BEULAH CAPITAL

Beulah Balanced Portfolio

Quarterly Fact Sheet | December 2020

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Investment Approach

The portfolio aims to achieve a rate of return that matches inflation (CPI) plus 4% over a rolling 5 year period.

INVESTMENT STRATEGY

The portfolio targets a 40% investment in income assets (cash and fixed income) and 60% 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 invested across a mix of shares, property and 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: The estimated frequency of an annual negative return being less than 1 in 5 years.

MINIMUM INITIAL INVESTMENT
$100,000 on a standalone basis

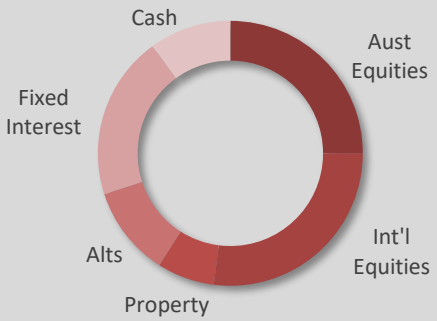
MINIMUM SUGGESTED TIME FRAME
5 Years

Performance

Beulah Balanced Portfolio	3 Month %	6 Month %	1 Year %	3 Year %	5 Year %	Incept %
Portfolio Return	7.26	12.40	4.30	4.20	5.06	6.54
Peer Returns	3.64	4.99	2.85	3.87	4.12	
Relative Return	*+3.62*	*+7.41*	*+1.45*	*+0.33*	*+0.94*	
Investment Objective (CPI +4%)						6.05

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	26	10-60
International Equities	26	10-55
Property Securities	9	0-12
Alternatives	11	0-24
Fixed Interest	20	10-35
Cash (inc. Tactical)	8	0-40

Contribution to Performance

Asset Class	Contribution to performance %
Australian Equities	3.63
International Equities	1.34
Property Securities	0.95
Alternatives	0.67
Fixed Interest	0.67
Cash	0.00

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

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Market & Economic Review (cont.)

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 Portfolio outperformed peers during the December quarter on the back of strong increases within the Domestic Equities and Alternative asset classes of the strategy. Indeed, all asset classes posted positive returns and we gained a further boost from our property exposures in the weeks following the successful vaccine announcements in November, reflecting the increased likelihood of mobility within major cities. Changes during the quarter include the addition of a global property manager and a switch into a highly focused domestic small cap fund.

Our exposure to credit continued to recover and further bolstered returns while generating strong cash income for investors. The only fund to disappoint during the quarter was Magellan Global, which suffered from excessive cash holdings and poor stock selection as rising regulatory risk loomed over some of its larger positions.

We introduced a currency hedged position in Sydney-based global property manager, Resolution Capital (WHT0015AU). Resolution is a highly regarded manager with a high conviction, value style approach to investing. Resolution only invests in quality property securities in order to generate superior risk adjusted returns. The stocks held derive most of their returns from rental income. Our position in Resolution was funded from existing cash holdings and further diversifies the model's property exposure by style and geography.

We switched out of capacity-constrained OC Premium Small Companies in favour of Eiger Australian Small Companies (HOW2967AU). Eiger takes a high conviction, concentrated approach to investing in the small cap space with the aim of achieving returns of 3-5% p.a. in excess of the S&P/ASX Small Ordinaries Index over a full investment cycle (typically five years). Eiger's robust investment process is driven by fundamental, in-depth and comprehensive analysis of a business's operations. On the risk side of the equation, Eiger may gain exposure to unlisted securities that are expected to hit the boards within six months of purchase. Overall, we feel that Eiger provides improved access to growing companies and industries that can capitalise on changing industry dynamics and innovation.

Within domestic listed property we added Scentre Group (SCG) to the Portfolio given the company should benefit strongly from the proposed Covid vaccine rollout in 2021. As a significant holder of assets in the retail sector, SCG stands to benefit from a return to a more normal retail operating environment. At a recent update, management noted that SCG was collecting 96 percent of rent due with foot traffic recovering strongly, significantly higher than that reported previously. Despite the strong operating recovery, at time of purchase the shares were trading at a significant discount to NTA, while providing a forward yield of around 5 percent.

Portfolio Review (cont.)

We also sold part of our position in Stockland as we see a stronger risk/reward return by switching into Scentre Group. SGP has recovered strongly, significantly outperforming SCG since the market bottom. Within the financials sector, we reduced our underweight position in the banking sector by adding to our position in NAB. While we remain slightly underweight the sector, we view the current provisions for loan losses as appropriate at this point in time. We expect NAB to benefit from the economic recovery in 2021 and see potential upside to the dividend.

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.