HUNTER BURTON CAPITAL

DECEMBER 2018 Review

Hunter Burton Capital Alpha Fund

Let's call a spade a spade: 2018 was a horrible year for most investments. The Australian and US stock markets were down 6-7%, real estate here about the same or worse. Bitcoin lost three-quarters of its value and sits over 80% off its highs of late 2017. Fair to say the cryptocurrency touts have been rather quiet lately! Even gold, which should be the Armageddon hedge, was down 1.5% for the calendar year. The Aussie dollar wounded us in January, reaching a high of 0.8135, but trended lower and finished the year on its lows just above 70 cents. The "risk-off" trade appears to be starting to dominate. We were looking for a stronger US dollar throughout 2018, and whereas we were right against some currencies, others were resistant to giving up ground against the greenback. The Japanese yen in particular found strong resistance at 114.50 and finished the year stronger. The Euro is utterly confused while the British pound has suffered under the weight of Brexit concerns. US 10-year yields have fallen significantly to around 2.7% as the market adjusts its expectations of future hikes. Alas, instead of narrowing the gap with Australian 10-year bond rates, ours have also fallen to keep the gap about 1/3rd of a percent . Trump has lost the majority in the Lower House and faces a "Year of 1000 Subpoenas" by all accounts. Throw in a slowdown in China and not much appears to be conducive to a banner year for traditional investments in 2019.

AUD/USD: Cautious for January But Bearish Overall.

If we look at the last three Januarys, the AUD has done well – and last year in particular will be hard to forget! However, the outlook for most markets is so bleak it is very hard to see any strength in the Aussie lasting, and we remain bearish.

S&P 500: 2018 as a Year was a Big Key Reversal…

The laws of a key reversal like the one above dictate that we will not make a new high in 2019 and at some point will explore further downside. There is very little evidence to contradict that so stock punters be wary!

+0.29% for December, +1.16% for 2018

Thankfully we stayed interested right up until Christmas and squeezed a little bit of juice out of the bearish Aussie lemon to finish the year with a small positive. +1.16% is a fairly ordinary year on the surface, but factor in an average leverage of 5 times (5.8%) and comparing that to other markets, there are worse places your money could have been in 2018. I am very confident this will remain the case in 2019, so those that are not diversified may wish to consider joining the HBC family of investors, and current investors may look to rejig the portfolio a little.

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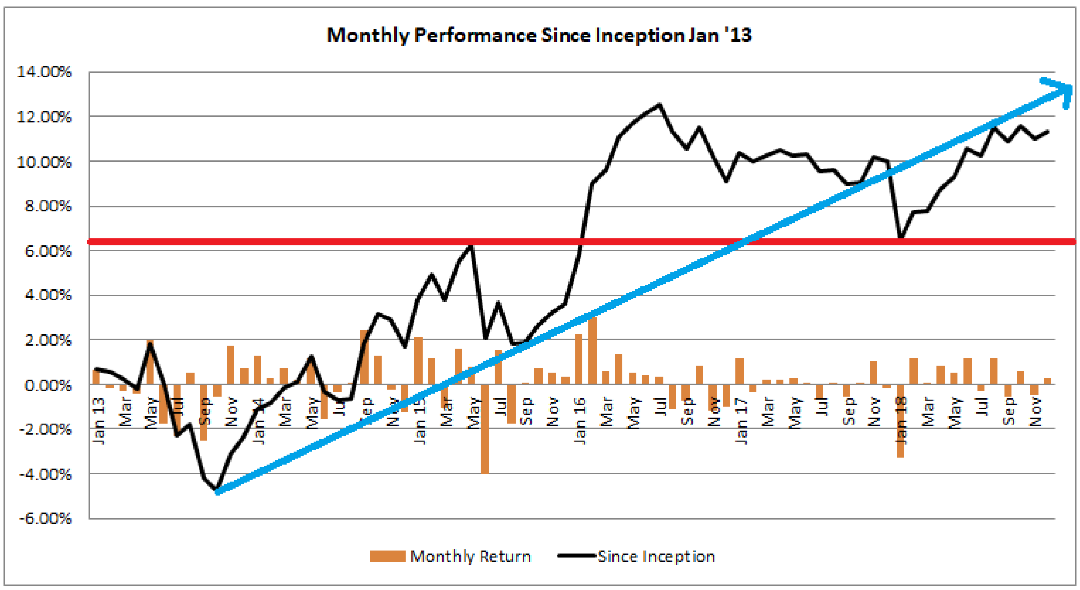
HBC Alpha Fund (Unleveraged)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2013	0.68%	0.14%	0.28%	0.42%	2.01%	1.78%	2.34%	0.54%	2.48%	0.53%	1.72%	0.73%	2.38%
2014	1.30%	0.28%	0.71%	0.24%	1.17%	1.59%	0.34%	0.04%	2.45%	1.30%	0.21%	1.25%	4.16%
2015	2.14%	1.14%	1.03%	1.61%	0.77%	4.03%	1.53%	1.75%	0.01%	0.74%	0.55%	0.37%	2.02%
2016	2.21%	2.97%	0.58%	1.34%	0.51%	0.42%	0.36%	1.10%	0.71%	0.85%	1.17%	0.96%	5.38%
2017	1.15%	0.33%	0.24%	0.23%	0.27%	0.08%	0.67%	0.03%	0.55%	0.03%	1.06%	0.15%	0.83%
2018	3.25%	1.17%	0.10%	0.84%	0.55%	1.15%	0.28%	1.14%	0.56%	0.62%	0.51%	0.29%	1.16%

