AllianceBernstein Webinar

Upside of less downside

Webinar with Roy Maslen, CIO- Australian Equities, discussing the COVID-19 impacts on the markets and MVE

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David Blair: Good morning and welcome to the AB managed volatility update. I want to thank you all for joining us today. I appreciate

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00:00:09.059 --> 00:00:20.250
David Blair: These are difficult times with many of you experiencing increased client demands while trying to work from home. So this is quite the juggling act as we're all learning our way through.

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00:00:21.120 --> 00:00:36.690
David Blair: Another difficult event obviously has been the dropping markets, we've experienced through March one of the largest drops in history, science, a rebound out of that now that whether this is going to last will obviously be a question for for ROI, which will cover today.

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00:00:38.160 --> 00:00:46.980
David Blair: We're starting to see the economic impacts obviously unemployment creeping up. But the worst well and truly in front of us with unemployment Lafitte arise to levels not seen in Australia.

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00:00:47.760 --> 00:00:55.050
David Blair: In working memory for many of us. So today we're joined by Roy Maslin their portfolio manager of the Avi managed volatility fund.

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00:00:55.860 --> 00:01:06.000
David Blair: roisman a talk us through his portfolio positioning during this pandemic, starting in January when we started to get early ideas with people weren't sure what it was going to look like through the March.

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00:01:06.870 --> 00:01:12.690
David Blair: How we adjusted the portfolio to protect. On the downside, which obviously is one of the mandates of the managed volatility fun

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00:01:13.170 --> 00:01:22.770
David Blair: Will then talk about his outlook and how he sees markets unfolding through this period and the economic outlook for countries and companies.

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00:01:23.490 --> 00:01:33.690
David Blair: We will have time for Q AMP. A at the end of this. So, there will be a Q AMP a button on your screen within zoom. So please do utilize that the questions will come through. To me, I'll allow some of ROI.

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00:01:34.110 --> 00:01:41.670
David Blair: A great, a great way to get your questions answered. But with that, I'll hand over to Roy and we can get going. Thank you. Right.

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00:01:43.530 --> 00:01:44.880
Roy Maslen: Thank you David and

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00:01:46.080 --> 00:02:02.490
Roy Maslen: So look, clearly, Toby 19 first and foremost as a human tragedy in Australia and around the world. So really like to, on behalf of the team extend their best wishes for health and safety to you, your family, your friends, your colleagues, your clients and you build a network so

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00:02:05.040 --> 00:02:18.720
Roy Maslen: That my goal today is to update you on how we have formed and position the Avi manage volatilities fund and focus on the outlook as David said, I'm going to try and get through some introductory comments relatively quickly.

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00:02:20.130 --> 00:02:28.140
Roy Maslen: At goal really is to spend as much time as possible on the things that are valuable to you and your clients, David has already received a number of questions. And as he said, feel free to add those in

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Roy Maslen: So let's just start with performance monitor is very challenging bug for Marcus down 20.8%

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Roy Maslen: For those of you watch the unit price closely in fact sheets. We place to say it and provide a good downside protection now performing by that 9.6% in the month of March.

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00:02:46.710 --> 00:02:58.530
Roy Maslen: That means over a one year period or the markets down 14 and a half percent without forms that by 12% 12% alpha and any down to an art. So we're pleased that we've been able to provide that protection.

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00:02:59.640 --> 00:03:04.560
Roy Maslen: I thought it'd be helpful, though, to tell a little bit of the story about how we be thinking about covered 19

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Roy Maslen: Or actually familiar in the year when we used to call it coronavirus and how we reposition the portfolio. I think that's quite informative as to how we try and build a strategy that is ultimately defensive to a whole range of backgrounds shops and, not least, October 19

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00:03:18.690 --> 00:03:26.010
Roy Maslen: So we go all the way back to January. January 22 is when the Chinese announced that they had a problem in mainland China.

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Roy Maslen: We immediately started thinking through the implication for Australia and all the way back then we realized that the airline and tourist industry was going to come under pressure. So actually, in January when

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Roy Maslen: And conscious was well over $6 we decided to exit Qantas and Sydney airport at the time.

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Roy Maslen: As we walked into February by that need every became clear that there was an increasing risk that Toby 19 could go global.

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Roy Maslen: And towards the end of the month, we continue to ask ourselves, the key question which is what will happen to markets and our portfolio in an environment where social distancing becomes prevailing

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00:04:05.820 --> 00:04:14.490
Roy Maslen: And we realized that what looks defensive in that environment can be quite different from the normal operations in particular businesses that are relying on

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00:04:14.970 --> 00:04:27.660
Roy Maslen: generating revenue through day to day interactions are at risk. So we did some quite substantial changes in the portfolio. I really much, the first of which is a Sunday was a key day for us and we implemented this early in March.

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00:04:28.980 --> 00:04:39.900
Roy Maslen: And a number of things we did was in both that local and global equities to reduce exposure to revenue models that are relying on those day to day interaction. So they could things like JP hi fi and Wesfarmers

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00:04:41.460 --> 00:04:56.040
Roy Maslen: We reduced our exposure to energy stocks, such as Woodside to one energy stocks that we did have we still remain bearish on oil from here and we also extra data position in vicinity. The retail mobile operator.

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00:04:57.390 --> 00:05:11.250
Roy Maslen: We reinvested into companies that we believe have it more resilient revenue balance sheet, particularly those that have kind of a new digital revenue. So that would include things such as supermarkets as Kohl's telco both Telstra and

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00:05:12.870 --> 00:05:29.430
Roy Maslen: telecom in New Zealand and gold and infrastructure we applied the same thinking to our global stocks that 20% global we actually had more consumer exposure in many ways in our global in terms of account. So we sold down and sold out of companies such as Adidas.

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00:05:30.720 --> 00:05:38.310
Roy Maslen: McDonald's, Home Depot at deckers which you might know him for its kind of branded consumer goods and owns Ugg boots, which

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00:05:39.540 --> 00:05:46.320
Roy Maslen: We then redeploy that capital again into businesses are either resilient, or even potentially benefit from the

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00:05:46.830 --> 00:05:57.450
Roy Maslen: economic impact of code 19 so that would include Citrix the work from home technology and investing in j&j one of the leading technology providers for potential vaccine.

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00:05:58.020 --> 00:06:07.230
Roy Maslen: healthcare companies such as Bristol Myers Squibb telcos such as NTT in Japan and to Chico, the cable provider in in Canada.

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00:06:08.730 --> 00:06:18.030
Roy Maslen: In aggregate when we did all of that and stress this to their portfolio, we realized that there are a lot more companies that we wanted to reduce exposure to other than investing

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00:06:18.660 --> 00:06:31.770
Roy Maslen: And so for the first time in six years as of March, the first we took the decision to raise the cash flow was in the portfolio and they went to about 10% at the markets underperform there's cash levels of drifted up. So there are about 13% as we speak now.

