



PORTFOLIO UPDATE

Australian Equity SMA

As of 31 May 2022



Portfolio Manager:

Randal Jenneke

Joined Firm:

2010

Investment Experience:

30 Years



SMA COMPOSITE INFORMATION

Inception Date	2 July 2018
Benchmark	S&P/ASX 200 Total Return Index

INVESTMENT OBJECTIVE

The Australian Equity SMA Composite seeks long-term capital appreciation primarily through investment of at least 90% of its market value in securities of high quality growing Australian companies listed/to be listed on ASX.

TOP 10 HOLDINGS (%)

	Country	Industry	% of Rep. Portfolio
Bhp	Australia	Metals & Mining	11.0
CSL	Australia	Biotechnology	8.4
National Australia Bank	Australia	Banks	6.2
Rio Tinto	Australia	Metals & Mining	6.2
Coles	Australia	Food & Staples Retailing	5.8
Aristocrat Leisure	Australia	Hotels Restaurants & Leisure	4.5
Goodman Group	Australia	Equity Real Estate Investment Trusts (REITs)	4.4
Macquarie Group	Australia	Capital Markets	4.2
carsales.com	Australia	Interactive Media & Services	3.7
Ramsay Health Care	Australia	Health Care Providers & Services	3.7

PERFORMANCE

Figures Shown in Australian Dollars

	One Month	Three Months	Year-to-Date	One Year	Three Years	Since Inception 31 Jul 2018 ²
Australian Equity SMA Composite (Gross) [^]	-2.91%	1.91%	-5.29%	3.70%	9.12%	7.13%
S&P/ASX 200 Total Return Index (AUD)	-2.60	3.21	-1.27	4.84	7.85	7.74
Value Added (Gross) ¹	-0.31	-1.3	-4.02	-1.14	1.27	-0.61

Past performance is not a reliable indicator of future performance.

[^] Gross returns are presented before the deduction of expenses and all other fees, but may include transaction costs. Returns include reinvestment of dividends and capital gains. Actual fees assessed by the SMA platforms will vary and are not included in the gross returns.

¹ The Value Added is shown as the SMA Composite (Gross) minus its Index.

² The SMA Composite's inception date is 2 July 2018. Statistics shown are since the month end date after inception.

SECTOR EXPOSURE (%)

	% of Rep. Portfolio	Rep. Portfolio vs. S&P/ASX 200 Total Return Index (AUD)
Materials	20.9	-3.8
Health Care	15.6	6.0
Consumer Discretionary	14.1	7.5
Financials	11.6	-17.7
Consumer Staples	8.8	4.0
Information Technology	7.3	4.2
Industrials & Business Services	4.5	-1.3
Real Estate	4.4	-2.2
Communication Services	3.7	-0.1
Utilities	1.8	0.4
Energy	1.3	-2.8

PORTFOLIO CHARACTERISTICS

	Rep. Portfolio	S&P/ASX 200 Total Return Index (AUD)
Number of Holdings	27	201
Top 20 Issuer as Percent of Total	85.7%	61.8%
Percent of Portfolio in Cash	5.9%	-
Active Share	56.3%	-
Portfolio Turnover	58.3%	-

Annualised

PORTFOLIO REVIEW

The Australian equity market fell again in May; however, it is one of the best performing assets classes globally so far in 2022. Over the month, Australian equities outperformed emerging markets but underperformed developed markets in local currency terms.

The top performing sectors for the month included materials, utilities, and industrials and business services while the key underperforming sectors were real estate investment trusts (REITs), information technology, and consumer staples. The proposed EU ban on Russian oil imports saw oil prices spike. Iron ore prices fell as China's zero-covid policy continued to weigh negatively on economic activity and therefore demand for iron ore. Gold prices fell modestly over the month. With inflation data in line with market expectations, U.S. Treasury yields fell by a modest five basis points to 2.84%. Conversely, Australian 10-year bond yields continued to sell off with yields rising by another 22 basis points to 3.34% in May. The Australian dollar rose against its U.S. counterpart.

PORTFOLIO HIGHLIGHTS

The portfolio underperformed the market in May. Notable underperformers included Eagers Automotive, Goodman Group, and IDP Education. Good performances were posted by Allkem, Treasury Wine Estates, and BHP.

