Core Value Portfolio

Monthly Update – May 2020

Performance overview

The Core Value Portfolio (CVP) returned +2.00% for the month of May, a solid result given the defensive stance of the Portfolio.

May was a volatile month for the Australian equity market; however it finished the month up +5.0%. SGH ICE (+7.1%), Firetrail High Conviction (+5.3%), and Allan Gray (+5.5%) all produced returns exceeding the index. The remaining investments, Macquarie Australian Equity True Index (+4.6%) and the IML Equity Income Fund (+3.0%), generated positive returns but underperformed the benchmark.

Global equities rose +3.5% with all global equity managers in the CVP generating positive returns. The Northcape Emerging Markets Fund (+9.2%) was the best performer in both a relative and absolute sense, producing almost 10% outperformance against the Emerging Market index. This was followed by the Loomis Sayles Global Equity Fund (+4.8%). Lazard Global Equity Franchise (+2.7%) and Talaria Global Equity (+0.6%) lagged the market, given their more defensive and value management styles.

Alternative investments delivered mixed results. Partners Group Global Multi-Asset (+3.0%) had a strong month, followed by the Bennelong Long Short Fund (+0.3%), while the BetaShares Gold Bullion ETF (AUD Hedged) was a small detractor (-0.5%).

Property and Infrastructure managers also had a mixed month. The strongest returns came from the Cromwell Phoenix Property Securities (+4.4%) and the Lazard Global Listed Infrastructure (+3.5%). AMP Core Infrastructure Fund (+1.0%) lagged the market due to its strategy of holding unlisted assets which are only valued periodically throughout the year. The only detractor was the Resolution Capital Global Property Fund (-1.6%).

Fixed income had a relatively flat month, the Australian market composite benchmark was up (+0.1%) and the global aggregate benchmark declined (-0.9%). The Ardea Real Outcome Fund (+0.4%) was the best performing Australian manager, closely followed by Alexander Fixed Income Fund (+0.2%) and the Aquasia Enhanced Credit Fund (+0.2%). Global managers, CQS Credit Multi-Asset Fund (+4.6%) and the Payden Global Income Opportunities Fund (+3.6%) generated solid returns.

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Portfolio Summary

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Unit Price at 31 May 2020	$1.0468

Asset Class Ranges & Current Allocations [1]		Current Exposure
Cash & Fixed Interest	15% - 60%	48.6%
Property	0% - 25%	10.3%
Equities	25% - 65%	28.4%
Alternatives	5% - 35%	12.7%

[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.	Lazard Global Equity Franchise Fund
8.	Payden Global Income Opportunities Fund
9.	BetaShares Gold Bullion ETF
10.	AMP Core Infrastructure Fund

Market Overview

Equity markets pushed higher in May, taking valuations to very expensive levels, as markets took an almost exclusively optimistic view of declining infection rates, reports of progress towards a vaccine and the benefits of economies re-opening. In addition, significant stimulus measures announced in previous months began to take effect, giving many investors' confidence that government policy would provide a safety net against any further falls in markets.

Less promising news on vaccines, still high infection rates in the US, the accelerating spread of the virus in emerging market nations, further weak economic data, and rising geopolitical tensions between the US and China, as well as the rioting in the US, were all dismissed by the markets.

The strength of key commodity prices such as iron ore and oil, along with speculation of a negative US cash rate, pushed the A$/US$ up 1.4% to US$0.67 by the end of the month.

In the last few weeks, we have seen a resurgence in virus cases in several countries that had previously been viewed as having it under control. The outbreak in Beijing has naturally attracted a lot of attention and authorities have moved quickly to impose restrictions to contain it. In the US we are seeing the signs of a second wave. On 21 June alone, the US reported nearly 34,158 new cases, the highest daily reading since 26 April. It will be interesting to see how officials handle the situation given the fact that on numerous occasions they have said they would not reimpose restrictions. Here in Australia, case numbers have lifted, especially in Victoria where the government has revised its schedule for easing restrictions. In emerging markets, we are seeing soaring case numbers and the data is suggesting that they are still some way off the peak.

It is not only poor virus numbers that are of concern, the recent flow of poor economic data from independent organisations has also caused people to question their assumptions around the type of recovery we will see. The Federal Open Market Committee (FOMC), the Organisation for Economic Co-operation and Development (OECD) and the World Bank all released reports, pointing to the fact that the impact of COVID-19 was more significant than first anticipated and as a result they expect the recovery to be longer. This gloomier outlook is not consistent with the V-shaped recovery scenario that is a major driver behind the recent market rally. While this data did cause market volatility, it has not been enough to halt the recent upward trend and see a shift towards a risk off environment.

One might think the markets had already priced a good deal of better news about the virus and recovery, but contrary to the old adage of buy the rumour, sell the fact, markets are still going up. They seem to believe the end of the virus and its problems are in sight, but this still feels more like hope than reality. Combined with ever more stretched P/E ratios in key markets, there seems plenty of scope for markets to be disappointed as concerns remain about the fragility of the recovery in the face of a second wave and future withdrawals of government support. We continue to maintain a cautious outlook.