UNCONVENTIONAL WISDOM

Unique investor insights from Wattle Partners

March 2020

The month that was...

- Wow. That's about the only way to summarise the events of March 2020. It will be remembered as the most volatile month in sharemarket history. Here are some simple numbers: Marsh saw 12 of the largest 20 points falls in the Dow Jones, the largest single day fall in history (-12%) and the largest intraday point swing of 1,904 points on Friday the 13th. In fact, the Dow experienced both a bear market, again the fastest in history falling 20% in just 22 days, and a bull market, increasing 21% in just three days. Closer to home, the ASX experienced its biggest one day fall since 1987, off 9.5%, the fastest 30% fall and an intra-day swing of 14%. Honestly, even working through the GFC we had never seen this before, waking up and heading into work was an unnatural feeling as COVID-19's impact expanding globally.

- It's clear that the virus was under-appreciated until the market peak on 20 February and now we must question whether it has truly been priced into markets given the volatility experienced and likely set to stay with us for some time. How long will shutdowns apply? How long will quarantining be in place? How long will social distancing measures be required? These are all important questions both as humans exposed to this virus but also as investors attempting to negotiate our way through a true unknown, unknown, as Donald Rumsfeld would have put it.

- March saw some incredible things occur as markets reacted to the threat of a global recession, or at least recession across the major developed and developing economies who appeared woefully underprepared. There was the 2-day breakdown in bond markets that occurred in the middle March, during which the yield on US Government Bond's spiked as much as 30% in a single day, more volatile than equity markets. One of the more interesting flow on effects, was Vanguard's announcement that they had increased the buy-sell spread on their bond funds from 0.15% to 1.79%, that's almost a 2% fee to redeem your investment! Not what you would expect from a low cost manager.

- Leading on from this, which is highlighted more later, March saw the return of the active manager with most tending to outperform amid precipitous falls in global sharemarkets. It was clear amid the 'carnage, that a number of issues were exacerbating the sell down, low volatility index strategies, algorithmic trading, huge selling from

pension funds and simply investors taking on too much risk for too long. When times are good, like the last 10 years, active managers will naturally underperform their benchmark, but it is when times get tough that they tend to pay off protecting your capital when most needed. There is an old saying about 'getting what you pay for' Our view is that a dollar saved is more valuable than a dollar gained.

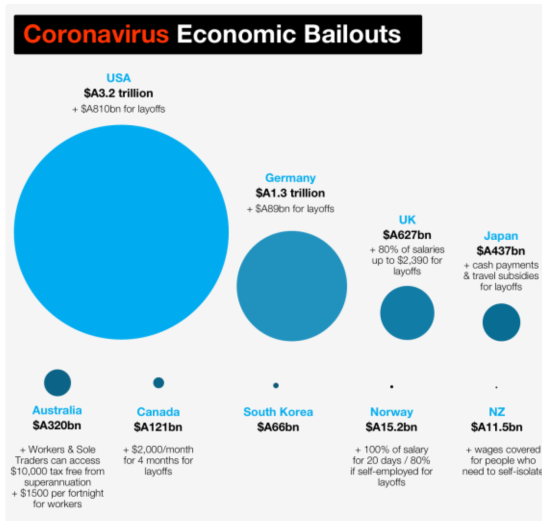
- After somehow avoiding the worst of the Royal Commission spotlight, the industry super fund sector has seen a blowtorch applied to their business model. The issues were twofold in March, the first being the huge number of members seeking to switch investment options as market volatility increase. *The issue?* Most of these funds hold allocations of up to 30% in unlisted, illiquid assets that are rarely revalued, meaning the only way to fund investment switches was by selling down their most liquid assets; equities. The second, was the announcement of the loosening of the $10,000 early access to superannuation rules, which placed further pressure on these illiquid structures. In some cases, these funds hold as little as 2% cash in their 'balanced options'. *The result?* An overnight revaluation of said unlisted assets by 7.5%; that's right overnight. The concern was so high that the chief lobbying group for the sector ask the RBA for a loan to bailout the impacted funds. Some of our views were published in the IFA during the month. All said and done, Australian Super fell over 11% for the quarter, and 15% from the high. We haven't read about any pay cuts or job losses in this sector yet.

- Bond and credit markets were one of the lowlights and highlights of the period. With many industry funds relying on unlisted private credit to boost returns, it became clear the risks were higher than many appreciated. Investors in high yield or junk bonds saw losses in the realm of 20-30% in just a few days; in our view these securities now offer some value. We began to see some normalisation after the coordinated central bank policies around the world (more below) with 50 companies issuing over US$100bn in primarily BBB-rated bonds in March; another record.

- As we enter what many are suggesting is the initial peak in Australian and US virus infections, the focus is increasingly moving to how we recover from this. As usual, media and economic commentators are putting forward excessive statements, with as much as 11% unemployment and full-blown depression; our view is that this simple isn't palatable for any Western Government and we are more likely to see a relaxation of shutdown measures combined with greater public testing. The initial impacts are clear, with a recover 3.3m new jobless claims in the US in the last week of March, swamping the previous 695k weekly record.

