



WILSONS

# Quarterly Managed Funds Report

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Our quarterly managed funds report outlines the pathway best-suited to deliver on our current asset allocation strategy and the basis on which our chosen funds are vetted.

21 October 2020



# Our Current Asset Allocation Strategy

## Fourth quarter 2020.

Global equity markets face an uncertain near-term outlook in respect of the run-in to the US election and short-term path of the pandemic.

Nevertheless, the backdrop of ultra-low rates and massive fiscal spending provides a supportive environment for equities over the next 12 months.

Vaccine prospects have improved from mid-year, and with several candidates now well into stage 3 trials, there is potential for positive news flow either later in Q4 or Q1 next year. Any vaccine roll-out will take time, but the share-market will react to the news on trial success rather than waiting for a successful roll-out.

Read our [Q4 Asset Allocation Strategy](#).

## Australian Equities

### Neutral to overweight

We have increased our neutral position to overweight with prospects for a broader re-opening becoming more tangible, and a pro-growth Federal budget likely to lift business and consumer sentiment. The Australian equity market and the AUD are also well-placed to participate in any "recovery rally", so we think the risk return trade-off for the Australian equity market has become more appealing.

## Alternatives

### Overweight

We retain our overweight towards alternatives given the current environment of above-average economic uncertainty and unattractive valuations in government bonds. We are diversified across both defensive and growth strategies. Gold still appeals as a long-term portfolio hedge, but we acknowledge this may be vulnerable to a risk rally.

## Cash

### Neutral

We have decreased cash to fund an increased allocation to Australian equities.

## International Equities

### Neutral

We hold International equities at neutral due to the combination of the strong rally in global equities and the rise in COVID-19 infection rates. We retain our 40% currency hedge as we still believe the A\$ has medium-term upside, particularly against the US\$. We continue to favour emerging markets.

## Fixed Income

### Underweight

We retain a significant underweight in fixed income assets due to very low yields and our view of a developing global recovery over the coming year. We prefer credit to government bonds as credit spreads are still above average, but near-term economic weakness tempers our enthusiasm somewhat. Non-traditional fixed income strategies, not reliant on duration and long-term inflation protection, both appeal.



# Implementing our Strategic Asset Allocation Position

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We feature the funds best placed to implement our tactical asset allocation position.

The Funds highlighted below reflect:

1. Our upgraded view of Australian equities (Fidelity Australian Opportunities and OC Premium Small Companies Fund).
2. The potential for improved relative performance for value orientated equity funds (Antipodes Global fund).
3. Our preference for non-traditional fixed income strategies not reliant on duration given the current very low level of bond yields (JCB Dynamic Alpha Fund).

## **Fidelity Australian Opportunities Fund**

The Fidelity Australian Opportunities Fund forms a core holding within our Australian equities asset allocation. In light of the more favourable outlook for this asset class, and strong outperformance versus its benchmark on a 1, 3, 5 and 7 year view, as well as since inception in 2012, we reiterate our investment preference for the Fund.

The Fidelity Australian Opportunities Fund, led by Kate Howitt, utilises a fundamental stock selection process that seeks to identify companies with superior management, strong free cash flow, a competitive edge and low gearing. The strong team of analysts focus on the best opportunities in the market, whether they are large or small-capitalisation companies, growth or value in style, long-term structural winners or more opportunistic.

While growth stocks will screen more attractively than value in a low interest rate environment, the Fund's top 10 portfolio positions do include cyclical companies in acknowledgement of the conducive monetary environment the COVID-19 pandemic has brought about for a recovery in these businesses.

## **OC Premium Small Companies Fund**

The OC Premium Small Companies Fund is classified as a satellite holding within our Australian equities asset allocation. Also a beneficiary of our favourable view of the asset class, the Fund has outperformed its benchmark on a 1, 3 and 10 year view, as well as since inception in 2000. We view this style of manager as complementary to a core Australian equities portfolio – whether that be managed directly or indirectly.

The OC Premium Small Companies Fund, led by Rob Frost, is an active long-only manager that invests in a portfolio of 30-50 quality small to medium-sized Australian businesses with sustainable business models, quality management and attractive business fundamentals. The OC investment process is robust, focusing on risk management by screening out companies that lack profitability, have complex or unproven business models, and businesses where management is not aligned with shareholders.