Goodman Group underperformed following the announcement from ecommerce giant Amazon that it had overexpanded during the pandemic and was looking to lease out some industrial space. We believe Goodman has limited exposure to this issue given that it has a small U.S. footprint and modest exposure to Amazon's affected businesses. The fundamentals for the company are strong, in our view, and the business is well placed to benefit from strong longer-term ecommerce trends.

Allkem was one of the top performers in the S&P/ASX200 for the month. This was driven by strong electric vehicle demand, which in turn is sending lithium prices higher. The challenge for the entire industry is to produce enough lithium to meet the very strong market demand going forward. Allkem, in particular, has a number of greenfield and brownfield expansions coming online in the next three to five years. In our view, the company is well-placed to grow its production profile and benefit from the very strong tailwinds associated with the transition to electric vehicles which is well under way.

NOTABLE TRANSACTIONS

Elimination: Seek Ltd

We believe the attractiveness of the business has diminished as we think it will be cycling a tough prior corresponding period and the employment cycle should turn from a tailwind to a headwind.

Elimination: Rea Group Ltd

We have turned more pessimistic on the stock based on expectations that the listings cycle will roll over, which in turn will drag on earnings growth.

Elimination: Harvey Norman Holdings Ltd

The outlook for earnings has weakened in our view, partly based on our anticipation for weaker discretionary consumer spending as we move into a later stage of the economic cycle.

Ramsay Health Care was one of the top performers for the month after receiving a non-binding indicative offer to acquire the company by a consortium led by private equity firm KKR for AUD88 a share. The company has granted the consortium access to do due diligence on a non-exclusive basis to see if a binding proposal can be reached. The proposed transaction highlights the long-term value of the company, particularly at a time when it is poised to benefit from the backlog of delayed surgery demand caused by the pandemic.

OUTLOOK

The path to lower inflation has been extended and complicated by a combination of the war in Ukraine and China's continued pursuit of its zero-covid policy, which is causing ongoing supply chain disruptions. In addition, wage pressures are mounting, which risks making inflation an entrenched longer-term issue. Most likely this will require central banks to raise interest rates higher than previously thought, with negative consequences for earnings growth. We believe this makes the risk of a central bank policy error very high. Some central banks appear to have little choice but to drive their economies close to or into recession in order to bring inflation back under control.

While there are a high number of uncertainties, the current sell-off in growth and high quality companies is creating good opportunities, in our view. We believe it is far better to prepare for what is likely to come (slowing growth and recession risk) rather than what stares us in the face today (higher inflation). This contrarian approach will enable us to position our portfolio for the next phase of the market.

Having previously moved to a more cautious stance in our portfolio, we are now taking the opportunity to add to quality and growth companies we believe are oversold based on near-term inflation fears and higher interest rates. Having taken profit on these positions during the course of 2021, we have ample scope to take these positions higher. In our view, this will likely set up the portfolio to perform well once we move beyond the current market inflation fears and focus back on the key issue (earnings) that we believe will come to dominate markets as we move through 2022. We expect quality and growth companies to perform well in this environment.

GIPS® COMPOSITE REPORT**Australian Equity SMA Composite**

Period Ended 31 December 2021

Figures shown in Australian dollar

	2018 ²	2019	2020	2021
Gross Annual Returns (%) ¹	-10.75	26.26	0.20	21.77
Net Annual Returns (%) ¹	N/A	N/A	N/A	N/A
S&P/ASX 200 Total Return Index (%)	-8.11	23.40	1.40	17.23
Composite 3-Yr St. Dev.	N/A	N/A	N/A	15.56
S&P/ASX 200 Total Return Index 3-Yr St. Dev.	9.69	8.51	N/A	16.82
Composite Dispersion	N/A	N/A	N/A	N/A
Comp. AUM (Millions)	1.8	2.3	2.3	2.8
# of Accts. in Comp.	1	1	1	1
Total Firm AUM (Billions)	1,381.6	1,733.0	1,921.2	2,274.3 ³
SMA Portfolio (%)	0%	0%	0%	0%

¹ Investment return and principal value will vary. Past performance is not a reliable indicator of future performance. Monthly composite performance is available upon request.

² July 31, 2018 through December 31, 2018.

³ Preliminary - subject to adjustment.

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