- On the positive side, it has become very clear that central banks and Governments around the world have been far more prepared for the economic impacts of this crisis than the GFC. March saw coordinated stimulus efforts ranging from US and Australian interest rate cuts to 0.25%, liquidity back-stops for the major banks in the form of low cost funding and Quantitative Easing measures implemented in Australia for the first time. The RBA and Federal Reserve will both be buying Government Bonds directly from financial institutions, along with residential mortgage-backed securities; in the case of the US, this spread into buying bonds directly from US companies. This is based solely on ensuring banks have enough capital to keep lending

to business and people in need. Combined these with fiscal policy of c10% of annual GDP in the US and Australia and this is likely enough to offset at least a few months of 'hibernation'. It's obvious that the Australian Government understands that spending $200bn to keep people employed is better than spending 10 years trying to get them re-employed.



- Market volatility tends to see markets clean out very quickly, with many of the excesses associated with a 10-year bull run quickly disappearing. We were therefore interested to see the announcements from Mayfair Platinum which sells itself as an alternative to term deposits, and which is marketed by the Switzer Group. In the same week, we received a marketing email about investing in to Cannabis, from the same group, amid the most volatile period in market history; as the millennials say WTF?

- Looking forward, reports suggest some 98% of major industrial companies in China have resumed operations in March, with nearly 90% of their workers back on the job. The Wall Street Journal also reported that the US is likely to see a peak in infections in the coming week; we can only hope.

Model Portfolio Update

- Investment Committee -

Index	Index Points - February	Index Points - March	Performance 1 Month	Performance 1 Year
S&P/ASX 200	6441.21	5076.83	-21.18%	-17.86%
All Ordinaries	6511.53	5110.56	-21.52%	-18.38%
US Dow Jones	25409.36	21917.16	-13.74%	-15.47%
US S&P 500	2954.22	2584.59	-12.51%	-8.81%
Hang Seng (HK)	26129.93	23603.48	-9.67%	-18.75%
FTSE 100 (UK)	6580.61	5671.96	-13.81%	-22.08%
Nikkei 225	21142.96	18917.01	-10.53%	-10.79%

Top 5 Performers	1 Month	Bottom 5 Performers	1 Month
Gold Bullion (Unallocated) - Perth Mint	20.06%	Boral Ltd	-54.24%
Munro Global Growth Fund	7.62%	Link Administration Holdings Ltd	-44.88%
CSL Ltd	7.59%	Qube Holdings Ltd	-34.65%
JP Morgan Global Macro Opportunities Fund	3.37%	National Australia Bank Ltd	-32.28%
Arrow Primary Infrastructure Fund	2.71%	ANZ Banking Group Ltd	-31.14%

Sector	March
A-REIT	-35.14%
Communications	-14.66%
Cons. Discretionary	-25.90%
Cons. Staples	-3.61%
Energy	-37.53%
Financials	-27.64%
Healthcare	-5.38%
Industrials	-22.75%
IT	-17.86%
Materials	-13.05%
Utilities	-6.22%

What a month for markets. As you can see from the table above, the entire economy has been but, but with energy and property the most heavily impacted. Energy for obvious reasons, being the huge supply increase from the Saudi's and Russian's as they seek to destroy the US shale industry once and for all. On the other hand, Australian property dropped nearly 40% across the board as tenants like Solomon Lew simply decided they would no longer be paying rent. Outside the property owners, consumer discretionary, leisure, travel and technology companies were worst hit, with a stream of capital raisings expected as many companies simply run out of cash to operate. The last few weeks of March alone saw some 50 companies remove guidance.

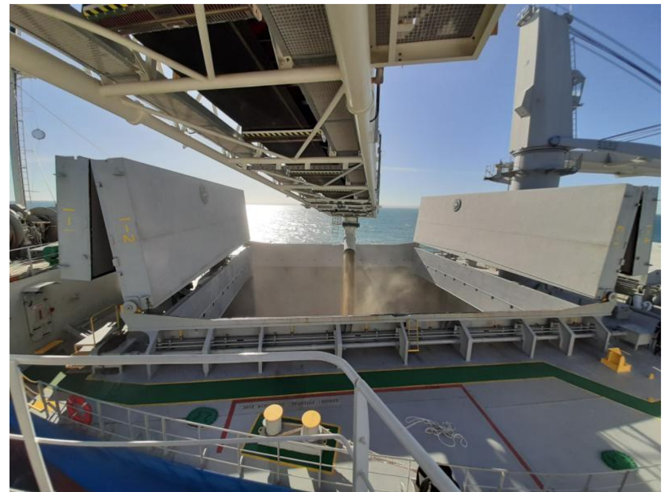
As usual, the highlights came from gold bullion and key actively managed fund holdings like Munro. It is in times like these that the support of professionals, whether in the form of advisers or experienced portfolio managers truly comes to the fore. Consider for instance, Invesco, a global fund manager, who have that many analysts they are able to cover every stock in the ASX to determine COVID-19's impact in just a few weeks.