The Fund has the ability to invest in small to mid-capitalisation companies that are listed or are about to list on the ASX.



### Antipodes Global Equity Fund

The Antipodes Global Equity Fund is a Global Equity Hedge Fund that forms a part of our alternatives asset allocation. The Fund provides investors with an active, risk-controlled, long-short global equity exposure.

Led by the well-regarded Jacob Mitchell, Antipodes is a pragmatic value manager targeting absolute returns. The manager aims to identify businesses that have been misunderstood by the market, building a high conviction portfolio of both long and short positions. The Fund may employ leverage (via short-selling and derivatives) to vary its equity exposure, as well as active currency management to manage risk and to potentially benefit from attractive risk-return opportunities.

Performance has been lacklustre in recent years (see the Focus List performance table on page 6). We believe this can be attributed to the value style of the fund, a style that has been out of favour for some time, with investors favouring growth style funds. Performance versus other global value funds has been comparatively good

given Antipodes' "pragmatic value" approach and focus on downside risk control. We believe Antipodes remains a high-quality manager and that the value style should do better going forward given our expectation for a strengthening and broadening of the global economic recovery over the next 1 to 2 years.

### JCB Dynamic Alpha Fund

We have recently added the JCB Dynamic Alpha Fund to our focus list to bolster our non traditional fixed interest allocation. The fund takes an absolute return approach, investing in high-grade global government bonds with the aim to deliver stable and consistent returns regardless of share and bond market movements. JCB seeks to construct an optimised risk-adjusted portfolio by combining fundamental analysis with the use of proprietary quantitative models, and a technical overlay from the extensive experience and knowledge of the team – Charlie Jamieson, Chris Manuell and Kate Samranvedhya.

The strategy allows JCB to utilise a full range of financial instruments and to implement their investment ideas

independently of the market environment and the performance of any index. This as an alternative solution in a world where the options for consistent income are typically credit risk based and often illiquid. The fund uses a combination of duration positioning (both long and short), interest rates curvature, cross market positioning, relative value and currency strategies. This provides a range of options to help generate superior risk-adjusted returns for investors. JCB employs a tight risk framework to reduce the potential for significant drawdowns.

While this specific managed fund (APIR: CHN8607AU) was launched only recently in December 2019, JCB has been running a similar strategy for one of Australia's largest industry superannuation funds since 2018, with over \$2bn in this mandate. Since inception and including the most volatile months of 2020, the Fund has achieved strong performance compared to its absolute return peers being one of only 3 funds (of 28) to deliver both positive calendar year returns and a positive return in March.

# Manager Focus List

## – September Performance Update

### Monthly Performance

The relative performance of the Wilsons Managed Fund Focus List was on the whole positive for the month of September. Broadly speaking, Australian equity funds outperformed their respective benchmarks, along with our fixed income fund managers.

The Spheria Australian Smaller Companies Fund performed well over September, returning 1.4% to outperform its benchmark by 4.1%. The Fund was a beneficiary of an underweight to high momentum and growth stocks, as well as the trend for many smaller companies to delay their investor roadshows (and therefore much of the price discovery process that occurs during result season) until well into September. Mortgage Choice (MOC) and A2B Australia (A2B) were major contributors to performance. MOC re-rated on news that the Federal Government is looking to abolish the responsible lending regime, and A2B also rose, likely due to increasing optimism of the Victorian economy reopening.

Another Australian equities fund that performed well was the AB Managed Volatility Equities Fund. The Fund outperformed its benchmark by nearly 2.3%. Stock selection within consumer staples was the primary contributor, followed by the materials sector. These gains helped offset losses within healthcare, and ironically while stock selection was strong, the sector overweight to consumer staples detracted from performance.

NB Global Corporate Income Trust (NBI) generated a return of 3.6% for the month, outperforming its benchmark, which was down 1.5%. In September, NBI modestly reduced its position in BB-rated bonds and opportunistically increased its positioning in B and below rated bonds with perceived value. We note that NBI has continued to experience a zero default rate in its portfolio.

The Partners Group Global Income Fund unit price was up over 4.7% in September, compared to its benchmark of 0.35%. The US leveraged loan market continued its rally for the 6th month in a row. The variance between net tangible assets (NTA) and unit price closed over September, with an NTA of \$1.82 and units trading at \$1.73 by month end.

