BEULAH CAPITAL

Australian Equities Income Portfolio

Quarterly Fact Sheet | March 2020

L3, 163 Eastern Rd, South Melbourne Vic 3205
T +613 9270 9170 **F** +613 8080 5983
W beulahcapital.com

Beulah Capital Pty Ltd
ABN 72 079 169 127
AFSL 330951

beulah

Investment Approach

The portfolio aims to outperform the S&P/ASX 100 Accumulation Index over a rolling 5-year period.

INVESTMENT STRATEGY

The portfolio invests in a concentrated portfolio of securities in some of Australia's largest 100 ASX listed companies. The portfolio is constructed to provide both an income stream and long-term capital growth from an investment in 20 to 25 of Australia's largest companies.

Universe

This investment strategy provides access to some of Australia's largest listed companies generating consistent and above average dividend yields on an after tax (including franking credits) basis.

INVESTMENT CATEGORY
Australian Shares

MINIMUM INITIAL INVESTMENT
$50,000 on a standalone basis

MINIMUM SUGGESTED TIME FRAME
7 Years

Performance

For period ended 31 March 2020

Australian Equities Income Portfolio	3 Months	6 Months	1 Year	3 Year	5 Year	Inception
Income Return	2.06%	3.23%	6.56%	6.42%	6.23%	6.13%
Capital Return	-25.41%	-28.95%	-22.54%	-10.25%	-7.16%	1.35%
Portfolio Total Return	**-23.34%**	**-25.71%**	**-15.98%**	**-3.83%**	**-0.93%**	**7.48%**
S&P/ASX 100 Accum Index*	-23.01%	-22.46%	-13.73%	-1.92%	0.58%	9.04%
Relative Return	*-0.33%*	*-3.25%*	*-2.25%*	*-1.91%*	*-1.51%*	*-1.56%*
Franking Credits	0.80%	1.07%	2.20%	2.12%	2.05%	2.11%
Portfolio Total Return (Incl. franking)	**-22.54%**	**-24.64%**	**-13.78%**	**-1.71%**	**1.12%**	**9.59%**

Performance Notes

1: All Benchmark and Model returns are calculated assuming dividends are reinvested
2: Returns greater than 12 months are annualised
3: Returns are calculated before transaction, portfolio and MDA fees as these differ pending what platform the investment is held
5: Returns and holdings may vary between investors given the nature and timing of beneficial ownership under an MDA structure
6: This document is for marketing purposes only
7: Past performance is not an indication of future performance
*8: *From 1 June 2018 the Australian Equities Income benchmark changed from the S&P/ASX 100 Industrials Accum Index to the S&P/ASX 100 Accum Index*
9. Inception date is 9 March 2012

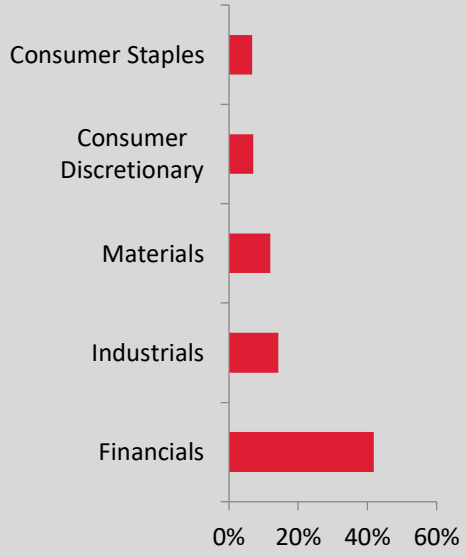
Franking Credits - Franking credits may be earned when a company pays a dividend. Where recoverable, these would represent a real return from the Portfolio.

