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KAURI ASSET MANAGEMENT

Kauri Communiquê

Keeping you up to date with Kauri Asset Management and the Markets

COVID-19 DOMINATES FY20

We look back on the performance of our leading portfolios throughout FY20

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MONTHLY PORTFOLIO REPORTS

Our portfolio managers take you through the main contributors and cover any changes across both the Australian and US markets.

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WHO IS HUB24?

For those who haven't heard the news, we're managing two superannuation investment portfolios through HUB24.

MICHAEL SMITH
Head of Research and
Senior Investment advisor

Wrapping up another financial year

We look back on the performance of our leading portfolios throughout FY20

As we close the books on FY20, the team at Kauri would like to start by thanking all of our clients for another prosperous financial year working together.

Many of our clients have been with us for several years, while others have moved across to join us in recent times. In both cases, we value your loyalty and commitment in entrusting us to look after your investment funds.

That level of appreciation is perhaps more appropriate this year than any other, what with the remarkable level of volatility and fear that have presided over the market. We have witnessed one of the most unpredictable and challenging trading environments in history.

The team at Kauri is grateful for the trust that each of our clients have placed in us to navigate our leading investment portfolios through these difficult times. We also recognise that whilst our flagship Growth Portfolio significantly outperformed the market yet again in FY20, the near-term trading environment is still turbulent. Nonetheless, we feel confident that our team can uphold that momentum and we hope to deliver another positive year for clients.

Growth Portfolio returns 27% in FY20

Our flagship Growth Portfolio returned approximately 27% in FY20. We outperformed each of the three leading US indices. Across the same timeframe the Dow Jones Industrial fell 3%, the S&P 500 returned 5.4% and the NASDAQ Composite rose 25.6%.

One of the most important decisions we made throughout the financial year was when we exited our holdings in late February right before the market meltdown. We avoided unnecessary risk exposure, rebought certain stocks at lower prices in April, and still managed to deliver positive returns while the market crashed thanks to our currency hedging strategy.

Our strong exposure to the USD in the early part of 2020 proved invaluable as investors flocked to the safe-haven currency when the pandemic first spread. More importantly, however, we made the correct decision to sell half of our USD cash at the greenback's highest level since 2002, thus gaining exposure to the Australian dollar, which has subsequently appreciated by as much as 25%.

Meanwhile, big tech managed to account for a large portion of the portfolio's gains, courtesy of the likes of Apple (APPL), Advanced Micro Devices (AMD), Adobe (ADBE), Microsoft (MSFT) and Google (GOOGL).

In recent months, as the transition to the digital economy accelerated, we identified that digital commerce and stay-at-home stocks would play a prominent role in helping individuals and businesses navigate lockdowns. As such, we invested in stocks like Visa (V), Atlassian (TEAM), Square (SQ), PayPal (PYPL), ServiceNow (NOW) and Alibaba (BABA), all of which contributed strongly towards the portfolio outperforming the market.

With technology still at the heart of current developments, we move into FY21 with a portfolio of companies that have proven their resilience and capabilities to withstand if not thrive amid dire economic conditions.

An inaugural year for the Yield Portfolio

During the financial year we launched our second investment portfolio, the Australian Yield Portfolio.

Since its inception in October, the portfolio has decreased 16%. While a disappointing headline result, we do need to consider this figure in the broader context of the ASX.

First, the ASX 200 is also down ~16% since its peak in mid-to-late February, failing to pare its losses to the extent that US markets have. Meanwhile, a number of income-paying positions have been hit hard by COVID and the recession, particularly financial stocks such as the banks.

Market volatility also pushed us to divert some of the portfolio's funds towards more stable assets like hybrids. In 'normal' market conditions we would have a slightly higher exposure to growth assets that we believe would help us positively differentiate our performance from the local benchmark index.

Interest rates, however, are likely to remain low for an extended period – potentially several years. As such, not only do we anticipate dividends to return as the economic rebound plays out, but we expect the appetite for high-yield assets to increase over time and remain favourable in lieu of few comparable investment alternatives.

Until recently, Australia has been among the more effective nations to control and mitigate the impact of COVID. Notwithstanding recent flare ups, we think this relative success positions local shares for a positive mid-term outlook.

Introducing the Hub24 Future Choices Superannuation Portfolios

For those who haven't heard the news, we're managing two superannuation investment portfolios through Hub24, an award-winning investment and superannuation platform providing investors with more product choice.

We see the Hub24 Future Choices Superannuation Portfolios as investment vehicles for those who demand greater accountability in the performance of their super fund.

