

Investing in the Dispersion between listed US Shares

Value vs Growth *For End Investors*



Sequoia Dispersion – Series 6 Offer Close Date – 23 September 2020¹

Sequoia has just launched a new investment enabling investors to gain exposure to the Dispersion of a Reference Basket of listed US Shares for a 2 year period with minimal upfront capital and limited downside risk.

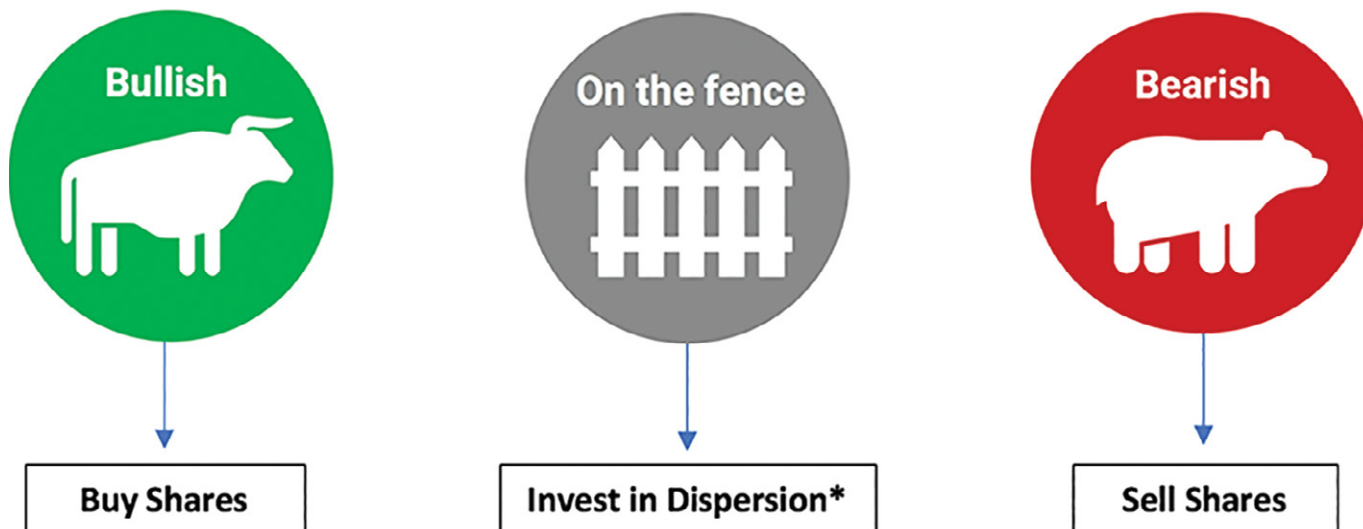
¹The Issuer may, in its discretion, extend or shorten the Offer Period for the Units without prior notice. If this happens, the Commencement Date and one or more consequential dates for the Units may vary.

Dispersion in Client Portfolio – Where does it fit?

Investors are currently faced with a difficult decision. Should we be long (buying shares) or short the market (selling shares)? Most global equity markets have seen a significant rebound from their lows in March however the cloud of COVID-19 has created many uncertainties and many investors are not confident buying at current prices. Similarly, betting on the market to go down can be difficult and is not for everyone.

Dispersion is an investment theme that provides an opportunity to profit regardless of the direction of the market. Take this quick quiz to see if Dispersion might be for you?

Your Overall View on the Market is?



**Dispersion is not the only option available to those who have a neutral view on markets. Other options exist such as holding cash.*

The rationale is to offer an investment that can capitalise on the divergence in returns that is expected from different sectors and different investment styles in the US equity market post Coronavirus. We have developed a basket of US listed shares which have been characterised as having a large exposure to the “value” and “growth” investment style factors whilst also providing sector diversification.

New Dispersion Investment Opportunity – Series 6 – Growth vs Value in the US

We have just launched a new Dispersion investment opportunity aimed at capitalizing from the dispersion in returns expected from the Value and Growth investment styles in the US.

The Units in Series 6 provide investors with a potential uncapped Performance Coupon at Maturity based on the full leveraged investment amount depending on the performance of Dispersion of the Reference Basket during the Investment Term provided the realised level of Dispersion at Maturity is greater than the Hurdle.

Rationale for Value vs Growth in US

The rationale for creating this new dispersion investment is because we are currently seeing many AMs strategists take very different points of view in relation to Growth vs Value in the US:

- 1. Value stock outperformance/Growth stock correction:** some strategists tend to believe that valuations and crowding levels are elevated for growth and more particularly tech names which make more upside less likely or suggest a potential correction. However value and cyclical sectors can recover as economy rebounds.
- 2. Growth will continue to outperform Value stocks:** some strategists do not support a potential rotation from growth stocks into value stocks as long as low interest rate environment remains and believe that US growth stocks will outperform.

We have therefore developed a basket of 16 US listed shares that enable a large exposure to the Growth vs Value investments styles as well as sector diversification at a very cheap hedging cost whilst also showing a nice historical performance over the last 10 years. The reason the hedge is cheap is because the IB is offering a “a trading axe” on this basket to Sequoia which means we gain access to this basket composition at an excellent price as they are looking to offload correlation risk that they have on their balance sheet due to other investments they have issued previously.

