

Core Value Portfolio

Monthly Update – January 2020

January Performance Overview

The Core Value Portfolio (CVP) generated a positive return of +2.02% in January in a strong month for domestic and international equities with both indexes up +4.7% and +4.4% respectively.

As a result of the robust performance in the Australian equity market, all managers delivered positive returns in January. The best performing fund was the beta exposure via Macquarie Australian Shares True Index (+4.4%) followed by SGH ICE (+2.5%), IML Equity Income (+2.3%), Firetrail Australian High Conviction (+1.5%) and Allan Gray Australian Equity (+1.4%).

The majority of the global equity managers made positive contributions to January's returns. The best performing strategy was Loomis Sayles Global Equity (+4.7%), closely followed by Talaria Global Equity (+3.6%) Lazard Global Equity Franchise (+1.2%) produced a positive, while Platinum International (-2.1%), detracted from the portfolio's return primarily due to its heavy exposure to Asia. Northcape Emerging Markets (+3.5%) provided impressive relative and absolute performance for the month, once again demonstrating its defensive and quality bias in the sector and clear underweight to China.

The Alternatives allocation had another solid month with, Bennelong Long Short Equity (+6.5%) continuing to provide very strong returns and Partners Group Global Multi-Asset (+3.8%) and BetaShares Gold Bullion ETF (+3.1%) also delivering.

The Property and Infrastructure managers all had a positive impact on the fund's performance. Resolution Capital Global Property (+7.8%) was the strongest performer, followed by Lazard Global Listed Infrastructure (+4.0%), Cromwell Phoenix Property Securities (+3.7%) and AMP Capital Core Infrastructure (+1.8%).

The Fixed Income exposures also performed well for the month as well as providing diversification through a month that demonstrated higher volatility. The largest contributor was Franklin Templeton Australian Core Bond Plus (+2.8%). The remaining managers also achieved positive returns; Payden Global Income Opportunities (+0.9%), CQS Credit Multi-Asset (+0.8%), Ardea Real Outcome (+0.7%), Alexander Fixed Income (+0.5%) and Aquasia Enhanced Credit (+0.4%).

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Portfolio Summary

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Unit Price at 31 January 2020 \$1.1314

	Asset Class Ranges & Current Allocations ¹	Current Exposure
Cash & Fixed Interest	15% - 60%	40.8%
Property	0% - 25%	11.5%
Equities	25% - 65%	35.8%
Alternatives	5% - 35%	11.9%

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. Aquasia Enhanced Credit
2. Alexander Fixed Income
3. Ardea Real Outcome
4. Talaria Global Equity
5. IML Equity Income
6. Franklin Templeton Australian Core Bond
7. Platinum International
8. Loomis Sayles Global Equity
9. Lazard Global Equity Franchise
10. Bennelong Long Short Equity

Market Performance and Outlook

January was a dramatic month for the world economy and financial markets, starting with hostilities between the US and Iran and ending with fears about the new Coronavirus (2019-nCoV) from China. Here in Australia, we had the extra difficulties from the terrible bushfires. Despite all this, the Australian equity market had a great month, more than making up for a desultory December and outperforming global counterparts. The weaker \$A and stronger performance from bonds helped our equity market, though more so in the non-resource sectors.

The price of oil fell sharply on global growth fears associated with 2019-2CoV, while the price of gold rose. Global equities gave up their gains for the month. The world economy continued to stabilise after the weaker tone through much of last year, especially in manufacturing. However, it is still not clear that stabilisation will soon be followed by a meaningful recovery.

In the US, the Democrat-controlled House of Representatives voted to impeach President Trump, but, amid much acrimony, the Republican-controlled Senate is set to exonerate him. Preparations continued for the Democrat primary race to choose a Presidential candidate. Biden and Sanders appear to be the leading contenders at this stage. In the UK, three and a half years after the initial referendum, Parliament finally passed the legislation to enable Britain's exit from the EU.

Our base case economic outlook is one in which soft growth, low inflation, and much less scope for further interest rate cuts, means equity markets will not be able to repeat the spectacular returns of 2019. The more equity markets push higher, the harder it will be for the underlying fundamentals to justify increasingly expensive valuations.

The sudden appearance of 2019-nCoV risks pushing the path of growth below this already moderate base case outlook. How far below, and for how long, is unclear at this stage because we do not know when the spread of the virus will peak and how far it will have reached at that point. For now, we do not expect the virus to trigger recession, but it is a risk we will be monitoring.

In a situation like this, with all the uncertainty attached to it, it is prudent to run well-diversified portfolios. This includes allocations to assets which can offset equity market risks, such as bonds and gold, as well as assets largely immune to equity market risks, including selected infrastructure assets and good active management.