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00:06:32.790 --> 00:06:42.720
Roy Maslen: So that left us with a portfolio in our mind at ease defensive investing in strong, stable businesses with good cash flows and balance sheets that are resilient code 19

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00:06:43.230 --> 00:06:54.840
Roy Maslen: More the annuity kind of revenues, such as telco insurance, such as IAG infrastructure gold at we are very cautious on a number of cyclical industries.

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Roy Maslen: Such as banks and certainly looking at the stress test that hyper provide on a shot like this in the past is quite sobering in terms of the bad debts, they might be facing

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00:07:04.710 --> 00:07:13.740
Roy Maslen: And resources other than gold. We were being cautious on property we think we're going to profound impacts on property prices and discretion to consumer

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Roy Maslen: So that's where the portfolios position or perhaps most important of all, though, is to focus on our outlook from here. So I really want to think about that in three ways. One of which is just how we're thinking about code 19

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Roy Maslen: Secondly, then how do we think about the potential both scenarios that could drive markets hard from here.

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Roy Maslen: And then thirdly, the base scenarios. What could ultimately lead to a further correction in equity markets and I'll say up front before I go through each of those elements. It's really hard to call in the short term.

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00:07:45.090 --> 00:07:57.990
Roy Maslen: However, we think the risks are still very clearly skewed to the downside from here. So we retain our defensive posturing, not just in general, but specifically around code 19 and increasingly the impact that will have on the local and global economy.

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Roy Maslen: So let's start with October 19

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Roy Maslen: personal tragedy. But let's talk about where there are some bright spots from an investment and economic perspective.

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Roy Maslen: Firstly, in Europe, there are increasing signs a number of the economies that the epicenter of these are flattening the curve and those cases are peaking.

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00:08:20.070 --> 00:08:30.630
Roy Maslen: And the last few days, the numbers have been a little bit muddy by the fact that there were less tests in over Easter, but the trains remain positive in Italy and other parts of Europe.

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00:08:31.830 --> 00:08:38.490
Roy Maslen: Perhaps the most important positive for us here as Australia is that Australia in particular has done a good job of flattening the curve.

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Roy Maslen: And now started to talk through how we can be gradually out and up on the back or better technologies for finding cases testing and then targeting future outbreaks.

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00:08:49.350 --> 00:08:59.760
Roy Maslen: Two areas that are particular areas of concern for us and we don't think in this already fully reflected in how the market thinks about the market outlook from here. The first will be the US.

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Roy Maslen: So some of the stats are suggesting that we may be starting to flatten the curve, but a few things in the US. First of all, and

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Roy Maslen: Testing has not been very broad based still more than 20% of tests in the US, find

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Roy Maslen: Somebody is infected with Kobe 19 versus less than 2% in Australia. So we think the numbers are dramatically understated in the US dramatically understated.

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Roy Maslen: However, we think the ability for us to contain this on a sustainable basis is also particularly challenged and that's for three reasons. One is they have a very decentralized healthcare system, unlike, say, the UK and Australia.

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Roy Maslen: Which makes it very hard to respond to national challenges such as this. Secondly, there's clearly a complicated political dynamic between Federal and States which makes it harder to have coordinated action.

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Roy Maslen: And thirdly, just the, the cultural desire for civil rights and freedom in the US will clearly make ongoing social distancing harder. So we think the US is challenging.

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Roy Maslen: But perhaps the greatest risk that we think is being materially underappreciated and in global code 19 is emerging markets.

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Roy Maslen: Obviously, China, although weed out some of the data has made clear progress in containing it

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00:10:18.780 --> 00:10:23.850
Roy Maslen: If we think about emerging markets outside China, the potential implications are very concerning

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Roy Maslen: So in major cities around the world where people live in close proximity, often in slums and it's going to be very hard to have social distancing

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Roy Maslen: So we're seeing in Indonesia in Ecuador in Brazil in Turkey in India and concerns if this starts to take hold. It's going to be hard to contain

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Roy Maslen: For example, in Calcutta, the population density in India is 1600 times that have been very hard to exhibit social distancing just because the population density. And often people are not wealthy enough to store food.

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Roy Maslen: It's going to have a profound implications. So I just take one economy, such as Thailand 17% of their economy is relying on tourism.

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Roy Maslen: 17% so although they still may have to export cars to Australia to replace our manufacturing capability that's going to have profound impacts on their economy.

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00:11:18.180 --> 00:11:25.920
Roy Maslen: And our ability to go on vacation, potentially, to Thailand Bali in Indonesia is going to be curtailed for an extended period of time.

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Roy Maslen: So I think in general, around the world, and also in Australia, we think there's no better appreciation of the economic impacts the Caribbean 90 and we'll have

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00:11:35.760 --> 00:11:42.570
Roy Maslen: An in Australia. We are already seeing that with the loss of international students tourism.

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00:11:43.230 --> 00:11:57.870
Roy Maslen: Impacting Airbnb. We're seeing pressure already in the rental market, but we think more broadly across our economy, even if we contain it, there were going to be quite significant impacts and as we saw treasure, indicating that unemployment is likely to go to at least 10%

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Roy Maslen: So without context around code 19. How do we think about what could drive markets higher or lower from here.

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Roy Maslen: So let's start with the bookcase.

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Roy Maslen: The bookcase is quite simply the wall of money.

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Roy Maslen: So what we are seeing in Australia and around the world is an extraordinary amount of fiscal stimulus that's government spending a monetary stimulus which is effectively money printing by central banks.

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Roy Maslen: Let me just put some of these numbers out because they are truly extraordinary. So in the US. So $20 trillion economy.

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Roy Maslen: That could be one to $2 trillion smaller this year that we might have expected at the beginning of the year wanted $2 trillion more

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Roy Maslen: But on the other side of the slide. There's a $2 trillion fiscal stimulus. And in addition, potentially four to $5 trillion of money printing from the Fed huge numbers.

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Roy Maslen: Six to $7 trillion to solve a one to $2 trillion problem to put that in context, in the last four weeks. The Fed has already printed more money.

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00:13:02.610 --> 00:13:06.780
Roy Maslen: than it did in the whole of the private global financial crisis. So these are huge numbers.

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00:13:07.410 --> 00:13:16.230

Roy Maslen: And not only within fiscal stimulus in Australia and around the world. But we're seeing money printing, not just in places such as the US but now countries that have done it before. It's such as Australia.

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00:13:17.400 --> 00:13:28.080
Roy Maslen: So I think the bookcase from he he is that what wall of money and combined with a little bit more certainty that word is flattening the curve has driven markets higher

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00:13:28.590 --> 00:13:37.050
Roy Maslen: As a talking now market Rob 7% as of last night closer to 9% when when this call started. So we've that's driving the right

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00:13:38.760 --> 00:13:41.580
Roy Maslen: Look how do we think about the big case from here, though.

