BEULAH CAPITAL

Australian Equities Income Portfolio

Quarterly Fact Sheet | December 2021

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

	1 Month	3 Months	6 Months	1 Year	3 Year (p.a.)	5 Year (p.a.)	Since Inception (p.a.)
Australian Equities (Income)							9-Mar-12
Income Return	0.33%	0.88%	2.84%	5.23%	5.35%	5.75%	5.84%
Capital Return	2.09%	-0.31%	0.28%	9.69%	4.30%	-0.27%	4.05%
Model Portfolio Return	**2.42%**	**0.57%**	**3.12%**	**14.92%**	**9.65%**	**5.48%**	**9.89%**
S&P/ASX 100 Accum Index*	2.84%	2.24%	3.83%	17.65%	13.74%	8.93%	12.19%
Relative Performance	*-0.42%*	*-1.67%*	*-0.71%*	*-2.73%*	*-4.09%*	*-3.45%*	*-2.30%*
Franking Credits	0.00%	0.17%	0.89%	1.62%	1.69%	1.85%	1.96%
Total Return inc. Franking	**2.42%**	**0.74%**	**4.01%**	**16.54%**	**11.34%**	**7.33%**	**11.85%**

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

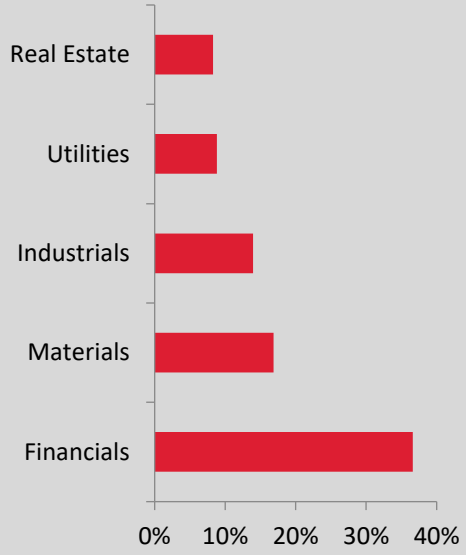
Franking Credits - Franking credits may be earned when a company pays a dividend. Where recoverable, these would represent a real return from the Portfolio.

Top 5 Stock Holdings

Company	Allocation %
Stockland Group	5.98
Telstra	5.91
BHP	5.81
Commonwealth Bank	5.81
Transurban	5.31
Total	**28.82**

Holdings as at 31 December 2021

Sector Allocation



Key Portfolio Features

Key Portfolio features	
1yr Fwd Portfolio Cash Yield	5.10%
1yr Fwd Portfolio Gross Yield	6.50%
1yr Fwd Portfolio P/E Ratio	15.98x
Percentage of cash held	13.94%

Top 5 Performers

Company	Contribution to performance %
Fortescue Metals	1.05
APA Group	0.61
BHP Group	0.48
Macquarie Group	0.46
Telstra	0.37

Worst 5 Performers

Company	Contribution to performance %
Westpac Bank	-0.84
Magellan Financial	-0.54
Suncorp	-0.35
Insurance Aust Group	-0.30
Aurizon	-0.27

Market & Economic Review

The December quarter began with a debacle in domestic fixed markets at the end of October. Bond investors reassessed inflationary expectations and formed the view that the Reserve Bank of Australia (RBA) would need to raise interest rates well before the previously guided 2024. As a result, the yield on the 3-year government bond expiring in April 2024 skyrocketed to five times the RBA's desired level of 0.10%. In what was an embarrassing policy failure, had the RBA attempted to defend its yield curve control (YCC) policy and purchase more 3-year bonds, it would have ended up owning the entire free float of April 2024 bonds on issue. In total, these ructions wiped out a year's worth of returns in traditional domestic fixed interest markets, before some losses were clawed back in November and December. However, the sector finished 2021 in the red.

In November, important news rippled through overseas markets when the Chief of the US Federal Reserve, Jerome Powell, implied that there would be an acceleration of the QE tapering program. That would open the door to interest rate hikes thereafter. Powell also retired the word "transitory" to describe inflation, despite presenting a one-sided case for why price pressures were no reason for alarm just two months earlier.

But, the main event during the quarter was the emergence of the Omicron Covid-19 variant. Fears arounds its high level of transmissibility sparked increased volatility in financial markets. Most at risk were stocks in the travel-related sector and sub-investment grade debt, which incurred sharp sell-offs. However, markets seemed less concerned about Omicron when reports showed that it was less lethal than the Delta variant, with many cases asymptomatic.

As the quarter came to a close, domestic shares posted another calendar year of positive total returns to investors. Since the height of the GFC, there have been just two years where key ASX benchmarks have posted negative returns. The average annual total return for domestic shares over the last twenty years has been close to 10%. Telecommunications was the best performing sector in 2021, led by a rebound in Telstra. The listed property sector, financials and consumer discretionary sectors also performed strongly. At the opposite end of the spectrum were the energy and information technology sectors, with the latter seeing its valuations hit by rising risk-free rates.

Meanwhile, domestic investors holding unhedged foreign equities continued to benefit from the weaker Australian dollar. The benchmark US S&P 500 has delivered positive Australian dollar-denominated total returns every year for the last ten years, with the average annual return above 20%. The local currency has depreciated by almost 30% against the greenback over the same period. Throughout 2021, the S&P 500 registered 70 record-high closes – the second-most ever.

