

January 2014 -0.86 %

Last 12 months +23.33 %

## Key Points: Insync Global Titans Fund

- Boutique Sydney-based fund manager established in 2009 with an investment team of 4, with additional input from the CEO who is responsible for all operational, risk and compliance management.
- The Global Titans Fund invests in a concentrated portfolio of 15-25 stocks, targeting exceptional, large cap global companies with a strong focus on valuation and downside protection.
- Portfolio selection is driven by a core strategy of investing in companies with sustainable growth in dividends, high returns on capital, positive free cash flows and strong balance sheets.
- Emphasis on limiting downside risk through extensive company research, the ability to hold cash and long protective index put options.
- Strong longer term track records against cash and MSCI (\$A) benchmarks, with limited drawdowns.
- The Fund is available to retail investors with a PDS dated Sept 2013.

## Management Company Overview

Insync Fund Managers is a boutique Sydney-based investment manager established in mid 2009 by Monik Kotecha (46), whose prior career and experience commenced in 1991 with the Abu Dhabi Investment Authority (ADIA), one of the largest Sovereign Wealth Funds in the world. In 1994 he was recruited by BT Investment Management in Sydney for 5 years, including a period based in their US offices, before joining Investors Mutual (IML) in 1999, spending 8 years working as a Senior Portfolio Manager with IML's founder Anton Tagliaferro.

Born in Kenya, Kotecha moved with his family to the UK aged 6 where he was educated and received a joint honours degree in Law and Accounting from Cardiff University, following which he worked for Deloitte's in London. He then completed a Masters degree in Shipping Trade and Finance prior to joining the ADIA as a pan European analyst.

Kotecha left Investors Mutual in 2007 with a desire to establish his own funds management operation and track record. His previous experience led him to focus on investing in global companies, an area he felt was generally under-developed by fund managers and investors in Australia. As a result he established Insync in 2009 in association with David Lee from DWL Financial Services, a Sydney-based financial advisory firm with whom Insync share offices and administrative support functions in Sydney's CBD.

In June 2012 Kotecha was joined by Head of Research Marcus Tuck, whose experience in the financial services industry spans 25 years across stockbroking, funds management and investment consulting. He has worked in various analytical roles.

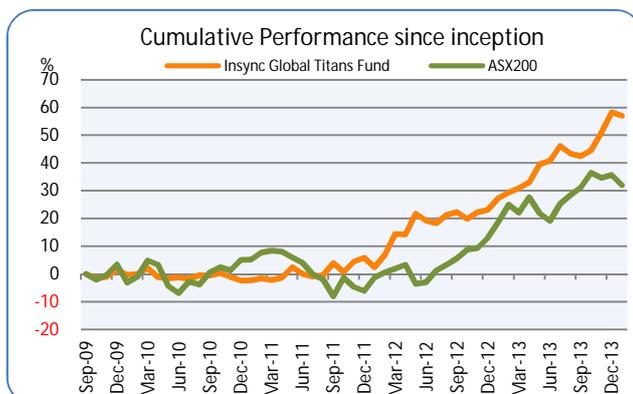
The investment team is also supported by Nitesh Patel as senior analyst/assistant portfolio manager and Peter Wong. Patel has 16 years' experience in managing international funds (long/short and long only) and has an MSc (Econ) from the London School of Economics. Wong has 5 years' experience, also across various sectors.



Key Statistics *	Insync Global	ASX 200 Acc
Jan-14	-0.86	-2.76
Annualised Return	10.96	6.61
Latest 3 Months	8.53	-3.28
Latest 6 Months	7.33	5.35
Latest 12 Months	23.33	11.29
Latest 24 Months (p.a)	23.79	15.62
Latest 36 Months (p.a)	17.12	7.84
Latest 60 Months (p.a)	n/a	12.95
% Positive Months	61.54	59.62
Best Month	6.98	7.25
Worst Month	-3.23	-7.51
Largest Drawdown	-4.39	-15.13
Average +ve Return	2.37	3.02
Average -ve Return	-1.46	-2.99
Annualised Standard Deviation	8.46	12.12
Downside Deviation (Since Inception)	4.37	8.54
Sharpe Ratio (Since Inception)	0.83	0.28
Sortino Ratio	1.53	0.31

