

Core Value Portfolio

Monthly Update – December 2020

Performance overview

The Core Value Portfolio (CVP) produced a return of (+0.8%) in December, with markets continuing to see positive tailwinds on the back of a more optimistic economic outlook.

The Australian equity market experienced another positive month finishing up (+1.8%), benefiting from upbeat investor sentiment. The strongest performers were SGH ICE (+3.3%) and the Firetrail Australian High Conviction Fund (+2.5%), together delivering significant alpha for the portfolio. The Bennelong Concentrated Australian Equities Fund (+1.7%), the Allan Gray Australia Equity Fund (+1.6%) and the Macquarie True Index Fund (+1.3%) produced returns in line with or just below the benchmark.

Global equities retraced slightly after an extremely strong month in November, finishing the month down (-0.5%). Part of this retracement can be attributed to a weakening US dollar which had a negative impact on unhedged global returns. The best performing manager was the Northcape Emerging Markets Fund (+2.8%), followed by the most recent position in the Portfolio, Fairlight Global Small Mid Cap Fund (+1.3%), with both funds making a solid contribution to the portfolio's return. Lazard Global Equity Franchise (-0.5%), Macquarie International Equity True Index Fund (-0.5%) and Loomis Sayles Global Equity (-0.6%) generated returns in line with the index. The Talaria Global Equity Fund (-1.3%) was the only investment to underperform the benchmark.

Performance for alternative managers was varied, with the BetaShares Gold Bullion ETF (AUD Hedged) (+6.5%) the stand out performer. Janus Henderson Global Multi Strategy (+0.4%) delivered another positive month however, the Partners Group Global Multi-Asset Fund (-0.7%) and the Bennelong Long Short Fund (-3.1%) experienced drawdowns during December.

It was also a mixed month for the property and infrastructure sectors. The Cromwell Phoenix Property Securities Fund (+2.1%) had a strong month, whilst the AMP Capital Core Infrastructure Fund (+0.0%) finished flat, and the Lazard Global Listed Infrastructure Fund (-1.3%), and the Resolution Global Property (Unhedged) (-1.8%) both declined.

Once again, fixed income indexes performance diverged, with the Australian index declining (-0.3%), while the global index (+0.1%) increased marginally. The best performer was the Payden Global Income Opportunities Fund (+0.7%), closely followed by the Alexander Fixed Income Fund (+0.6%), and the Aquasia Enhanced Credit Fund (+0.3%). The Ardea Real Outcome Fund (-0.1%) detracted from performance but beat its benchmark.

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Portfolio Summary

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Unit Price at 31 December 2020 \$1.1122

| Asset Class Ranges & Current Allocations ¹ | | Current Exposure |
|-------------------------------------------------------|-----------|------------------|
| Cash & Fixed Interest | 15% - 60% | 29.75% |
| Property | 0% - 25% | 11.10% |
| Equities | 25% - 65% | 43.93% |
| Alternatives | 5% - 35% | 15.22% |

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. Aquasia Enhanced Credit
2. Ardea Real Outcome
3. Alexander Fixed Income
4. Northcape Emerging Markets
5. Loomis Sayles Global Equity
6. Lazard Global Equity Franchise
7. BetaShares Gold Bullion ETF
8. Bennelong Concentrated Australian Equities
9. Partners Group Global Multi Asset
10. Talaria Global Equity

Market Overview

December saw further gains in equity markets, though less than in November. The long-awaited deal on more fiscal stimulus in the US contributed to the positive mood. The rotation from growth to value stocks continued in Australia, but not at the global index level. Some of the markets' optimism was mitigated by the resurgence of the virus in the Northern Hemisphere, especially in the US and UK. By the end of the month, markets were focussing on the Georgia run-off Senate elections on 5 January and the implications of possible Democrat control of the Senate.

During the month, inflation expectations began to increase, and Treasury Inflation Protected Bonds (TIPs) yields began to fall as markets started forming the view that the US stimulus package might be larger than first anticipated. The declining TIPs yields acted as a tail wind for gold which had been struggling over the quarter, because there was greater certainty in the market. Despite expectations of inflation rising, the excess capacity in the economy means that actual inflation is unlikely to be an issue for some time.

The A\$ rose towards US\$0.77 as the iron ore price posted more strong gains and expectations intensified that the US\$ will keep falling in the coming year. The softer US\$ helped emerging market equities outperform in the month. Oil rose as OPEC decided to scale back the planned production increase in January.

As many of the risks from the end of 2020 are now behind us the markets are presenting themselves with overwhelming optimism. This is giving the Investment Committee pause. The immediate focus will be continuing to invest in areas of the market which present value and being able to take advantage of any unexpected volatility.