BEULAH CAPITAL

Beulah Growth Portfolio

Quarterly Fact Sheet | December 2021

L3, 163 Eastern Rd, South Melb VIC 3205
T 61 3 9270 9170 F +61 3 8080 5983
W beulahcapital.com

Beulah Capital Pty Ltd
ABN 72 079 169 127
AFSL 330951

beulah

Investment Approach

The portfolio aims to achieve a rate of return that matches inflation (CPI) plus 5% over a rolling 7 year period.

INVESTMENT STRATEGY

The portfolio targets a 25% investment in income assets (cash and fixed income) and 75% 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
Above medium: The estimated frequency of an annual negative return being less than 1 in 4 years.

MINIMUM INITIAL INVESTMENT
$100,000 on a standalone basis

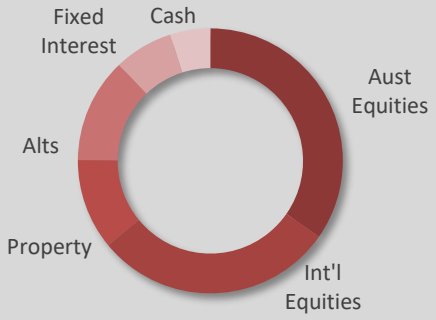
MINIMUM SUGGESTED TIME FRAME
7 Years

Performance

Beulah Growth Portfolio							1-Jul-10
	3 Month	6 Month	1 Year	3 Year	5 Year	10 Year	Incept.
Model Portfolio Return	3.24%	6.52%	16.58%	12.59%	7.22%	8.85%	7.88%
Peer Returns	2.56%	4.20%	14.19%	10.94%	7.89%	8.78%	
Relative Return	*0.68%*	*2.32%*	*2.39%*	*1.65%*	*-0.67%*	*0.07%*	
Investment Objective (CPI +5%)							6.97%

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	35	15-65
International Equities	29	10-60
Property Securities	11	0-15
Alternatives	13	0-25
Fixed Interest	7	0-25
Cash (inc. Tactical)	5	0-25

Contribution to Performance

Asset Class	Contribution to performance %
Australian Equities	0.85
International Equities	0.87
Property Securities	0.85
Alternatives	0.53
Fixed Interest	0.14
Cash	0.00

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.

Market & Economic Review (cont.)

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

In what proved to be a more volatile quarter, the Portfolios again posted positive returns and remained ahead of peers and relevant benchmarks in most instances. The same pattern emerged for the 2021 calendar year. Only the Growth Plus model is modestly behind peers, as we have sought to further bolster income in that strategy due to the ongoing effects of financial repression policies in key regions. It is also pleasing that all strategies remain ahead of long-term return CPI plus objectives. This is an especially satisfying outcome, given that the Models have been in place for well over a decade and the objectives have remained at the upper end of what many peers are now targeting.

There were few changes to the Portfolio in the December quarter. We sold our position in Sydney Airport (SYD), following the announcement of an agreed takeover bid at $8.75 per share. Sydney Aviation Alliance, a consortium of several investors agreed to acquire 100% of SYD shares, ultimately lifting its offer to $8.75 cash per share. The SYD board unanimously recommended the bid to shareholders, subject to the usual caveats. Given the extended timeline of the offer and risks associated whereby shareholders will not vote until the first quarter of 2022, we elected to exit our position with an on-market sale.

Elsewhere, we increased our position in Woolworths Group (WOW) after the stock endured what seemed like an unjustifiably large sell-off following an earnings downgrade. Management downgraded its second half profit guidance on the back of higher costs related to the ongoing Covid-19 pandemic. However, sales remained in line with market expectations. The higher costs specifically relate to increased staff to enforce safety protocols in stores, distribution disruptions due to forced isolations, and changing customer behaviour (such as the move to online shopping). It is our view that some of these cost outcomes will improve into the next financial year and, hence, used the sell-off as a buying opportunity to add to our existing position.

Portfolio Review (cont.)

Notable performance outcomes within the Australian Equities component of the Models were the heavy fall in Afterpay's (APT) share price and the strong appreciation in the share prices of Metcash (MTS) and Macquarie Group (MQG). APT has been acquired by global payments behemoth, Square (now known as Block), and as such its fortunes are inexorably linked to the bidder. Shares in Square had a disappointing December quarter after investor sentiment turned against technology stocks. Meanwhile, MTS benefited from the boom in local and regional spending by shoppers during the pandemic, which boosted sales at Metcash's supermarket, liquor and hardware chains. This allowed the company to increase its recent interim dividend, despite ongoing supply disruptions. Finally, MQG continued to improve its financial performance by delivering record earnings in the six months to September and the group successfully raised $2.8 billion in fresh equity.

Among the Portfolio's fund manager holdings, global property and infrastructure made solid contributions over the quarter due to excellent security selection. In terms of manager performance, Maple-Brown Abbott Global Listed Infrastructure performed well. The infrastructure asset class is characterised by monopoly-like assets that face reliable demand and enjoy predictable cashflows. Meanwhile, our exposure to Resolution Capital Global Property Securities Fund also delivered excellent risk-adjusted returns, led by the US REITs and supported by several large real estate transactions. Noteworthy, is that the best sector (self-storage) strongly outperformed the worst (hotels). Regionally, the US strongly outperformed Japan. This was due to the uneven impact of inflationary pressures. In some sectors such as storage, logistics and residential, landlords were able to push rents higher, well ahead of inflation, thereby generating real rental growth. However, wage pressures in segments possessing high labour content, such as hotels and healthcare, saw mounting costs eat into operating margins and profits.

Overall, the Portfolios remain well positioned for 2022 and the Investment Committee continues to keep a close watch on important developments.

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.

Outlook (cont.)

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 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.