ALLIANCEBERNSTEIN®

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MANAGED VOLATILITY EQUITIES PORTFOLIO

PORTFOLIO UPDATE

MANAGED VOLATILITY EQUITIES PORTFOLIO (MVE)

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

HOW HAS MVE PERFORMED?

- Month-to-date (MTD), S&P/ASX 300 declined by -1.9% and the portfolio has outperformed its benchmark by +3.4% driven by stock and sector selection.

- An underweight to financials and energy—the worst performing sectors MTD—contributed to performance while an overweight to utilities also contributed positively. Our elevated cash position of ~13% added to performance, amid the market fall.

- Stock selection within materials, healthcare, financials, industrials and consumer staples contributed to relative returns. Within materials, the key contributors were holdings in gold stocks—Regis Resources, Northern Star Resources and Evolution Mining—which were beneficiaries of a rallying gold price. For healthcare, key contributors were Medibank Private and Resmed—both likely beneficiaries from changes in the healthcare sector due to Covid-19. Not holding ANZ and NAB within financials contributed to performance.
- The key detractors MTD were Insurance Australia Group and not holding Afterpay. Year-to-date (YTD) the portfolio continues to outperform a falling S&P/ASX 300 by +9.7%. Strong sector selection with an underweight to financials and overweight to consumer staples contributed to performance. YTD stock selection also contributed positively with key contributors within materials, financials and industrials.

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

- We added a few positions to the portfolio such as reducing our underweight to CSL—where we believe Covid-19 is now less likely to disrupt their production in Switzerland or their collections in the US; Fortescue Metals—which should benefit from both an increase in iron ore demand from China (as steel mills increase output) and a lack of supply from Brazil (with Covid-19 disrupting exports). We also added Spark Infrastructure Group, which owns electricity network assets across Australia with annuity type revenues and strong long-term growth prospects.

- We recently sold AGL due to an increasingly competitive Australian energy market on top of lower unit sales in the retail market and declining wholesale prices reducing profitability. We also trimmed Contact energy following drops in energy demand in New Zealand due to Covid-19.

- For international equities, the portfolio largely remains unchanged from our last update. We have chosen to add to existing positions that we believe have strong and stable businesses such as Bristol-Myers Squibb Co, Nestle' SA, Procter & Gamble and Check Point Software.

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.

- We continue to focus on attractive free cash flow and diversification to offer downside protection in this uncertain environment.

You can access our full suite of coronavirus materials on our Volatility Insights microsite

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