Rather than the standardised investment templates used by most industry super funds, we act as a dedicated investment manager to identify your specific retirement objectives. We tailor superannuation investments to your needs from a range of ASX 300 stocks, as well as ETFs and LICs that provide exposure to international equities.

In addition to our bespoke and personalised Hub24 investment portfolios, we also have a 'Balanced' investment option for those seeking sustainable returns. For clients willing to take on a slightly more aggressive risk profile, our 'Growth' option provides greater exposure to growth assets that over the long-run are expected to deliver increased returns.

The 3-year (CY17-19) performance of the Hub24 Future Choices Superannuation Portfolio has returned 10.6% p.a. versus 8.7% p.a. achieved by the industry median growth fund, and 9.72% p.a. among the top 10 industry super funds.

Looking into FY21, some final words

One of the things that we proudly emphasise at Kauri is our personalised approach, which we believe provides strong communal foundations with our clients, and aids us in serving your best interests.

We recognise that there is potential scope to provide more services for our clients, whether it be additional research, new investment portfolios, superannuation consolidation and more. However, to realise this vision, we need your help getting the word out.

While we have the utmost confidence that the performances of our investment portfolios speak for a history of outperformance over the long-term, word of mouth is important for a firm like Kauri that co-invests alongside clients. Recommendations from trusted friends and colleagues are among the most effective forms of business marketing.

However, it's not just Kauri that you could help. In these times, as the economic toll of the recession mounts, there is near-unprecedented demand for financial advice. We all know someone who has been impacted by recent events, who may feel lost managing their finances.

One way that you can provide your help is by referring a friend or colleague who may need financial guidance. It might be someone approaching retirement or investing for the first time, someone looking to accumulate savings for a house, or someone who is disillusioned with the performance of their current industry super fund and may be looking to transfer to another investment manager. These are just some of the areas we can help.

I want to sign off by saying thank you once again for your continued support. When we say we couldn't do it without you, we really do mean it, and we look forward to the year ahead.

MICHAEL SMITH
Head of Research and Senior Investment advisor

Performance:

Index	*June Performance*	*YTD Performance*
Dow Jones	1.7%	-9.6%
NASDAQ	6.0%	12.1%
S&P 500	1.8%	-4.0%
Global Growth Portfolio	0.1%	12.5%

Top 10 Holdings:

Code	*Company Name*	*Weighting %*
ADBE	**Adobe**	4.42%
V	**Visa**	4.37%
MSFT	**Microsoft**	4.14%
CME	**CME Group**	4.12%
BABA	**Alibaba**	4.10%
PYPL	**PayPal**	3.94%
BRKB	**Berkshire**	3.92%
COST	**Costco**	3.61%
AMZN	**Amazon**	3.52%
TEAM	**Atlassian**	3.28%

International

International Growth Portfolio

The portfolio increased 0.1% throughout June, after taking into account advisor fees.

The underlying performance of our equities rose 2.1%, with big tech proving accountable for the majority of the gains.

Nonetheless, foreign exchange movements worked against the portfolio last month as the USD/AUD rate continued to slide during the month. The currency pair dropped from 1.5001 to 1.4486, which translated into an approximate 1.6% drag on the portfolio NAV.

We did, however, implement a 'bull call' spread strategy, where we bought call options for the AUD/USD rate at $0.72 and sold call options at the $0.77 mark. This strategy is intended to protect the portfolio's currency over the short-to-mid-term, affording us profits if the rate were to continue rallying towards the $0.77 level before December, 2020.

Profits may also be generated to the downside, provided the drop exceeds our hedging cost. As this hedging will be in place for several months, the early effects are yet to play out. However, we believe reducing our direct exposure to the risk of a rising Australian dollar will be invaluable given ongoing fiscal policy in the US that is likely to weigh on the USD.

Across June we added to our positions in core holdings including but not limited to Amazon (AMZN), Alibaba (BABA), Baidu (BIDU), Facebook (FB), Microsoft (MSFT), Mastercard (MA), and PayPal (PYPL) to name but a few.

Microsoft and PayPal were standout performers for the portfolio in June, both benefitting from the digital economy theme that has become more prominent amid COVID-19. Similarly, stocks like Adobe (ADBE), Zoom (ZM) and Square (SQ) continue to perform well and underpin the strong underlying performance in our equities holdings.

Unrealised income represents approximately 5.3% of the portfolio NAV as at the end of June. Meanwhile, cash accounted for 20.7% of the portfolio.