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00:13:42.750 --> 00:13:58.950
Roy Maslen: So let's just think a little bit first of all about valuations. So the P. E. ON THE s&p 500 and I think it's useful to start there, because that's still determines the tempo for the whole global market has gone up this year. So the multiples gone up on the US.

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00:14:00.060 --> 00:14:05.070
Roy Maslen: So the markets down 13% but the multiple has gone up because the p with the expansion.

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Roy Maslen: If we take through the earnings downgrades that have been forecast from the likes of Goldman Sachs or City Group for the US market.

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00:14:14.190 --> 00:14:24.930
Roy Maslen: They're not only is the p going up this year and is well above 18 now that it could be. What about 20 AND IN THE LOW 20s, which is the kind of P that we saw in the height of the textbook.

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00:14:26.370 --> 00:14:30.240
Roy Maslen: So a lot of people would then say, but wait a minute 2020 right off.

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00:14:31.020 --> 00:14:39.750
Roy Maslen: You should focus on 21 but I think most people are also indicating that earnings will be down in 21 verses 19 so the markets are clear that they're attractive. The valley globally.

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00:14:40.680 --> 00:14:49.140
Roy Maslen: But perhaps most importantly, Robin taking this top down. When we look bottom up at the earnings cash flows and balances and the impact for companies here in Australia and around the world.

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00:14:49.530 --> 00:14:57.600
Roy Maslen: We think that's likely to be profound. Although we've seen about a 15% earnings downgrade in Australia and the US. There's a lot more to come.

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00:14:59.010 --> 00:15:11.610

Roy Maslen: If you look at the stress test that accurate put out on banks in 2017 of recession. Those are dramatic amounts of bad debts. We don't think we're in the same campus that but that could ride could wipe out several years of profit if this turns into a nasty downtown

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00:15:12.690 --> 00:15:29.190
Roy Maslen: So when we look at the stocks bottom on the peas are high. But importantly, we think earnings, the cash flows are coming under pressure and what we normally see in markets in periods of fee is multiples contract or not expand. So the p of the market today in Australia is 17

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00:15:32.340 --> 00:15:42.780
Roy Maslen: In the worries about the Greek debt crisis, it was in the 10 to 12 range and in the partial financial crisis eight to 10 so there is plenty of Skype for D writing from here.

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Roy Maslen: So how do we think about this overall we are not looking to make a short term call on the market. We are very much aware that

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00:15:53.940 --> 00:15:59.340
Roy Maslen: The wall of money. I could drive money higher and the other silver bullet here is potentially technology.

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Roy Maslen: Whether that's on testing cures of vaccines. I'll be happy to talk more about on questions of people are interested for us to share our views. But on the downside earnings, the cash flows coming under pressure.

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00:16:09.390 --> 00:16:18.240
Roy Maslen: On stocks are looking at cheap was remember at the start of the year. We're decade highs evaluations at the start of the decade hide somewhere close to those again.

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00:16:19.380 --> 00:16:31.560
Roy Maslen: So we retain that defensive positioning rescue to the downside and I will wrap up there. I want to give as much time as possible for questions. I think David has some pre prepared. But as I said, I feel free to type again.

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00:16:32.880 --> 00:16:35.850
David Blair: Thank you, Roy Yes, as I said, please do.

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00:16:35.910 --> 00:16:49.380
David Blair: Type in some questions in the Q AMP a tool and we will get to those Roy. Obviously you talk through the huge amount of stimulus that has been pumping around the world in Australia, the multiples in the US in Europe.

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David Blair: What do you see this down the road, having some sort of economic impact in we are, what is the likelihood that at some stage, there is a government default. I know.

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00:16:58.740 --> 00:17:08.400

David Blair: Italy's, been a concern, long term and they've been one of the hardest here. How do they manage through this from a lower and we can position than they were in beforehand.

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00:17:09.990 --> 00:17:13.650
Roy Maslen: Yeah. So let's, let's start with the money printing itself so

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Roy Maslen: Prior to the global financial crisis money printing by central banks were seen as on

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Roy Maslen: Relatively risky and it had been predominantly done by week economies in the world, such as Zimbabwe and Venezuela.

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Roy Maslen: And in most cases that it ended up really badly with hyperinflation and economic stress was changed over the last 12 years is that the money is now being printed by the stronger economies, in particular the fed the Japanese, the ECB and the Bank of England.

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00:17:51.900 --> 00:18:00.840
Roy Maslen: That has now gone from being unorthodox to almost orthodox because effectively by buying government debt that is helping funding government spending.

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00:18:02.340 --> 00:18:11.160
Roy Maslen: So where did that go from here. This is a little bit like Pandora's box. It's also very good until it is opened, and then you can't close it again if it goes too far, it will be painful.

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00:18:11.790 --> 00:18:18.120
Roy Maslen: We do not expect a loss of confidence in the Fed in the US. That's certainly not a base case.

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Roy Maslen: The risk here though is that because this is becoming more orthodox are lots of countries around the world. And now copying that blueprint.

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Roy Maslen: And a funding, they're spending by printing money. So as you know, the IBA in Australia has been cautious. I'm taking this road, all the way, since the KFC.

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00:18:35.700 --> 00:18:46.170
Roy Maslen: Is now printing money in excess of 100 billion in the in recent weeks, big numbers and $4,000 for every Australia quite a large amount of money printing

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Roy Maslen: But other countries doing this, Indonesia, Chile, Turkey.

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00:18:51.390 --> 00:18:57.900
Roy Maslen: So the risk is that one of these weaker countries goes down this path and the markets, call them out. And there's a loss of confidence in them.

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Roy Maslen: And that does create the stress that we've seen in other economies in the past. That's the tail risk, but we would be cautious on some of these kind of mid strength countries are going down this path.

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00:19:09.270 --> 00:19:15.300
Roy Maslen: But in terms of countries defaulting it's quite interesting. Scott Ross basically indicated that he thought there would be failed economies.

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Roy Maslen: And if we look around the world. A couple of areas that would really be cause for concern for us. One is Europe, although they may be making more progress on private 19 they're starting from the very high level position.

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00:19:27.780 --> 00:19:35.790
Roy Maslen: Italy's debt to GDP is 130 hundred and 40% and the only reason they're not insolvent is because they're being supported by the ECB.

