BEULAH CAPITAL

Australian Equities Income Portfolio

Quarterly Fact Sheet | December 2020

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Investment Approach

The portfolio aims to outperform the S&P/ASX 100 Accumulation Index over a rolling 5-year period.

INVESTMENT STRATEGY

The portfolio invests in a concentrated portfolio of securities in some of Australia's largest 100 ASX listed companies. The portfolio is constructed to provide both an income stream and long-term capital growth from an investment in 20 to 25 of Australia's largest companies.

Universe

This investment strategy provides access to some of Australia's largest listed companies generating consistent and above average dividend yields on an after tax (including franking credits) basis.

INVESTMENT CATEGORY
Australian Shares

MINIMUM INITIAL INVESTMENT
$50,000 on a standalone basis

MINIMUM SUGGESTED TIME FRAME
7 Years

Performance

For period ended 31 December 2020

Australian Equities Income Portfolio

	3 Months	6 Months	1 Year	3 Year	5 Year	Inception
Income Return	0.81%	2.18%	4.80%	5.56%	6.02%	5.91%
Capital Return	10.28%	6.86%	-10.66%	-3.78%	-1.36%	3.42%
Portfolio Total Return	**11.09%**	**9.03%**	**-5.86%**	**1.77%**	**4.65%**	**9.34%**
S&P/ASX 100 Accum Index*	13.78%	12.89%	0.80%	6.32%	7.00%	11.59%
Relative Return	*-2.69%*	*-3.86%*	*-6.66%*	*-4.55%*	*-2.35%*	*-2.25%*
Franking Credits	0.10%	0.59%	1.43%	1.80%	1.93%	2.00%
Portfolio Total Return (Incl. franking)	**11.19%**	**9.62%**	**-4.43%**	**3.57%**	**6.58%**	**11.34%**

Performance Notes

1: All Benchmark and Model returns are calculated assuming dividends are reinvested
2: Returns greater than 12 months are annualised
3: Returns are calculated before transaction, portfolio and MDA fees as these differ pending what platform the investment is held
5: Returns and holdings may vary between investors given the nature and timing of beneficial ownership under an MDA structure
6: This document is for marketing purposes only
7: Past performance is not an indication of future performance
*8: *From 1 June 2018 the Australian Equities Income benchmark changed from the S&P/ASX 100 Industrials Accum Index to the S&P/ASX 100 Accum Index*
9. Inception date is 9 March 2012

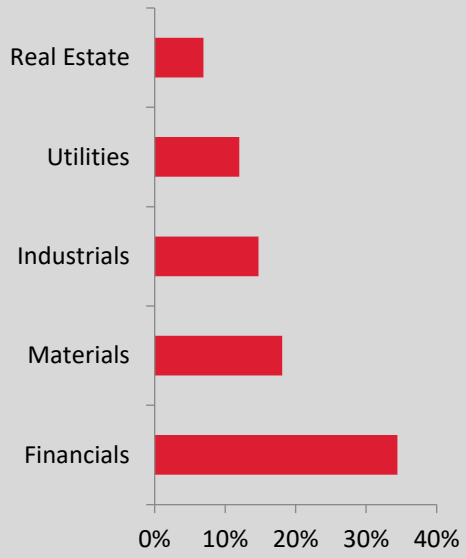
Franking Credits - Franking credits may be earned when a company pays a dividend. Where recoverable, these would represent a real return from the Portfolio.

