BEULAH CAPITAL

Australian Equities Income Portfolio

Quarterly Fact Sheet | March 2022

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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 March 2022

	1 Month	3 Months	6 Months	1 Year	3 Year (p.a.)	5 Year (p.a.)	Since Inception (p.a.)
Australian Equities (Income)							9-Mar-12
Income Return	0.50%	1.33%	2.23%	5.17%	5.28%	5.71%	5.84%
Capital Return	4.38%	3.34%	3.03%	9.67%	2.18%	-0.10%	4.29%
Model Portfolio Return	**4.88%**	**4.67%**	**5.26%**	**14.84%**	**7.46%**	**5.61%**	**10.13%**
S&P/ASX 100 Accum Index*	7.11%	2.99%	5.29%	15.99%	11.03%	8.40%	12.20%
Relative Performance	*-2.23%*	*1.68%*	*-0.03%*	*-1.15%*	*-3.57%*	*-2.79%*	*-2.07%*
Franking Credits	0.19%	0.52%	0.69%	1.59%	1.65%	1.83%	1.96%
Total Return inc. Franking	**5.07%**	**5.18%**	**5.95%**	**16.43%**	**9.12%**	**7.44%**	**12.10%**

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

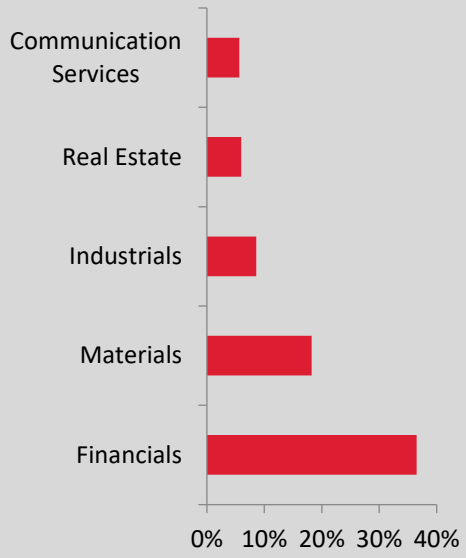
Franking Credits - Franking credits may be earned when a company pays a dividend. Where recoverable, these would represent a real return from the Portfolio.

Top 5 Stock Holdings

Company	Allocation %
Commonwealth Bank	6.18
BHP Group	6.13
National Australia Bank	5.98
Stockland	5.97
Telstra Corporation	5.64
Total	**29.90**

Holdings as at 31 March 2022

Sector Allocation



Key Portfolio Features

Key Portfolio features	
1yr Fwd Portfolio Cash Yield	5.30%
1yr Fwd Portfolio Gross Yield	6.88%
1yr Fwd Portfolio P/E Ratio	15.02x
Percentage of cash held	18.05%

Top 5 Performers

Company	Contribution to performance %
BHP Group	1.53
Rio Tinto	0.90
Nat Aust Bank	0.70
Westpac Bank	0.62
Fortescue Metals	0.55

Worst 5 Performers

Company	Contribution to performance %
Amcor	-0.24
Medibank Private	-0.22
Telstra	-0.22
Magellan Financial	-0.17
Transurban	-0.11

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Market & Economic Review

The March quarter of 2022 will go down as one to forget as financial markets began the year on a dismal note. January opened proceedings with a sharp correction in equity markets as the valuation of growth stocks, in particular, were impacted by fast rising bond yields. Bond markets sold off in response to inflation data that continued to surprise, with investors concerned that this could lead to a steeper trajectory of interest rate rises by central banks. Ultimately, such moves could harm economic activity and company earnings.

At the same time, rising tensions between Russia and Ukraine added to the wall of worry. And Russia defied the expectations of many political analysts, invading Ukraine on February 24th. This sparked a spate of sanctions by the US, Europe and elsewhere, with many multi-national companies pulling out of Russia of their own accord. In addition, February posted no new S&P 500 closing highs, something not seen since October 2020, as momentum ground to a halt. This came despite a strong quarterly earnings season in the US.

Meanwhile, domestic shares posted far stronger performances than their global peers. The S&P/ASX 200 generated returns approaching 7% during the quarter, while the MSCI All Country World index (ex Australia) finished in the red. Emerging markets were hit especially hard. Domestic investors benefited from the local market's stronger yield focus and higher-than-average exposure to the financials, resources and energy sectors. Indeed, over the March quarter, excluding dividends, the S&P/ASX 200 Index outperformed the US S&P 500 by the biggest margin since the December quarter of 2018. The US S&P 500 experienced just its twelfth quarter post-WW2 that saw the index fall 10%+ from a closing high and rally back 10%+ from its intra-quarter low. This is partly explained by short covering and by a partial switch out of bonds into equities.

As the quarter continued, bond markets were hit with further losses across most sub-asset classes, from sovereign bonds to most credit categories, with longer duration assets taking the brunt of the hit. Ultimately, traditional fixed interest printed deeply in the red. But, the worst was saved for local bond markets, where domestic investors saw negative returns spanning a three year period.

