Core Value Portfolio

Monthly Update – July 2020

Performance overview

The Core Value Portfolio (CVP) returned +1.6% in July, a strong result given the fairly defensive posture of the portfolio.

The Australian equity market increased marginally in July (+0.9%). The largest contributions within the Portfolio came from the Bennelong Concentrated Australian Equities Fund (+2.3%) and SGH ICE (+2.6%). The Macquarie True Index Fund (+0.6%) and Firetrail High Conviction (+0.6%) also contributed but underperformed the market slightly. The only detractor was the Allan Gray Australia Equity Fund (-2.8%).

Global equities had a relatively flat month in July managing a small rise (+0.6%). Once again, the Northcape Emerging Markets Fund (+11.2%) had a strong month, substantially outperforming the index, thanks to core holdings in rubber and PPE manufacturers, precious metals and Taiwan Semi-Conductor. The Loomis Sayles Global Equity Fund (+3.1%), Macquarie International Equity True Index Fund (+0.9%) and Lazard's Global Equity Franchise Fund (+0.6%) delivered returns above or in line with the index. The Talaria Global Equity Fund (-0.9%) was the only global equities manager to detract from performance.

Alternatives holdings within the Portfolio made strong contributions. The BetaShares Gold Bullion ETF (+11.7%) was the strongest performer, followed by the Bennelong Long Short Fund (+4.5%) and the Partners Group Global Multi-Asset Fund (+1.8%).

Performance was mixed across the property and infrastructure sectors. The best performer was the Resolution Capital Global Property Fund (+0.8%), closely followed by the AMP Capital Core Infrastructure Fund (+0.3%). The Cromwell Phoenix Property Securities Fund (-2.1%) and the Lazard Global Listed Infrastructure Fund (-1.6%) both detracted from the Portfolio returns.

The returns witnessed in fixed income markets varied in July. The domestic fixed income market was up (+0.4%), while the global aggregate index was down (-0.9%). However, the Portfolio's fixed income managers all generated positive or neutral results. In Australia, the Porfolio's three largest positions produced solid performance, with Ardea Real Outcome Fund (+1.2%), followed by the Aquasia Enhanced Credit Fund (+0.4%) and the Alexander Fixed Income Fund (+0.2%). Of the global managers, the CQS Credit Multi-Asset Fund (+1.6%) produced the strongest return, while the Payden Global Income Opportunities Fund (0.0%) was flat.

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Portfolio Summary

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Unit Price at 31 July 2020		$1.0446
Asset Class Ranges & Current Allocations [1]		Current Exposure
Cash & Fixed Interest	15% - 60%	49.0%
Property	0% - 25%	11.6%
Equities	25% - 65%	29.4%
Alternatives	5% - 35%	1.9%

[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.	Ardea Real Outcome
2.	Alexander Fixed Income
3.	Aquasia Enhanced Credit
4.	Talaria Global Equity
5.	Northcape Emerging Markets
6.	BetaShares Gold Bullion ETF
7.	Loomis Sayles Global Equity
8.	Payden Global Income Opportunities
9.	Lazard Global Equity Franchise
10.	Bennelong Long Short Equity

Market Overview

July saw second waves of Covid-19 infections spread around the world, with cases per week in a number of countries, including Australia, the US and Japan, exceeding initial peaks. As the month progressed a few countries had some success in controlling the virus and saw new infection rates decline, but many other countries, particularly those in the Eurozone, are now only starting to see a rapid increase in case numbers.

Countries have responded differently to the second wave, some have reimposed national restrictions, while others, including Australia, have adopted regional lockdowns. Despite these different approaches it is clear no economy is immune, with recent data showing employment and consumer confidence continuing to decline, and government deficits expanding rapidly as they try to support business and households to mitigate the impact of Covid-19.

Equity market performance in July was somewhat mixed. While the S&P500 posted a decent 5.6% increase, sentiment in the Australian equity market was dampened by the second wave of Coronavirus cases in Victoria. It was also reporting season for the ASX companies and results were mixed. Almost all companies' earnings were down year on year, but a number of these firms still managed to beat expectations, thanks in part due to the overly pessimistic outlooks analysts had taken. Emerging market equities had a good month but were heavily influenced by an 11% increase in the Chinese equity market driven by state-sanctioned buying of the market.

The US$ fell in July as the steady increase in Covid-19 cases undermined sentiment in the US economy and raised expectations of more monetary support. A consequence of this has been the higher gold price and higher A$/US$, but with the data pointing to the fact that the US might have reached a peak in new infections, we could see a reversal in fortunes for the US$ and gold.

Congress was unable to pass a new fiscal package that would have continued to provide financial support before their summer vacation. As a result, Trump had to use his executive authority to implement some support measures, however the specifics around the package were unclear and many are questioning if this executive order will be passed before the US election on 3 November.

In US election news, Joe Biden announced that California Senator Kamala Harris will be his running mate. This looks like a smart move as Harris is younger than Biden, has broad appeal and comes from the less extreme sections of the Democrats. Trump is still Wall Street's favoured candidate, and recently a few investment banks have publicly stated that if Biden was to win it could result in significant market volatility. Polling continues to show the gap widening between Biden and Trump. If this gap persists or even grows, we could see Trump become more unpredictable and step up verbal attacks on China, further deteriorating an already stressed relationship.

We have maintained the lower than normal exposure to equities in the portfolio given the challenging and risky outlook for the world with Covid-19, heightened tensions between the US and China, and the approaching US election. Overall, equity markets still look vulnerable to bad news on these fronts and valuations are not low enough to provide a sufficient buffer to such news. We will be tracking conditions very closely to assess the balance of forces between the data on the economies, the virus and possible future stimulus moves. For now, given the continued high levels of uncertainty, diversification remains paramount as well as the inclusion of defensive assets and cash holdings. We continue to research ways to utilise our cash holdings to generate returns, whilst also minimising risk.