Core Value Portfolio

Monthly Update – April 2020

Performance overview

The Core Value Portfolio (CVP) generated a return of +3.43% for the month, a solid return given the current defensive positioning of the Portfolio.

The Australian equity market finished the month up +8.8%. SGH ICE (+16.1%), Firetrail High Conviction (+14.7%), and Allan Gray (+12.5%) all provided significant alpha. The other investments from this asset class, the beta exposure through Macquarie True Index (+9.1%) and IML Equity Income (+8.4%) generated results similar to the index.

Global equities also rose in April (+3.5%), with all investments adding value to the Portfolio. The biggest contributor was Lazard Global Equity Franchise (+6.3%), followed closely by Loomis Sayles Global Equity (+5.3%) and Northcape Emerging Markets (+3.9%). Talaria Global Equity (+1.3%) delivered the smallest contribution given its defensive posture - it was only 55% invested during the month. The rise in the AUD during April also acted as a headwind for these unhedged managers. We have held the BetaShares Strong Aussie Dollar ETF within the Portfolio and traded the exposure to partially hedge against this dynamic.

All Alternative allocations contributed positively to the Portfolio. The best performer was the BetaShares Gold Bullion ETF (Hedged) (+5.5%), followed by the Partners Group Global Multi-Asset Fund (+4.5%) and Bennelong Long Short (+1.3%).

The Portfolio's Property and Infrastructure allocations rebounded from March lows and delivered strong returns over the period. The best performers were the Cromwell Phoenix Property Securities Fund (+12.0%) and the Lazard Global Listed Infrastructure Fund (+6.2%). AMP Capital Core Infrastructure Fund returned less (+2.5%), with half of the fund's investments being unlisted. The only detractor was the Resolution Capital Global Property Fund (-0.2%), with the result being attributable to the appreciation in the Australian Dollar.

It was a mixed month for Fixed Income. The Australian index was down slightly (-0.07%), while the global index finished up (+1.45%), with all investments within the Portfolio producing positive returns. The Ardea Real Outcome Fund (+0.5%) was the best performing Australian manager, closely followed by Alexander Fixed Income (+0.4%) and Aquasia Enhanced Credit (+0.4%). For the global managers, both CQS Credit Multi-Asset Fund (+4.3%) and Payden Global Income Opportunities Fund (+3.5%) delivered strong results.

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Portfolio Summary

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Unit Price at 30 April 2020		$1.0263
Asset Class Ranges & Current Allocations [1]		**Current Exposure**
Cash & Fixed Interest	15% - 60%	48.1%
Property	0% - 25%	10.3%
Equities	25% - 65%	28.7%
Alternatives	5% - 35%	12.9%

[1] The total exposure may not sum to 100% due to any direct derivative investments (such as options and futures).

Top 10 Investment Holdings (ex cash)	
1.	Alexander Fixed Income
2.	Ardea Real Outcome
3.	Aquasia Enhanced Credit
4.	Talaria Global Equity
5.	Loomis Sayles Global Equity
6.	BetaShares Gold Bullion ETF
7.	Lazard Global Equity Franchise
8.	Payden Global Income Opportunities
9.	AMP Core Infrastructure Fund
10.	Northcape Emerging Markets

Market Overview

Despite terrible economic news and fears of trade disputes, the equity markets turn around in late March continued into the first part of April. Markets embraced a 'risk-on' mood during the month with a strong rally in equities as investors welcomed declining virus infections and reports of possible medical treatments. Support from governments and central banks also helped. However, as poor macro data and worse than expected earnings have been announced, markets traded in a range-bound fashion and momentum has slowed.

The other big development in April was in the oil market. Plagued by massive over-supply as the pandemic crushed demand, producers are running out of room to store the oil they are pumping out of the ground. On 20 April, the futures price of oil for delivery in May closed at -$37 (USD) a barrel as producers were effectively prepared to pay buyers to take the oil off their hands. The oil market has never seen this before.

Government bond markets were relatively quiet in April. Credit and high yield markets rallied, but not to the same extent as equities. The A$/US$ also participated in the 'risk-on' mood, rising from US$0.612 at the start of April to US$0.657 at the end of the month.

Markets have priced in a lot of good news and now they are starting to see the bad news on the global economy flow through. Equity markets are looking expensive again after April's rally, which does not leave much room for them to absorb further bad news in coming weeks and months.

Many global investors are still nervous about COVID-19 and its impact on the world economy; and the balance between the data on the virus and economic activity is moving into an interesting phase. Markets need to recalibrate their optimism with reality and return to levels that are consistent with fundamentals. Several prominent investors, as well as investment banks such as Goldman Sachs and JP Morgan, agree. They have said equities have run too far and are due for a correction.

We continue tracking conditions very carefully to assess the balance of forces between the data on the economy and the virus, as well as future stimulus moves. In this environment, a continued focus on defensiveness and capital preservation is vital. We will continue to monitor the situation very closely, and when the time comes for a more positive stance on risk assets, we will unwind some of the defensive measures we have put in place.