



**CONCENTRATED AUSTRALIAN EQUITIES PORTFOLIO
MANAGED VOLATILITY EQUITIES PORTFOLIO**

PORTFOLIO UPDATE

CONCENTRATED AUSTRALIAN EQUITIES PORTFOLIO (CAE)

HOW HAS CAE PERFORMED THIS CALENDAR YEAR?

Year to date end of March, CAE portfolio has underperformed the S&P/ASX 300 by (5.3%) (based on a representative account, and gross preliminary performance). The key contributors year to date have been Metcash, Evolution Mining, Northern Star Resources, Healius, NAB, Aristocrat Leisure and not owning Scentre Group. The key detractors have been not holding CSL and holdings in Downer, Beach Energy, Woodside Petroleum, Qantas and oOH! Media. For the month of March, the portfolio return was (22.9)% (based on a representative account, and gross preliminary performance) versus the S&P/ASX 300 which was down (20.8)%.

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

We have positioned the portfolio so we have 10 stocks that are defensive and 10 that are cyclicals. The defensive stocks we hold include gold stocks such as Northern Star Resources and Saracen Mineral. For cyclicals, we continue to hold deep value names such as Downer, Fletcher Building, Z Energy, NAB and Westpac. Overall, we have significantly reduced our exposure to Covid-19. Cash levels have risen close to 10% because we anticipate a number of distressed equity raisings we would like to participate in and need sufficient cash available.

Recent portfolio changes we made include selling James Hardie because we believe building materials will come under pressure and Woodside Petroleum as cashflows are likely to go negative and oil price outlook continues to be weak. We have added positions in companies such as APA Group and Aurizon Holdings with annuity type revenues we think are well positioned for Covid-19.

We continue to believe the portfolio holds an IRR premium to the index and is the highest it has been since the launch of the portfolio, and we have materially reduced the Covid-19 exposures.

WHAT IS OUR OUTLOOK FROM HERE?

The bull case is anchored in the amount of money being spent by governments and central banks around the world to stimulate their economies. In the US, President Trump has signed a \$2 trillion stimulus package which approximately equates to 10% of the US GDP. In addition to this, US central bank has printed in the last three and half weeks \$4-5 trillion of money which is more than what was printed by the US in the whole of 2008. We are also seeing stimulus packages here in Australia with the RBA printing money to stimulate the economy. Although Covid-19 is going to be challenging, the amount of money being flooded into the system will be supportive.

Our bear case from a fundamental perspective driving stock valuations and share prices, is that although Covid-19 has occurred very quickly we haven't seen the impact on individual stocks to date. For many Australian companies, earnings and cashflows are not guided and are likely to be downgraded. In addition, many companies will also have to raise equity. We believe there is a good chance that earnings on the index could fall 20% or more from current levels. We do not believe the market has fully corrected and challenges in the US and Emerging Markets pose significant risks.

The silver bullet case is potentially that technological advances for a vaccine are successful, but this is likely to occur in 2021. There have also been major improvements in the testing technology for Covid-19, to identify individuals exposed to the virus in a matter of minutes as

opposed to days. Whilst it may not help in the first wave of cases in Australia and Europe, and to some extent in the US, it will help in reducing the amount of time paused in economic activity.

MANAGED VOLATILITY EQUITIES PORTFOLIO (MVE)

HOW HAS MVE PERFORMED THIS CALENDAR YEAR?

Year to date end of March, MVE portfolio has outperformed the S&P/ASX 300 by 9.8% (based on a representative account, and gross preliminary performance). The key contributors year to date have been Resmed, Northern Star Resources, Medibank, Evolution Mining, Sonic Healthcare and not owning Scentre Group. The key detractors have been an underweight to CSL and holdings in Vicinity and CBA. For the month of March, portfolio performance was (11.1)% (based on a representative account, and gross preliminary performance) versus the S&P/ASX 300 which was down (20.8)%.

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

We recently added to our position in Coles due to the impact of Covid-19 on consumer behaviour. We believe that the increased level of sales activity will be positive on profitability due to fixed cost leverage, reduced levels of promotional activity and reduced wastage. We also exited our positions in Woodside Petroleum as cashflows are likely to go negative and oil price outlook continues to be weak. We also sold our position in Vicinity due to weakness in the retail REIT sector caused by reduced spending on clothing, which has dropped 40% in recent weeks.

Several weeks ago we sold all holdings in the stocks with reduced discretionary spend such as JB Hi-Fi and Wesfarmers, and reduced tourism and travel companies such as Qantas and Sydney Airport. Our portfolio is positioned in stocks that we believe have 'annuity' type revenues that will be resilient against the impact of Covid-19. This includes purchases of IAG and Spark New Zealand.

International equities changes were more material year-to-date and we sold down Home Depot (Bunnings of the US), McDonalds, Adidas and wholesale food suppliers Sysco. We invested in names which had strong and stable business such as Citrix which is a remote working technology platform, Johnson & Johnson the pharmaceutical and consumer packaged goods company, and Booz Allen-Hamilton a technology consulting firm.

Currently, our cash levels are sitting at about 13% due to the market falling since the beginning of March. We made the decision to increase cash based on the work we did on the risks of Covid-19 which led to more sells than buys, so we took the decision to take the cash level from 3-5% to 10%.

In summary, we retain our defensive posturing with good downside protection. The portfolio is positioned to be significantly less impacted by Covid-19 than other stocks in the index. We are waiting to see earnings downgrades and equity raisings over the coming weeks and we continue to believe the risks are skewed to the downside.

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.

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