Top 5 Stock Holdings

Company	Allocation %
Commonwealth Bank of Australia	9.54
Coles Group	7.14
Westpac Bank	7.04
Transurban Group	6.52
National Australia Bank	6.32
Total	**36.56**

Holdings as at 31 March 2020

Sector Allocation



Key Portfolio Features

Key Portfolio features	
1yr Fwd Portfolio Cash Yield	6.47%
1yr Fwd Portfolio Gross Yield	8.47%
1yr Fwd Portfolio P/E Ratio	21.01x
Percentage of cash held	5.19%

Top 5 Performers

Company	Contribution to performance %
Coles Group	0.16
Fortescue Metals Group	0.03
APA Group	-0.27
Rio Tinto	-0.34
Medibank Private	-0.42

Worst 5 Performers

Company	Contribution to performance %
National Aust Bank	-2.36
Stockland	-2.21
ANZ Banking Group	-2.16
Commonwealth Bank	-2.00
Sydney Airport	-1.66

Market & Economic Review

Risk assets around the world tumbled in the March quarter as governments instituted unprecedented shutdowns in many parts of the global economy to combat the spread of Covid-19. A strong start to the quarter saw equities regularly forge new highs throughout February. This was followed by an extraordinary market meltdown, but a catastrophe was avoided thanks to a relief rally in late March.

Against global peers, the ASX was comparatively weak as the falls overseas were cushioned by a decline in the Australian dollar. To put this in a historical context, total investor losses for the S&P/ASX 200 including dividends for the March quarter were the worst since the December quarter of 1987, and losses in the month of March were the worst since October 1987. It was also the worst March on record, eclipsing the same month in any of the depression years during the 1930s.

The theme of record losses also played out in global equities as investors struggled to quantify the impact on earnings from the Covid-19 pandemic in terms of depth, duration and restoration. In the US, for example, the blue-chip Dow Jones Industrial Average fell in the March quarter by a quantum not seen since 1987. Only one of its thirty constituents, being Microsoft, finished (slightly) higher.

The broader S&P 500 fared little better, while the Nasdaq 100 fell least among major US indexes, as "buy the dip" investors targeted the cash-rich tech mega-caps that make up its core. This occurred in a month that saw volatility spike higher and remain well above the levels seen in more recent times. At the smaller end of the market, underperformance was larger still. While the ASX Small Ordinaries was battered, the US Russell 2000 plunged the most since 1979 (in USD terms).

However, the worst was saved for the property sector. Domestic listed property lost more than a third of its value in March alone as some retail tenants unilaterally announced they would not be paying rent and the government imposed a moratorium on commercial evictions. Unsurprisingly, many A-REITs withdrew distribution and earnings guidance, following the trend that had been set in other sectors.

In traditional fixed interest markets, there was extreme volatility and a general loss of liquidity until central banks intervened with vast injections of liquidity. Credit markets became dislocated and even "risk free" sovereign bond markets exhibited equity-like behaviour. Investors reached for liquidity and tried to comprehend the deluge of coming issuance as governments announced record spending packages. Meanwhile, cash remained the ultimate capital preservation tool and was one of very few asset classes which did not become increasingly correlated with equities.

Most notable among the commodities, oil prices posted the biggest quarterly decline on record after a new supply agreement controlling production among OPEC nations and Russia was abandoned in early March. By offering steep price discounts and increasing production, Saudi Arabia sparked an existential crisis for many oil companies, as rivals Russia and the US fought to protect market share. Upon reflection, the behaviour of oil prices over the past decade now makes concerns about limits to natural availability of supply (termed 'peak oil') look like manufactured hysteria.

As markets tumbled and the domestic economy ground to a halt, the Reserve Bank cut rates to 0.25% and finally commenced unconventional monetary policy with the aim of keeping three year treasury yields at very low levels. It also announced a three-pronged easing package featuring a $90b term funding facility to support bank lending to small/medium sized businesses (SMEs).

At the federal level, several waves of stimulus were announced. The initial fiscal package comprises two separate payments to households of $750 and a new fund to support severely affected regions.

The second phase provides additional fiscal support with policies targeting job seekers and welfare recipients, SMEs, companies that are temporarily trading while insolvent, and allowing some individuals to make tax-free withdrawals from their superannuation, which sent industry funds into crisis mode.

The third phase is a wage subsidy scheme that will pay firms $1,500 a fortnight per employee for the next six months called 'JobKeeper Payment'.

In the US, a substantial fiscal stimulus package was agreed, worth about 10% of GDP, which will include some grants to small businesses. The package also provides government backing for credit to be provided by the Federal Reserve to investment grade companies to help with cash flow. However, some large companies may require grants or bailouts rather than just credit to survive this shock in the longer term.

Portfolio Review

The Australian Equities Income Portfolio returned a total of -23.34% in the March quarter. This compares to the benchmark index which returned -23.01% for the quarter. Income for the quarter was 2.06%, while franking credits added a further 0.80% return.