Times like this offer incredible opportunities for long-term investors. For those patient enough to retain capital in lower risk assets, you are afforded an incredible opportunity to purchase great assets are bargain basement prices. The recovery is likely to be a drawn out affair, but disciplined investment and averaging into markets will no doubt pay off. In our work we are seeing two camps on the eventual recovery. The traditional media and pessimists who are talking about long-term depression era events and the overly optimistic fund managers (many of whom underperformed) suggesting this will all turnaround quickly. We believe it lies somewhere in the middle. What is clear though, given the c10% daily rise in markets that has occurred on several occasions, is that timing the bottom is impossible and missing out on just a few days of trading can mean substantially lower returns.

For this reason, our approach in the coming weeks and months will be threefold. Firstly, we will be stress testing the debt and cash flow position of any consumer focused companies, which fortunately we have few of. Secondly, we will be seeking to add high quality growth businesses (and asset classes) that have historically been far too expensive to justify purchasing. And finally, we will be transitioning from the successful Targeted Return Bucket and ensuring we have sufficient cash to fund expected capital raisings, a strategy adopted by the great Warren Buffet.

Woolworths: After shooting the lights out during reporting season, delivering 6% sales growth and a 33% increase in earnings to $1.89bn, Woolies was a key beneficiary of the unfortunate hoarding that precluding the COVID-19 lockdowns. The company reached an all-time high during the quarter before retreating as volatility ensued but has managed to hold its value. Management have placed the demerger of the liquor and hotels group on hold, as they queried the ability to receive a fair price in a disrupted market. On the positive side, BIG W improved earnings by 155% in 2019, and is likely to have seen greater benefits in the first quarter, whilst grocery margins are nearing 29%, well ahead of Coles Group. The company delivered a 2.2% increase in the dividend and announced they would be employing thousands more people to cover the surge in demand.

ICAM Duxton Port Infrastructure Trust: The TSV arrived in Lucky Bay in March, after an extended period at Australian Customs and has been put to work immediately. The Port itself achieved practical completion on 10 February. Unfortunately, the wheat crop on the Eyre Peninsula was one of the worst in over a decade, that being said Lucky Bay received 38% of wheat in the catchment area from 190 growers, totalling 141k tonnes, which is being processed now. The poor crop has resulted in a cash flow shortage, however, short-term funding has already been negotiated with the existing lenders and the retail share offer has seen $24m in subscriptions thus far. As the asset has moved from a greenfield construction site to an operational port, KPMG has been asked to deliver a new valuation, seeing the unit price increase to $1.38.



Munro Global Growth Fund: We have long been proponents of engaging active managers for investments in overseas sharemarkets, on the basis that their experience and flexibility can deliver better returns during period of volatility. After years of hearing the passive vs. active debate, the current bear market has once again reiterated why investors should not rely solely on low cost passive funds. The Munro Fund delivered a positive return of 8% at the same time its benchmark fell over 9%. The strategy benefitting from an exposure to the USD, shorts on a number of oil and gas companies and a short position on the entire US sharemarket. Whilst we would prefer outperformance in both good and bad markets, in our mind outperformance when markets fall is substantially more valuable.

JP Morgan Global Macro Opportunities Fund: The Global Macro Opportunities Fund was built for times like these. In 2020, the fund is up over 3% and fallen just -0.8% in March thus far. The go anywhere strategy, which means there team of hundreds of researchers can find the best investment opportunities in the world, made the decision to

increase their short positions on the US sharemarket which rewarded investors by protecting their capital.

Gold bullion was far and away the strongest performing asset in portfolios, delivering excellent returns on the weakness of the AUD. The Investment Committee originally recommended gold bullion in AUD, rather than USD, on the basis it would provide a natural hedge against a weaker global or Chinese economy; which in this case has come to fruition; the AUD fell to a multi-decade low of $0.55c. In USD terms the gold price has not benefitted as heavily, having been impacted by the broad sell of in risk assets that occurred in mid-March as investors sought liquidity amid the beginning of the COVID outbreak. This unexpected fall has quickly been recovered and gold remains a core part of portfolios as cash rates near zero and central bank policy increases the threat of inflation in the coming years.

Invesco Global Targeted Returns Fund: Invesco delivered on its most important objective, being to protect your capital when sharemarkets collapse. The fund finished the quarterly around where it started, a testament to the diversification and risk management focus the fund was included in your portfolio to provide. As the COVID-19 pandemic was announced management took a more bearish view on their central economic outlook, resulting in higher allocations to bond markets. The key ideas driving outperformance in 2020 were the 'Yield Compression' position, which benefitted from the reinstatement and effective doubling down on quantitative easing around the world, and a long position in the Japanese Yen vs. the Korean Won as investors once again flocked to safe haven assets. Finally, the Commodity Short position was a key beneficiary of the breakdown in OPEC supply negotiations.