### Quarterly Performance

In the September quarter, our international fixed income managers, international equities managers, and our small to mid-cap managers delivered the strongest performance relative to their respective benchmarks.

The top five relative performers were:

1. Partners Group	+13.5%
Global Income Fund	(Benchmark +1%)
2. Baillie Gifford Long	+16%
Term Global Growth	(Benchmark +3.9%)
Fund - Class A	
3. NB Global Corporate	+11.5%
Income Trust	(Benchmark +3.3%)
4. Spheria Australian Smaller	+12.4%
Companies Fund	(Benchmark +5.7%)
5. Munro Global	+10.3%
Growth Fund	(Benchmark +3.9%)

The Baillie Gifford Long Term Global Growth Fund has performed the best in absolute terms. Portfolio positions in Facebook, Amazon, Tesla and Spotify have been the most prominent contributors. This Fund is the standout performer in our Managed Fund Focus List, returning nearly 89% in outperformance to its benchmark for the 12 months to 30 September 2020.

The Munro Global Growth Fund has also been successful at using thematic investing to outperform the market. Growth companies have outperformed since the March lows, with technology companies, which Munro have as an area of interest, identified as potential beneficiaries of the pandemic.

The Spheria Australian Smaller Companies Fund had a strong August and September. The Fund navigated a noisy August reporting period, with Class and Corporate Travel the main contributors to performance. Class continues to increase market share while Corporate Travel surprised the market with confirmation that it would not need to raise capital. The delay to company roadshows and an underweight to growth stocks in September provided outperformance.

NB Global Corporate Income Trust and Partners Group Global Income Fund have performed well since the end of June, with a global recovery supported by fiscal and monetary easing providing investor optimism on their portfolios. Both have closed the gap of price to NTA over the quarter.

