Core Value Portfolio

Monthly Update – June 2020

Performance overview

The Core Value Portfolio (CVP) returned +0.57% in June as markets settled and the volatility seen in recent months subsided. This brings the returns for the June quarter to +6.1%.

The Australian equity market posted a small gain of +2.3% in June. The best performing investments in the Portfolio were the beta exposure via Macquarie True Index (+2.5%) and the smaller cap exposure through SGH ICE (+2.5%). This was followed by a new addition to the portfolio, Bennelong Concentrated Australian Equities Fund (+0.3%). IML Equity Income (+0.2%) and Firetrail High Conviction (+0.1%) also delivered small positive returns; and the only detractor was Allan Gray (-0.1%).

The Global equities index declined marginally in June, decreasing by -1.0% over the month. The Northcape Emerging Markets Fund (+4.5%) continued to produce significant alpha. The Macquarie International Equity True Index Fund (another new holding within the Portfolio) and the Talaria Global Equity Fund both delivered -1.1%, returns in line with the index. Loomis Sayles Global Equity (-2.0%) and Lazard Global Equity Franchise (-3.1%) lagged the market.

Returns from alternatives managers were mixed. The Bennelong Long Short Fund (+4.2%) and the BetaShares Gold Bullion ETF (AUD Hedged) (+2.3%) both made substantial contributions to performance, while the Partners Group Global Multi-Asset Fund (-1.6%) was a detractor..

Performance was subdued and varied across the Property and Infrastructure sector. The Cromwell Phoenix Property Securities Fund (+0.4%) was the best performing investment. Lazard Global Listed Infrastructure (-0.1%), Resolution Capital Global Property (-0.6%), and AMP Core Infrastructure (-0.9%) all detracted from performance.

Fixed income markets delivered mixed results in June, with domestic fixed income up +0.3% and the global aggregate index down by -2.7%; however all of the Portfolio’s investments delivered strong returns. The local fixed income exposures Alexander Fixed Income (+1.2%), Ardea Real Outcome (+0.9%) and Aquasia Enhanced Credit Fund (+0.4%) all performed strongly. The global managers CQS Credit Multi-Asset Fund (+2.6%) and the Payden Global Income Opportunities Fund (+2.5%) also generated solid alpha.

Core Value Portfolio

Monthly Update – June 2020

Portfolio Summary

Core Value Portfolio	
CUM Unit Price at 30 June 2020	$1.0528
EX Unit Price at 30 June 2020	$1.0275

Asset Class Ranges & Current Allocations [1]		Current Exposure
Cash & Fixed Interest	15% - 60%	49.5%
Property	0% - 25%	10.1%
Equities	25% - 65%	27.5%
Alternatives	5% - 35%	12.9%

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

Market Overview

June was a mixed month for the markets, with further signs of improving economic activity on the one hand and renewed surges in infections on the other. The IMF released revised forecasts for the global economy, showing significantly slower growth than previously expected. The revised IMF outlook abandons the idea of a V-shaped recovery. Developed equity markets made modest gains in June, enough to push forward P/E ratios further into over-valued territory.

The US economy saw improvements in employment, manufacturing activity, and consumer confidence, but new infections per week nearly doubled in June to around 280,000. It now looks like the US is well into a second wave. Other countries, including China, Japan, and Spain, also saw higher infection rates throughout the month, albeit much more modest than in the US.

Here in Australia, the outbreak in Victoria has taken the weekly new case figures back to where they were in early April. Lockdowns and border closures have been renewed in response to these developments and will inevitably hinder the economic recovery, but by how much is unknown. If the outbreaks remain regional, the scale of lockdowns will be smaller, and so will the impact on economies. State governments have little appetite for lockdowns, but there will still be some adverse impact as Victoria accounts for around 25% of Australia's GDP.

The Q2 2020 earnings season has started in the US, dominated by reports from the major investment banks which did well on surging trading volumes in both bond and equity markets. The extra profits from trading volumes helped offset billions of dollars in provisions for loan losses. Here in Australia, the June labour market report presented a mixed picture. Employment rose by 210,800, but this was all part-time jobs. The unemployment rate rose 0.4% to 7.4%. The equity market was somewhat disappointed with these results, and further increases in the unemployment rate are still expected.

While Corona is dominating the headlines, there are still several other risks (Trade Wars, Geopolitical Disputes, the US Presidential Election etc.) that could be the catalyst for a market pull-back, the most imminent being the US Presidential Election in November. As Trump's polling slips, the markets will soon start wondering what a Democrat Administration and/or Congress might mean for them.

Overall, equity markets still look vulnerable to more bad news on the virus and economic activity. Valuations are not low enough to provide sufficient buffer to such news. Also, we are just starting to see corporate stress and defaults, of which there will be more to come. 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, we are comfortable holding less equities than usual. However, we will continue to look for opportunities to deploy cash into assets with less equity risk while we are still uncomfortable with the outlook for equity markets.