\* Statistics for the ASX are adjusted to the Fund's start date

Chart 1: Cumulative returns



CEO Garry Wyatt also provides insight to the investment team as a result of his extensive commercial experience in the resources and beverage industries. Wyatt is CEO/CFO and operations director and has 35 years experience in senior corporate management roles, including WMC, Tooheys (Vic) and United Distillers. Wyatt is responsible for all operational, administrative and compliance functions, leaving the three person investment team to focus on strategy and portfolio

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## Performance - Net of Fees (%)

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2014	-0.86	-	-	-	-	-	-	-	-	-	-	-	-0.86%
2013	3.29	1.70	1.17	1.63	4.84	0.91	3.87	-1.95	-0.60	1.47	4.36	4.90	28.50%
2012	-3.23	4.37	6.98	-0.04	6.53	-2.08	-0.78	2.53	0.83	-2.04	2.02	0.80	16.41%
2011	0.09	0.69	-0.58	0.81	3.95	-2.36	-0.97	0.44	4.47	-3.14	3.79	1.25	8.43%
2010	-1.83	0.42	2.04	-3.17	-0.48	0.38	-0.48	1.35	-0.12	0.86	-1.48	-1.27	-3.82%
2009	-	-	-	-	-	-	-	-	-	-1.66	0.68	2.48	1.47%

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management. Wyatt and Kotecha are the company's directors and the executive team holds approx 75% of the company shareholding.

### Investment Strategy & Style: "Concentrated Global Large Cap"

Insync's Global Titans Fund (the "Fund") is a concentrated, long only equities strategy investing in 15 to 25 large cap (\$2 billion and above) global companies. Current average market cap of stocks in the portfolio is \$US81.6bn. These are selected for their ability to consistently increase shareholder value based on return on invested capital (ROIC), and a strong track record of expanding dividends.

The broad thesis behind the Fund's strategy and portfolio construction is that companies which have shown a consistent ability to provide outstanding value for shareholders and increased dividends will continue to provide excellent returns to investors over the long term.

The result is a portfolio consisting of global "brand name" companies which have a strong management team and a long track record of dividend growth, and/or share buy-backs, leading to high shareholder returns. Insync place greater emphasis on dividend growth than a high dividend yield, believing the former leads to share price appreciation while the latter sometimes reflects a lack of future growth.

Although long only, the Fund has two attributes designed to provide protection in negative markets: Firstly it can hold cash to vary market exposure at the Manager's discretion. Secondly, the Manager buys insurance against market volatility by purchasing out of the money exchange traded put options over major market indices.

Both are designed to provide downside protection and are adjusted depending on the macro environment and the current price of put options. The options are generally 10 to 15% out of the money with 12 months to expiry. Once purchased they are generally resold or rolled up or forward six months prior to expiry to reduce the time decay (Theta) cost. The Manager estimates that the use of these options significantly reduces down side risk at a historical cost to performance of approximately 1% per annum in a rising market.

### Investment Process

Insync's investment process can be broadly broken into two distinct but complementary parts: Firstly a series of quantitative filters using Bloomberg's database of all global companies, and secondly a detailed qualitative analysis of the remaining targets, including company visits and interviews with management.

#### 1. Quantitative Filters:

The Fund's portfolio is constructed from a global universe of approximately 40,000 companies. Extensive screening using a series of fundamental filters reduces the investable universe to those companies meeting specific criteria. These screens include market capitalisation, liquidity constraints, price volatility and changes to earnings forecasts, reducing the available universe to around 120 - 140 stocks.

This selection is further narrowed using a series of models. These measure compound growth of dividends over the previous 5 years, dividend growth forecasts for the next and following 3 years (or greater), a high return on capital employed, return on equity and free cash flows.

Additional screens also check the degree of overlap of companies and sectors which adds to a conviction ranking. Application of these filters leads to a final cut of around 40 to 50 high quality potential investments which are then ranked based on total return and balance sheet strength.

