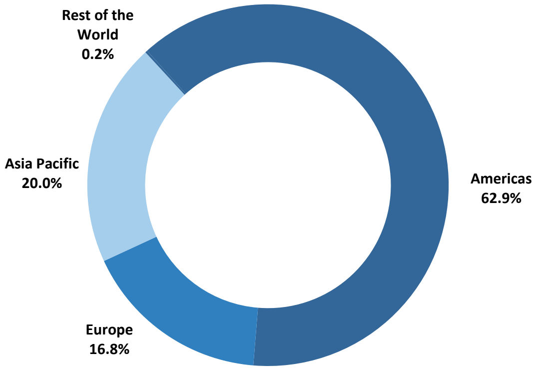
Top 5 Holdings

	Portfolio (%)	Benchmark (%)
Alphabet Inc. Class A	11.0	0.9
Amazon.com, Inc	8.8	1.7
PayPal Holdings	8.2	0.3
Facebook, Inc. Class A	7.9	0.9
Microsoft Corporation	6.2	2.1

Market Capitalisation (AUD)

	Portfolio (%)	# Stocks
$0 - $50bn	20.1	10
$50 - $100bn	7.1	2
$100bn +	56.5	8
Cash	16.3	--
Total	100	20

Geographical Weight by Source of Revenue



Sector Allocation

	Portfolio (%)	Benchmark (%)
Communication Services	21.8	8.3
Consumer Discretionary	21.0	10.4
Consumer Staples	4.0	8.7
Financials	2.4	16.2
Health Care	3.7	13.4
Industrials	1.8	10.9
Information Technology	29.0	14.9
Cash	16.3	--

Portfolio Characteristics ^

	Portfolio
Price to Earnings*	24
Dividend Yield (%)*	1.0
5-Year IRR (% p.a.) [1]	18.5

^ Data relates to the Composite   * Trailing   [1] Before fees

Top 5 Contributors (rolling 12 months) ^

Contributors	Avg Weight (%)	Price change (%)	Contribution to return (%)
Amazon.com, Inc.	8.7	42.7	4.4
Paypal Holdings	8.2	26.9	2.5
Mastercard, Inc. Class A	6.2	38.5	2.4
Intuit	5.5	38.6	2.1
Domino's Pizza	3.7	45.8	1.8
Detractors			
Facebook, Inc. Class A	9.0	-17.5	-0.8
Pendal Group	0.1	-9.0	-0.1
Ferrari NV	1.6	-8.0	-0.1
Starbucks Corporation	0.4	1.6	0.0
Seek	3.1	-11.0	0.1

^ Data relates to the Composite   * Stock not currently held

Fund Characteristics

Domicile	Australia, authorised by ASIC
Fees	Management fee of 0.70% p.a. of the gross asset value of the Fund, plus a performance fee of 20% of the Fund's excess return versus the MSCI World Index (AUD), net of management fee.
Composite size	$87.1 million
Fund size	$73.7 million
APIR Code	WHT8435AU

The Fund's PDS contains more complete information on risks and fees

CONTACT HYPERION ASSET MANAGEMENT Tel: 1300 497 374 or Email: clientservices@hyperion.com.au