



WILSONS



Quarterly Managed Funds Report

Our quarterly report outlines how to deliver our current asset allocation strategy through a select range of managed funds.

21 April 2021

Our Current Asset Allocation Strategy

Given the significant global economic and profit recovery still ahead of us, we continue to see good prospects for equities over the coming year.

We retain caution toward traditional fixed interest as an asset class as we still see upside to bond yields in the US and Australia over the coming year – albeit the pace of the sell-off should slow.

The global economic backdrop remains mixed as the pandemic continues to exact a toll. However, we expect the pace of economic growth to build momentum over the balance of the year as the vaccine rollout continues. We expect cyclical recovery to continue to be the dominant theme for investors over the next 6 to 12 months. The key bull case for equities (and bear case for bonds) is that we are at the early stages of a significant global economic recovery with strong earnings growth prospects for CY21 and CY22 at least.

■ Read our [Q2 Asset Allocation Strategy](#).

Cash

Neutral to underweight

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

Fixed Interest

Underweight

We retain a significant underweight in fixed interest due to very low yields and our view of a global recovery over the coming year. Absolute return fixed interest strategies not reliant on duration and offering long-term inflation protection are preferred over traditional fixed interest strategies.

Australian Equities

Overweight

We remain moderately overweight Australian equities. Economic performance continues to beat expectations and corporate profitability should reflect this. Australia is outperforming the rest of the world in terms of virus control but should still participate in a global recovery rally, so we think the risk-return trade-off for the Australian equity market is still appealing.

International Equities

Overweight

We have edged up our global equities overweight, specifically to the UK and Europe, despite continued significant COVID-19 infection rates, with the prospect of a significant (vaccine-led) economic recovery later in the year. We retain our 40% hedge back to the A\$ as we still believe it has medium-term upside, particularly against the US\$. We continue to be overweight emerging markets.

Alternatives

Overweight

We retain our overweight given above average economic and policy uncertainty and unattractive valuations in government bonds. A range of growth and mid-risk alternative strategies appeal, i.e. private equity, private credit, infrastructure, and long-short global hedge funds. Gold still appeals as a long-term portfolio hedge but could be cyclically vulnerable to a rise in real interest rates.

Manager Focus List – March & Quarterly Performance Update

While global equity market indices posted another positive quarter to March, there was higher than usual volatility as investors swiftly rotated towards cyclical stocks that will benefit from the global economy reopening.

The market welcomed the announcement of more historic fiscal stimulus packages, and as vaccination rates in the US reached 3 million a day, investors began to dream of a world returning to normal. The rotation in markets assisted strategies with a cyclical/value bias while subduing returns in funds with large holdings in high growth companies as investors locked in profits.

The UK's appeal has increased amongst investors in the March quarter as a standout for the rotation trade. The UK market is overweight cyclical value sectors, such as materials and financials, that should benefit from a post-pandemic reopening. Accordingly, the BetaShares FTSE 100 ETF was a strong performer, returning 7.13% for the quarter. Despite the rally, the FTSE 100 remains among the cheapest of the major global equity markets.

The AMP Capital Core Infrastructure Fund was another fund that recovered strongly in the month of March, generating 4% returns. Notable contributors in the period were their substantial investments in Melbourne Airport and ANU student accommodation, suggesting the strategy was also a beneficiary of the increased post-COVID-19 optimism.

The Arrowstreet Global Equity Fund continued its strong run of outperformance, adding 11.15% for the March quarter, assisted by an overweight exposure to cyclical and energy stocks. An overweight exposure

to materials (11.4% of the fund vs. 4.7% index weighting) was also a positive contributor. This manager uses a disciplined "quantitative factor" approach to investing and is able to rotate between value and growth factors depending on its quantitative signals.

The Fairlight Global Small and Mid-Cap Fund also fared well, rebounding strongly in March (5.35%) after a period of underperformance. The Fund's fundamental bias towards value investing was in favour, as was their exposure to European and Emerging Markets.

The Baillie Gifford Long Term Global Growth Fund was weak in March, underperforming its benchmark, the MSCI World NR Index by 4.36%. Despite the fund's growth bias being out of favour in the quarter, the fund still returned an impressive 62.1% for the year to the end of March. Performance detractors for the month included large holdings in Tencent (0700.HKE) and Alibaba Group (9988.HKE) as the Chinese regulatory crackdown continued to unnerve investors. Netflix (NFLX.NAS) was also a detractor following the rise in bond yields that prompted investors to take profits in companies trading on high multiples.

