BEULAH CAPITAL

Beulah Growth Plus Portfolio

Quarterly Fact Sheet | September 2020

L3, 163 Eastern Rd, South Melb VIC 3205
T 61 3 9270 9170 F +61 3 8080 5983
W beulahcapital.com

Beulah Capital Pty Ltd
ABN 72 079 169 127
AFSL 330951

beulah

Investment Approach

The portfolio aims to achieve a rate of return that matches inflation (CPI) plus 6% over a rolling 7 year period.

INVESTMENT STRATEGY

The portfolio targets a 10% investment in income assets (cash and fixed income) and 90% investment in growth assets (shares, property and international) either directly or through specialist wholesale fund managers. The allocation to individual asset classes is managed on a dynamic basis and may vary within nominated ranges.

Universe

The portfolio is mainly invested across a mix of shares and property with some diversification into fixed income securities. The targeted use of specialist managers also allows access to investment expertise and a diverse range of securities not readily available in an individual portfolio of this size.

RISK PROFILE
Medium to high: The estimated frequency of an annual negative return being less than 1 in 4 years.

MINIMUM INITIAL INVESTMENT
$100,000 on a standalone basis

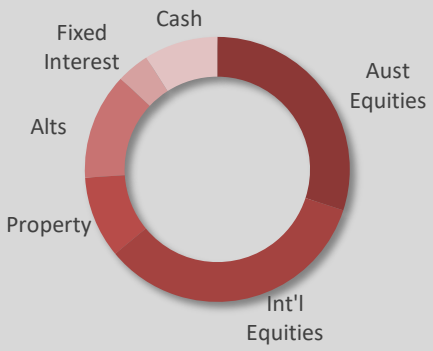
MINIMUM SUGGESTED TIME FRAME
7 Years plus

Performance

Beulah Growth Plus Portfolio	3 Month %	6 Month %	1 Year %	3 Year %	5 Year %	Incept %
Portfolio Return	4.67	18.90	0.23	2.99	4.60	6.84
Peer Returns	1.79	9.99	-3.07	4.28	5.33	
Relative Return	*+2.88*	*+8.91*	*+3.30*	*-1.29*	*-0.73*	
Investment Objective (CPI +6%)						8.12

Performance Notes:
1: Peer returns are based on Morningstar Category peer averages that most closely reflect Beulah asset allocations.
2: Model portfolio return includes dividends and income, but does not assume reinvestment.
3: Returns greater than 12 months are annualised.
4: Returns are calculated after Managed Fund and other transaction costs, but before portfolio and MDA fees.
5: Returns are rounded to two decimal places.
6: Returns and holdings may vary between investors given the nature and timing of beneficial ownership under an MDA structure.
7: This document is for marketing purposes only.
8: Past performance is not an indication of future performance.

Asset Allocation



Asset Class	Actual %	Range %
Australian Equities	30	20-75
International Equities	34	15-70
Property Securities	10	0-15
Alternatives	13	0-35
Fixed Interest	4	0-15
Cash (inc. Tactical)	9	0-20

Contribution to Performance

Asset Class	Contribution to performance %
Australian Equities	0.36
International Equities	1.13
Property Securities	0.88
Alternatives	1.80
Fixed Interest	0.50
Cash	0.00

Market & Economic Review

The September quarter was a period of ups and downs for Australian investors. In domestic markets, improving investor sentiment in July soon gave way to renewed uncertainty as rising Covid-19 cases put Melbourne back in lockdown. However, the August reporting season, despite delivering horror results, saw domestic shares post their best August return since 2009. Although provisions for impairments, profit slumps and dividend cuts were commonplace, investors were prepared to look well ahead. But that momentum was quickly lost in September, which ended with a sharp sell-off following a fiery Presidential Debate/shouting match between Donald Trump and Joe Biden (and, at times, the moderator).

In contrast, the US S&P 500 posted a strong gain in US dollar terms for the September quarter as a handful of tech titans continued to power Wall Street's upswing from its March lows. However, over the month of September, Wall Street finished in the red after the S&P 500 fell from its all-time high reached on September 2nd. The decline in global equities through the month was driven primarily by the fall in US mega cap tech stocks, although financials and energy stocks were also weak. More broadly, Emerging Markets led the way in global equities, benefiting from currency movements and the recovery in China where exports are booming and inventories are being rebuilt.

Defensive assets such as government bonds and higher-risk credit markets continue to post modest returns as yields remain artificially low due to central bank intervention. Cash retained its capital preservation properties and produced a small positive return, at least in Australia. In some parts of the world, investors must incur negative interest rates for banks to store their liquid wealth. Elsewhere, the rally in gold prices slowed even as a new wave of Covid-19 cases swept through parts of the US and Europe. With rising coronavirus cases

Market & Economic Review (cont.)

threatening to derail the recovery, crude oil gave back some of its quarterly price gains. Meanwhile, iron ore prices remained strong due to supply constraints and ongoing demand from China, rising nearly 20% in US dollar terms.

On the domestic economic front, the pandemic caused June quarter GDP to contract at the sharpest pace on record and sent Australia into its first recession in nearly thirty years. Household spending collapsed and fixed investment continued its decline amid job losses, business shutdowns and border closures. A collapse in imports meant that net exports made a positive contribution to growth. Headline CPI fell by 1.9% in the June quarter on the back of falling prices for fuel and childcare services. The annual rate fell below zero for the first time since 1997 and, in a more worrying sign, the underlying price measures also softened markedly.

Globally, the US economy is continuing to rebound with about half of the pandemic-induced job losses being recovered and retail spending reaching new records. In contrast, the recovery in Europe is being threatened by a spike in new Covid cases in important economies including France and Spain. Along with the UK, these countries have recently re-implemented some restrictions. Finally, China continues to move from strength to strength led by its external sector. There is strong overseas demand for medical products and technological devices. At the same time, new infrastructure investment is accelerating as China seeks to bolster its digital transformation.