Around the markets – views of the managers

Rather than update on the many earnings downgrades, removal of forecasts or ballooning unemployment figures around the world, we thought it worth summarising the views of some of the more experienced asset managers from around the world.

- **Morningstar Research:** Overall, we see a weighted average hit of 1.5 per cent to 2020 global GDP and 0.2 per cent to long-run global GDP. We forecast a muted long-term impact because damage to productive capacity will be small, plus economic confidence should quickly return once the virus subsides.

  Coupled with a huge increase in global fiscal stimulus, this new monetary policy stimulus to combat the adverse effects of the coronavirus will ultimately help the global economy transition through two very negative quarters of GDP growth to what will almost certainly be a vigorous recovery. **In fact, we expect the bounce to be among the strongest recorded given the impact of the virus is, when all is said and done, a temporary dislocation that will leave enormous amounts of residual policy stimulus that could ultimately result in a speculative melt-up.**

- **Aswath Damodaran's Blog – Musings on the Market:** In periods of pricing tumult, like the last three weeks, it is both futile and perhaps counterproductive to try to explain big pricing moves, especially on a day-to-day basis, with the language and tools of value. If I could make a suggestion to the financial news channels now, here is what it would be. **Remove all the talking heads (including me) from the screen, and just show the stock indices in real time.** This is a market that needs no commentary!

- **Pendal Investment Management:** The influence of ETFs and passive investing is clearly apparent in the indiscriminate nature of the market sell-off. This has been exacerbated by the effect of risk parity strategies and other systematic approaches needing to de-risk. The market's sell-off is rational, but indiscriminate selling has led to outcomes which are irrational — such as the poor performance of traditional hedges such as gold.

- **ARK Invest:** Catherine Wood of ARK Invest suggesting that news and social media is exacerbating what is likely to be a V shaped recovery, with fears and hoarding more viral than COVID 19 itself. Interestingly, she noted that COVID 19 was gene sequenced in just 2 days due to incredible advancements in technology, compared to 5 months for SARS; with a vaccine likely to come faster than expected as well. Looking at the economy before this event, consumers were confident, businesses were not, which should help in an eventual turnaround. She did note the everything will fall but governments are united in their response and resolve, which increases the likelihood of a quick recovery.

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Should you be worried about your industry fund?

- Jamie Nemtsas -

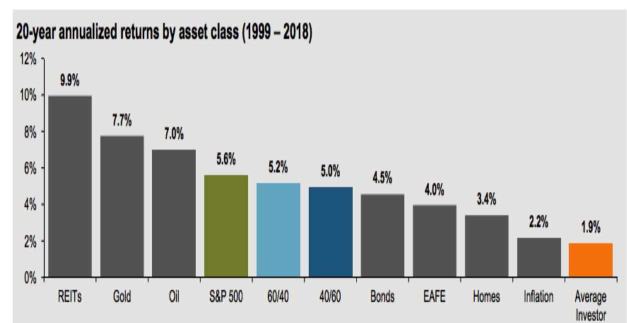
At this point, daily sharemarket volatility exceeding 5% has become accepted, in fact bond yields are now exhibiting more volatility than shares. One if our biggest concerns actually relates to those who aren't clients of Wattle Partners, in particular those who don't have access to professional financial advice at this very difficult time.

Whilst we aren't blaming the Royal Commission, it has come at an incredibly difficult time for retirees and investors in general. Thousands of advisers are leaving the industry or dealing with additional compliance at a time when they should be 100% focused on guiding clients through this volatile environment. We decided to call Australian Super this week to enquire on our small investment in their balanced fund, which has fallen over 25% in the last three weeks.

After spending several minutes on hold, we were informed that they were no longer able to process changes to investment options over the phone and guided all investors towards their mobile application or website. This is a little concerning given many of their members are 70+ years old and in our experience may struggle in dealing with this type of technology.

We have been inundated with calls and emails from readers of our newsletter who have decided that they need to 'protect' what they have left by moving their entire investment options back to cash; at what is most likely to the worst such time to do so.

The chart below from JP Morgan evidences the risk of making this decision, in that it explains why the average investor consistently underperforms the funds and assets they invest; this is solely because they tend to change strategy at the top and bottom of the market. The chart plots each asset class from left to right, with the average investor on the far right, with a return of just 1.9% per annum over 20 years.



This leads us to a secondary concern regarding the industry fund sector, which we believe may be driving the huge amounts of volatility being experienced in Australia and around the world. It's important to disclose that we are proponents of the traditional balanced fund approach for many younger, smaller balance investors, as we understand they are built for accumulating capital, not drawing it down and carry an inherently higher risk investment philosophy.