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00:19:37.230 --> 00:19:46.680
Roy Maslen: If the ECB wasn't buying their debt, the interest rates on that would not be in the, you know, sub 2% range that we've seen it will be substantially higher and they will be able to fund this

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00:19:47.220 --> 00:19:53.760
Roy Maslen: So they've been basically propped up by the Central Bank as the economy comes under pressure and there's more required for money printing

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Roy Maslen: It clearly is a major challenge for those weekend economies in Europe, including Greece and Italy and amplified from the social

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00:20:02.130 --> 00:20:12.480
Roy Maslen: From the geopolitical risk of 3.6 million refugees in Turkey, and there are concerns. Now that covered 19 has got into those camps and they could Stampede into Europe to try and save their families.

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Roy Maslen: So I believe that's the risk more broadly. I think even

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Roy Maslen: in emerging markets, we have seen early signs of capital flight the Indonesian currencies, one of the worst performers in the world.

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00:20:25.350 --> 00:20:33.180
Roy Maslen: There are a Resource Based Economy and they're there for their trade is coming under pressure. So I think emerging markets. We're going to see that continued stress.

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00:20:33.720 --> 00:20:39.090

Roy Maslen: And found economies. I'm not sure when they say they're going to get to a major economy falling but certainly stressed economies.

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00:20:40.020 --> 00:20:50.370
Roy Maslen: And there is always the chance that this is the, the ultimate catalyst for the breakup of the EU and Italians look to socialize that debt by relaunching the their own currency again.

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00:20:52.200 --> 00:20:59.580
David Blair: Thank you. And I guess a good, a good follow up question to that is obviously the fund has had an overweight position to gold for some time, which has been

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00:20:59.970 --> 00:21:07.500
David Blair: A good trade. Do you comfortable maintaining this overweight to gold. And in this environment of money printing it seems like a sort of a natural fit.

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00:21:08.970 --> 00:21:15.510
Roy Maslen: Our simple answer is we remain very positive of the role of God within our portfolios. But I think it's important to

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Roy Maslen: explain some of the dynamics that are playing here. And I think a lot of people have been watching the market closely with observed that gold is

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Roy Maslen: looked a little unusual and how its trading they had been days.

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00:21:27.480 --> 00:21:36.600
Roy Maslen: Where the markets down. And it's exhibited it's normal defensive characteristic and outperformed but they're also being days when the markets been down a gold stocks here Australia have underperformed substantially

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00:21:37.320 --> 00:21:45.450
Roy Maslen: Now, on average over that period gold has been a very strong contributor to the portfolio and therefore those holdings have been positive, positive,

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00:21:46.620 --> 00:21:51.000
Roy Maslen: So why has that happened was gold not always defensive and where to from here.

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00:21:51.480 --> 00:22:00.600
Roy Maslen: So the patent we've seen is not an unusual one. In fact, we saw in the early days of the financial crisis in 2008 gold had good days and bad days in terms of being defensive

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00:22:01.260 --> 00:22:11.520
Roy Maslen: What you see early on in the crises. These hedge funds and other investors come under stress, they might be taking big losses on leveraged positions in equities or junk bonds or like

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00:22:12.090 --> 00:22:17.700

Roy Maslen: And they needed to create capital and ideally do that by selling assets that have outperformed such as gold.

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Roy Maslen: The other thing that may be happening and we don't know, but I will just hypothesize ease. They could be countries in the world that need to generate US dollars.

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00:22:27.810 --> 00:22:34.920
Roy Maslen: So one example would be Saudi Arabia clearly their budgets under huge pressure because of the load or high or low price.

141
00:22:35.400 --> 00:22:40.530
Roy Maslen: And but they haven't paid so they need hard currency, so they could be selling gold.

142
00:22:41.460 --> 00:22:53.730
Roy Maslen: On the other side though gold has exhibited this defensive characteristics. We're certainly seeing purchases of physical gold through ETFs are accelerating rapidly in the US and other investors a thing as defensive

143
00:22:54.510 --> 00:23:06.450
Roy Maslen: You can think about gold and really three ways. One is a defensive asset. Secondly, it's and currency and, thirdly, it's an inflation hedge potentially all three loads are coming. It's worth the moment I most importantly

144
00:23:07.500 --> 00:23:21.810
Roy Maslen: The money printing from the central banks around the world is very supportive of gold. We've seen in recent weeks where that acceleration of money printing that the US dollar gold price has risen into the late 1700s. Now,

145
00:23:22.830 --> 00:23:24.390
Roy Maslen: Now as equity investors.

146
00:23:25.470 --> 00:23:31.680
Roy Maslen: We benefit benefited from the strong us to local price, but even more importantly, the $1 gold prices up substantially this year.

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00:23:32.640 --> 00:23:47.280
Roy Maslen: So that's really important for the Australian gold companies because ultimately we like the defensive characteristics. The question is, How expensive are but but their cash flows are growing dramatically. So there's some of the highest cash generating stocks in the whole of our market.

148
00:23:48.480 --> 00:23:58.980
Roy Maslen: In addition to that, in most cases, they've got strong balance sheets or even net cash positions and they've improved their operations through an extent mom lives in lowering costs.

149
00:23:59.910 --> 00:24:10.830
Roy Maslen: However, on each of the gold companies in Australia has a risk associated with it, whether it's new. Chris and having a mind on me a earthquake or in Indonesia.

150
00:24:11.160 --> 00:24:20.700
Roy Maslen: Where its northern star and operating in Alaska, where it's harder to fly in fly out workers or your Regis and you're relying on the New South Wales Government to sign felonies and

151
00:24:21.570 --> 00:24:30.840
Roy Maslen: So what that means is you spread your gold exposure around so you don't have all your eggs in one basket. We've got a portfolio of gold stocks. That's about 10% of the portfolio.

152
00:24:31.350 --> 00:24:38.070
Roy Maslen: And we believe they've actually got cheaper as the markets outperform because of the strength of the cash flow. So, we remain very positive on gold.

153
00:24:38.940 --> 00:24:47.340
Roy Maslen: And potentially you're on the cusp of seeing the reemergence of gold as an asset class outside geographies that I've always been positively disposed to it, such as who

154
00:24:48.450 --> 00:24:48.540
Roy Maslen: I

155
00:24:49.410 --> 00:25:04.470
David Blair: Think you really, you mentioned there obviously people accessing gold via via ETFs, and I think one of the one of the big questions. Obviously in the lead up to the sell off the rush to ETS and passive investing has been huge.

156
00:25:05.670 --> 00:25:19.050
David Blair: Do you feel that the large percentage of the market big in ETFs has exacerbated the sell off in any way. And as it has it added to the volatility and system was trading is that been something you've been conscious of will notice in the Australian market.

157
00:25:20.040 --> 00:25:36.180
Roy Maslen: So on Emma Dion, who are running trading guest here in Australia. I don't know they've got 14 years of experience between them. They have seen lots of markets in Australia and around the world ever is in fact a global co head of trading and, you know,

158
00:25:37.200 --> 00:25:39.120
Roy Maslen: Maybe the word extraordinary is overused.

