

# Core Value Portfolio

## Monthly Update – February 2020

### February Performance Overview

The Core Value Portfolio (CVP) generated a return of (-2.59%) in February.

Whilst a negative return, this was against a backdrop of equity markets falling significantly in what became a volatile month. Up until the last week of February, most major market indices were trading flat to up. However, in the last week equities sold off dramatically with most markets down (-10%), as the realisation that Coronavirus was turning into a global pandemic, heightened concerns about the broader implications for economic growth.

This was reflected across all asset classes along with equities. The yield on the US 10-year bond hit record lows of 1%, credit spreads widened, oil fell 13% to under \$45/barrel and the AUD fell almost 3%, briefly trading below 65 cents versus the USD. The Australian equity market ended down (-8.1%) for the month, while the MSCI World Equity Index ex AUS (in AUD) posted a loss (-4.9%), a smaller number as it benefited from the depreciation in the Australian Dollar.

The Portfolio was gradually made more defensive in nature toward the end of 2019, including a reduction in equity exposure, diversifying return sources via higher allocations to AMP Core Infrastructure and Partners Group and an exposure to Gold Bullion to hedge against geopolitical uncertainty. More significant steps were taken during the last week of February, including a further reduction in equities with a redemption from Platinum International and an increase in Fixed Income assets and Gold.

The Australian equity managers all posted negative returns as a result of the market falling. The smallest detractor to performance was SGH ICE (-7.1%), followed by IML Equity Income (-7.5%), Macquarie Australian Shares True Index (-7.8%), Firetrail Australian High Conviction (-8.6%), and Allan Gray Australia Equity (-10.1%).

Global equity managers were also down during February. Northcape Emerging Markets (-2.3%) had the smallest impact on performance as Coronavirus fears had processed through China/HK earlier, closely followed by Talaria Global Equity (-3.4%) demonstrating its more defensive strategy. Loomis Sayles Global Equity and Lazard Global Equity were down (-4.6%) and (-7.7%) respectively.

The alternatives exposures in the portfolio worked during the month to help insulate the portfolio from the significant falls in equity markets. BetaShares Gold Bullion ETF (AUD Hedged) (+4.4%) and Bennelong Long Short Equity (+1.0%) pleasingly produced positive returns, but Partners Group Global Multi-Asset (-1.2%) was a small detractor during the month.

The property and infrastructure managers also had a down month with AMP Capital Core Infrastructure down (-3.4%) followed by Cromwell Phoenix Property Securities (-4.5%), Resolution Capital Global Property (-4.7%), and Lazard Global Listed Infrastructure (-7.4%).

The fixed income exposures proved their worth and also provided diversification from the fall in markets. Overall, they made a positive contribution to February's performance with the largest contributor Ardea Real Outcome (+1.3%), followed by Franklin Templeton Australian Core Bond Plus (+0.8%), Aquasia Enhanced Credit (+0.4%), Payden Global Income Opportunities (+0.4%) and Alexander Fixed Income (+0.2%). CQS Credit Multi-Asset was the only negative contribution in this space, returning (-1.1%).

### Portfolio Summary

Core Value Portfolio		
Unit Price at 29 February 2020		\$1.1021
Asset Class	Ranges & Current Allocations <sup>1</sup>	Current Exposure
Cash & Fixed Interest	15% - 60%	45.9%
Property	0% - 25%	11.3%
Equities	25% - 65%	30.3%
Alternatives	5% - 35%	12.5%

<sup>1</sup> 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.	Aquasia Enhanced Credit
3.	Ardea Real Outcome
4.	Franklin Templeton Australian Core Bond
5.	Talaria Global Equity
6.	IML Equity Income
7.	Bennelong Long Short Equity
8.	Lazard Global Equity Franchise
9.	Payden Global Income Opportunities
10.	Loomis Sayles Global Equity

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#### Market Performance and Outlook

The first three weeks of February saw further good performance by global equity markets. The news from China about Covid-19 seemed to be getting better and the latest economic data was still quite positive. However, all this changed very quickly from 21 February when markets suddenly became alarmed by reports of the virus spreading to a number of countries around the world, including Italy, Iran, South Korea and the US.

These developments reignited fears of global recession seen last year, and equity markets fell sharply, as did the price of oil and the A\$, which ended the month at US0.652. Bonds rallied as equities fell. The US 10 year government bond yield dropped to a new record low around 1.15%, and the Australian equivalent yield falling to 0.84%. Gold initially rallied, but then gave up all its gains at the very end of the month as traders took profits in order to pay margin calls on other assets.

The question about Covid-19 is no longer about how many countries it will spread to – but how far it will spread within those countries. The latest data from the European Centre for Disease Control show the number of new cases in Europe still rising, along with the mortality rate. In the US and Australia, the number of new cases is steadily rising and so are the mortality rates.

Global financial markets have had a dramatic few weeks with volatility rolling through equity, bond, currency and commodity markets as liquidity pressures intensify. Even before the pandemic, we expected that the global economy would experience muted economic growth and low earnings growth during 2020 and 2021. This, along with elevated valuations placed global markets in a precarious position, with only a spark needed to trigger a correction in prices.

As the pandemic now roles through each country, it is now clear that the economic impact will be considerably larger than first anticipated and will negatively impact the growth outlook even further.

Globally, governments and central banks are stepping in to attempt to soften the economic impact of the Corona virus. In Australia, the Reserve Bank has cut the cash rate to 0.25% and announced that they would begin Quantitative Easing, targeting a 0.25% yield for 3-year government bonds. The Australian Federal government also announced \$189 billion of government stimulus. This spending has been very targeted and aims to support small to medium size businesses and people that have been hit hardest by the forced shutdowns. Several State governments have also stepped in and are providing even more financial support.

In the US, the Federal Reserve has cut their target cash rate to 0.0%-0.25% and announced that they would undertake \$700 billion dollars of Quantitative Easing. Measures to support the efficient operation of lending and credit markets have also commenced and have resulted in steady improvements in liquidity and pricing over recent days. The US Senate has also now approved a 2-trillion-dollar stimulus package. It will be the largest stimulus seen in US history and will see benefits to both individuals and corporates, with lower and middle income families set to receive direct payments of USD\$1200 per adult and USD\$500 per child in coming weeks.

While the stimulus has been well received by the market, at this early stage it is hard to determine its effectiveness. We should begin to see the scale of the economic impact in leading indicators in coming days. This will be very important, and markets may very well experience further volatility if these indicators point to a larger and more sustained impact.

In this environment, a continued focus on capital preservation is key. We will be monitoring the situation very closely and when the time comes for a more positive stance on risk assets, we will unwind some of the defensive measures we have put in place.