### Insync Global Titans Fund

Fund Type	Australian Unit Trust
Strategy	Global long only with put protection
Domicile	Australia
Investor Type	Retail
Min. Investment	\$10,000
Additional Investment	\$1,000
Buy/Sell spread	0.20%/0.20%
Management Fee	1.34% including fund expenses
Performance Fee	15.38% of performance over hurdle
Hurdle	RBA cash rate +2%
High Water Mark	Yes
Min. Term	Daily
Redemption Notice	Daily
Inception Date	Oct-09
Fund Size	\$14.5m
Manager's Total FUM	\$30.0 m

Chart 2: Monthly Returns

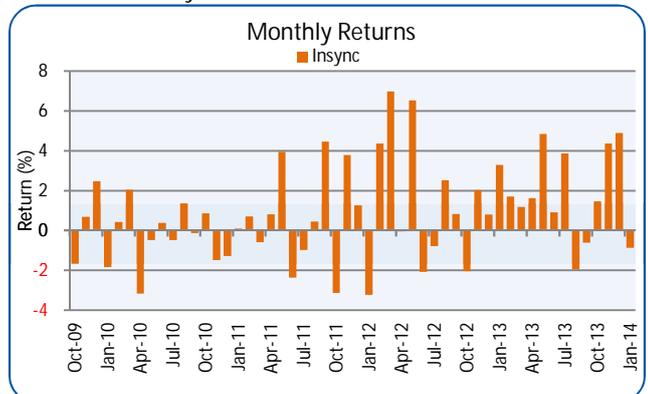


Chart 3: Distribution of monthly returns

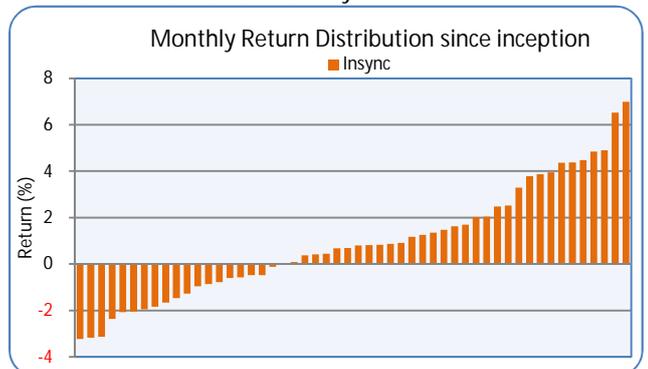


Chart 4: Correlation to ASX200's best and worst months



## Investment Process (continued)

### 2. Qualitative Assessment:

Data from the quantitative screening process, plus company meetings and presentations provide the basis for the second stage of fundamental analysis.

Focusing on absolute rather than relative valuations to assess downside risk, the team consider three major tools to value each potential investment:

1. Discounted Dividend Model: The primary thesis of Insync's investment strategy revolves around selecting those companies which are expected to pay increasing future dividends.

Insync invest in dividend growth stocks with a global reach and presence to reflect their view that few companies consistently compound shareholder wealth over the long term.

Kotecha believes that growth in dividends and growth in capital are "joined at the hip" and thus is distinctly different from investing in high dividend yield businesses where there may be little or no dividend growth.

ii. Implied Growth Model: To calculate how much future earnings growth is required to justify the current share price.

iii. Free Cash Flow: High levels of free cash flow after all operating expenses and capex not only indicate a company's financial strength, but also the ability to expand. Insync prefer this measure to the more widely used P/E ratio.

The final portfolio typically consists of 15 to 25 companies which exhibit consistent dividend growth, excellent management credentials and long term market expansion potential.

### Portfolio Construction and Risk Limits

Portfolio construction is governed by individual stock limits, sector limits and sector diversification. Currency risk is actively managed between 0% and 100% with the average expected to be around 50%.

Single stock positions are limited to 10% of the portfolio and based on a conviction ranking process range from an initial allocation of 1-2% through to the upper limit of 10%. Sub-sector concentration is limited to 30% although the stock selection process tends to create biases towards certain sectors and geographic regions.

Emerging market exposure is limited to 30%. There are no hard country exposure limits. As many of the stocks in the portfolio are active globally their earnings are equally well diversified.

There are no short positions but the portfolio may have variable cash levels, or hold index put options to hedge overall risk.

The Fund's style appears similar to other concentrated, large cap, global funds. However on closer examination there are significant "tilts" to the portfolio which are designed to reduce volatility. Cyclical such as airlines, steel or commodities are generally avoided, in addition to telecoms or utilities which might have high payout ratios or are structurally challenged.