The Munro Global Growth Fund, which also holds Alibaba Group, underperformed in the quarter, trailing its benchmark, the MSCI AC World NR Index AUD by 4.97%. Another detractor was Amazon (AMZN.NAS), which had a period of weakness following the announcement that Founder Jeff Bezos will step down as CEO and transition to the role of Executive Chair in 3Q20.

Domestically, the Spheria Australian Smaller Companies Fund continued its impressive run of performance, outperforming its benchmark, the S&P/ASX Small Ordinaries Index by 4.1% for the March quarter. Mortgage Choice

(MOC) was the largest contributor for the fund, rising 64% after receiving a takeover bid from REA Group (REA) towards the end of March. Vista Group (VGL), a software solutions company to the global film and cinema industry was also a positive contributor, gaining 26% in March. The full year 2020 results took the market by surprise as the company exceeded analyst expectations despite social distancing measures detrimentally impacting the sector.

The AB Managed Volatility Equities Fund had a good recovery in the month of March (5.05%) after lagging the sharp rebound in the ASX 300 over the last year. The fund targets significantly lower volatility than its ASX 300 benchmark so it is not unusual to see the fund lag in sharp rally phases. Large holdings in Wesfarmers (WES) and Telstra (TLS) have driven recent performance, helped by rebounds in their healthcare allocations to ResMed (RMD) and Sonic Healthcare (SHL).

See page 5 for more detail on manager performance.



Thoughts from our Alternative Fixed Interest Managers

A key pillar of our Asset Allocation strategy is our significant underweight in traditional fixed interest managers, with a preference for absolute return fixed interest managers who can deliver solid returns regardless of the direction of long-term interest rates.

This month Charlie Jamieson provided an update to the network on the JCB Dynamic Alpha Fund. The fund has continued to perform as expected, targeting an annual return of the RBA cash rate + 2.50%. For the past year, the manager has returned nearly 3.30% vs. the benchmark at 2.70%. This also compares to the -1.8% delivered by the Australian Composite Bond Index benchmark used by most traditional fixed interest managers.

Commenting on the first quarter of 2021, Jamieson expressed surprise at the velocity of moves in interest rate markets and the implication that bond markets are going up against central banks. Attention has also turned to inflation data, which he expects to peak in May. His expectation is that the market will look through these movements, with this “temporary” pick-up in inflation already well flagged.

One strategy Jamieson has been taking advantage of recently relates to the large number of shorts outstanding in the bond market which is distorting fundamental security pricing. This scenario highlights the benefit of the JCB team's expertise in both technical and fundamental analysis. When fundamental analysis no longer clearly identifies market mispricing, the team use their technical understanding – and proprietary technical signalling they have developed – to identify compelling investment opportunities.

The second strategy relates to distinct gaps JCB identified in the yield curve between 3 year (currently fixed by RBA yield curve control at 10bp) and 5 year bonds (~70bp). By buying and holding the 5 year bonds, the convergence of yields over time should see the 5 year bond yield trend lower, and the capital value appreciate as they roll down the positively sloped term structure of the current yield curve.

We also heard from Alex Stanley from the Ardea Real Outcome Fund. Their strategy has almost reached \$20bn in FUM globally, delivering 4.31%p.a. since inception in 2012, representing outperformance of 2.45%p.a. over the Australian CPI benchmark for that period.

With inflation a popular topic of conversation in investment markets, Stanley spent time talking about this in the context of the Ardea portfolio. Firstly, the team run multiple strategies in tandem. They are designed to be complementary and perform differently in different market environments, thereby reducing the volatility within the fund (they have maintained volatility of less than 2% since inception), and improving the reliability of returns.

One of these strategies is to have structural inflation protection. The team are currently running their inflation position at a 2-year duration vs. the index at 9 years, resulting in a reduction in the interest rate and economic risk that may come about with increased inflation levels.

Ardea expect volatility in bond markets to continue – an environment where they tend to perform well – and have positioned the portfolio accordingly should this, or an equity market tremor eventuate.

We continue to emphasise the valuable role these non-traditional fixed interest funds can play in a portfolio in the current interest rate climate.

■ [Read our Non-traditional Fixed Interest Investment Opportunity Report](#).



