

Core Value Portfolio

Monthly Update – October 2020

Performance overview

The Core Value Portfolio (CVP) returned +0.67% in October, as volatility caused mixed results across markets.

The Australian equity market began strongly but gave up some of its gains towards the end of the month, finishing up (+1.9%). The Allan Gray Australian Equity Fund (+2.9%), Firetrail Australian High Conviction Fund (+2.3%), and Bennelong Concentrated Australian Equities Fund (+2.3%), all made solid contributions to performance and outperformed the index. The other exposures in the portfolio, the Macquarie Australian Shares True Index Fund (+1.9%) and the SGH ICE (+1.3%) generated results broadly consistent with the index.

Volatility late in the month saw global equity markets decline in October by -1.1%. The largest contributions in this sector came from the Northcape Emerging Markets Fund (+4.7%) which is consistently providing relative and absolute outperformance followed by the Lazard Global Equity Franchise Fund (+0.9%) and the Talaria Global Equity Fund (+0.3%). Loomis Sayles Global Equity Fund (-0.4%) still provided some alpha and the Macquarie International Equity True Index Fund detracted -1.1%.

It was a mixed month for the Portfolio's alternative exposure. The Partners Group Global Multi-Asset Fund (+1.0%) and Janus Henderson Global Multi Strategy (+0.4%) both contributed to performance however the BetaShares Gold Bullion ETF (AUD Hedged) (-0.9%) and Bennelong Long Short Equity Fund (-0.7%) detracted from these gains.

The Portfolio delivered mixed results from its property and infrastructure sector. The Cromwell Phoenix Property Securities Fund (+0.9%) was the best performer, while the Resolution Capital Global Property Fund (-0.2%), the AMP Capital Core Infrastructure Fund (-1.0%), and the Lazard Global Listed Infrastructure Fund (-2.4%) were all detractors.

It was also a mixed month for the fixed income sector. The Australian index was up (+0.4%), while the global index finished slightly down (-0.1%). Pleasingly, all fixed income managers continue to deliver solid returns for the Portfolio and made positive contributions. The Aquasia Enhanced Credit Fund (+0.7%) was the best performing Australian manager, followed closely by the Alexander Fixed Income Fund (+0.6%) and the Ardea Real Outcome Fund (+0.5%). Of the global managers, both the CQS Credit Multi-Asset Fund (+0.2%) and the Payden Global Income Opportunities Fund (+0.2%) delivered alpha.



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Portfolio Summary

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Unit Price at 31 October 2020 \$1.0631

Asset Class Ranges & Current Allocations ¹		Current Exposure
Cash & Fixed Interest	15% - 60%	34.71%
Property	0% - 25%	10.61%
Equities	25% - 65%	36.93%
Alternatives	5% - 35%	17.75%

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. BetaShares Gold Bullion ETF
7. Bennelong Long Short Equity
8. Lazard Global Equity Franchise
9. Partners Group Global Multi Asset
10. Payden Global Income Opportunities

Market Outlook

A major resurgence of COVID-19 infections in the UK, Europe and US has renewed investor concerns about the path of the global economic recovery. In Europe in particular, there is talk of a double-dip recession. This, plus increasing uncertainty about the US election outcome, and the chances of getting a big new fiscal package through Congress, undermined global equity markets in October.

In currency markets, the A\$/US\$ slipped from just under US\$0.72 at the start of the month to US\$0.704 by the end of October. This was driven by a decline in the iron ore price, reports China will cut back its imports of Australian coal, and a narrowing of the Australia/US bond yield differential. The Reserve Bank indicated it may buy 10-year government bonds to keep the differential down, and hence A\$/US\$ as well.

US inflation adjusted bond yields rose slightly in October, which helped push the price of gold down 1%. Reports that central banks around the world are now net sellers of gold for the first time in many years may have contributed to gold's decline. The price of oil fell heavily on fears of over-supply as the new COVID-19 waves slowed economic activity in the Northern hemisphere.

The Investment Committee have added some exposure to cheaper components of the equity market where value still remains; this includes managers who have a more 'value' style of investing and also the approval of a global small and mid-cap exposure. We will be looking to take advantage of any further retracement in equity markets to tactically allocate to attractive investments.