Expected PE Variations

Please note expected PE variations from Bloomberg consensus analyst forecasts:

Value / Growth		PE_RATIO	EST_PE_NXT_YR	P/E variation
NFLX US Equity	G	78.8	55.4	-23.5
AMZN US Equity	G	130.7	57.3	-73.4
GOOGL US Equity	G	37.3	25.1	-12.3
VZ US Equity	G	11.1	12.0	0.9
AMD US Equity	G	121.9	51.0	-70.9
NVDA US Equity	G	82.2	45.7	-36.5
MSFT US Equity	G	39.0	30.9	-8.1
MCD US Equity	V	33.5	26.1	-7.3
WMT US Equity	V	26.3	24.6	-1.7
COST US Equity	V	40.4	37.0	-3.4
KO US Equity	V	24.8	23.3	-1.4
MDLZ US Equity	V	22.6	20.8	-1.9
CL US Equity	V	26.2	25.3	-1.0
PEP US Equity	V	25.6	23.3	-2.3
JNJ US Equity	V	27.2	16.9	-10.3
PG US Equity	V	27.0	24.0	-3.0

Summary of the key features are as follows

Series 6

Investment Term	2 years
Limited recourse Loan	Yes
Currency Exposure	AUD hedged
Annual Interest Rate on Loan (payable for the full 2 years in advance)	3.75% p.a. (7.5% payable upfront for the full 2 year Investment Term)
Application Fee	1.1% including GST
Total Investment cost for the full 2 year period	8.6%
Dispersion	<p>The dispersion of a basket of securities is typically measured by how much the return of each individual security in the basket differs, in absolute terms from the average return of the overall basket over a given period of time. Each of these return differentials are averaged and the greater the average, the higher the measure of dispersion</p> <p>Refer to the Formulae & Calculations section of the PDS for a precise formula for calculating Dispersion.</p>
Potential Performance Coupon	Yes, the potential for one uncapped Performance Coupon based on the realised level of Dispersion at Maturity LESS the Hurdle
Hurdle*	The Hurdle is determined by the Issuer on the Commencement Date. As at the date of the PDS the Hurdle would be 28%. The Issuer will not proceed with the issue of Units if the Hurdle cannot be set at or below 28% on the Commencement Date
Break-Even Level Dispersion at Maturity	36.6%
Margin Calls	No
SMSF Eligibility	Yes

Underlying Reference Basket

Series 6					
Reference Basket	Bloomberg Sector	Bloomberg Group	Bloomberg Code	Underlying	Bloomberg Style: Value/Growth
	Communications	Internet	NFLX UW Equity	Netflix Inc	Growth
		Internet	AMZN UW Equity	Amazon.com Inc	Growth
		Internet	GOOGL UW Equity	Alphabet Inc	Growth
		Telecommunications	VZ UN Equity	Verizon Communications Inc	Growth
	Technology	Semiconductors	AMD UW Equity	Advanced Micro Devices Inc	Growth
		Semiconductors	NVDA UW Equity	NVIDIA Corp	Growth
		Software	MSFT UW Equity	Microsoft Corp	Growth
	Consumer, Cyclical	Retail	MCD UN Equity	McDonalds Corp	Value
		Retail	WMT UN Equity	Walmart Inc	Value
		Retail	COST UW Equity	Costco Wholesale Corp	Value
	Consumer, Non-cyclical	Beverages	KO UN Equity	The CocaCola Co	Value
		Food	MDLZ UW Equity	Mondelez International Inc	Value
		Cosmetics/Personal Care	CL UN Equity	ColgatePalmolive Co	Value
		Beverages	PEP UW Equity	PepsiCo Inc	Value
		Pharmaceuticals	JNJ UN Equity	Johnson Johnson	Value
		Cosmetics/Personal Care	PG UN Equity	The Procter Gamble Co	Value

Scenario Outcomes:

Assuming you wish to get exposure to Dispersion with minimal upfront capital and limited downside risk, you decide to take out a limited recourse loan of \$100,000 and invest the proceeds into Dispersion on the Reference Basket. The cashflow scenarios are below:

Cash Outlay for Sequoia Dispersion Series 6	
Investment Amount	\$100,000
Loan	(\$100,000)
Interest for 2 year Investment Term (3.75%p.a.)	(\$7,500)
Application Fee (1.1%)	(\$1,100)
Total Investment Cost	(\$8,600)

Investment cash flow Scenarios during the Investment Term for Sequoia Dispersion – Series 6

Scenario	Investment Amount	Dispersion Less Hurdle at Maturity	Performance Coupon	Total Investment Cost	Net Profit/ (Loss)	% Return on Total Investment Cost
1	\$100,000	0%	\$0	\$8,600	-\$8,600	-100%
2	\$100,000	8.6%	\$8,600	\$8,600	\$0	0%
3	\$100,000	17.2%	\$17,200	\$8,600	\$8,600	100%
4	\$100,000	25.8%	\$25,800	\$8,600	\$17,200	200%
5	\$100,000	34.4%	\$34,400	\$8,600	\$25,800	300%
6	\$100,000	43.0%	\$43,000	\$8,600	\$34,400	400%
7	\$100,000	51.6%	\$51,600	\$8,600	\$43,000	500%
8	\$100,000	60.2%	\$60,200	\$8,600	\$51,600	600%

The above scenario outcomes are in no way indicative of future performance of Sequoia Dispersion – Series 6.