Our Focus List

Focus List Performance Versus Benchmark % as of 31 March 2021

Fund Name	APIR code	1 Mth	3 Mths	1 Yr	3 Yrs	5 Yrs	10 Yrs
Australian Equities - Core							
Fidelity Australian Opportunities Fund	FID0021AU	2.6	3.2	39.6	9.6	10.7	-
AB Managed Volatility Equities Fund – MVE Class	ACM0006AU	5.1	1.0	15.4	7.7	9.2	-
Australian Equities - Satellite							
OC Premium Small Companies Fund	OPS0002AU	1.8	1.6	69.4	9.0	10.8	11.3
Sphera Australian Smaller Companies Fund	WHT0008AU	2.3	6.2	73.2	10.9	12.6	7.9
International Equities - Core							
Arrowstreet Global Equity Fund	MAQ0464AU	4.4	11.2	36.4	14.8	15.6	15.4
Arrowstreet Global Equity Fund (Hedged)	MAQ0079AU	3.5	10.5	65.6	13.6	15.0	13.7
Baillie Gifford Long Term Global Growth Fund - Class A	FSF5774AU	-4.4	-1.1	62.1	-	-	-
International Equities - Satellite							
Fidelity Global Emerging Markets Fund	FID0031AU	0.9	4.2	38.0	14.7	16.9	0.0
Fairlight Global Small & Mid Cap Fund (SMID) Class A	PIM7802AU	5.4	3.6	27.9	-	-	-
Fairlight Global Small & Mid Cap (SMID) Fund (Hedged)	PIM0941AU	4.4	2.9	-	-	-	-
BetaShares FTSE 100 ETF	F100	4.4	7.1	8.4	-	-	-
Fixed Interest - Core							
Legg Mason Western Asset Australian Bond Fund — Class A	SSB0122AU	0.8	-3.3	-0.5	4.1	3.7	5.4
Fixed Interest - Unconstrained Bond							
Ardea Real Outcome Fund	HOW0098AU	0.4	0.6	5.2	5.8	5.6	-
CC JCB Dynamic Alpha Fund	CHN8607AU	0.3	0.4	3.3	-	-	-
Fixed Interest - Satellite							
NB Global Corporate Income Trust	NBI	-1.5	0.3	31.1	-	-	-
iShares Government Inflation ETF	ILB	1.5	-3.9	4.9	4.4	3.3	-
Alternatives							
Antipodes Global Fund	IOF0045AU	5.5	7.5	17.8	6.5	10.9	12.4
Munro Global Growth Fund	MUA0002AU	-1.5	1.0	31.9	16.5	-	-
AMP Capital Core Infrastructure Fund	AMP1179AU	4.0	2.3	6.1	5.2	6.0	8.9
Partners Group Global Income Fund	PGG	-2.3	-1.0	34.5	-	-	-
ETFS Physical Gold	Gold	-1.4	-9.5	-15.9	8.3	6.2	4.4
Partners Group Global Value Fund (Private Equity) (AUD) — Wholesale*	ETL0276AU	1.1	2.4	10.1	12.0	11.2	-
Benchmarks							
S&P/ASX 200 TR Index AUD		2.4	4.3	37.5	9.7	10.3	8.0
S&P/ASX Small Ordinaries TR Index AUD		0.8	2.1	52.2	8.3	10.7	4.1
MSCI AC World ex Australia NR Index AUD		4.4	6.0	24.0	12.4	13.5	12.7
Bloomberg AusBond Composite 0 Year Index AUD		0.8	-3.2	-1.8	4.0	3.5	5.0
Australia CPI +3%		0.3	1.0	3.7	4.4	4.7	4.8

*Returns as at 28/02/2021

Focus List Profiles

Security	Security Code	Profile
Australian Equities - Core		
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.
Australian Equities - Satellite		
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.
Sphera Australian Smaller Companies Fund	WHT0008AU	The fund's investment universe is 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.
International Equities - Core		
Baillie Gifford Long Term Global Growth Fund - Class A	FSF5774AU	A concentrated, unconstrained, long-only manager with a bias towards 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.
International Equities - Satellite		
Fairlight Global SMID Fund	PIM7802AU	A long-only, concentrated fund that is biased towards 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.
Fixed Interest - Core		
Legg Mason Western Asset Australian Bond Fund — Class A	SSB0122AU	An Australian bond fund, primarily invested in investment-grade AS\$ 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
Fixed Interest - Satellite		
NB Global Corporate Income Trust	NBI	NB Global 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.
Alternatives		
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 3 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.

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All figures and data presented in this research are accurate at the date of the report, unless otherwise stated.

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