Top 5 Stock Holdings

Company	Allocation %
Stockland Group	6.57
Fortescue Metals	6.20
Transurban Group	6.18
BHP Group	5.65
Commonwealth Bank	5.39
Total	**29.99**

Holdings as 31 December 2020

Sector Allocation



Key Portfolio Features

Key Portfolio features	
1yr Fwd Portfolio Cash Yield	4.80%
1yr Fwd Portfolio Gross Yield	6.08%
1yr Fwd Portfolio P/E Ratio	26.6x
Percentage of cash held	5.87%

Top 5 Performers

Company	Contribution to performance %
Fortescue Metals Group	1.99
Commonwealth Bank	1.33
ANZ Banking Group	1.22
National Aust Bank	1.18
BHP Group	0.95

Worst 5 Performers

Company	Contribution to performance %
Aurizon Holdings	-0.38
APA Group	-0.17
Ausnet Services	-0.13
Transurban Group	-0.12
Magellan Financial	-0.11

Market & Economic Review

The December quarter will go down as one of the most memorable periods for a number of reasons. The US presidential debates and subsequent drawn-out election result were in many ways shambolic as President Trump refused to concede defeat and launched a seemingly endless number of legal actions. Meanwhile, the resurgence of coronavirus cases throughout the US and Europe raised fears of new restrictions and lockdowns. And as new waves of the virus began to loom large, Moderna, Pfizer and Astra-Zeneca announced highly efficacious vaccines, which quickly received emergency approval for deployment throughout many nations.

On the economic front, the September quarter national accounts revealed that domestic GDP posted one of the fastest recoveries on record, even as Victoria continued to languish under a severe lockdown. The rebound was driven by a surge in consumer spending after many households added to precautionary saving targets during the June quarter.

The highly-anticipated Australian federal budget featured an enormous cash deficit along with spiralling projections for net debt over the next four years. The 'Phase 2' income tax cuts were brought forward and there were additional pensioner handouts. New infrastructure spending and measures designed to boost manufacturing activity were also announced. Perhaps most important though was Treasurer Frydenberg's commitment to provide ongoing fiscal support until the headline unemployment rate falls 'comfortably below 6%.'

Looking abroad, the recovery in the US and Europe showed signs of being derailed by the new wave in virus cases. In December, the US labour market appeared to lose momentum as weekly unemployment claims remained stubbornly high and job creation missed consensus forecasts. Meanwhile, many parts of Europe re-entered severe lockdowns just as the northern winter began to set in. On a positive note, the UK and Europe agreed to a Brexit deal at the last minute that sees Britain leave the single market and EU customs union after the transition period, but will retain some access to it. This will remove some uncertainty for the next few years, at which time specific issues pertaining to commercial fishing will need to be revisited.

In Emerging Markets, China remains the bright spot with its economy already exceeding pre-pandemic levels – something not expected to be seen in most western economies before 2022. Despite subdued retail conditions, China's exports and industrial sector are growing strongly. Exports to the US of Covid-19 related products were China's main export driver in 2020. One reason for China's strong economic performance is that it took the hardest hit first. This is courtesy of being ground zero for the virus. As such, China was able to close down and subsequently reopen its economy much earlier than the rest of the world – a 'first mover advantage' of sorts.

Also making news was an escalation in the one sided China-Australia trade war and domestic interest rates reached a new record low. Regardless, the vaccine announcements and removal of election uncertainty saw markets surge with domestic and global equities achieving double-digit returns in the quarter led by value-style and cyclical stocks. The Dow Jones Industrial Average blue-chip index and S&P 500 both settled at records. The S&P/ASX 200 finished 2020 in the black, but was clearly outpaced by its small cap peers where returns for the Small Ordinaries approached double figures.

In fixed income it was the riskier high yield and emerging market indices that outshone higher quality markets, where concerns of possibly higher inflation are starting to show. Elsewhere, key commodity prices (such as iron ore and copper) pushed higher and the Australian dollar continued to rise against its US counterpart. Gold and oil prices also rallied, but currency movements constrained benefits to unhedged local investors.

Portfolio Review

The Income Portfolio returned 11.09% in the December quarter, slightly underperforming the S&P/ASX 100 benchmark index which returned 13.78%, including dividends. The December quarter continued the sharp recovery from the previous quarter, with equity markets becoming more confident of a sustained economic recovery. Performance against the index was impacted by a weaker performance from the utilities exposures, while the index was again bolstered by strong performances from the tech sector and financials.

