BEULAH CAPITAL

Beulah Growth Plus Portfolio

Quarterly Fact Sheet | June 2021

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Investment Approach

The portfolio aims to achieve a rate of return that matches inflation (CPI) plus 6% over a rolling 7 year period.

INVESTMENT STRATEGY

The portfolio targets a 10% investment in income assets (cash and fixed income) and 90% 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 mainly invested across a mix of shares and property with some diversification into 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
Medium to high: The estimated frequency of an annual negative return being less than 1 in 4 years.

MINIMUM INITIAL INVESTMENT
$100,000 on a standalone basis

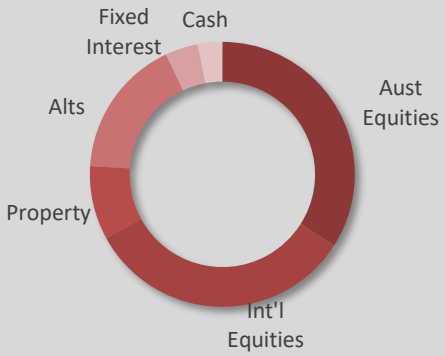
MINIMUM SUGGESTED TIME FRAME
7 Years plus

Performance

Beulah Growth Plus Portfolio	3 Month %	6 Month %	1 Year %	3 Year %	5 Year %	Incept %
Portfolio Return	6.21	9.92	24.84	7.53	7.14	8.08
Peer Returns	7.12	12.59	25.66	8.95	9.97	
Relative Return	*-0.91*	*-2.67*	*-0.82*	*-1.42*	*-2.83*	
Investment Objective (CPI +6%)						8.03

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	34	20-75
International Equities	33	15-70
Property Securities	9	0-15
Alternatives	17	0-35
Fixed Interest	4	0-15
Cash (inc. Tactical)	3	0-20

Contribution to Performance

Asset Class	Contribution to performance %
Australian Equities	2.82
International Equities	2.05
Property Securities	0.95
Alternatives	0.35
Fixed Interest	0.04
Cash	0.00

Market & Economic Review

The June quarter saw investors pile into banks and commodities and re-enter technology stocks as vaccination programs in developed economies raised hopes that herd immunity could be achieved by year end. The major miners led the market gains as the price of iron ore rose to its highest level on record, supported by Chinese demand amid a global building boom funded by extraordinary fiscal spending, often aimed at infrastructure. Oil prices also climbed higher on rising demand. Overall, the Australian sharemarket capped its best financial year since 1987, led by a broad-based rebound. Listed property posted double-digit returns as bargain hunters were buoyed by lower risk free rates.

In the US, the first quarter earnings update shot the lights out. According to FactSet data, 86% of S&P 500 members reported a positive EPS surprise and 76% reported a positive revenue surprise. The S&P 500, Nasdaq Composite and the Dow each posted double-digit gains for the first six months of this year. Meanwhile, policy tightening and regulatory concerns weighed on China's relative performance and on Asian indices as a whole. More broadly, rising input costs, microchip shortages and tighter labour markets across Developed Markets led to bouts of market volatility during the quarter.

Investors regained confidence in Fixed Interest markets, pushing down yields to well below their March highs and benefiting higher growth sectors. Credit markets also improved as the strength of the economic recovery led to a lower likelihood of widespread defaults. Earlier this year, bond yields had been on the rise amid the Covid-19 vaccine rollout and expectations of a broad economic recovery and faster inflation.

On the economic front, domestic GDP growth for the March quarter exceeded expectations, driven by household spending and improving business investment.

Market & Economic Review (cont.)

However, March quarter CPI was quite subdued despite higher fuel prices. To date, the main signs of domestic inflation have been at the producer level thanks to rising input prices such as for copper, which forged new records in the quarter. The May unemployment rate dropped to its February 2020 level of 5.1%. However, the improvement is being exaggerated by the inability for overseas non-resident workers to re-enter Australia, with just a third of this group in the labour market compared to its March 2020 level.

The US and European job markets have also been recovering, but it was the question of whether high inflation would be transitory that dominated the headlines. Shortages and strong "reopening" demand saw US consumer and producer price rises reach levels not seen since the 1980s. The June Federal Reserve meeting surprised markets as Fed officials intimated that the strength of the recovery and potential for higher inflation could see interest rates rise sooner than is being officially guided. The median Federal Open Mark Committee (FOMC) participant now expects two rate hikes in 2023 (up from none) and there is speculation that rates could rise in 2022.

This hawkish pivot by the Fed also led to an appreciation of the US dollar and weighed on the Australian dollar, despite the strong rise in commodity prices. Meanwhile, Bitcoin reversed its spectacular rise during the quarter and gave back more than 40% in US dollar terms. The crypto sell-off was broad-based and intensified on news of growing regulatory and environmental concerns.

In Emerging Markets, China's economic growth data regularly printed below expectations, particularly consumer-related releases such as retail sales. Weaker household spending, in turn, made it difficult for China's business sector to pass on higher costs, where producer input prices grew at a much faster rate than consumer inflation. Meanwhile, India was plunged into a severe lockdown after a new wave of Covid led to a humanitarian crisis and stretched its health infrastructure to breaking point. The restrictions successfully slowed the spread of the virus, but have had a severe impact on economic activity.