159
00:25:40.200 --> 00:25:50.220
Roy Maslen: But not just from a volatility perspective, but from a training perspective that has been extraordinary. In Australia, there have been a lot of funny occurrences and some of those hit the press, such as

160
00:25:51.420 --> 00:26:00.750
Roy Maslen: Probably four weeks ago now about then on you saw that you need to record in all their shorts on a Friday. So there's a lot of short covering and we saw that huge intraday rally.

161

00:26:01.590 --> 00:26:11.040
Roy Maslen: We've seen a whole bunch of derivatives that are in the market that are accelerating volatility and I can talk more about that people are interested, very good swaps puts

162
00:26:11.940 --> 00:26:21.780
Roy Maslen: And we are seeing passive close so whether that is through activity x or asset allocators we think huge program trades coming into our market during the day.

163
00:26:22.290 --> 00:26:29.010
Roy Maslen: And that is clearly driving volatility. So although the theoretical volume, the amount of shares that are traded because they are up.

164
00:26:29.610 --> 00:26:38.220
Roy Maslen: The real volumes that are a result of fundamental conviction, such as long only investors buying and selling stocks is a small share of that.

165
00:26:38.760 --> 00:26:48.630
Roy Maslen: So it's clearly contributed to volatility and ETs are particularly in the US LESS THAN AUSTRALIA. A large part of that passive investing. And the one thing I'd add just on

166
00:26:50.040 --> 00:27:03.090
Roy Maslen: Analysis of passing investing in ETFs in the US is that there are good contrarian indicator and typically they sell aftermarket support and and by aftermarket have risen so they generally get that right, wrong.

167
00:27:05.430 --> 00:27:08.010
David Blair: We've got questions or some additional questions coming through.

168
00:27:08.940 --> 00:27:24.600
David Blair: This is a question we get a bit. So that's actually a good one, given me the combination of the funding overweight defensive sectors underway aggressive sectors and holding a lot of buzz into cash. Now do you see, do you feel the fund is overly bearish and how do you see

169
00:27:25.680 --> 00:27:28.020
David Blair: If there is a strong rebound in economic activity.

170
00:27:32.040 --> 00:27:42.630
Roy Maslen: That you have real goal of the strategy is to be very defensive. So when you think about the role and it might play in your plants portfolio. We see ourselves as the airbags, so

171
00:27:43.710 --> 00:27:57.330
Roy Maslen: We come over as a team, myself included, as barris because we're always asking ourselves, what could go wrong take delivery kind of hoping for the best planning for the worst. And we're looking to deliver that 50% outside capture

172
00:28:00.180 --> 00:28:11.970

Roy Maslen: Having delivered on close to that 50% downside capture over six years we've comfortably outperform the market, but the profile of returns you should expect is on average very defensive and falling markets. The 10 worst month since we've launched

173
00:28:12.780 --> 00:28:17.550
Roy Maslen: Without from substantially. But conversely, if you see a classic risk rally.

174
00:28:18.090 --> 00:28:30.810
Roy Maslen: A junk rally we're likely to live during that period. So this month. As of last night, the market was up seven and we're up for. So we're lagging it three over that period still very strong after over all of the time period. So we're not trying to catch the following night.

175
00:28:31.830 --> 00:28:41.760
Roy Maslen: So we will be deploying cash. When we have high conviction in the fundamentals of the stocks and whether that's the cash flows in earnings, the balance sheets.

176
00:28:42.240 --> 00:28:52.710
Roy Maslen: And at this stage, we can't. We still believe that there are many companies out there where the market is way too optimistic. Many the energy companies are going to lose money over the next six months.

177
00:28:53.700 --> 00:29:02.580
Roy Maslen: That's not in the numbers of the market. There are lots of other consumer companies whose earnings are still not been downgraded so we are taking a conservative approach by design.

178
00:29:03.240 --> 00:29:09.030
Roy Maslen: So you look back over the history. Just to elaborate a little bit on that when you've had a period of fear and there's a bounce.

179
00:29:09.570 --> 00:29:16.170
Roy Maslen: We typically like the most in the first few weeks. But then as that bounce carries on. We capture more and more of the upside, and ultimately

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00:29:16.530 --> 00:29:29.340
Roy Maslen: Over time, on average, we've exceeded more than 90% upside capture, but that is made up of, you know, potentially 50% or less than the early weeks after them more over time as it plays out. So I guess that's part of the road. We're looking to play.

181
00:29:30.570 --> 00:29:35.130
Roy Maslen: I guess we have no apologies for asking ourselves, what could go wrong, because at key.

182
00:29:36.210 --> 00:29:43.200
Roy Maslen: Design. It's not to be surprised. So that's why we were taking actions on Kovac 19 back in January, which I think was pretty unusual.

183
00:29:44.700 --> 00:29:45.360
Roy Maslen: In markets.

184
00:29:46.530 --> 00:29:54.300
David Blair: Now that's good because one of the messages we say is the role of a manager will totally fund in portfolios, they were there to be defensive and so

185
00:29:54.600 --> 00:30:05.310
David Blair: Are you that question was, was will time I'll get another question just around the effect on the Australian market of these $20,000 early drawdown from Super

186
00:30:06.240 --> 00:30:17.640
David Blair: Do you see that having an effect on the Australian market as take up gets brought up on the the industry funds if they're sitting on a liquid assets to they have to start trimming Ozzy equities and global equities more aggressively.

187
00:30:21.390 --> 00:30:30.990
Roy Maslen: So the simple answer is no. The numbers aren't big enough for the market. So I think the last numbers I sort of just over 700,000 people that were

188
00:30:31.680 --> 00:30:47.190
Roy Maslen: Drawing out. And so if they all take 10 k out this year that 7 billion. They haven't all got tank case I might only be 5 billion coming out and have that 5 billion. And, you know, probably wants 2 billion, you know, the equities.

189
00:30:49.470 --> 00:30:53.670
Roy Maslen: If that's all a cell it's relatively small in the overall scheme of the market of

190
00:30:55.890 --> 00:31:07.140
Roy Maslen: It is a much bigger issue for the funds that are exposed to this automatically funds that have the demographic of worker who are most likely to have lost their job.

191
00:31:07.950 --> 00:31:11.850
Roy Maslen: And have small balances. This is a much bigger issue for them in terms of liquidity.

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00:31:12.420 --> 00:31:21.510
Roy Maslen: So the question from us on that side is how's this going to impact the super fans and how are they going to change their ultimate strategies, more than whether the actual dollars are going to be enough to move the market.

193
00:31:22.050 --> 00:31:36.930
Roy Maslen: And clearly, you know, some of the big super fans have already come out and change their liquidity provision to the members. So they're obviously concerned about that and what we've also seen as a result of this is something that was different from 2008 2008 and

194
00:31:38.100 --> 00:31:41.250
Roy Maslen: Funds were very slow to mark to market that unlisted assets.