HBC Alpha Fund (5 X Leveraged)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2013	3.40%	0.70%	1.40%	2.10%	10.05%	8.90%	11.70%	2.70%	12.40%	2.65%	8.60%	3.65%	11.90%
2014	6.50%	1.40%	3.55%	1.20%	5.85%	7.95%	1.70%	0.20%	12.25%	6.50%	1.05%	6.25%	20.80%
2015	10.70%	5.70%	5.15%	8.05%	3.85%	20.15%	7.65%	8.75%	0.05%	3.70%	2.75%	1.85%	10.10%
2016	11.05%	14.85%	2.90%	6.70%	2.55%	2.10%	1.80%	5.50%	3.55%	4.25%	5.85%	4.80%	26.90%
2017	5.75%	1.65%	1.20%	1.15%	1.35%	0.40%	3.35%	0.15%	2.75%	0.15%	5.30%	0.75%	4.15%
2018	16.25%	5.85%	0.50%	4.20%	2.75%	5.75%	1.40%	5.70%	2.80%	3.10%	2.55%	1.45%	5.80%

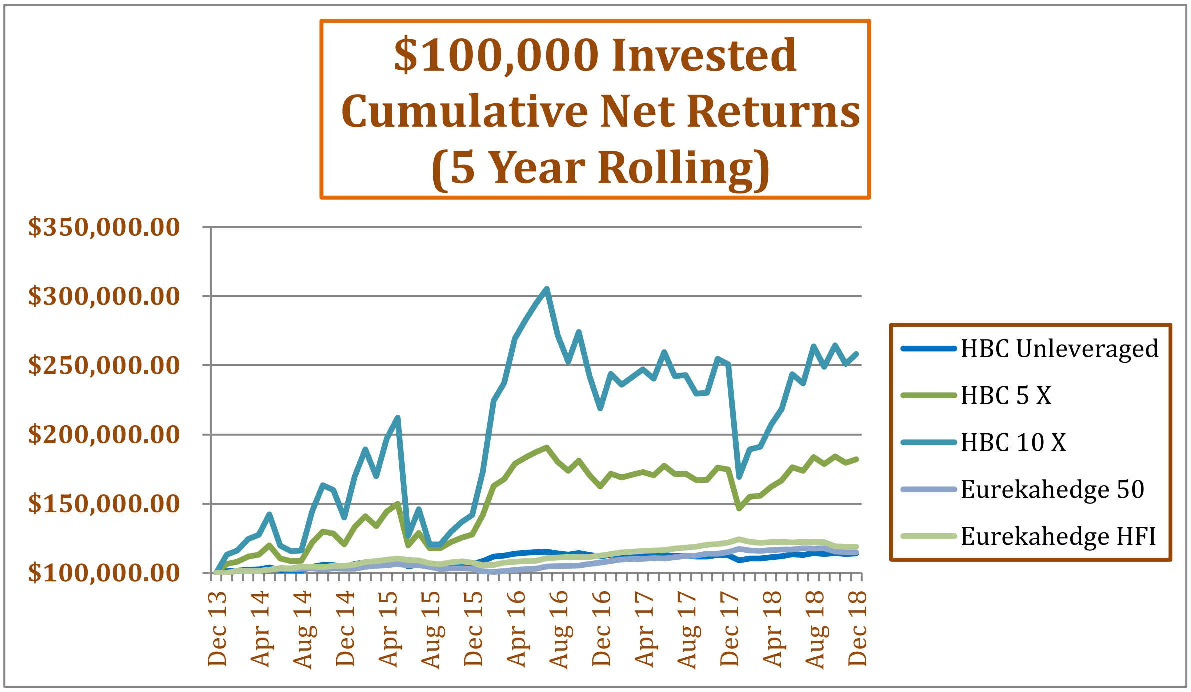


Nov 2018 Return	+0.29%
2018 Year-to-date	+1.16%
Return Since Inception	11.35%
Sharpe Ratio	-0.32
Sortino Ratio	-1.04
Max Drawdown	6.11%
Trough To Peak	18.15%

Note: Calculations for Sharpe and Sortino ratios use Australian 10-year bonds as MAR (minimum acceptable return) and are on a 2-year rolling basis. All returns are shown net of monthly management fees and quarterly performance fees. Reported returns are based on the Day 1 control account, and actual returns will vary slightly from investor to investor depending on the profit cycle.

The Ability to Leverage: Why HBC Offers an Efficient Path to Excellent Returns

While unleveraged returns do not look overly appealing, all investors in the HBC Alpha Fund have leveraged their investment. between 3 and 10 times. This leverage is fundamental to enhancing normalised returns. The additional logic to leverage is the more efficient use of capital, because the margin requirements for dealing in currency markets are very low. The mandate of the Fund is that we can only leverage managed funds by 2 X, so the maximum leverage factor an investor may be exposed to is 20 X. The more conservative investors generally opt for 5 X, which still means you are only depositing 20% of the amount being managed for you. I have created a chart to show the difference between unleveraged funds, 5 X, and 10 X to highlight the dramatic differences in capital growth over a 5-year period. I have included two of Eurekahedge's main hedge fund industry indices for comparison. You can see that Jun '15, the latter half of 2016, and Jan '18 suffered drawdowns, and the leveraged funds suffered quite dramatically. However, you can also see over a 5-year period that good disciplined trading more than offsets these setbacks. Bear in mind, all this is in a period of low nominal returns. A 10% year – which is definitely achievable – would double all 10 X investors' funds, and two 8% years would double all 5 X investors' funds.



I hope you all had a lovely Christmas and a joyous New Year's, and I wish you all the very best for 2019 – Year of the Pig!

Regards,

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