Portfolio Review

The Portfolio has again outperformed peers during the September quarter following further widespread contributions throughout the strategy, particularly from the listed credit holdings. There were few changes to the Portfolio during the quarter. Most notably, we used existing cash holdings to add Magellan Global Fund (MGE0001AU), which uses a fundamental bottom-up approach to identify companies with sustainable competitive advantages that can grow more quickly than the overall economy.

As Magellan Global is a growth-style fund, investors should be prepared for higher volatility than the overall market. However, over the longer term we would expect to see higher returns to compensate for the additional risk. Magellan is noted for its rigorous stock selection process where only the highest-quality business models are considered. As we continue to expect further bumps in the road over the course of this pandemic, we feel that an investment in Magellan Global will provide opportunities to capture market upside while limiting the damage during pullbacks. Furthermore, we have chosen an unhedged exposure to this strategy. This means that any falls in the Australian dollar provide a tailwind to global equity returns. This may also provide a degree of cushioning during a risk-off environment.

Within domestic shares, we established a position in Dexus Group (DXS). Dexus owns a portfolio of high quality office towers in Australian capital cities. The company has been severely impacted during the Covid-19 pandemic, with the shares sold down heavily given the uncertainty around office rents, vacancy rates and the timing of employees returning to the office. We view the selldown as overdone and gained additional exposure to the improving A-REIT sector. We also exited our position in Seek (SEK) as the business has been heavily impacted by rising unemployment, which will remain elevated for some time and weigh on SEK's earnings well into FY21. The decrease in earnings has put pressure on the company's balance sheet, such that debt levels may require a dilutive capital raising.

Of note, performance was enhanced by the ongoing recovery in the listed Metrics debt securities (MOT and MXT). We continue to own these securities because of their consistent income profile, stable underlying asset values and management's ability to actively manage default risk throughout its portfolio. It was a similar (but less spectacular) story in the property component of the Portfolio, where Qualitas (QRI), Stockland (SGP) and the ETF index tracker (SLF) posted similar contributions.

Outlook

The long-term outlook continues to be clouded by the potential for future outbreaks of Covid-19. On the fiscal policy front, Australia's underlying cash budget deficit for the current financial year (FY21) is expected to reach 11% of GDP. This is the largest share of GDP since WW2. Furthermore, net debt is projected to rise by $475b to $966b in the four years to 2024 (43.8% of GDP). While these kinds of figures would have seemed unfathomable at the beginning of the year, they are comparatively modest by global standards.

Indeed, authorities in the US and Europe have shown a preparedness to enter unchartered waters to try to prevent a permanent economic implosion where the destruction of capital is widespread and unemployment is higher for longer. With regards to the latter and of great significance, Treasurer Frydenberg has issued a commitment to provide ongoing fiscal support until the headline unemployment rate falls below 6%. This is consistent with the messaging emanating from the RBA and provides a degree of confidence that governments will continue to intervene if the economy fails to rebound as is hoped.

A big test will be the proportion of phase 2 income tax cuts that are spent, rather than saved or used to pay down debt. During times of heightened uncertainty, households can choose a more cautious spending path. While increased disposable income and the unprecedentedly large pool of savings accumulated during the pandemic will place a floor under discretionary spending it is not yet clear how much of this will be deployed.

Turning to domestic fixed interest, the Reserve Bank (RBA) has clearly pivoted to a more dovish stance, with the cash rate expected to be cut in the December quarter. Not only has the RBA stated that the cash rate will remain anchored close to zero for at least three years, but it has also signalled additional Quantitative Easing (QE) for longer duration securities from three years to ten years. As a result, the term structure of interest rates (or the yield curve, as it is often referred to) has already shifted lower and we would expect this to slow any future rises in the Australian dollar. The quantum of this kind of intervention is likely to become clearer by the end of the year.

In global fixed interest, the outlook is basically more of the same. That is, global central banks keeping a lid on short term policy rates and continuing to expand their balance sheets with longer term securities such that long term risk free rates remain near record lows. This should be supportive of asset valuations.

In domestic property, industry sentiment has improved though sectoral differences remain. The hard-hit tourism sector has the most to improve, while office and retail sectors also have much room for improvement. Sentiment is strongest in industrial property, where capital values look likely to continue to rise. The outlook for global property was also improving prior to the recent wave of new Covid cases throughout the US and Europe.

Aside from issues shaping the path of the economic recovery, the outlook for domestic and global equities remains a function of how the US presidential election plays out, along with the news flow in relation to any forthcoming vaccine. The markets have Joe Biden as favourite to take out the election, but regardless of who wins the best result for markets will be a clean sweep of the Presidency, the House and the Senate. If the Democrats achieve this feat, they could look to push through their original US$3.4 trillion stimulus package. If this were to coincide with the announcement of a safe and effective vaccine that could be easily mass-produced then this would be a boon to markets, and especially so for underperforming value and cyclical stocks.

In Emerging Markets, China continues to recover strongly. While its September quarter GDP figures failed to meet market expectations, industrial production and retail sales continued to surge. Fixed asset investment also continues to grow, driven by huge increases in public investment and slower decreases in private investment. With relatively low levels of unemployment, inflation well contained and exports strengthening, China is likely to continue its rebound and with it sweep many Asian economies higher. Indeed, China has already regained its economic growth that was lost during the height of the pandemic at the beginning of the year.

Overall, the risks to the outlook are finely balanced. While the effects of the pandemic are far from over, history would suggest that the alignment of expansionary economic policies and the growing optimism of a successful vaccine will more likely result in ongoing improvements in financial markets, notwithstanding further periods of extreme volatility.