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00:31:42.810 --> 00:31:53.820

Roy Maslen: And because it was a source of our performance for them when the markets were falling they'd move sooner this cycle and they need to do that for range of reasons not resets trustees and directors have a legal

196
00:31:54.960 --> 00:32:04.530
Roy Maslen: Need to do that. But if you don't make those assets down and then you get withdrawals. That means the people who are leaving are benefiting and the people who are staying losing out

197
00:32:05.730 --> 00:32:11.280
Roy Maslen: The reason that matters isn't the best. Let me give you one example. He is they're taking about seven and a half to 10%

198
00:32:12.390 --> 00:32:20.220
Roy Maslen: If center group does that to its own assets. Now they're slightly higher quality, on average, but if it does it seven to 10% and it's breaking debt covenants.

199
00:32:21.990 --> 00:32:30.150
Roy Maslen: And just follow comment on this is you have to sign off on those as a rate on June 30

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00:32:31.200 --> 00:32:41.670
Roy Maslen: You can't on June 30 say wait a minute, I think it's going to be better at the end of the year. You're supposed to sign off on as it values as of June 30 so this is one of the reasons and there are others while we are particularly version rates.

201
00:32:44.340 --> 00:32:53.070
David Blair: Thank you very much about some, well, if anyone does have any questions on rates, please send them through. But obviously, you've talked about the earnings outlook and how cloud that is at the moment.

202
00:32:53.670 --> 00:33:09.090
David Blair: But we've already started seeing companies come to market for capital raisings to build up their balance sheets for what is going to be an uncertain time hell as an investor. Do you look at and try and sum up a capital raising when the outlook is just so blurred in this environment.

203
00:33:10.140 --> 00:33:19.290
Roy Maslen: Yep. So we've got a screen. I think there's 2223 capital raisings that have taken place seven to $8 billion dollars of primary issuance in the last three weeks.

204
00:33:21.690 --> 00:33:29.850
Roy Maslen: So as an investor, you need to think about how a stock is going to go perform into the equity raising and how it will perform coming out of the company raising

205
00:33:31.230 --> 00:33:37.950
Roy Maslen: Historically, raising capital has been assigned that companies will continue to underperform

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00:33:40.080 --> 00:33:43.050
Roy Maslen: When you are reducing the stress from a company, though.

207
00:33:44.160 --> 00:33:46.380
Roy Maslen: You see that can be different.

208
00:33:47.580 --> 00:33:58.650
Roy Maslen: And what we have seen on average the outperforming of the term which is the average of the the raising price and the existing shares has been about 4% so relatively small.

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00:34:00.210 --> 00:34:07.320
Roy Maslen: Most of those companies, though have underperformed substantially more than that pride of the raising substantially more than that.

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00:34:08.220 --> 00:34:18.150
Roy Maslen: So we are cautious about investing in companies that are coming equity raising because you take a lot more pain to get what thus far has been a small gain and could easily be raised.

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00:34:19.350 --> 00:34:21.720
Roy Maslen: There are some caveats, and exceptions around that.

212
00:34:22.860 --> 00:34:26.040
Roy Maslen: If the raising is only a small part of your share capital.

213
00:34:28.680 --> 00:34:38.310
Roy Maslen: And it's not that dilutive. And we think it will be well supported, we can have some comfort. So let me get give a couple examples. So we have a holding and sonic healthcare.

214
00:34:39.420 --> 00:34:48.570
Roy Maslen: They do apology testing and including coded 19 testing their revenues are currently will be down because you're not going to go and have your cholesterol test as much

215
00:34:49.830 --> 00:34:56.670
Roy Maslen: But we think they will recover strongly as the economy starts up again because a lot of people whose needed that medical contest will go and get one.

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00:34:57.840 --> 00:35:05.730
Roy Maslen: There is a chance they need to raise capital A little bit like cochlear maybe say 15% of the evaluation. So we do all that company because we think that will be supported or

217
00:35:07.590 --> 00:35:15.600
Roy Maslen: If you take center group is another example. They've got about $14 billion worth of debt their market caps rally, but it got down to about $7 billion.

218
00:35:16.980 --> 00:35:27.390
Roy Maslen: If you've got to take 4 billion off your debt and your $7 billion company that's really deleted and very challenging. So I think it comes down, stop to stop and

219
00:35:28.170 --> 00:35:33.240

Roy Maslen: The thing I would add at the moment is there is a lot of people came to participate in equity raising

220
00:35:33.870 --> 00:35:46.740
Roy Maslen: So if you raise equity at a price well beneath your current share price, of course, that will be attractive that because of the environment we're in almost all of those shares are going to existing shareholders on a periodic basis, give or take.

221
00:35:48.780 --> 00:35:57.120
Roy Maslen: And so the non shell there's there's limited scope to participate. So we, in general, I've been cautious on balance sheets at the moment.

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00:35:58.680 --> 00:36:03.390
David Blair: I think you talked about banks and obviously the concern around increasing bad debts.

223
00:36:03.960 --> 00:36:09.180
David Blair: So the question is really around Australian property. And for a long time, Australian Property is done very, very well.

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00:36:09.600 --> 00:36:15.720
David Blair: Or which there's been a linkage to Australia really never having boy, not for very long time having an unemployment crisis.

225
00:36:16.620 --> 00:36:31.650
David Blair: Of which there's a high correlation between house prices and unemployment which hasn't sort of played out in Australia. Do you do see property, having a meaningful self as unemployment increases and stays high for an extended period and you think that could wash through

226
00:36:31.950 --> 00:36:32.640
To the banks.

227
00:36:34.200 --> 00:36:37.950
Roy Maslen: Up to let me start with some scary numbers and let's talk about what our base cases.

228
00:36:39.450 --> 00:36:49.350
Roy Maslen: So the regulator of the Australian banks is opera in 2017 they published a stress test, which is what if Australia goes through a nasty recession.

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00:36:50.100 --> 00:36:59.400
Roy Maslen: What does that mean the bank balance sheets and all they unquestionably strong and the stress test, they put through they published it's out there for you to see and

230
00:36:59.940 --> 00:37:09.330
Roy Maslen: They said the unemployment going to 11.6% building about a percent the year after and another 2% the year after. So as a slow recovery.

231
00:37:10.830 --> 00:37:21.330

Roy Maslen: Under their analysis with unemployment going to those levels and that is the primary driver historically of house price decline that will be consistent with a 35% drop in house process.

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00:37:22.830 --> 00:37:26.310
Roy Maslen: big numbers. I said there's not a base case. I just thought I'd start with the scary numbers.

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00:37:27.720 --> 00:37:36.630
Roy Maslen: Their assessment. If you read through exactly what that might mean for the big for is approximately, give or take 120 billion dollars with the bad debts.