On the domestic economic front, growth for the September quarter exceeded expectations as the lockdown-adapted Victorian economy avoided a repeat of previous slumps following yet another lockdown. Despite earning the title of the world's most locked down city, Melbourne found ways to minimise the disruptive impacts of pandemic-related restrictions. In other news, hours worked surged later in the quarter as employment skyrocketed and the unemployment rate fell. The US also enjoyed strong employment data and average wages posted strong gains.

On the closely-watched inflation front, US consumer and producer price growth remains elevated, with some measures reaching multi-decade highs. It was a similar story throughout Europe and the UK. Finally, in Emerging Markets, China came under renewed pressure as the Evergrande debt crisis escalated and retail sales missed expectations. House prices continued to weaken and authorities implemented new restrictions to deal with the spread of the Omicron variant. Despite this, China posted above-consensus December quarter GDP growth and recorded its strongest share returns for the year.

Portfolio Review

The Income Portfolio returned 0.57% in the December quarter, underperforming the S&P/ASX 100 benchmark index, which gained 2.24%. With the addition of franking credits, the Portfolio returned 0.74% for the quarter.

Portfolio Review (cont.)

December quarter performance was impacted by significant underperformance from the banking and financial sector holdings. In particular Magellan Financial, Westpac and Insurance Australia Group were disappointing, while the elevated cash position in the Portfolio also caused a drag relative to the benchmark. BHP Group, APA Group and Fortescue Metals were solid performers during the period.

The upcoming profit reporting season should provide good insight as to how management is coping with inflation pressures, forward guidance will be watched closely by the market.

The Portfolio remains well diversified and with an elevated cash position, it has remained partly protected from the recent market sell-off, compared to the index. The 1-year forward Portfolio cash yield currently stands at 5.10%. With the addition of franking credits, the Portfolio gross yield is approaching 6.5%.

Outlook

Much of the focus will continue to be on the disruptive impact of the pandemic and how quickly financial conditions tighten in response to inflation (such as by the removal of QE and out-of-cycle rate rises by the banking sector). Economic activity was more muted in January, but most investors were looking further ahead and trying to digest the sharp sell-off during the month. At the same time, there were encouraging signs of a negotiated agreement between Russia and the US over rising tensions in relation to Ukraine. Investors are also expected to pay close attention to the February company reporting season, where operating margins and outlook statements by management will be heavily scrutinised.

In Australia, the RBA's baseline GDP forecast is for growth of around 4.25% over 2022, before moderating to 2% over 2023. Current conditions suggest that household and business balance sheets are in good shape. Rising business investment is expected to continue and the election cycle should ensure expansionary policy settings. The momentum in the labour market suggests that only a large shock would create recessionary conditions in the short term. Job vacancies remain high, migration is on hold and the RBA's baseline labour market forecast is for the unemployment rate to fall to below 4% in 2022 and to 3.75% at the end of 2023. Wages growth is moderate, but showing signs of accelerating as the economy moves to something resembling post-Covid normality. Some economists are now questioning whether a combination of declining birth rates, slowing migration and early retirements could lead to years of worker shortages.

However, the key risk seems to be that the RBA underestimates the persistence of inflation, thereby acting too late and allowing it to become entrenched. The potential for this kind of policy error is growing because the RBA remains dovish on price growth, even as supply chains remain disrupted. Household confidence is driving stronger-than-normal goods demand through the deployment of excess savings and expectations of higher disposable income via likely income tax cuts. Furthermore, as Omicron subsides, services spending could roar back, thereby preventing any sharp decline in price pressures outside of falls in energy costs.

During the December quarter, inflationary expectations again ratcheted higher and seasonally adjusted inflation exceeded 5% on an annualised basis. Measures of less volatile ‘underlying’ inflation averaged almost 4% during the quarter on an annualised basis. While this is no guarantee of future strong rises, these moves took place despite weaker services inflation and minimal changes in the trade weighted index (i.e., exchange rate movements are yet to lead to higher ‘imported’ inflation). In the US, the equivalent inflationary measures are around 300 basis points higher and are showing few signs of moderating.

In Emerging Markets (EM), some countries have already tightened monetary policy as part of efforts to reduce inflationary pressures and front-run US rate hikes, thereby mitigating risks of capital flight. Risks in EM appear evenly balanced as rising commodity prices and manufacturing strength in select countries is countered by a faltering property market in China and the likelihood of further Covid-19 mutations until more low-middle

Outlook (cont.)

income nations are able to fully participate in vaccine rollouts. However, EM equity valuations remain attractive relative to Developed Market (DM) peers.

Elsewhere, in DM, the recent market correction may yet prove to be a good buying opportunity, largely because there is no clear sight of any looming recession. But, if a shock (geopolitical, policy error, etc.) were to lead to a prolonged recession, then an extended bear market could not be ruled out. While we are not expecting markets to capitulate, it is likely that returns across most asset classes will be more muted and more volatile in 2022. Within equities, value-style stocks are less impacted by rising discount rates, while in fixed interest, highly-rated floating rate bonds are expected to remain popular among investors.

Finally, we expect cash rates to diverge across DM throughout the year, with increases to initially to come from the UK and the US. As QE is removed, financial conditions will tighten even before policy rates are adjusted. In Australia, financial conditions have already tightened as the banking sector has raised commercial and residential lending rates outside of the policy cycle. This may mean that the RBA can wait longer before raising the official cash rate than might otherwise be the case. However, the market is pricing for lift-off to occur in June, with rates to reach 1% by year end. Given dovish RBA guidance, this suggests that either the RBA remains behind the curve, or markets are too aggressive. We feel the truth lies somewhere between these polar extremes.