What concerns us most, is the many retirees and pensioners who move to Australian Super chasing their returns (which interesting still only show up to 30 June 2019 on their website), but are now in a position without any access to advice and having seen a substantial drop in the value of their life

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savings. We have attempted to summarise our various concerns succinctly in the following sections:

- **Lack of transparency:** We have consistently queried the transparency and reporting capabilities of the likes of Australian Super, based on our long-held concerns that their strong returns were being delivered by taking substantially higher risk than many of their older members expected. In times of volatility, humans value information and knowing exactly what it is that's driving performance both positively and negatively. Outside of a generic top 10 holdings list or out of date strategic asset allocation table, these funds offer very little transparency at a time of need.
- **Liquidity concerns:** This and the next issue were highlighted very well by Robert Gottliebsen in today's Australian, where he opined on the issue facing industry funds that offer same or next day investment option switches to their millions of members. This is of course fine when the underlying assets are liquid, like cash and shares, however, a liquidity issue emerges when as much as 30% of the typical Balanced option is now invested in things like private credit, junk bonds, property, infrastructure and venture capital, which simply cannot be sold. The result has seemingly been many industry funds having to sell down the only liquid portion of their portfolios, Australian and overseas shares, in order to fund investment switches and redemptions; leading to mayhem in investment markets. Interestingly, many funds faced a similar liquidity issue during the GFC, as their model of internalising sharemarket investments meant they were required to fund the cost of hedging their portfolios, which spiked dramatically as the AUD fell.
- **Valuation concerns:** This was similarly highlighted by Gottliebsen when he suggested that all industry funds should be spending the weekend undertaking a real valuation of their unlisted asset portfolio or risk the potential for legal action from their members in the coming years. His concern, like ours, is that many unlisted assets are likely to be overvalued in this environment, meaning that those redeeming an investment option, maybe leaving a lesser valued asset and disadvantaging those who stayed put. His specific example focused on the concept that there are two office buildings next to each other, one is listed, the other is unlisted; the listed one has fallen 30% in value over the last 12 months, but the unlisted has not moved at all. If you then transfer the unlisted assets to someone else, you are passing on a capital loss to that person.
- **Reliance on contributions:** This is closely related to our liquidity concerns expressed above, with our issue being that the huge capital flows into industry funds, which total several billion dollars per month in the form of Super Guarantee contributions, have been a primary source of liquidity. This constant flow of cash has meant they are able to invest more into unlisted assets with the knowledge that pension payments will be covered by incoming contributions; but what if this stops. Or what if investors become concerned about the performance of their fund and all rush to withdraw their balance at the same time. Does the sector face a bank run type event that would require them to freeze redemption requests?
- **Inability to take targeted action:** Another major concern is that investors within these funds have very little scope to make targeted changes to their portfolios. They have very few investment options to choose from and the few options available have vastly different risk profiles. Take for instance Australian Super's Balanced Option, which has 90% in risky assets, the next closest option, Index Diversified, has a 70% allocation to risky assets. In recent weeks we have been advising clients to consider hedging their overseas shareholdings, introducing allocations to gold bullion or removing long duration bonds, all of which would alter their asset allocation by no more than 5%, but vastly reduce the risk. These small changes are simply not possible via large industry funds.
- **Lack of access to advice:** Our biggest concern was highlighted in the introduction, being that these funds now have many millions of individual members simply do not have the staff, technology, experience or

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the licensing to provide professional financial advice at the time of greatest need. They can advise on investment switches but are not able to explain the potential implications, loss of benefits and compounding of losses that will occur.

If we can provide one small piece of advice to investors within industry funds carrying large unlisted asset exposures, it would be to maintain your current 'market' exposure, but shift your investments into the Australian Shares and International Shares options. We have serious concerns about the current search for liquidity and its impacts on unlisted, private holdings within Balanced options.

We hope this has provided some unique insight into the sector and one of the many reasons that markets appear to be behaving irrationally during this stressful time.

Never sell stocks...

- Drew Meredith -

In the latest of our 'never-sell' stocks, we take a closer look at Microsoft, one of the few trillion-dollar companies in the world. The foundation story of Microsoft is well known, as both Bill Gates and Paul Allen created the business from their garage in 1975 as they sought to capitalise on the growth in demand for personal computers. As the story has it, both are now among the richest people in the world with $100bn and $20bn between them, along with in Paul's case an ownership stake in both the Seattle Seahawks NFL team and the Portland Trailblazer's NBA team.

The company is renowned around the world for its Microsoft Windows, Office and Internet Explorer software but is so much more than that today. The business now develops, manufacturers, supports and sells computer software, consumer electronics and personal computers among other things. Interestingly, Microsoft is one of the most active acquirers of new businesses around the world, which as been a key plank to their success over several decades, making them one of the few pre Dot.Com companies to remain in the top 10 by market cap 20 years on.

The company has been well lead over the last decade, initially by Steve Ballmer, who directed the business down the 'products and services' route including the launch of the now popular Surface Pro Tablet and Laptops. More recently, under CEO Satya Nadella the business has pivoted once again moving heavily towards Cloud and Enterprise computing services.