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00:37:38.430 --> 00:37:45.240
Roy Maslen: Which is about the pre tax profit have more than two years, but all the Bigfoot together huge numbers. That doesn't mean they're necessarily raise equity.

235
00:37:45.630 --> 00:37:49.260
Roy Maslen: They may just pay no dividend and I'm not make a lot of profit big numbers.

236
00:37:49.980 --> 00:37:57.000
Roy Maslen: So when we're thinking about the bad dates for the banks were looking at three scenarios. The 120 which is the stress test half that at 60

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00:37:57.390 --> 00:38:05.250
Roy Maslen: And 30 billion. So 3060 and 120 billion. And we think we're in that 30 to 60 range if this is ugly. We're not certainly that 120 billion cap.

238
00:38:05.910 --> 00:38:21.150
Roy Maslen: But that was a 35% house drop and the only bank does come out and put an economic scenario is banking Queensland. They did that because they had the year of a march 31. They said, house prices to go down 5% in calendar 2020 and

239
00:38:22.620 --> 00:38:24.270
Roy Maslen: So we think they're too optimistic.

240
00:38:25.260 --> 00:38:37.110
Roy Maslen: So how do we think about this. Well, realistically, at the moment, you're not seeing banks for clothes for range of reasons. One is the deal they did with the government. And secondly, they don't want to be on ABC News for for closing. So we are seeing very few

241
00:38:38.910 --> 00:38:40.650
Roy Maslen: Forced acquisitions of properties in the moment.

242
00:38:43.110 --> 00:38:55.440
Roy Maslen: So in an environment where you not being forced to sell and you don't want to sell. If you're not going to get a good price. I think we're in an environment where on housing. We're going to see, not a lot of volume but holding up okay for the next three or four months.

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00:38:56.640 --> 00:39:05.700

Roy Maslen: The concern is what happens as the economy opens up and we think the canary in the coal mine. He is a rental property.

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00:39:06.720 --> 00:39:14.310
Roy Maslen: We are seeing a huge raft of rental properties coming on market as people lose their jobs and maybe move back with their family.

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00:39:14.610 --> 00:39:26.940
Roy Maslen: As Airbnb are coming on to market, we're seeing some markets up between 100 and 400% on listed properties up for sale as international students go home on our maths, we're still working further through this on.

246
00:39:27.990 --> 00:39:31.230
Roy Maslen: The amount of vacant properties could result in a tempting.

247
00:39:32.340 --> 00:39:36.930
Roy Maslen: Additional supply a rental properties coming on the market 10% big numbers.

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00:39:38.010 --> 00:39:43.650
Roy Maslen: We're already seeing indications that in many markets rental prices now effectively down 25% or more

249
00:39:44.520 --> 00:39:53.460
Roy Maslen: So we're seeing that stress at the moment. So we are stress testing to way more than 5% we're not of the 35% cap. We think the canary in the coal miners. They said, is the rental properties.

250
00:39:53.850 --> 00:39:56.280
Roy Maslen: And if you're in a situation where you're unable to rent.

251
00:39:57.030 --> 00:40:04.230
Roy Maslen: You know, potentially 10% of rental properties can be empty and if you do read rates are lower. When the banks stop rolling over your debt.

252
00:40:04.530 --> 00:40:13.320
Roy Maslen: That's going to come from. So the real debate is going to be three or six months out as to how many stressors. We've got on there, but we are much more bearish on the house prices.

253
00:40:13.920 --> 00:40:23.610
Roy Maslen: And we believe that has profoundly negative impacts on the manor houses, we're going to build one of the reasons we're negative on the economy is even if we were to open up relatively soon.

254
00:40:24.330 --> 00:40:30.150
Roy Maslen: We're not going to need as many houses and constructions, a really important part of the Australian economy.

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00:40:30.600 --> 00:40:38.580

Roy Maslen: And we can't solve that construction weakness through infrastructure and commercial property because infrastructure, it's already pretty high, it might go a bit higher, but it's very hard to ramp up

256
00:40:39.180 --> 00:40:49.440
Roy Maslen: And we're probably gonna be on we're probably not going to be building a lot of retail malls and office buildings in this environment is I think construction is a real sign of weakness in our, in our market over the coming quarters.

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00:40:51.780 --> 00:40:57.780
David Blair: Thank you. So obviously, on the berries few there. So the other question we get all the time is, obviously, you're sitting on

258
00:40:58.170 --> 00:41:11.100
David Blair: A significant level of cash now as as dry powder. Obviously, there's no short term recovery. We are looking to to exercise that but what what are the signs are going to look for that you'd be start to become comfortable to move back into the market.

259
00:41:12.780 --> 00:41:19.830
Roy Maslen: I think he comes button down as a bottom up and top down, down the top up now.

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00:41:21.720 --> 00:41:32.940
Roy Maslen: So bottom up each driven by when we see there a more diverse set of opportunities that we all want to invest in because companies cash flows earnings and balance sheets are looking more robust

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00:41:34.560 --> 00:41:45.570
Roy Maslen: Top down is when the market interview has a better appreciation of the fundamental challenges the local and global economy are facing and that's reflected in our prices.

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00:41:48.780 --> 00:41:59.970
Roy Maslen: So we can't give you the kind of the absolute definitive indicator. But for example, if we start to see the impact on the US economy.

263
00:42:00.600 --> 00:42:09.900
Roy Maslen: Of struggling to sustainably reopen or the impact in em or Banshees around the world. And that started to price more feet coming to market. That could be a catalyst for me.

264
00:42:12.120 --> 00:42:20.280
David Blair: Thank you. I guess that's a good point. I think it leads into the sort of final point I would like to cover is just around what you've talked around the

265
00:42:20.820 --> 00:42:34.080
David Blair: The goal of the demands volatility funded project on the downside and just for we've got a few new investors on the line, maybe a little background about how the fund came into existence. And you know what is aiming to achieve through time.

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00:42:36.600 --> 00:42:36.960
Roy Maslen: Sure.

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00:42:38.100 --> 00:42:42.390
Roy Maslen: So the fun turned six. At the end of March was kind of an interesting month to turn six

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00:42:43.380 --> 00:42:51.360
Roy Maslen: But I guess the story starts about seven years ago. And the, the client at the time was public so they're willing for us to share the name. He was Catholic super in Victoria.

269
00:42:51.930 --> 00:43:03.060
Roy Maslen: Asked us to disarm disarming a simple question, which is, they had a whole bunch of their members who are keen to out from the market. Over time, but will be particularly sensitive to

270
00:43:03.840 --> 00:43:17.280
Roy Maslen: Market corrections and markets forming and the question they ask is, how do you build a defensive equity strategy that can outperform over time without the cost and complexity of derivatives and that led to a

271
00:43:18.390 --> 00:43:23.820
Roy Maslen: Partnership and the design of the strategy that we can be able to manage volatility equity fund.