Further background on differing market views

We can rely on a few Asset Managers quote with some believing growth stock will continue to over perform, while some believe it is time for rotation :

Value PROS:

- BAML: The market has had such a long growth cycle that there are “record levels of crowding and valuation in the growth cohort, in the tech companies, in those stay-at-home tech beneficiaries.” There’s a “positioning valuation story that supports a rotation into cyclical companies”.
- TCW Group: “valuations for value stocks, as represented by the Russell 1000 Value Index, are the most attractive they have been, relative to the Russell 1000 Growth Index, since 2001”.

Growth PROS;

- JPMorgan: growth stocks, led by technology, will continue to outperform their value peers. “Beyond some very transitory tactical opportunities for value bounces,” growth stocks are “likely” to continue outperforming value stocks over the medium term. “Low bond yields in our view will not be able to support any prolonged rotation.”
- Janus Henderson: The rotation in the broader equity market from “value” to growth has been underpinned not only by cyclical factors and accommodative monetary policy but also by long term secular trends that have accelerated disrupting the fundamentals of many old economy businesses. While a strong rebound in economic growth is likely to disproportionately favor more cyclical and value elements of the economy in the short run, over the medium to longer term we believe that the long trends of payment digitization, internet transformation, process automation, artificial intelligence and next generation infrastructure will continue to generate stronger earnings growth.

You can find below a few articles you may be interested.

<https://www.businessinsider.com/stock-market-outlook-value-cyclical-outperform-recovery-bofa-growth-rotation-2020-8>

<https://markets.businessinsider.com/news/stocks/stock-market-outlook-us-outperform-global-value-technology-growth-jpmorgan-2020-8-1029509636>

<https://www.marketwatch.com/story/value-stocks-which-trade-lowest-to-growth-stocks-since-2001-look-like-a-smart-play-as-the-economy-rebounds-2020-08-13>

<https://www.janushenderson.com/fr-fr/advisor/article/tech-stocks-looking-for-secular-growth-but-not-at-any-price/>

Key risks include:

- Your return (including any Performance Coupon) is affected by the performance of the Dispersion of the Reference Basket (US listed Shares) and whether this is greater than the Hurdle at Maturity. There is no guarantee that the Dispersion of the Reference Basket will perform well.
- There will be no Performance Coupon payable if the Dispersion of the Reference Basket is below the Hurdle at Maturity.
- There is no guarantee that the Units will generate returns in excess of the Prepaid Interest and Fees, during the Investment Term. Additionally, in the event of an Investor requested Issuer Buy-Back or an Early Maturity Event you will not receive a refund of your Prepaid Interest or Fees.
- Gains (and losses) may be magnified by the use of a 100% Loan. However, note that the Loan is a limited recourse Loan, so you will never be required to pay more than the Prepaid Interest Amount and Fees at Commencement.
- Investors are subject to counterparty credit risk with respect to the Issuer and the Hedge Counterparty; and
- the Units may mature early following an Early Maturity Event, including an Adjustment Event, Market Disruption Event or if the Issuer accepts your request for an Issuer Buy-Back.

Please refer to Section 2 “Risks” of the Master PDS for more information.

This flyer has been prepared for financial advisers only and is not available for distribution to end investors.

**To find out more and to download a copy of the relevant
Product Disclosure Statement, please visit
Sequoia Specialist Investments at www.sequoiasi.com.au**

*The Issuer may, in its discretion, extend or shorten the Offer Period for the Units without prior notice. If this happens, the Commencement Date and one or more consequential dates for the Units may vary. The Issuer may also defer the Commencement Date for the Units, in which case the Maturity Dates and other consequential dates for the Units may vary. If the Issuer varies the Offer Period or the Commencement Date for the Units it will post a notice on the website informing applicants of the change at www.sequoia.com.au

Units in Sequoia Dispersion – Series 6 are issued by Sequoia Specialist Investments Pty Ltd (ACN 145 459 936) (the “Issuer”) and arranged by Sequoia Asset Management Pty Ltd (ACN 135 907 550, AFSL 341506) (the “Arranger”). Investments in the Sequoia Dispersion – Series 6 can only be made by completing an Application Form attached to the Term Sheet Product Disclosure Statement (“TSPDS”), after reading the Term Sheet PDS dated 28 August 2020 and the Master PDS dated 14 August 2017 and submitting it to Sequoia. A copy of the PDS can be obtained by contacting Sequoia Wealth Management on 02 8114 2222 or contacting your financial adviser. You should consider the Term Sheet & Master PDS before deciding whether to invest in Units in Sequoia Dispersion – Series 6. Capitalised terms on the webpage have the meaning given to them in Section 10 “Definitions” of the Master PDS.

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