In mid-March, the US Federal Reserve (the Fed) raised official interest rates by 0.25% and upgraded its inflation forecasts, while moderating growth predictions for 2022 and beyond. The FOMC meeting revealed that the median voting member now expects seven hikes this year. Furthermore, markets are assessing whether some of these hikes will come in the form of 0.5% increments. An additional four rate rises are predicted for next year, signalling that rates could eventually exceed the Fed's perceived neutral rate for the US economy of 2.4%.

This led some investors to forecast a US recession later this year, with yield curves very flat from 2yr to 10yr maturities. Meanwhile, Russia's invasion of Ukraine has made a recession in Europe look especially likely, due to supply and price impacts. Not to diminish the human impact of these events, the war immediately exacerbated the surge in inflation, prolonged supply chain disruptions and placed a handbrake on global growth. Oil and gas prices escalated as a risk premium was built into the energy price complex. Food prices also jumped.

On the domestic economic front, the labour market continued to strengthen and there was further anecdotal evidence of labour shortages in some sectors. With the Reserve Bank about to commence raising the Official Cash Rate, fixed rate mortgage rates continued to climb, and the largest increases happening across the longest duration mortgages. The median home buyer using a fixed rate mortgage is now paying $680 more in monthly repayments than they would have had they purchased a year earlier (rising house prices is also a factor). Despite these pressures, markets are pricing the cash rate to reach 2% by year-end and 3% by May 2023.

Portfolio Review

The Income Portfolio returned 4.67% in the December quarter, outperforming the S&P/ASX 100 benchmark index which returned 2.99%, including dividends. With the addition of franking credits, the Income Portfolio total return was 5.18% for the March quarter.

The March quarter performance was driven by strong returns from BHP and Rio Tinto. Commodity prices have rallied

strongly since the invasion of Ukraine by Russia, partly driven by the risk to supply for many commodities. Banks also performed well during the quarter, with higher interest rates expected to benefit bank net interest margins. Amcor was the weakest contributor to performance during the quarter, the market remains concerned given the higher input costs driven by the elevated oil price. The position in Ausnet Services (AST) was exited during the quarter following the successful takeover by Brookfield Asset Management.

Despite an elevated cash position, the portfolio continues to provide an attractive level of income in the current environment. The 1-year forward portfolio cash yield currently stands at 5.30%, with the addition of franking credits, the Portfolio gross yield is approaching 6.90%.

Outlook

With Russia's invasion of Ukraine pushing inflation higher through higher food and energy prices and by exacerbating global supply disruptions, the outlook appears decidedly clouded. Perhaps a bright spot is that Covid-19 is becoming endemic, with more contagious variants proving to be less virulent. Hospitals and ICUs are no longer being overwhelmed and many countries, including Australia, are relaxing many of their pandemic laws. China, however, is continuing to pursue a 'zero Covid' approach and at time of writing had locked down tens of millions of people, including the largest city and financial centre, Shanghai. As a result, its services sector has once again collapsed and economic policy settings relaxed.

In March, we downgraded our outlook for the global economy and, in particular, the US. We moved from an above-consensus position of cautious optimism to one of greater concern, with our growth-range prediction just below a market consensus that had also been reduced. To this end, analysts are already slashing earnings estimates for 2022 on the basis that rising uncertainty will hit consumer spending as input costs peak. This is despite a strong first quarter US earnings season, with the notable exception of Netflix, where rising competition has seen an exodus from the stock.

While we are broadly in agreement with this position, our base case for the US economy does not currently foresee a recession in the current calendar year. The labour market is strong, with low unemployment and rising workforce participation. Employment is now down by 1.6 million, or 1%, from its pre-pandemic level in February 2020. The industrial side of the economy is also strong with rising capital expenditure excluding lumpy items, such as those related to transport and defence orders. As the year unfolds, we will continue to monitor develops and assess risks, such as for the possibility of stagflation (i.e., stagnating growth with high inflation).

In Europe, Germany has seen its growth forecasts slashed for 2022, with an outright recession a real possibility if there is a complete cessation of Russian energy supply. Such a contraction would continue into 2023. Even without such a dramatic turn of events, Euro Area activity has already slowed as is evident across the high frequency data releases since the end of March.

On the domestic front, the market is wrestling with the hawkish pivot in the language emanating from the RBA. As recently as October, Australia's central bank was guiding for no hikes to the official cash rate prior to 2024. But, at the beginning of May, the RBA raised rates by 0.25%. Indeed, the market is fully pricing a 2.5% cash rate by year-end and 3.5% by May 2023. We think that the pace and extent of such moves are unlikely and that the RBA will consider many factors beyond inflation in deciding on interest rate policy. Mortgage stress is likely to feature highly in its decision making, with Melbourne and Sydney particularly at risk, and falling real wages will also be a factor.

Across financial markets, our equity market valuations imply asymmetric risks that are weighted to the downside. Equity risk premiums are around the long term average across most developed market regions, but despite credit spreads widening in recent times, equities look expensive relative to investment grade corporate bonds. This is not to say that both sectors can't decline. While inflation likely peaked in the March quarter, future inflation surprises could continue to play have havoc with bond markets, especially for longer durations, as these securities are more sensitive to interest rate changes.

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