



MANAGED VOLATILITY EQUITIES PORTFOLIO

PORTFOLIO UPDATE

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HOW HAS MVE PERFORMED THIS CALENDAR YEAR?

Year to date, the Managed Volatility Equities portfolio (MVE) has outperformed the S&P/ASX 300 by 7.8%¹. The key contributors year to date have been Sonic, Resmed Healthcare, Medibank Private and Coca Cola and not owning BHP. The key detractors have been an underweight to CSL and holdings in Amcor and Vicinity Centre. Month to date MVE's performance was 7.7%¹ ahead of the S&P/ASX 300 which was down 22.0%.

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

Our strategy has been defensive and this approach has been working, with the portfolio significantly outperforming the market. Our intention is to provide good downside protection in volatile markets. We have stress-tested stocks in various ways including whether social distancing could cause stress. For example, reduced discretionary spend would negatively impact JB Hi-Fi and Wesfarmers and reduced tourism and travel are both clearly bad for Qantas and Sydney Airport. Therefore, several weeks ago we sold all holdings in the stocks. We have reinvested into 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.

For our global stocks our top three contributors all benefited from business models that were more isolated or potentially benefited from demand created by Covid-19. These included supermarket Walmart, and healthcare company Roche. Software company Constellation also benefited from a strong balance sheet in an environment where that is more important than normal.

Conversely our detractors were in stocks that have the potential to be negatively impacted by Covid-19. Sysco provides logistics in the food supply chain. However, many of its customers include restaurants and hotels which could be negatively impacted by the virus. We have now sold out of this stock. Adidas is a risk of discretionary retail sales falling around the world. Again we have sold out of this stock. Oracle Japan sells database and cloud solutions to SMEs in Japan. Although SMEs ability to invest in technology may come under pressure we believe the net cash position of Oracle Japan and the ability of many of its customer to work from home means that it remains a portfolio holding.

Our adds have been companies that exhibit strong stability, quality and valuation characteristics and resilience to Covid-19. This includes cable provider Cogeco, Healthcare company Bristol-Myers Squibb and telco NTT in Japan.

Conversely the sells were companies at risk from Covid-19 including Sysco and two companies exposed to discretionary retail spend – Home Depot and McDonalds.

As per the strategy guidelines, the portfolio has the ability to hold up to 20% in cash, for example as a short-term defensive measure at times of heightened equity market volatility. In light of the current market conditions we believe that there is both a bottom-up and top-down reason for increasing the cash position from its previous levels. A thorough stress-testing analysis of the investment portfolio and universe showed that that there were more sells than buys, and this created a natural bottom-up case to increase our cash position. Consumer stocks came out of the portfolio in late February and CSL was sold more recently, as we saw increasing evidence that blood collection was falling. Top down, we've taken the view that the consideration of systemic macro risks is an important part of this strategy

and it is clear from the data that the contagion rate of Covid-19 is high, posing considerable downside risk to the economy and markets. In addition, we could see the broader downside risks to the market as we believed Covid-19 was likely to become increasingly prevalent outside of China. As a result of both factors, cash levels have risen to about 10% of portfolios.

WHAT IS OUR OUTLOOK FROM HERE?

The direction of markets is difficult to call with central bank and fiscal stimulus at odds with the ongoing health and economic disruption of Covid-19. We are likely to see downgrades to the earnings of many stocks in Australia and around the world. Historically markets have rallied before earnings trough. However, we believe that, in the short term, risks are still probably skewed to the downside for markets. In particular an escalation of Covid-19 cases in the US along the path currently being observed in Italy would likely to lead to more market volatility.

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



ⁱ Based on rep account, preliminary performance as at 16th March 2020.

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