Microsoft is very clear in their mission to 'empower every person and every organisation on the planet to achieve more'. In fact, there operations are contributing to massive changes in the way all companies do business and leading to more efficient operations around the world. Take for instance my business, Wattle Partners. We moved away from a physical server close to a decade ago and have never looked back. All relevant documents are scanned and stored securely via Microsoft's Azure Cloud platform, our emails run through Outlook and we are access everything from anywhere in the world. Many businesses would have entered this COVID-19 disruption with great concerns about how they can continue to service their customers to the same level, but by partnering with Microsoft the service has been seamless.

After a record year in 2019, Microsoft, along with almost every business, has been impacted by the supply chain and demand disruptions of COVID 19, seeing its share price fall from $190 to $137 today, a loss of 27%. Yet the company is likely to be one of the bigger beneficiaries of the change in business practices, evidenced by the now 44 million daily active users of their Microsoft Team's communication platform. Whilst now less relevant, Microsoft's December quarter earnings results were highly impressive:

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- Total revenue improved over 11% to $36bn;
- Productivity & Business Division (Office) – Revenue increased 17% to $11.8bn;
- Intelligent Cloud – Grew 27% to $11.9bn, including 62% growth from Azure storage;
- Personal Computing – Saw the Surface have a record $1.9bn sales quarter, up 6%;

As you can see, all three business units have a near equal attribution to group revenue and all improved in the quarter; most importantly the company makes money, with Net Profit of $11.6bn. Microsoft were one of the early adopters of the subscription model for their Office software, which was originally questioned by market commentators, but has been an overriding success providing a near annuity stream of earnings for shareholders.

One of the key reasons we view Microsoft as a never sell stock, is there dedication to growth opportunities. They acquired Linked In and 2016 for $26.bn and have successfully monetized a platform that many never saw as being possible. Their business is likely receiving great benefits from the current shutdown from a combination of their online collaboration tools and their ownership of the XBOX gaming platform, which is increasingly popular for those confined to their own homes. They also purchased Skype for $8.5bn in 2011 and have leveraged this technology to challenge the likes of Zoom Communications as more business become nimble and move to video-conferencing. But most importantly, it's the growth of their cloud platform, which has seen revenue increases of 62%, 59%, 74%, 73% and 76% over the last five quarters.

Having IPO's at $21 and undertaken nine share splits, the average cost for Microsoft's first investors is just 9 cents, compared to today's price of $137. After recent falls the company trades at a PE of around 25x and warrants a position in the portfolios of all long-term investors.

Government Announcements

- Amanda Bouzeid -

As we all come to terms with the short-term and unknown longer term implications of the Coronavirus, and what a Stage 3 Lockdown could mean, the Federal and State Governments have been on the front foot announcing a series of measures to assist businesses and individuals during this difficult time.

The swift reaction by hospitality and retail businesses of standing down or sacking workers within just a few days of self-isolation announcements was somewhat unexpected but evidence of the 'everyone for themselves' survival instinct that occurs in such uncertain times. A summary of the major policy announcements so far include:

- The **minimum pension drawdowns** for 2019-20 and 2020-21 have been cut by 50%, as they were during the GFC. That means if you are under 65, you only need to draw 2% of your 1 July 2019 balance, or 2.5% if between 65-74. The same discount applies for each of the other age brackets.

- For small businesses, the ATO is offering a **Cash Flow Boost**, by crediting any business activity (BAS) or PAYG amounts that are payable on a monthly or quarterly basis. Specifically, businesses with turnover of less than $50m will not be required to pay PAYG to the ATO on behalf of their employees where it is less than $50,000. In fact, every business will be afforded a $10,000 credit whether they withhold tax or not.

- The Federal Government is offering **early access to superannuation** under a loosening of the hardship provisions. This will allow those who are unemployed, eligible for job seeker payments or have been made redundant or lost working hours of 20% or more since 1 January 2020. It is limited to $10,000 this financial year and next.

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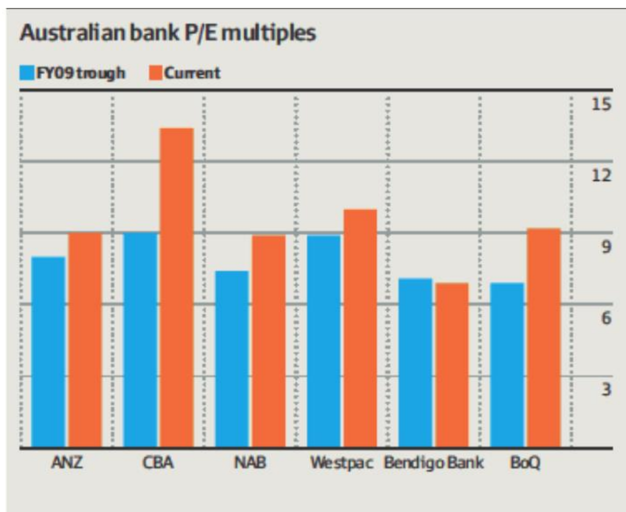
- Closer to home, the Victorian State Revenue Office will be refunding payroll tax paid by businesses thus far in 2019-20 but only for those with payroll below $3.0m. This is a case refund and no further amounts will be payable for 2019-20 or the first quarter of 2020-21.

