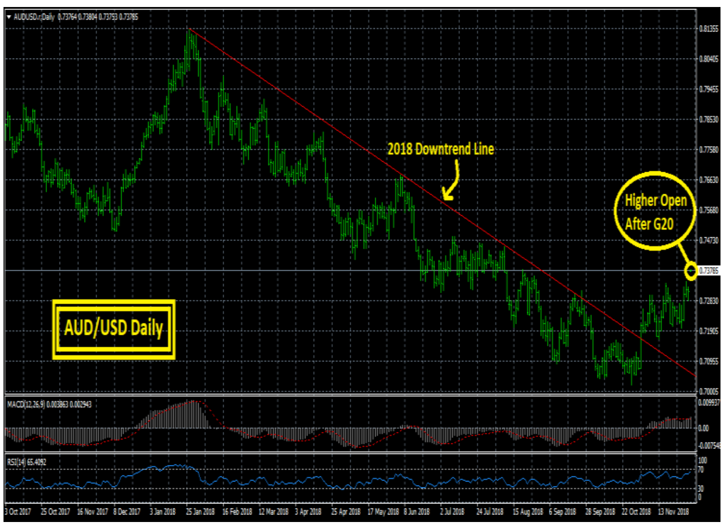
HUNTER BURTON CAPITAL

NOVEMBER 2018 Review

Hunter Burton Capital Alpha Fund

The Aussie dollar traded in a 0.7072-0.7345 range for November, never trading lower than the 1st of the month, and opening at fresh highs after the G20 meeting on the weekend to start December. Whereas nothing much has changed in Australia (10-year bond yields unchanged, house prices still shaky), the other side of the equation -- the USD -- did have some changes. Their bond yields came back from 3.23% highs to around 3%, narrowing the US-Australia gap from 50 bps to around 30. Fed Chair Powell's dovish talk at the latest FOMC meeting has caused hawks to reassess the pace of US interest rate increases. And over the weekend, Trump and Xi appear to have had some positive dialogue regarding the so-called US-China Trade War at the G20 summit, resulting in a 90-day delay of the planned Jan 1 tariff increases, with China returning the favour promising to buy more US goods. This is not a concrete agreement, but as with his talks a few months back with North Korea, it assuages the market. To kick off December, stock markets and "risk-on" currencies are strongly up. The overall bearish view on the AUD has not gone away, however we need to see bearish developments (or USD-positive news) to bother persisting with this position, especially as we approach the finish line for the year.



AUD/USD: Queries On The Downside Momentum…

We saw a narrowing of the USD advantage in bond yields, dovish Fed talk, and positive US-China discussion on trade. This has cleaned out a fair few AUD shorts, and we must remain open-minded heading into Christmas, remaining wary of a year-end "risk-on" fiesta.

S&P 500: Consolidating, But Which Way Next?

Note on the chart above, after a long uptrend the volatility has increased, often signalling the high of a cycle. However, it is worthy to note each significant low is higher than the previous one, and a solid break of 2815 could lead to new highs before the bears get any satisfaction.

-0.51% for November, YTD +0.87%

November presented very little opportunity in a rather undecided and confusing environment. Our small AUD short position accounts for the result of -0.51% for the month. As mentioned above, we will wait for further evidence that the downtrend may resume before re-establishing a short position. Europe may present some opportunity, with a roughly even-money chance of hard Brexit, Italian budget concerns, and the ECB stuck in a possibly-unwanted tightening phase. Below I have included the usual Profit Table for the history of the Fund, but also added a new one to reflect a leverage factor of 5 times, given this is the most popular leverage factor chosen by investors.

