Core Value Portfolio

Monthly Update – August 2020

Performance overview

The Core Value Portfolio (CVP) returned +1.5% in August, another strong result given the conservative positioning of the Portfolio.

The rally in Australian equities continued in August with the market finishing the month up +3.0%. All Australian share funds in the portfolio produced positive returns. The standout performer was the Bennelong Concentrated Australian Equities Fund (+10.2%) and whose 12 month return is now almost 20% stronger than the index. SGH ICE (+7.7%) and Allan Gray Australia Equity (+4.9%) also contributed significant alpha to the portfolio, whilst the Macquarie Australian True Index Fund (+3.0%) and Firetrail High Conviction (+2.4%) delivered returns in line or just below index.

Global equities also had a strong month in August with the market rising +3.5%. The largest contributions came from the Macquarie International Equity True Index Fund (+3.2%) and the Loomis Sayles Global Equity Fund (+1.8%). The Talaria Global Equity Fund (+0.1%) and Lazard Global Equity Franchise (-3.1%) all fell short of their benchmark as 'value' continues to be less rewarded than 'growth' in the current market environment. Northcape Emerging Markets (-2.1%) also delivered a negative return for the month after a long period of relative and absolute outperformance.

Returns from alternatives managers saw substantial dispersion. The Bennelong Long Short Fund (+8.9%) continues to deliver solid performance and Partners Group Global Multi-Asset (+1.6%) also contributed positively. BetaShares Gold Bullion ETF (AUD Hedged) (-0.7%) was a small detractor.

Performance was also mixed across the property and infrastructure sectors. The best performers were the Resolution Capital Global Property (+6.5%) and the Lazard Global Listed Infrastructure (+0.7%), whilst the Cromwell Phoenix Property Securities Fund (-2.1%) and the AMP Capital Core Infrastructure Fund (-1.1%) both detracted from the portfolio performance.

Both the global and Australian fixed income markets fell in August, with the domestic market down (-0.3%), and the global aggregate index retracting by (-1.0%). Despite this, pleasingly, all the fixed income exposures in the portfolio made positive contributions to performance. The strongest performance came from global manager, the CQS Credit Multi-Asset Fund (+1.4%), closely followed by the Alexander Fixed Income Fund (+0.9%). The remaining managers, the Payden Global Income Opportunities Fund (+0.6%), Aquasia Enhanced Credit Fund (+0.4%) and Ardea Real Outcome Fund (+0.1%) also contributed to the performance of the portfolio.

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Portfolio Summary

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Unit Price at 31 August 2020	$1.0604

Asset Class Ranges & Current Allocations[1]		Current Exposure
Cash & Fixed Interest	15% - 60%	40.4%
Property	0% - 25%	11.9%
Equities	25% - 65%	33.5%
Alternatives	5% - 35%	14.2%

[1] The total exposure may not sum to 100% due to any direct derivative investments (such as options and futures).

Top 10 Investment Holdings (ex-cash)	
1.	Alexander Fixed Income
2.	Ardea Real Outcome
3.	Aquasia Enhanced Credit
4.	Northcape Emerging Markets
5.	Loomis Sayles Global Equity
6.	BetaShares Gold Bullion ETF
7.	Bennelong Long Short Equity
8.	Payden Global Income Opportunities
9.	Lazard Global Equity Franchise
10.	AMP Core Infrastructure

Market Overview

August saw restrictions maintained in a number of countries to contain second waves of Covid-19. Progress was made in Australia and the US in reducing infection rates, but the US still has a long way to go before they really get the virus under control. Europe is in the grip of a significant second wave. The most affected countries include Spain and France, both of which now have infection rates exceeding those in their first waves.

Not surprisingly, the resurgence of Covid-19 dampened confidence and spending. Consumer confidence in Australia slipped in July and August as the second wave took off in Victoria. However, by the end of August, sentiment had returned to levels seen in late June. In the US, the improvement in unemployment slowed in August and measures of GDP growth showed the recovery stalling at levels below what markets had been expecting for the third quarter.

The Fed announced a new approach to setting interest rates which will see them aim for much lower unemployment rates as long as inflation does not rise too far above their 2% target. This means they will be slower to lift interest rates than they have been in the past. Markets reacted to this news and pushed the US$ down, helping drive the A$/US$ up to US$0.735. The price of gold slipped back as Covid-19 cases in the US declined.

With the high level of uncertainty in the market, from the US election, geopolitical tension and the impact of continued fiscal and monetary support, diversification remains paramount. The CVP continues to be positioned defensively, with lower exposure to risk assets and higher exposure to cash, fixed income and alternative strategies.

We continue to believe equity valuations are stretched and do not represent a good buying opportunity. We will rebalance the portfolios towards more growth/less defensive exposures as opportunities arise, but in the meantime we will put capital to work to enhance the portfolios' returns, without incurring equity market risk at this time. To this end, we will introduce some new exposures that will enhance diversification and insulate the portfolios against equity market volatility.