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00:43:24.720 --> 00:43:28.680
Roy Maslen: The really important starting point was to redefine success, rather than now for tracking

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00:43:29.400 --> 00:43:35.550
Roy Maslen: And we know for most clients tracking error is not particularly relevant we reframed it in an upside downside capture model. So add

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00:43:36.000 --> 00:43:44.940
Roy Maslen: Our internal goal is in any month mark is down to four half as much. So I have a 50% downside capture and any month of Microsoft to capture 80% of the upside.

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00:43:45.600 --> 00:43:59.010
Roy Maslen: If you deliver 50 at overtime you very comfortably up from the market and even including March. We've got close to 50 on the downside. I think we're actually on about 53% and we've done well better than the it on the upside and outperform stronger.

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00:44:00.810 --> 00:44:08.250
Roy Maslen: By key elements of allowed us to do that. The starting point is to figure out what kind of companies, you want to invest in. And so

277
00:44:09.060 --> 00:44:20.010
Roy Maslen: If you look at different investment styles and small cap value, bro. Like, and core at the style that is most defensive is called local investing

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00:44:21.000 --> 00:44:29.070

Roy Maslen: And the way I think about that is companies with stable businesses have stable share prices and when the markets for playfulness.

279
00:44:30.030 --> 00:44:34.320
Roy Maslen: So the companies were went to St. And have stable businesses and stable share prices.

280
00:44:34.680 --> 00:44:44.280
Roy Maslen: They've got high quality cash flows and attractive cash flow evaluation. So we're not looking to build a deep value portfolio, but we do want companies that are transformative value versus their cash flow.

281
00:44:44.820 --> 00:44:49.230
Roy Maslen: And the reason we focus on cash flows companies that cheap on cash flow app for mid market is evolving.

282
00:44:50.160 --> 00:45:00.630
Roy Maslen: Companies keep on other metrics such as price to earnings and price to book typically for more than the market when it's down so strong, stable businesses to quality, quality cash flows in a reasonable cash flow evaluation.

283
00:45:02.280 --> 00:45:11.790
Roy Maslen: Second thing is we know, time and time again as the world changes and evolves that companies that looks, they will become more volatile, not least in recent weeks, but just more generally.

284
00:45:12.330 --> 00:45:22.650
Roy Maslen: So we call this notion of a volatility trap of company that looks terrible becomes more volatile. So our fundamental research effort, both locally and globally is

285
00:45:23.130 --> 00:45:31.260
Roy Maslen: Focused on avoiding investments in companies we find there are three key risks. There might be a cyclical exposure, such as a price war in supermarkets.

286
00:45:31.740 --> 00:45:46.020
Roy Maslen: And there might be a balance sheet risk, such as rates potentially in recent times, or there might be in a business, whether that's coded 19 and election and I know the macro outcome. So we are focused on avoiding investments in those stocks.

287
00:45:47.070 --> 00:46:00.810
Roy Maslen: Third, we know that you can invest in the index up very attractive you know all posted. I think now in terms of fees. So we have to beat it, and we have done, but we don't care about index. Wait, so we want on a company just because it's been

288
00:46:01.440 --> 00:46:09.660
Roy Maslen: So today we are no shares and they ended 99 obey not in BHP and now having taken profits not ncsl

289
00:46:10.800 --> 00:46:19.890

Roy Maslen: We typically have no more than 5% absolute in any individual stock, but we're looking to build a diversified portfolio without a big exposure to individual small cap back

290
00:46:21.630 --> 00:46:28.800
Roy Maslen: And forth. We have a constant 20% allocation to global stocks. We know there are many sectors here in Australia, where we have an opportunity to build

291
00:46:29.190 --> 00:46:35.070
Roy Maslen: investments that are attractive gold infrastructure and supermarkets currently not all the time.

292
00:46:35.730 --> 00:46:46.320
Roy Maslen: But if we want to diversify, sometimes we need to go overseas. So when and Telstra was under pressure with the NBA or Woolworths was in a price world we could go and buy the Telstra as well with overseas.

293
00:46:47.040 --> 00:46:58.500
Roy Maslen: Or there's something we just can't get exposure to like global Father, we can go overseas. So we have a constant 20% allocation to global mostly hitch back to Australian dollars just 3% on hedged

294
00:46:59.250 --> 00:47:05.760
Roy Maslen: Just because they have to give a little bit of defensiveness, but it means you never see currency as part of the overall performance tribe. Is there any period.

295
00:47:07.020 --> 00:47:15.240
Roy Maslen: Of faith. And finally, and this is maps. One of David's early questions on we spent a lot of time thinking about macro. We don't want to be in a situation at the end of the year that you're saying

296
00:47:15.750 --> 00:47:27.330
Roy Maslen: We had a great year. We've got the map or wrong way we think about macro is we stress test our portfolio to traded events like currency rates Vic's on or oil.

297
00:47:27.990 --> 00:47:40.350
Roy Maslen: And also macro events, whether those are US elections, the Brexit coded 19 other events and ultimately the question we're asking ourselves, how can we reduce add downside risk of these

298
00:47:42.510 --> 00:47:51.030
Roy Maslen: So that's what led us to reduce our exposure to code 19 early this year previously when breaks it was up in June 2016

299
00:47:51.570 --> 00:48:00.000
Roy Maslen: A month or two ahead of that we ask ourselves a question in the unlikely event which we thought at the time but breadstick got up, how do we reduce our exposure. So we direct our portfolio to that.

300
00:48:00.990 --> 00:48:10.230
Roy Maslen: So I haven't put all that together, as they say, we've delivered close to the 15 the ad and importantly, I think, in the worst 13 or 14 months of index.

301
00:48:10.710 --> 00:48:17.250
Roy Maslen: Performance since we started with outperformed we're not always going to outperforming the download. I think I should set that expectation

302
00:48:17.940 --> 00:48:30.420
Roy Maslen: And the quid pro quo is when you get a great big risk rally like we did after Trump was elected week typically we're lagging that environment, but are upside captures average more than 90% over time. And there are certain parts will we do at home as well.

303
00:48:33.060 --> 00:48:36.270
David Blair: Right. Thank you very much. Sure. And thank you all for joining us today. I hope

304
00:48:37.170 --> 00:48:42.300
David Blair: That's been helpful in terms of getting in mind around the events of the world at the moment and the marriage volatility fun

305
00:48:42.570 --> 00:48:53.010
David Blair: If you do have any specific questions, please feel free to reach out to see working from home, but still very much working. Thank you all. Stay safe, and we'll be in touch soon. Thank you.

306
00:48:54.930 --> 00:48:56.010
Roy Maslen: Thanks. Have a great day. SIGH