# Our Focus List

## Focus List Performance Versus Benchmark % as of 30 September 2020

\*Returns at 31/08/2020

Fund Name	APIR code	1 Mth	3 Mths	1 Yr	3 Yrs	5 Yrs	10 Yrs	Inception
<b>Australian Equities - Core</b>								
S&P/ASX 200 TR Index AUD		-3.66	-0.44	-10.21	4.8	7.31	6.93	8.8
Fidelity Australian Opportunities Fund	FID0021AU	-3.74	2.28	-9.65	5.33	8.6	0	10.43
S&P/ASX 300 TR Index AUD		-3.59	-0.06	-9.96	4.94	7.42	6.85	8.79
AB Managed Volatility Equities Fund – MVE Class	ACM0006AU	-1.31	-0.55	-5.42	7.88	9.54	0	10.21
<b>Australian Equities - Satellite</b>								
S&P/ASX Small Ordinaries TR Index AUD		-2.82	5.67	-3.33	6.53	9.97	3.53	7.36
OC Premium Small Companies Fund	OPS0002AU	-2.24	10.86	1.95	7.51	8.9	11.31	10.37
Spheria Australian Smaller Companies Fund	WHT0008AU	1.35	12.36	-2.82	5.02	11.12	6.55	11.75
<b>International Equities - Core</b>								
MSCI AC World ex Australia NR Index AUD		-0.08	3.96	4.29	10.53	9.91	12.0	4.07
Arrowstreet Global Equity Fund	MAQ0464AU	0.29	3.7	4.13	10.47	9.93	13.46	8.05
MSCI World ex Australia NR Index (AUD Hedged)		-2.94	6.42	6.38	6.97	10.36	11.7	6.36
Arrowstreet Global Equity Fund (Hedged)	MAQ0079AU	-2.33	6.46	5.37	6.26	10.09	11.97	8.33
MSCI AC World NR Index AUD		-0.15	3.87	3.93	10.4	9.85	11.86	4.59
Baillie Gifford Long Term Global Growth Fund - Class A	FSF5774AU	-0.39	16.03	93.03	0	0	0	49.36
<b>International Equities - Satellite</b>								
MSCI Emerging Markets NR Index AUD		1.53	5.24	4.02	5.56	8.52	5.63	7.33
Fidelity Global Emerging Markets Fund	FID0031AU	2.2	9.04	9.71	12.3	12.55	0	10.48
MSCI World SMID Cap NR Index AUD		1.06	3.32	-2.13	6.6	7.71	11.97	8.83
Fairlight Global Small & Mid Cap Fund (SMID) Class A	PIM7802AU	1.71	7.95	9.48	0	0	0	19.16
MSCI World Small & Mid Cap Index - Hedged		-1.30	5.7	0	0	0	0	13.30
Fairlight Global Small & Mid Cap (SMID) Fund (Hedged)	PIM0941AU	-0.40	10.9	0	0	0	0	17.5
FTSE 100 Index		-1.91	-3.53	-19.12	0	0	0	-14.73
BetaShares FTSE 100 ETF	F100	-1.85	-3.53	-19.19	0	0	0	-14.91
<b>Fixed Interest - Core</b>								
Bloomberg AusBond Composite 0+Year Index AUD		1.08	1.02	3.21	5.96	4.53	5.58	7.95
Legg Mason Western Asset Australian Bond Fund — Class A	SSB0122AU	1.08	1.38	3.34	6.02	4.71	6.05	6.09
Australia CPI		-0.03	-0.09	-0.95	0.86	1.14	1.71	1.7
Ardea Real Outcome Fund	HOW0098AU	0.59	1.83	5.52	5.87	5.01	0	4.41
RBA Cash Rate		0.02	0.06	0.47	1.11	1.34	2.30	0.23
CC JCB Dynamic Alpha Fund	CHN8607AU	0.46	1.15	0	0	0	0	4.5
<b>Fixed Interest - Satellite</b>								
Bloomberg Barclays Global High Yield TR Index (AUD Hedged)		-1.54	3.29	-0.17	2.07	6.11	7.82	9.85
NB Global Corporate Income Trust	NBI	3.55	11.53	-7.65	0	0	0	0.85
Bloomberg AusBond Inflation Government Index		1.39	3.61	4.04	6.64	4.31	0	4.85
iShares Government Inflation ETF	ILB	1.38	3.58	3.87	6.41	4.07	0	4.62
<b>Alternatives</b>								
MSCI World ex Australia NR Index (AUD Hedged)		6.15	12.16	12.12	8.93	10.25	12.8	6.55
Partners Group Global Value Fund (Private Equity AUD) — Wholesale*	ETL0276AU	1.69	6.69	5.37	10.31	9.04	0	11.73
MSCI AC World NR Index AUD		-0.15	3.87	3.93	10.4	9.85	11.86	4.59
Antipodes Global Fund	IOF0045AU	-0.63	1.15	-2.22	3.15	7.08	11.16	2.84
Munro Global Growth Fund	MUA0002AU	-0.77	10.27	37.68	16.69	0	0	16.96
Government 10 Year Bond Yield plus 3.25		0.35	1.04	4.32	5.22	5.49	6.38	11.55
AMP Capital Core Infrastructure Fund	AMP1179AU	-0.32	-1.15	-7.72	3.73	7	9.02	7.44
RBA Cash Rate plus 4.00%		0.35	1.04	4.47	5.1	5.33	6.3	10.99
Partners Group Global Income Fund	PGG	4.66	13.47	-11.76	0	0	0	-11.76
LBMA London Gold PM Fixing Price AUD		-0.53	2.51	19.54	17.20	10.66	6.91	-
ETFS Physical Gold	Gold	-0.56	2.41	19.06	16.73	10.18	6.48	-

