

BEULAH CAPITAL

# Beulah Conservative Portfolio

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Quarterly Fact Sheet | June 2020

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## Investment Approach

The portfolio aims to achieve a rate of return that matches inflation (CPI) plus 3% over a rolling 5 year period.

### INVESTMENT STRATEGY

The portfolio targets a 70% investment in income assets (cash and fixed income) and 30% investment in growth assets (shares, property and international) either directly or through specialist wholesale fund managers. The allocation to individual asset classes is managed on a dynamic basis and may vary within nominated ranges.

## Universe

The portfolio is invested across a mix of shares, property and fixed income securities. The targeted use of specialist managers also allows access to investment expertise and a diverse range of securities not readily available in an individual portfolio of this size.

### RISK PROFILE

Low to medium: The estimated frequency of an annual negative return being less than 1 in 8 years.

### MINIMUM INITIAL INVESTMENT

\$100,000 on a standalone basis

### MINIMUM SUGGESTED TIME FRAME

4 Years

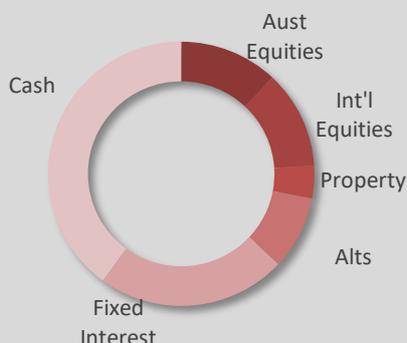
## Performance

Beulah Conservative Portfolio						
	3 Month %	6 Month %	1 Year %	3 Year %	5 Year %	Incept %
Portfolio Return	6.86	-5.03	-1.74	1.51	2.53	4.70
Peer Returns	2.82	-0.97	0.36	3.09	3.02	
<b>Relative Return</b>	<b>+4.04</b>	<b>-4.06</b>	<b>-2.10</b>	<b>-1.58</b>	<b>-0.49</b>	
Investment Objective (CPI +3%)						5.12

### Performance Notes:

- 1: Peer returns are based on Morningstar Category peer averages that most closely reflect Beulah asset allocations.
- 2: Model portfolio return includes dividends and income, but does not assume reinvestment.
- 3: Returns greater than 12 months are annualised.
- 4: Returns are calculated after Managed Fund and other transaction costs, but before portfolio and MDA fees.
- 5: Returns are rounded to two decimal places.
- 6: Returns and holdings may vary between investors given the nature and timing of beneficial ownership under an MDA structure.
- 7: This document is for marketing purposes only.
- 8: Past performance is not an indication of future performance.

## Asset Allocation



Asset Class	Actual %	Range %
Australian Equities	12	0-30
International Equities	12	0-25
Property Securities	4	0-10
Alternatives	9	0-20
Fixed Interest	23	20-50
Cash (inc. Tactical)	40	10-60

## Contribution to Performance

Asset Class	Contribution to performance %
Australian Equities	2.56
International Equities	1.00
Property Securities	0.92
Alternatives	0.86
Fixed Interest	1.45
Cash	0.07

## Market & Economic Review

The June quarter began with an astonishing relief rally as the fear and panic experienced in March subsided. The rally continued throughout May and June and economies began to reopen after the spread of Covid-19 forced draconian shutdowns. As the quarter drew to a close, equities in many regions posted record gains. The US S&P 500 had its best quarter since 1998, while the Dow Jones Industrial Average had its best quarter since 1987. Closer to home, the S&P/ASX 200 returned over 16% even as dividends continued to be cut or deferred.

Looking back over the financial year (FY20), losses in domestic shares were the worst since FY12. CSL was a standout performer, followed by Wesfarmers and Woolworths. But, Afterpay was the biggest winner, soaring 143%. Compare this to Flight Centre and Webjet that lost two-thirds of their value, making losses in CBA and Telstra pale in comparison.

Perhaps the biggest shock in the quarter was in oil markets, which were briefly rocked by negative prices. When an important oil futures contract neared expiry in late April, many traders were faced with the prospect of taking delivery. This coincided with storage facilities already close to capacity and forced sellers to pay others to take physical possession. Elsewhere, gold extended its rally, closing out the best quarter in four years with uncertainty about the economic recovery and ultralow interest rates lifting demand for the safe haven metal.

Traditional fixed interest markets resumed more normal transmission as the extreme volatility, and in some cases complete market dislocation, dissipated thanks to broad-based intervention by central banks. Meanwhile, cash retained its capital preservation properties and produced a modest positive return, at least in Australia. In some parts of the world, investors must incur negative interest rates for banks to store their liquid wealth.

### Disclaimer

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## Market & Economic Review (cont.)

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On the economic front, it was a familiar story around the globe. Retail sales, manufacturing and employment had rebounded strongly by quarter's end, though remained well below their pre-Covid-19 levels. The easing of monetary policy has prevented a health crisis from morphing into a liquidity crunch. Asset purchase programs were dramatically escalated, and this provided an enormous boost to financial markets.