## Performance Review:

The Fund has out-performed the ASX since inception (Oct '09) with an annualised return of 10.96% against 6.61% for the ASX 200 Acc and over all time frames. The fund performed well from June '11 to June '12 and then lagged slightly for some months due to the market's preference for more cyclical stocks. Since October '12 performance has sound.

In line with the Fund's emphasis on capital protection, the largest single month decline of 3.23% and largest drawdown of 4.39% as compared to 7.51% and 15.13% respectively for the ASX. This emphasis is also reflected in the low annualised standard deviation of 8.46% versus 12.12% for the ASX. The emphasis on capital preservation is seen in the Fund's stability over the period and March to June 2010 and April - Sept 2011 (see Chart 1).

### Portfolio Risk Management:

Insync's selective focus on large, liquid companies with strong business models and financial strength assists in minimizing downside volatility. Absolute risk management is enhanced by the ability to increase cash levels at the Manager's discretion. In addition, the fund implements derivative protection strategies via put options over the ASX 200. Protective inputs are used to insure the portfolio against market risk and assist in reducing significant downside risk.

Currency risk is actively managed based on in-house dynamic mean revision models and, to a lesser degree, macroeconomic analysis. Through the cycle currency hedging should be expected to be around 50%.

### Operational Risk and Management

Insync has a detailed procedures/compliance manual covering the follows aspects of operational risk; Compliance Arrangements, Organizational Expertise-Processes, Control of Financial Transactions, Non-Financial Resources, Risk Management and Research and Benefits. Other areas covered include Code of Conduct, Insider Trading Policy and Electronic Communication Policy. The CEO is responsible for ensuring all above procedures are adhered to and for ensuring risks are minimized. He is assisted by the auditors, legal advisers and a compliance consultant.

The Compliance function is assisted by Business Operations and Compliance Systems (BOCS). BOCS reviews systems, policies and procedures and work practices to ensure compliance meets AFS licensing conditions and obligations.

The Compliance Committee comprises the CEO (Wyatt), CIO (Kotecha) and Roger Campbell (from BOCS) and meets regularly on a quarterly basis. The CEO completes a detailed Compliance Questionnaire covering all aspects of regulatory requirements as well as operational and IT risk management.

Insync has recently moved to enhance risk control by putting in place a sign-off by parties independent of the investment team with regard to risk controls. The process is that the RE sends a sign-off directly to the Compliance Officer that the Fund is in line with all relevant risk controls.

At inception Insync expected to have a retail investor base and therefore appointed a specialist external Responsible Entity (RE), Select Fund Services, to provide RE services including compliance. The Administrator, FundBPO, provide external pricing verification. The RE also provide expertise in the selection of external service providers and monitoring the providers' performance against their mandate.

All trading orders and portfolio details are transmitted daily to the RE and Administrator providing both order verification and back up/remote access. The IT recovery systems have been tested in the last 12 months.

Operational key person risk is managed by ensuring that all back office functions are out-sourced to reputable third parties. At an individual level the CEO's functions would initially be managed by Peter Wong, who has accounting experience, as well as by the Fund's Auditor Moore Stephens.

Key person investment risk is focused on Kotecha but is reduced by the other team members who can place orders, or if necessary liquidate the portfolio.

#### Investor Relations and Marketing

Tuck is responsible for sales and point of contact for investors. The Fund has issued a retail PDS dated 27 September 2013.

#### Terms and Fees

Management Fee: 1.34% pa of NAV including fund expenses.

Performance Fee: 15.38% of any performance above a cumulative hurdle of the RBA cash rate plus 2% payable annually, with high water mark protection.

Minimum Investment: \$10,000

Liquidity: Daily

#### Structure and Compliance/Counterparties

The Insync Global Titans Fund is an Australian based Unit Trust open to wholesale and retail investors. Insync Funds Management Pty Limited (ABN 29 125 092 677) holds AFS License 322 891.

All counterparties are well known and widely used across the industry in back office functions.

Responsible Entity: Select Fund Services

Custodian: BNP Paribas

Administrator: FundBPO

Auditor: Moore Stephens

Executing Broker: Morgan Stanley

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