## Focus List Profiles

Security	Security Code	Profile
<b>Australian Equities - Core</b>		
Fidelity Australian Opportunities Fund	FID0021AU	The manager employs a long-only, active, fundamental approach to build a portfolio of stocks that is largely industry and sector neutral to the benchmark. Inception date July 2012.
AB Managed Volatility Equities Fund	ACM0006AU	A managed-volatility equities strategy that aims to reduce volatility by identifying and investing in high-quality stocks that have reasonable valuations, high-quality cash flows and relatively stable share prices. Inception date March 2014.
<b>Australian Equities - Satellite</b>		
OC Premium Small Companies Fund	OPS0002AU	This fund is a long-only, Australian equities small-cap strategy that typically has a bias toward growth stocks. Inception date December 2000.
Spheria Australian Smaller Companies Fund	WHT0008AU	The Fund's investment universe are smaller capitalisation companies that lie outside the ASX 100 as well as equivalent stocks listed on the New Zealand Stock Exchange. The Fund is run in a benchmark agnostic fashion and will have an expected tracking error of 6% p.a. Inception date July 2005.
<b>International Equities - Core</b>		
Baillie Gifford Long Term Global Growth Fund - Class A	FSF5774AU	A concentrated, unconstrained, long-only manager with a bias toward growth stocks. The portfolio can be volatile as a result, and is suitable for long-term investment horizons. Inception date October 2018.
Arrowstreet Global Equity Fund	MAQ0464AU	A long-only, benchmark-aware, quantitative equities strategy which invests in listed equities across global stock markets. Inception date December 2006.
<b>International Equities - Satellite</b>		
Fairlight Global SMID Fund	PIM7802AU	A long-only, concentrated fund that is biased toward companies that demonstrate a quality factor. Inception date November 2018 (hedged version May 2020)
Fidelity Global Emerging Markets Fund	FID0031AU	The Fund (ETF or unit trust) invests in a portfolio of 30 to 50 emerging markets securities that Fidelity believes are positioned to generate returns through market cycles and have demonstrated a track record of strong corporate governance. Inception date December 2013.
BetaShares FTSE 100 ETF	F100	F100 aims to track the performance of the FTSE 100 Index (before fees and expenses), which provides exposure to the largest 100 companies by market capitalisation traded on the London Stock Exchange. Inception date July 2019.
<b>Fixed Interest - Core</b>		
Legg Mason Western Asset Australian Bond Fund - Class A	SSB0122AU	An Australian bond fund, primarily invested in investment-grade, Australian dollar denominated debt securities paying fixed or floating rate coupons issued by the Australian government, state governments, supranational bodies and Australian and foreign corporate entities. The Fund may also invest in mortgage-backed and asset-backed securities and inflation-linked bonds. Inception date December 1998.
Ardea Real Outcome Fund	HOW0098AU	An absolute return, relative value strategy that seeks to deliver consistent defensive returns by exploiting pricing anomalies between 'like' securities across global fixed income markets. Inception date July 2012.
CC JCB Dynamic Alpha Fund	CHN8607AU	The CC JCB Dynamic Alpha Fund is designed as an absolute return product that aims to deliver stable and consistent returns over time - regardless of share and bond market movements. The Fund offers a high level of liquidity in Government issued instruments, without any corporate credit exposure. Inception date December 2019
<b>Fixed Interest - Satellite</b>		
NB Global Corporate Income Trust	NBI	Provides investors with exposure to the high yield bonds of large and liquid companies globally. Inception date September 2018.
iShares Government Inflation ETF	ILB	The iShares Government Inflation ETF tracks the Bloomberg AusBond Government Inflation Index, a value-weighted index of inflation-linked securities which are designed to provide protection against higher than expected inflation. Inception date March 2012.
<b>Alternatives</b>		
Partners Group Global Income Fund	PGG	A Listed Investment Trust which aims to provide investors with a regular monthly income via exposure to a diversified portfolio of global private debt securities. Inception date October 2011.
Antipodes Global Fund	IOF0045AU	An active, long/short global equity value manager that seeks to exploit market inefficiencies that arise from three types of changes in the operating environment: cyclical, structural and socio/macroeconomic. Inception date July 2015.
Munro Partners Global Growth Fund	MUA0002AU	A growth based global long/short fund. Stock pickers who invest in companies with sustainable earnings. Inception date August 2016.
Partners Group Global Value Fund (Private Equity AUD)	ETL0277AU	A diversified private markets fund (mainly private equity but also private debt) invested in a broad range of investments via a feeder fund structure. The Fund is structured as an Australian registered unit trust. Inception date September 2019.
ETFS Physical Gold	GOLD	This ETF aims to provide investors with a beneficial interest in physical gold bullion without the necessity of holding, trading and storing physical gold bullion. Inception date March 2003.
AMP Capital Core Infrastructure Fund	AMP1179AU	An infrastructure fund that invests in a global portfolio of direct listed and unlisted infrastructure assets and funds. The manager is well resourced and has a long track record of outperformance. Inception date May 2016.



## Disclaimer and Disclosures

Recommendation structure and other definitions

Definitions at [www.wilsonsadvisory.com.au/disclosures](http://www.wilsonsadvisory.com.au/disclosures).

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