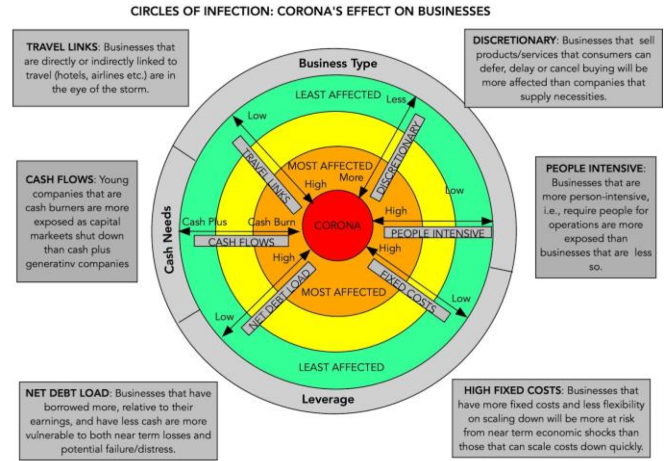
It's worth noting this is simply the first round of support measures which come on top of the various actions taken by the Reserve Bank in recent days. Both State and Federal Government's appear acutely aware of the risk that mass unemployment would have for the future of the Australian economy.

Interesting Charts

This month's charts don't require all that much context, but first, we have comparison of current price-earnings multiples of each of the banks against their GFC lows. It's worth noting they are all much better capitalised than during the GFC but have become as cheap as ever.

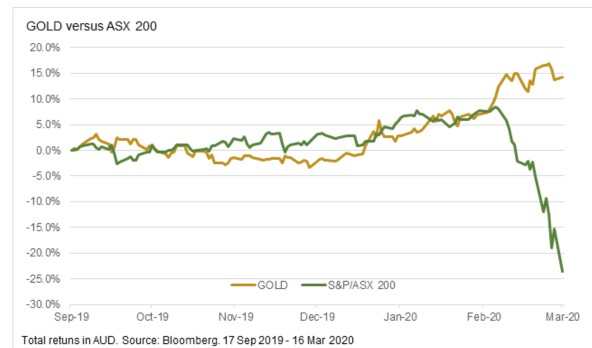


The next chart is a simple summary of the initial and secondary impacts of the growing COVID-19 pandemic on businesses all around the world.



Next, is Bloomberg's Consensus views on those sectors likely to see the highest levels of sales growth in the coming years, with most healthcare business leading the way.

Once again, another useful chart showing the important relationship (or lack thereof) between gold and share prices. As you can see gold has offered a true hedge against the recent volatility, particularly when considered in AUD, outperforming the ASX 200 by 40% since September.



Finally, a chart from Coolabah Capital that attempts to explain the unprecedented movements in credit and preference shares markets in recent weeks. As

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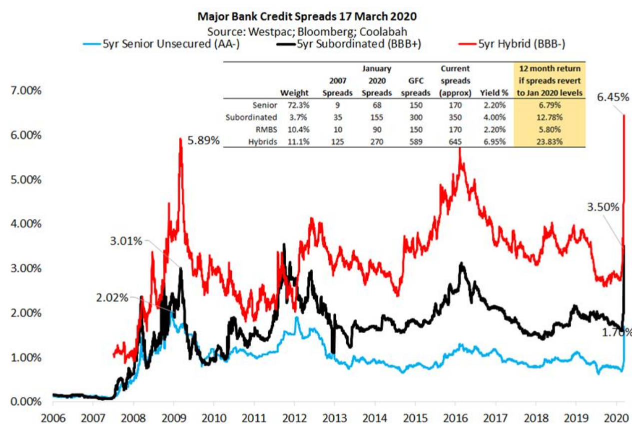
you can see, volumes and spreads on preference share yields, being the premium investors require to hold the slightly riskier asset, spiked to multi-decade highs during the week but may now offer an incredible opportunity.



	Weight	2007 Spreads	January 2020 Spreads	GFC spreads	Current spreads (approx)	Yield %	12 month return if spreads revert to Jan 2020 levels
Senior	72.3%	9	68	150	170	2.20%	6.79%
Subordinated	3.7%	35	155	300	350	4.00%	12.78%
RMBS	10.4%	10	90	150	170	2.20%	5.80%
Hybrids	11.1%	125	270	589	645	6.95%	23.83%

Wattle Watch – Franklin Global Growth Fund

- Rachana San -

Franklin Templeton is the Australian division of Franklin Resources, one of the largest asset management groups in the world, with close to AUD$1 trillion under management and operations spanning 170 countries. The business was first established in Australia in 1987 and has operations spanning all asset classes including Equity, Fixed Income, Alternatives and Multi-Asset. Franklin's investment philosophy is embedded with ESG or Environmental, Social and Governance considerations and they are signatories of the UN Principles for Responsible Investment initiative.

