BEULAH CAPITAL

Beulah Growth Plus Portfolio

Quarterly Fact Sheet | March 2021

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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

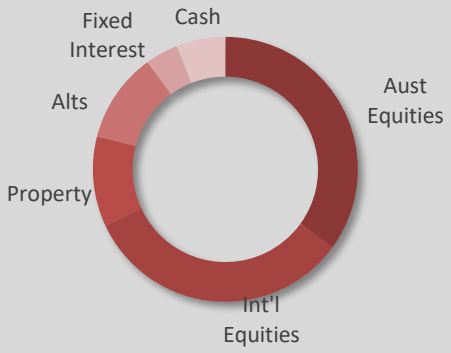
MINIMUM SUGGESTED TIME FRAME
7 Years plus

Performance

Beulah Growth Plus Portfolio	3 Month %	6 Month %	1 Year %	3 Year %	5 Year %	Incept %
Portfolio Return	3.50	12.30	33.53	5.96	6.56	7.67
Peer Returns	5.09	15.23	28.65	8.11	9.18	
Relative Return	*-1.59*	*-2.93*	*+4.88*	*-2.15*	*-2.62*	
Investment Objective (CPI +6%)						8.06

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	35	20-75
International Equities	33	15-70
Property Securities	11	0-15
Alternatives	11	0-35
Fixed Interest	4	0-15
Cash (inc. Tactical)	6	0-20

Contribution to Performance

Asset Class	Contribution to performance %
Australian Equities	1.19
International Equities	1.46
Property Securities	0.35
Alternatives	0.45
Fixed Interest	0.05
Cash	0.00

Market & Economic Review

The March quarter began with the much-anticipated inauguration of Joe Biden as the 46th President of the United States, while Donald Trump was impeached for a record second time for his role in the Capitol Hill insurrection.

However, much of the market's focus was glued firmly on the 'Reddit army'. This large band of amateur traders used social news aggregator and discussion news website, Reddit, to co-ordinate an attack on US-based hedge funds. Some of the outcomes were quite extraordinary. On January 27th, a strong down day in the US Russell 3000 index, the thirty most heavily shorted stocks staged a double-digit rally. It is almost unheard for the top decile of most heavily shorted stocks to rise sharply when the rest of the market is down heavily.

Throughout February, investors turned their focus to fast-rising bond yields. The spike in yields and resultant fall in bond prices (due to an inverse relationship) came despite a steady stream of dovish comments from key central bank officials. The rise in so-called 'risk free' rates was partly fuelled by the ongoing strength of economic data. As economies continued to rebound, investors revised their inflation predictions higher. This also accelerated the rotation into value and small cap stocks because of the disproportionately large influence of higher discount rates on the earnings of high-growth stocks.

Ultimately, shares closed out the March quarter on a high as investors continued to respond to virtually unprecedented government fiscal stimulus across the globe. Listed property and infrastructure staged a relief rally. However, Emerging Markets traded flat throughout the quarter as investors weighed the impact of rising US treasury yields and its potential impact on the US dollar. This was not helped by Chinese equities, which continued to sell off on concerns around the extent of recent policy tightening.

Market & Economic Review (cont.)

Overall, the rebound in equity markets over the last twelve months has been nothing short of extraordinary. By way of comparison, during the liquidity crisis and subsequent balance sheet recession that pervaded the GFC, it took around 300 trading days for total returns on domestic shares to reach peak losses. Over a near identical period, the coronavirus pandemic losses were fully recovered.

While the nature of this crisis is different to the GFC (e.g., draconian government actions to contain the pandemic), the speed of the recovery has been largely due to the extensive, co-ordinated and swift policy response by policymakers. Near zero interest rates have enticed investors to take on more risk in a number of investment arenas. Whereas, during the GFC, term deposit rates of six percent were not uncommon and encouraged investors to safely park capital during an extended period of uncertainty.

In currency markets, the Australian dollar crossed US80¢ for the first time in three years, but it too, was swiftly caught up in the risk asset sell-off. Elsewhere, iron ore continued its prodigious rise. But the strongest performance came from oil and copper markets, which are key beneficiaries of the global cyclical recovery. Bitcoin also continued its incredible rally as the crypto-currency/collectible gained further institutional acceptance.

In fixed interest markets, the US 10-year Treasury yield traded as high as 1.77% in March. On the domestic front, bond markets recovered some of their steep losses late in the quarter as investors took comfort from supportive comments out of the Reserve Bank. Australia's central bank reiterated its commitment to maintaining the current 3-year Yield Curve Control target at 0.1%, which ensures cheap funding for important lenders such as the major banks.

On the economic front, December quarter GDP showed that the Australian economy accelerated further and that the labour market is recovering strongly. GDP through 2020 was just 2.5% below its 2019 level. In Europe and the UK, business surveys continued to improve, with manufacturing expanding strongly. The UK service sector improved notably, but the European service sector was the clear laggard. A recent rise in Covid-19 cases has seen new restrictions in France and Germany.