As the COVID pandemic continues to escalate in the US, we remain very wary around the prospect of bouts of volatility. Nonetheless, we believe the Fed and US government will both effectively act as a 'backstop', with more stimulus already touted as being likely later this month. With this in mind, we intend to retain our exposure, albeit we will consider responding in a flexible and agile manner where we might sense circumstances are deteriorating.

MICHAEL SMITH
Head of Research and Senior Investment advisor

AFIQ MALEK
Research Analyst and Senior Client advisor

Australian

Australian Yield Portfolio

During June, the portfolio increased 2.2%, marking the third month in a row where our Australian equities have performed well.

Our participation in the NAB (NAB) Share Purchase Plan provided a discounted opportunity to add to our holdings, while also providing an immediate and sizeable contribution towards portfolio growth. There was also an instant contribution from our participation in the issue of Macquarie Group Capital Notes (MQGPD).

Elsewhere, Commonwealth Bank (CBA), Bank of Queensland (BOQ) and ANZ (ANZ) all delivered strong gains for the portfolio as bank stocks helped drive the market higher. Although near-term profitability for the banks may be capped amid current economic factors, they do have adequate capital provisions to ride out the storm and in time, begin paying dividends that we expect to represent a high yield relative to today's prices.

Other standout performers include Wesfarmers (WES) and JB Hi-Fi (JBH). We think the diversity in Wesfarmers' business operations provide it with the resilience and capacity to perform well in the current environment. We note that some of its brands, like Bunnings and Officeworks are likely to thrive amid stay-at-home provisions, thus offering 'defensive' qualities.

Meanwhile, JB Hi-Fi reported a 20% jump in sales for the first five months of the year, while also reinstating and increasing its full-year guidance. The strength of the result wasn't just limited to its own brand-name division either, with The Good Guys brand also recording similar levels of growth. Despite additional operating costs, the company has exercised disciplined cost control, and the reopening of its stores in New Zealand should assist. The company is clearly prospering as employees and consumers turn to digital hardware for their work and entertainment needs.

We exited our position in Woodside Petroleum (WPL) on account of concerns around the near-term price of oil, especially as COVID cases mount across the world and loom as likely to push economies back into lockdown.

Unrealised losses represented 15.2% of closing NAV from the end of June. Although economic data has been largely improving in recent weeks, developments in Melbourne leading to the reintroduction of lockdown measures are likely to stifle output in the near-term. It should be noted, however, the government has already signalled it is likely to officially extend stimulus support and potentially hasten tax cuts. Unless there are subsequent 'waves' of cases in other states, we expect the market to look past the difficult circumstances in Melbourne.

Performance:

Index	*June Performance*	*YTD Performance*
ASX 200	**2.5%**	**-11.8%**
ALLORDS	**2.2%**	**-11.8%**
Aus Yield Portfolio	**2.2%**	**-13.1%**

Top 10 Holdings:

Code	*Company Name*	*Weighting %*
CBA	**Comm Bank**	**6.64%**
WPL	**Woodside**	**6.37%**
NAB	**NAB**	**6.11%**
TLS	**Telstra**	**5.86%**
BHP	**BHP Group**	**5.16%**
CBAPI	**CBA Notes**	**4.88%**
WES	**Wesfarmers**	**4.74%**
KKC	**KKR Credit**	**4.44%**
MQGPD	**MaquarieNote**	**4.35%**
ANZPD	**ANZ Note**	**4.22%**

DANIEL WONG
Research Analyst

ALEX NEGROH
Research Analyst

Hub 24 - Super

Balanced Portfolio

The portfolio gained 1.2% last month, versus a 2.5% rise in the ASX 200. For FY20, the portfolio declined 0.5%, faring significantly better than the benchmark index, which fell 10.8% across the same timeframe.

With user numbers continuing to soar, and a shift to e-commerce playing right into its hands, Afterpay (APT) provided another strong lead for the portfolio. The stock rose 28.6% throughout the month, as well as more than 150% across the financial year.

The other major contributors to the portfolio in FY20 were defensive health giants CSL (CSL) and ResMed (RMD), plus Fortescue Metals Group (FMG) and Saracen Mineral (SAR) on the back of strong prices for iron ore and gold respectively.

Coles (COL) also provided significant gains for the portfolio on the back of an 11.8% increase across the month. The supermarket looks set to continue seeing strong demand amid lockdown measures in Melbourne that are likely to prompt a new round of panic buying.

