



CONCENTRATED AUSTRALIAN EQUITIES PORTFOLIO

PORTFOLIO UPDATE

CONCENTRATED AUSTRALIAN EQUITIES PORTFOLIO (CAE)

Unless otherwise stated, all figures are as at 15 May 2020. Performance figures are preliminary and gross, based on a representative account.

HOW HAS CAE PERFORMED

- Month-to-date (MTD), S&P/ASX 300 declined by -1.9% and the portfolio has outperformed its benchmark by +0.5% driven by sector and stock selection.
- An underweight to financials—one of the worst performing sectors MTD—as well as an overweight to materials and communication services—which performed strongly MTD—contributed to performance. This was partially offset by an underweight to information technology—the best performing sector MTD—and an overweight to industrials which detracted from performance.
- Stock selection within industrials and communication services contributed to performance, while stock selection within financials and healthcare was a drag. Key stock contributors MTD were gold stocks—Regis Resources, Saracen Minerals and Northern Star Resources—which were beneficiaries of a rallying gold price. Telstra also contributed due to its strong dividend payout and its market position as a potential leader in the 5G network space. Not holding CBA and ANZ within financials contributed positively.

WHAT CHANGES HAVE WE MADE TO CAE'S PORTFOLIO POSITIONING?

- We have positioned the portfolio YTD to reduce exposure to Covid-19 risks and invest in companies that have strong cash flows and balance sheet strength. We are seeing an easing in Covid-19 risks as many countries are starting to lift restrictive lockdown rules.
- We recently added to our position in Incitec Pivot due to its recent equity raising that restored its financial metrics with a strengthened balance sheet, together in our view of an improved trading environment. We also sold our position in Evolution Mining and trimmed our position in Saracen Minerals as we took profits on recent share price gains.

WHAT IS OUR OUTLOOK FROM HERE?

- Against a general background of uncertainty, we are concerned that enthusiasm about a change in direction (things are getting less bad) is irrationally overwhelming magnitude (things are still very bad).
- Markets are pricing a greater than 50% chance that the RBA cuts rates to zero in the next 3 months – this is not an indication of strength.

- We expect a difficult journey back to prior levels of business performance, punctuated positively by bursts of enthusiasm about vaccines and re-openings, and negatively by actual business performances.
- Against this somewhat bearish outlook, we believe it is prudent to use diverse ideas in the portfolio to not be overly reliant on a particular set of macro-economic outcomes to achieve our investment goals, but to retain a somewhat bearish tilt. A focus on free cash flow and balance sheet strength remains the key to success in our view.

You can access our full suite of coronavirus materials on our [Volatility Insights microsite](#)



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The data is based on representative accounts. The results presented above do not reflect the deduction of investment-management fees; your return will be reduced by the management fees and other expenses incurred in the management of your account.

Level 32, Aurora Place, 88 Phillip Street, Sydney NSW 2000 +612 9255 1299 Email: aust_clientservice@alliancebernstein.com www.alliancebernstein.com.

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