Sharemarkets were heavily impacted during the quarter, particularly in March from the global health crisis, which then spread to an economic crisis with the partial shutdown of major global economies. The Australian market was not immune to the selling with the market index falling close to 21% in March alone. Reporting season provided no major surprises, while any positive announcements were swamped by the negative sentiment, which was initially driven out of China, then Europe and the United States.

Positive contributors for the quarter were Coles Group and Fortescue. Coles performed strongly, driven by consumer panic buying of groceries and staple household items as consumers feared a much stronger lockdown of the economy, which failed to eventuate. Fortescue performed strongly during the quarter with iron ore demand and pricing well supported. Fortescue had reported that demand was resilient and provided solid production figures during the quarter. Iron ore shipments from Port Hedland continue as scheduled and remain at the top end of the guidance range.

The banking sector was a significant negative contributor to the portfolio during the quarter, with investors fearing a material increase in bad debts and risks around potential dividend reductions going forward. The sector is providing significant assistance to customers, which may impact earnings depending on the length and severity of the economic downturn.

Outlook

The domestic and global economies are undergoing an unprecedented shock, which has elicited an unprecedented response. Central banks have cut rates to their lower bound and restarted or expanded quantitative easing (QE, which describes financial asset purchase programs).

The US Federal Reserve's commitment to purchase as many government bonds as necessary will weigh on risk free rates such as long term bond yields and boost asset valuations. Its corporate credit program should also prove a significant support for investment grade corporate bonds.

The US high yield sector currently looks the most susceptible to default events and this is evident in the sharp rise in the cost of borrowing relative to government-issued securities (known as 'the spread'). Many smaller companies will find it more difficult to raise cheap capital than their larger peers and are likely to face stiff headwinds over the coming months.

On the domestic front, the Australian economy will almost certainly contract in the March quarter as the impacts of the Covid-19-induced partial shutdown reinforce the weakness that emanated from the bushfire crisis.

The federal and state/territory governments have announced multiple phases of stimulus, which comprise a combined ~17% of GDP. This will provide some cushioning to the collapse in activity that will occur in the June quarter and bring about Australia's first recession since the early 1990s.

Some of the concern by domestic listed property investors is that the sector may need to conduct dilutive equity raisings such as it did during the GFC. However, unlike the GFC, the sector did not enter this crisis with dramatically over-geared balance sheets. The length of the downturn will be key in determining how this plays out, as will the "working from home" experience. Indeed, the latter may help bring to an end the seemingly unending escalation in office rents in Sydney and Melbourne where new supply is also in the offing.

At the global level, numerous countries have announced a raft of stimulus measures. Most notable is the US fiscal package, which significantly increases jobless benefits for the next few months. However, the policy appears less effective than the Australian, UK or German policy of encouraging companies to hold on to staff. Overall, fiscal policy has already delivered a significant stimulus globally but further measures are still likely to be needed to deal with the size of this shock.

Outlook (cont.)

The OECD and IMF have downgraded global growth for 2020. Separately, we expect the US economy will experience a contraction in the March quarter followed by a deep slump in the June quarter. The unemployment rate will likely rise to double-digit levels before staging a partial recovery at the end of 2020.

China's economy remains weakened by containment measures introduced in response to the Covid-19 outbreak. China is likely to see its economy contract sharply in the March quarter and again in the June quarter, but at a slower pace. That economy is thought to be back to 80% capacity at the end of March.

Overall, the depth and duration of this recession will strongly depend on the trajectory of the outbreak and the extent to which governments are prepared to fill the demand gaps and prevent unemployment from spiralling out of control. If the latter were to occur this would hurt residential property where households are already highly leveraged and feed into weaker future spending, further threatening business sustainability.

The Portfolio is expected to yield nearly 8.47% on a grossed-up basis, which compares favourably to income-generating alternatives in the fixed interest space. Given the government mandated closure of many businesses, we see elevated risks to dividend payments depending on the length of the shutdown.

Despite these risks, the Portfolio's estimated expected yield is well ahead of more secure term deposit rates that are averaging just 1.25% for one year. We expect the current low interest rate environment to persist for a significant period, as confirmed by the RBA, while government stimulus should help the economy and employment recover in due course.