Portfolio Review

The Portfolio performed solidly during the June quarter led by strong performances across domestic and global equity exposures. For the 2020/21 financial year, the Portfolio delivered strong returns and continues to exceed its long term CPI+ objective some eleven years post inception. All invested asset classes made positive contributions during the quarter. Among the selected fund managers, Eley Griffiths Group Emerging Companies was the strongest performer during the quarter, delivering double-digit returns and easily exceeding its internal benchmark of the S&P/ASX Small Ordinaries Accumulation Index. The unhedged Global Healthcare ETF also produced double-digit returns as the sector regained its momentum, further benefiting from the weaker Australian dollar.

Changing market dynamics in 2021 presented an opportunity to alter our style themes in the Portfolio. During the quarter we used tactical cash to increase exposure to Equity Market Neutral manager (Perpetual Pure Equity Alpha) to generate absolute returns from long and short positions; switched into a specialist Global Equities value manager out of core; and switched our EM manager to an experienced thematic investor.

Beginning with Emerging Markets, we have been disappointed with the performance of Pendal Global Emerging Markets Opportunities and lost confidence that the manager could sustain any future outperformance. Pendal has been replaced with CC RWC Global Emerging Markets, a London-based manager that uses a macro overlay in its bottom-up process. RWC tries to link its top-down and bottom-up process via thematic analysis of trends, including global comparisons.

In Developed Markets, we have been focused on adding to our global value exposure while retaining positions in long-term secular growth themes. In recent years, our core exposure has been through Legg Mason QS Investors Global Equities. This manager uses a more quant-based approach to construct its portfolio. However, in the current environment which is characterised by improving economic activity and rising prices, we concluded that a more traditional-style value manager would be beneficial to the portfolio, being Perpetual Global Share Class A, as it can tilt between defensive and cyclical positions as the market evolves rather than being wedded to one exposure.

Overall, these moves are expected to improve upside capture from traditional value and cyclical parts of the broader market and provide better protection during market ructions.

Outlook

The sustainability of the rebound in global markets and economies is strongly dependent on the success of the vaccine rollout and the immunity these vaccines confer against new strains of the virus. Prior to the spread of the Delta variant, there was higher activity and momentum in regions with either high vaccination rates or low virus cases, typically due to more relaxed restrictions. More recently we have seen a pullback in economic activity indicators, particularly for services. However, many nations are determined to live with the virus and are implementing Covid passport schemes and other measures to allow vaccinated citizens some additional freedoms, even as cases rise.

Meanwhile, most of the recent rise in cases has been among younger cohorts that tend to be less susceptible to the full effects of the virus. Hospitalisations and deaths are lower and there are few signs of health care systems being overwhelmed. While this may quickly change, the medium term outlook continues to look bright. The key remains reaching herd immunity, which in many developed nations will occur before Christmas, and creating booster vaccines that are effective against new mutations. In less developed nations where the vaccine rollout is in its infancy and less effective vaccines have been adopted, there is more uncertainty about the timing and strength of the recovery.

In Australia, about half the population was in lockdown during July and for NSW, in particular, it would appear that dramatic measures will be required if it is to emerge prior to September. The impact of the restrictions is likely to lead to an economic contraction in the September quarter, but much of the lost activity should be regained by year end so long as governments continue to escalate assistance packages. The upcoming 'election cycle' should mean that this risk is unlikely to materialise. Prior to the lockdowns, there were reports of labour shortages due to closed borders impacting migrant flows and preventing an influx of foreign students. Along with falling unemployment, this had the effect of boosting wages growth, but it may prove short-lived if the NSW situation continues to deteriorate.

In any case, we continue to posit the view that inflation likely peaked in the June quarter in Australia and much of the rest of the world. As supply chain disruptions dissipate and 'reopening' demand moderates, price pressures should prove to be temporary. Wage pressures are likely to subside once international borders reopen and enough slack is likely to re-emerge that should stop runaway inflation. Supportive fiscal and monetary settings are bolstering confidence and productivity looks set to rise on the back of increased investment in physical capital. To the extent that new investment boosts overall capacity, this will limit excessive price pressures over the medium term.

While the spread of the Delta variant may cause financial markets to wobble from time to time, it's unlikely that there will be a return to the histrionics of March 2020. Indeed, the ongoing strength in equity markets looks set to be validated as strong quarterly earnings reports emerge in the US and signs remain positive for the upcoming August reporting season for ASX-listed stocks. We are expecting upward revisions in consensus for earnings and dividends. If earnings rise, dividends will rise even with no change in payout ratios. The sharemarket's yield should move back above 3% even if we make new highs. But, as investment markets near peak liquidity from policy support, the strength of returns will probably moderate as the reflation trade starts to fade.

Finally, the recent bond market rally has been stronger than many had anticipated, bringing about a pause in the Value switch and leading to renewed interest in Growth stocks. Overall, risk assets are benefiting from lower bond yields and a fall in equity risk premiums. Among the defensive asset classes, there is an increasing focus on credit markets despite supportive central bank settings and policy guidance. Credit spreads look to be very tight, particularly at the lower end of the bond market's rating spectrum. With the strength of the macro recovery resulting in very low dispersion across different credit risk pricing from Investment Grade to High Yield, this could be masking true risk.