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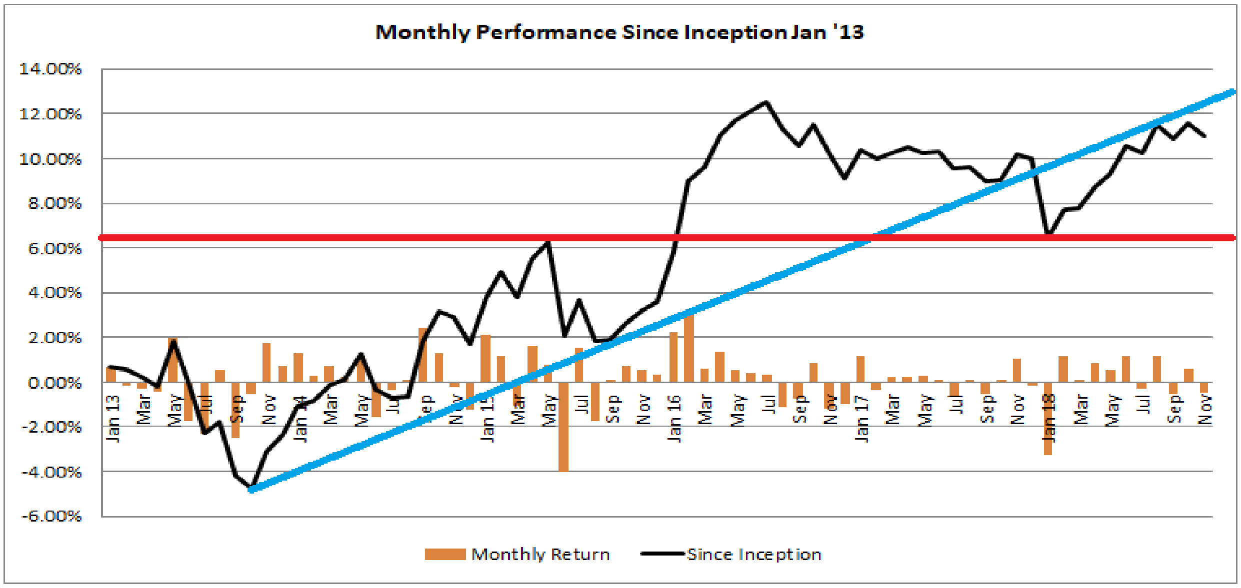
HBC Alpha Fund (Unleveraged)

	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%		0.87%

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%		4.35%

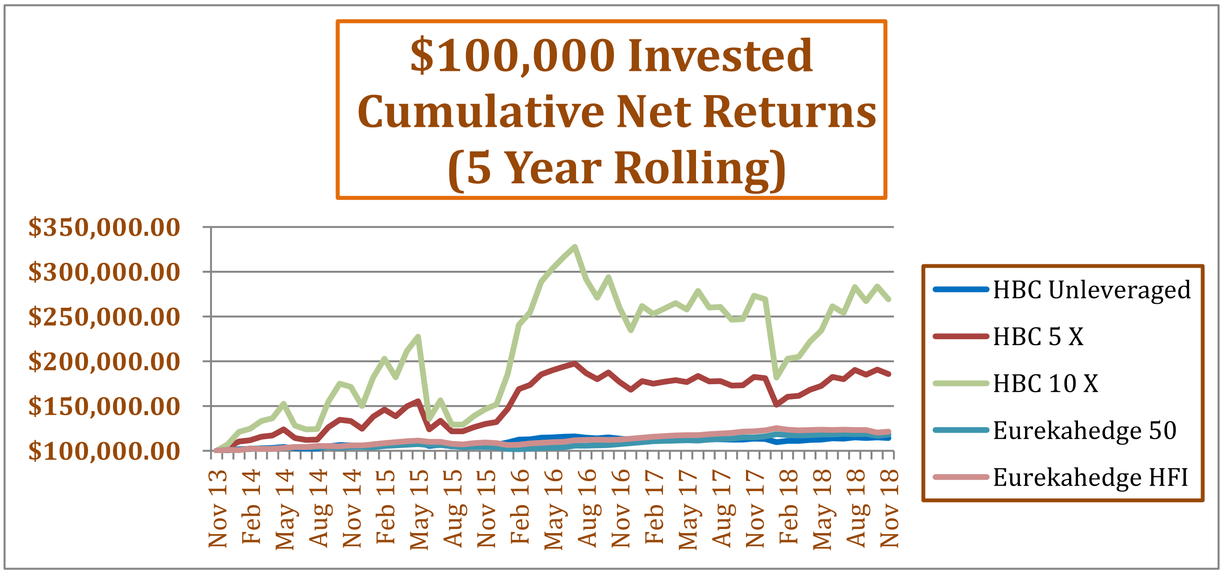


Nov 2018 Return	-0.51%
2018 Year-to-date	+0.87%
Return Since Inception	11.03%
Sharpe Ratio	-0.33
Sortino Ratio	-1.02
Max Drawdown	6.11%
Trough To Peak	18.15%

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.

Let's Talk About Leverage, and 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. We recommend 5 times as leverage for the average investor, however it is clearly their choice based on individual risk appetite. This leverage is fundamental to enhancing normalised returns. The additional logic to leverage is the more efficient use of capital. The margin requirements for dealing in currency markets are very low: most price-providers will allow up to 100 times, but here at HBC we think 20 times is plenty. 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. Obviously, it works both ways: profits are magnified as are losses! So it is a primary goal of HBC to protect the capital and keep drawdowns to a minimum. 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 have a joyous Festive Season and New Year!

Regards,

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CEO & Portfolio Manager

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