Why Franklin Templeton? Franklin is a leader in the active management of global equities and this fund has been selected due to the experience of the Lead Portfolio Managers, John Remmert and Don Huber, both New York-based and with 32- and 37-years' experience respectively. Franklin's long-term performance stands out, delivering on average 3.7% per annum above its benchmark since 2008, however, it is the investment philosophy driving these returns that we believe warrants an investment. The managers have identified an arbitrage opportunity resulting from the exponential growth of passive and index investing. The trend has seen investor capital flow into the largest businesses by market cap, leaving medium and smaller sized companies trading at substantially more attractive levels. They have successfully focused on the medium sized company sector in the US and around the world, which includes business ranging from $3.5 to $30bn and falling just outside the S&P 500. Management focus their due diligence on identifying companies with strong free cash flow, superior management teams and those able to growth their profits off a lower base without excessive leverage.

Why Value Bucket: The Franklin Global Growth Fund meets the objective of the Value Bucket as the managers seek to generate a return exceeding sharemarket benchmarks with the majority delivered via capital growth rather than income. Importantly, the purpose of the Value Bucket is twofold, being to identify undervalued companies but also to identify those companies with growth opportunities that aren't fully reflected in current prices.

Performance & Top Holdings: The fund's performance in 2019 was exceptional, leading global equity managers with a return of 37.25% for the calendar year, exceeding the benchmark by a further 10%. Of more value has been the funds performance in 2020, where it delivered a negative return of 1.8% in February, compared to the benchmark of -4.9% and has thus far outperformed the benchmark in March. This has been delivered via their strategy to build a high conviction portfolio of 35-40 companies with limited correlation

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between their revenue and profit sources. They manage risk by ensuring an even distribution of holdings, with weightings between 1.5% and 4.0%. The portfolio is well diversified, with its largest weighting to IT business (24% vs. 17% for the benchmark) albeit via the likes of Visa and ZScaler, rather than Facebook or Microsoft. Consumer Discretionary (18% vs. 10%) and Industrials (14% vs. 11%) make up the other key sectors. Some of the major investments include: Asset manager Partners Group, TAL Education in China, Costar Group and Danaher Corp in the US and Regeneron Pharmaceuticals.

This fund appears to be an excellent one for those seeking greater global diversification, at a reasonable cost and with exposure to those part of the global economy most leveraged to a post-COVID 19 improvement.

What are we reading this month?

In a time of incredible bleakness, with every news bulletin full of shocking numbers and updates, we seek to look for more independent and formal data to guide us through. Chris Joye of Coolabah Capital, who has a seeming obsession with modelling, has put together his views on when 'peak virus' will occur, it's available here.

As highlighted in the introduction, the industry fund sector is facing somewhat of a watershed moment with many blaming their lack of liquidity for the heightened volatility occurring in Australia. They are being forced to sell down the only liquid assets they have, at what couldn't be a worse time for members, crystallising short-term losses. Robert Gottliebsen from the Australian has been following the many dilemmas in recent weeks and is worthy of a read. On the brighter side, Top Down Charts, which provides a constant feed of insightful graphs throughout the year has put together evidence suggesting we may be entering a once in a generation buying opportunity as the hysteria around COVID-19 reaches fever pitch in the months to come.

Finally, an interesting letter forwarded on from a colleague this week, from the author of the Great Gatsby, which seems appropriate for the current times.

A LETTER FROM F. SCOTT FITZGERALD, QUARANTINED IN 1920 IN THE SOUTH OF FRANCE DURING THE SPANISH INFLUENZA OUTBREAK.

Dearest Rosemary,

It was a limpid dreary day, hung as in a basket from a single dull star. I thank you for your letter.

Outside, I perceive what may be a collection of fallen leaves tussling against a trash can. It rings like jazz to my ears. The streets are that empty. It seems as though the bulk of the city has retreated to their quarters, rightfully so. At this time, it seems very poignant to avoid all public spaces. Even the bars, as I told Hemingway, but to that he punched me in the stomach, to which I asked if he had washed his hands. He hadn't. He is much the denier, that one. Why, he considers the virus to be just influenza. I'm curious of his sources.

The officials have alerted us to ensure we have a month's worth of necessities. Zelda and I have stocked up on red wine, whiskey, rum, vermouth, absinthe, white wine, sherry, gin, and lord, if we need it, brandy. Please pray for us. You should see the square, oh, it is terrible. I weep for the damned eventualities this future brings. The long afternoons rolling forward slowly on the ever-slick bottomless highball. Z. says it's no excuse to drink, but I just can't seem to steady my hand.

In the distance, from my brooding perch, the shoreline is cloaked in a dull haze where I can discern an unremitting penance that has been heading this way for a long, long while. And yet, amongst the cracked cloudline of an evening's cast, I focus on a single strain of light, calling me forth to believe in a better morrow.

Faithfully yours,

F. Scott Fitzgerald

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