During the quarter we made no changes to the Portfolio, the upcoming half year reporting season will provide the opportunity to assess how businesses are managing the economic uncertainty. While many companies reduced or suspended dividends at the last reporting period, we expect that many will re-instate dividend payments, with the banking sector most likely to benefit from improved conditions.

Portfolio Review (cont.)

The Portfolio remains well diversified and despite the strong market performance over the past 6 months the 1 year forward cash yield for the Portfolio stands at 4.8%. With the addition of franking credits the Portfolio gross yield is approaching 6.1%. The continued economic support from the Reserve Bank and the Federal Government provides confidence that the Portfolio should continue to generate solid levels of income in the near term.

Outlook

As new waves of the virus ravage much of North America and Europe, the global economic outlook for 2021 very much rests on successful vaccine deployment. By late December, approved vaccine candidates by Moderna and Pfizer began to be rolled out to developed nations in the northern hemisphere. While 2021 is expected to be a strong year as growth recovers, the rebound is off a low base and many economies are unlikely to recover to 2019 levels until 2022 at the earliest.

Recent data releases in the US are pointing to a period of weakness in labour markets and retail spending. The industrial side of the economy remains strong and fixed asset investment has easily recovered its Covid-19 losses. But, as is the case for many developed economies the main issue is the slow recovery of the services sector. Shutdowns and restrictions continue to stifle the tourism and leisure industries. Restaurants and cafes are also running at well below capacity.

We expect that the US Federal Reserve will have little alternative other than to keep monetary policy highly accommodative throughout 2021. There is still significant spare capacity in the US, which should keep inflationary pressures at bay. Even if there is an inflation surprise, with the Fed's adoption of average inflation targeting it's hard to fathom how official rates can rise.

In Europe, the broader economy will begin 2021 in recession, however this will be short-lived as the rollout of vaccinations should lead to a sharp rebound later in 2021. Beyond 2021, it looks to be a case of the same old song – low inflation, anaemic growth, productivity differentials and ongoing tensions between the north and the south, the east and the west. It seems unclear as to when the ECB will ever be able to lift rates across the continent.

Closer to home, recent indicators suggest that the domestic economy will continue to gain momentum in 2021. Victoria has come out of lockdown and is operating under a "Covid normal" regime. House prices are expected to remain strong, fuelled by record low interest rates. Services will be slower to recover as tourism and education remain hampered by international border closures. Stronger-than-expected iron ore prices should reduce the size of the budget deficit. The mid-year economic and fiscal outlook (MYEFO) confirmed that the recovery is progressing well. MYEFO projects GDP will grow 0.75%, up from the earlier forecasted decline of 1.5% for the 2021 financial year.

Turning to investment markets, central bank QE programs along with stimulatory fiscal policies across all regions have ensured that financial conditions are unable to tighten for any significant length of time. As a result, equities are able to trade at what are traditionally considered to be exorbitant multiples, yet look cheap relative to bonds. This has culminated in a situation often referred to as the 'TINA' trade, which implies that 'There Is No Alternative' to holding equities. It is interesting to note that the US S&P 500 has gained an average of more than 18% the year following a 10% or more rise during the final two months of the year (as occurred in 2020).

In some sense, the situation of ongoing excess liquidity, ultra-low risk free rates and TINA combine to bode well for growth assets, but not so well for long term bonds. If the deployment of vaccines is successful then Europe and North America should continue to build equity market momentum in the first half of 2021 and pave the way for a further rotation into Value and Cyclicals. This is not to say that Growth style equities are to be avoided. Rather, the stars are aligning for traditional value plays. This will particularly be true if long term bond yields are able to edge higher as this will have a proportionately larger valuation impact on long duration growth stocks.

In credit markets, we anticipate spreads will continue to creep in and this should deliver adequate risk-adjusted returns throughout 2021. However, if the recovery were to stall or otherwise falter, we expect that central banks would exhibit an increasing willingness to intervene. Overall, accommodative monetary policy across much of the globe will continue to encourage a hunt for yield.