However, the key focus has been in the US, where the Biden administration passed a US$1.9 trillion spending package designed to further increase the momentum of the nation's economic recovery. This comes in addition to a US$900 billion stimulus bill passed late last year. In total, this amounts to about 13% of US GDP.

Portfolio Review

The Portfolio performed solidly in the March quarter, posting positive returns in all major asset classes, including fixed interest where domestic and global indexes were severely hit by rising long bond yields. Changes during the quarter include the sale of our tactical position in MCP Income Opportunities Trust (MOT), realising full value. Note that, we continue to hold a position in this security due to its attractive and sustainable income characteristics (yield is approaching 7%). Our exposure to credit has now seen security prices return to the underlying net asset value.

Other changes to ASX-listed securities include the addition of NextDC (NXT) due to strong and rising demand for data centre services, including SaaS (Software as a Service) and Video On Demand (VOD) services. The company operates eleven data centres around Australia and continues to expand network capacity. Our positions in Xero (XRO) and Afterpay (APT) were trimmed to fund the change. As the quarter progressed a pricing opportunity emerged that allowed us to add back to our position in Afterpay, which has a strong market position in an emerging industry.

Turning to our fund holdings, the quant-driven Legg Mason QS Investors Global Equity Fund took full advantage of the continued rotation into value stocks. During the March quarter, stock selection within the US region was the key source of outperformance, particularly in the Info Tech, Consumer Discretionary and Communication Services sectors. Global property manager, Resolution Capital, had an outstanding quarter despite higher long bond yields. In the month of March, Singapore was the best performing region, while the residential sector generated the strongest returns.

Closer to home, the Eiger Australian Small Companies Fund easily outperformed the S&P/ASX Small Ordinaries Accumulation Index. The biggest contributors to its performance were Life360 Inc (360), which announced a strategic review; Lynas Rare Earths (LYC) due to its ongoing growth in electric vehicle sales and higher rare earth prices; and Pilbara Minerals (PLS) on the back of higher lithium prices and demand for electric vehicles.

Outlook

In more recent months, the vaccine announcements and rising clarity around the likely path of economic activity has accelerated the rotation into Value and Cyclical parts of the market. Historically, when growth is strong but market momentum fading, equity returns have tended to slow, but remain positive for an extended period.

However, the bond market ructions that took place in February are a stark reminder of the importance of yields on relative performance. If history is anything to go by, rising risk-free rates and steeper yield curves tend to support continued outperformance of Cyclicals and Value versus Defensives and Growth. While there is plenty of headroom for bond yields to move higher, it is equally true that above-average equity risk premiums could continue to fall. These effects tend to be negating, hence it is the speed of any moves that will determine the overall market impact.

With government policy settings providing support to a period of strong and synchronised economic activity, we expect to see a number of changes in long-term secular tends. The outperformance of low-capital-intensive sectors (especially newer technology-based industries) will be more difficult to come by. The significant increase in spending on infrastructure and in areas related to de-carbonisation, such as investment in renewables, is likely to become more entrenched.

As dormant expectations for inflation continue to re-emerge, investors will pay increasing attention to whether government spending might overheat economies and cause runaway inflation. If such a situation were to unfold, this could force central banks to raise interest rates sooner than predicted.

However, we believe there is sufficient spare capacity in the Australian economy to prevent an ongoing inflationary breakout. Indeed, this is a view shared by the Reserve Bank, which says it will not increase the cash rate until actual inflation is sustainably within the 2 to 3 percent target range. Australia is still well below full employment and wages growth will need to be consistently above three percent for inflation to remain elevated, which is not expected to happen “before 2024”.

Furthermore, some investors are speculating that the Reserve Bank could increase interest rates to rein in house prices. We feel this is unlikely and would expect a more likely policy response via tighter macro-prudential settings, such as regulating for tougher lending standards, higher deposits, etc. In fact, this policy approach worked effectively in the period before the 2019 federal election.

In the US, the output gap is likely to close over the foreseeable horizon. Since the beginning of the pandemic, the US government has enacted US$5 trillion of spending, while US$4 trillion of this will have been deployed by the end of 2021. Inflationary pressures are more likely to emerge there, particularly in specific areas of the supply chain. Lumber prices are steepling as a housing boom not seen since the mid-noughties continues to ramp up; and a wide range of semiconductors are in short supply with global demand easily outpacing manufacturers’ ability to respond.

In Europe, the vaccine rollout is gaining pace and the Continent is on track for a full reopening by the end of the norther summer. The post-lockdown recovery is likely to be strong, led by a bounce in the services sector. Confidence is also rising in the UK market, where equity markets are overweight sectors such as materials and financials. These areas should strongly benefit from the likely reopening. Financials should also be boosted by the improvement in interest margins from yield-curve steepening.

Emerging Markets, including China, will be looking for signs of US dollar weakness and this remains the base case. However, investment flows into EM could be stifled by the slow vaccine rollout and unfolding health disaster in countries like India and Brazil, where Covid cases look to be out of control and more virulent mutations are being discovered.