Fiscal expansion also proved to be beneficial for economies as they recovered from widespread restrictions and lockdowns. Australia has seen the implementation of the JobKeeper scheme that has prevented the official unemployment rate from reaching double figures. JobSeeker payments (previously Newstart) have effectively doubled and this has placed money in the hands of those most likely to spend.

In the US, incomes have been supported by stimulus cheques and unusually generous unemployment benefits, though these are due to expire at the end of July. Finally, we note that China's recovery has thus far been slower than anticipated as the emerging giant is still heavily reliant on strong global activity to suck in its exports. This comes after March quarter real GDP experienced its first annual decline since the mid-1970s.

## Portfolio Review

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The Portfolio strongly outperformed peers during the June quarter following a bounce in Australian equities, listed credit holdings and various growth-style positions performing strongly. It was a busy quarter with numerous changes taking place. In summary, we deployed tactical cash to introduce exposures to global infrastructure and adjusted small caps style bias. We also took profits on outperforming stocks such as Afterpay (APT) and switched major bank exposure in favour of NAB, away from Westpac (WBC).

Of note, performance would have been about 1% stronger if not for tax-loss selling in the listed Metrics securities in late June (MOT and MXT). We continue to own these securities because of their consistent income profile, stable underlying asset values and management's ability to actively manage default risk throughout the portfolio. Because of the temporary and seasonal nature of tax-loss selling, the underperformance caused in the month of June has already been reversed in July-to-date, where the Portfolio is tracking strongly positive.

Australian shares rallied strongly in the June quarter with many companies recovering a high proportion of their losses. There was also a strong rotation back towards value stocks in late May and early June, which paved the way for several changes to take place. This included expressing a preference for NAB over WBC as we see a stronger upside to earnings in NAB. Having raised significant new capital recently, NAB now maintains a solid capital position to absorb potential loan losses until the economy recovers. Meanwhile, WBC faces the potential for significant financial penalties resulting from the AUSTRAC investigation relating to anti-money laundering breaches.

In the domestic small cap space, we reduced our exposure to OC Premium Companies Fund to lock in profits from the recent rotation into value-style investing. We retained our overall exposure to small caps by introducing Eley Griffiths Emerging Companies Fund, which also invests in micro caps thereby giving it a strong growth tilt. Eley Griffiths adopts a long-term bottom up approach to stock picking and uses Price/Earnings ratios and cashflow as fundamental valuation tools.

We also added global listed infrastructure to the Portfolio via the hedged version of Maple-Brown Abbott Global Listed Infrastructure Fund. The fund is typically less volatile than the broader market and should generate income well above cash. The fund is a concentrated portfolio of typically 25 to 35 high quality infrastructure companies with limited sensitivity to competitive and commodity price pressures. Invested companies ideally have inflation-linked revenue and minimal competitive and commodity price risks.

Within the Alternatives asset class we continue to hold the market neutral Perpetual Pure Equity Alpha Fund. This is likely to provide a return above cash through its skilled stock-picking approach and increase the overall income profile of the portfolios. In essence, the manager aims to generate positive returns over a market cycle irrespective of market conditions by investing in both long and short positions of predominantly Australian shares.

## Outlook

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The long-term outlook continues to be clouded by the potential for future outbreaks of Covid-19. In Melbourne, a new six-week lockdown was implemented in early July as the nation's second-most populous state struggled with rising cases involving community transmission. With Victoria comprising about 20% of Australian GDP, the latest restrictions will slow the pace of the recovery.

In the shorter term, we note that whenever there have been strong quarters (such as the one just gone by), these tend to be followed by another strong quarter. This is particularly true for the US market. Since 1950, the S&P 500 has risen every time, by an average of 9.5%, in the quarter following a quarterly gain of at least 15%. Australia's All Ordinaries index has risen 70% of the time, by an average of 10.8%, in the quarter following a quarterly gain of at least 15%.

Risks to the global recovery, however, are manifold. The US remains deeply divided and the November presidential election is unlikely to reduce internal tensions. Geopolitical issues between the US and China also continue to simmer with the trade war likely to escalate in 2021 and reverse the trend of globalisation that has dominated over recent decades. Global supply chains are being transformed as the pandemic has created fears about food security and pressure for domestic production of essential supplies.

In Emerging Markets, China will need to rely more heavily on consumer spending and domestic fixed investment to regain the momentum it lost earlier this year. Australia will be watching closely as this will place a floor under iron ore prices, particularly as Brazil is being decimated by the spread of Covid-19. On a positive note, China's business sector is becoming more optimistic about the economic outlook and we expect this to fuel strong employment growth.

Elsewhere, in Europe, a proposed recovery fund aims to provide support to some of the worst-affected countries, such as Italy and Spain, from countries such as Germany and France. This is important for the recovery of many southern European nations as the monetary union prevents them from increasing their competitiveness in both tourism and manufacturing via currency devaluations.

Perhaps the greatest certainty regarding the outlook is that interest rates will be lower for longer and central bank asset purchase programs will continue to weigh on bond yields. In addition, government debt will continue to grow and public sector spending will comprise a significantly larger share of the global economy.