Jumbo Interactive (JIN) and Electro Optic Systems (EOS) dragged on the portfolio in June. However, both of their performances in early July have seen significant gains. Jumbo has renewed its lottery contract with Tabcorp and is in discussions with Lotterywest for its WA customers. EOS was awarded a significant government contract.

With recent developments exposing a string of hackings and security deficiencies in major companies and governments, we have also looked at tech stocks. This includes NextDC (NXT), which reached an all-time high amid new contracts, as well as the 'HACK' ETF that offers broader cyber-security exposure.

We believe cyber-security is becoming increasingly critical as societies transition to digital economies. We see spending in this sector as likely to increase over time as more and more breaches happen.

We also took advantage of a depressed share price in Macquarie Group (MQG) and increased our exposure by another 1%. Given its strong earnings profile and attractive dividends, we reduced our exposure to some of our hybrid positions, which also allowed us to marginally increase our growth-risk appetite.

Overall, we see the market struggling for a real direction in the near-term. The market is whipping to and fro on news concerning new COVID cases, lockdowns and accommodative central bank policy. Nonetheless, we still see markets grinding higher based on low interest rates.

Performance:

Index	June Performance	YTD Performance
ASX 200	2.5%	-11.8%
ALLORDS	2.2%	-11.8%
Balanced Portfolio	1.2%	-3.01%

Top 10 Holdings:

Code	Company Name	Weighting %
MGG	Magellan Trus	7.5%
CBAPH	CBA Note	5.0%
VGB	Aus Bond	5.00%
HM1	H & M Invest	4.00%
NABPD	NAB Note	4.00%
CBAPE	CBA Note	3.50%
CSL	CSL Limited	3.00%
FMG	Fortescue	3.00%
MQGPC	Mac Note	3.00%
NABPE	NAB Note	3.00%

Hub 24 - Super

DANIEL WONG
Research Analyst

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Research Analyst

Growth Portfolio

The portfolio gained 0.4% last month, compared with the ASX 200, which lifted by 2.5%. Although the Growth Portfolio returned a performance of -5.3% across FY20, this was still significantly better than the 10.8% decline in the ASX 200.

The discrepancy in the performances of the Hub24 Future Choices portfolios can be attributed to a higher growth-risk exposure in the Growth Portfolio, which was hit harder amid the market volatility in 2020.

ResMed (RMD) was one of the portfolio's best performers not just last month but also across the financial year, where it surged more than 50%. In the current environment the stock has fared well as more investors look to hold onto defensive assets like health stocks. We see ResMed as a quality company with strong earnings growth and a formidable moat around the business.

Weighing on the performance of the portfolio was Flight Centre (FLT), which fell 15% in June. We are seeing a depressed price as we grapple with the idea that overseas economies may not open as quickly as hoped, and as the domestic situation in Melbourne clouds interstate travel and the much-touted NZ travel 'bubble'.

Nonetheless, we see FLT's woes as shorter term, and have taken into account no international travel in our projections. The company has secured a large debt facility and still holds significant cash on hand. While the performance of the stock has been disappointing thus far, we are not overly concerned as we think the worst of news is effectively priced into the stock.

Our gold exposure has been one of the bright points in recent months as the price of the precious metal tops US$1800/oz. Saracen Mineral Holdings (SAR) has been the biggest beneficiary and also a leading contributor to the portfolio across FY20. From here, we still have a positive outlook for the commodity. We may add more gold holdings to the portfolio on the view that further money printing by the US central bank is likely to spur inflation and underpin strength in gold prices.

The current level of volatility in the market is likely to flow through to the Growth Portfolio due to higher exposure to growth-risk assets. Notwithstanding the health and economic risks associated with the pandemic, equities remain attractive relative to low interest rates and other assets. We expect any further deterioration in the economy to be supported by government and central banks, while also providing an opportunity for long-term additions to the portfolio.

Performance:

Index	*June Performance*	*YTD Performance*
ASX 200	2.5%	-11.8%
ALLORDS	2.2%	-11.8%
Growth Portfolio	0.4%	-9.29%

Top 10 Holdings:

Code	*Company Name*	*Weighting %*
VGB	Aus Govt Bon	5.00%
MGG	Maq Trust	4.50%
HM1	H & M Invest	4.00%
CBAPE	CBA Note	3.50%
MHH	Maq High Con	3.25%
COL	Coles	3.00%
FMG	Fortescue	3.00%
GOLD	Gold ETF	3.00%
MQGPC	Mac Note	3.00%
NABPD	NAB note	3.00%

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