Sterling Aberdeen Standard Ex20 Australian Equities Portfolio

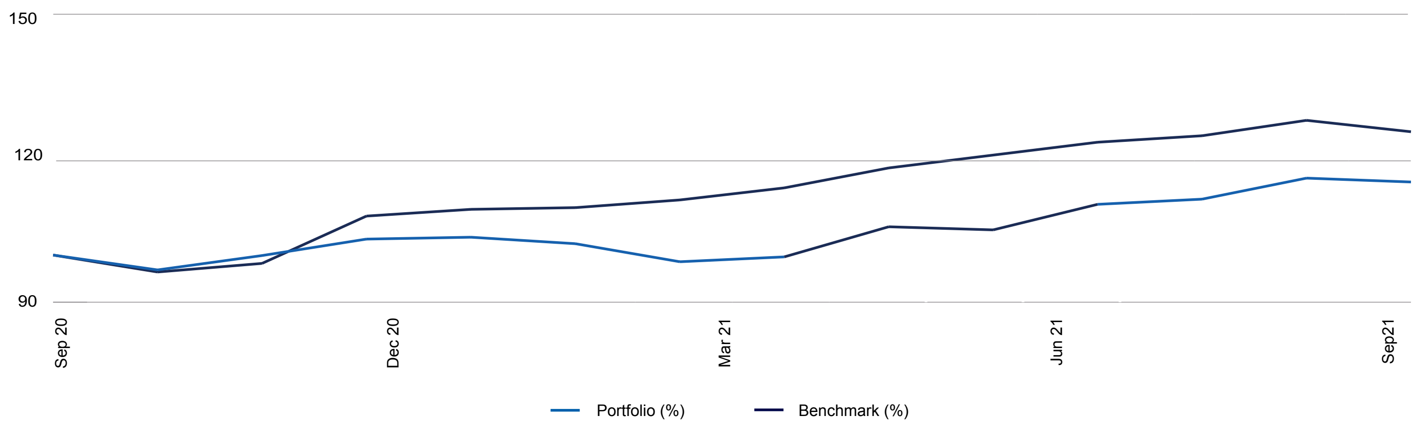
Monthly Factsheet

September 2021

Investment Objective

To outperform the benchmark, the S&P/ASX 300 Accumulation Index excluding S&P/ASX 20 Leaders Index, after fees, over rolling five year periods.

Performance – 30 September 2021



Cumulative and annualised performance

	1 month	3 months	Year to date	1 year	3 years (p.a.)	5 years (p.a.)
Portfolio (%)	-0.70	4.28	11.29	19.26	-	-
Benchmark (%)	-1.89	1.79	15.00	30.86	-	-
Portfolio vs Benchmark (%)	+1.19	+2.49	-3.71	-11.60	-	-

For the purposes of reporting, the Benchmark is the S&P/ASX 300 Accumulation Index. Per the advisory agreement, the model portfolio aims to outperform the S&P/ASX 300 Accumulation Index excluding S&P/ASX 20 Leaders Index, after fees, over rolling 5-year periods. Portfolio performance is provided Net of fees on underlying investments but gross of Advisory/Platform fees.

Inception Date : 01 September 2020

Past performance is not a reliable indicator of future results.

Performance review

- For the quarter to end-September, the portfolio rose by 4.28%, outperforming the benchmark, which returned 1.79%. Overall, our stock selection in the materials, utilities and industrials sectors contributed the most to performance. On the other hand, our choice of stocks in the information technology, health care and financials sectors detracted from returns.
- **Key drivers of the outperformance included:**
- The portfolio's exposure to energy network company AusNet. The firm's share price jumped after it received two competing non-binding takeover offers. Given the heightened level of M&A activity within the infrastructure sector, we believe the business will be heavily contested as the companies compete to acquire AusNet.
- Our position in Beach Energy boosted returns over the quarter, despite providing weaker-than-expected production guidance for fiscal year 2022 in August. The stock price rose in September after a positive investor day, where the company announced a major derisking of its Perth Basin project via a full off-take agreement with BP. After several disappointments earlier in the year, investors also welcomed the firm's conservative fiscal year 2024 guidance.
- The position in IDP Education also helped returns as increasing vaccination rates raised hopes that students would return to Australia in 2022. Elsewhere, despite the health care sector lagging overall, our exposure to ResMed (RMD) proved helpful. The company continues to benefit from a key competitor's (Philips) product recall, allowing it to win market share, which we believe is at least partially sustainable. We believe RMD's close engagement with key accounts battling severe supply chain disruptions will result in enhanced customer goodwill and push earnings upwards in the near term.
- **Conversely, detracting from performance were:**
- Stock selection within the health care sector was the was one of the main drags on performance. In particular, Cochlear (COH) lagged over the period. While its fiscal year 2021 result was largely in line with expectations, the shares underperformed as forward guidance disappointed, given the wide range for net profit after tax growth of 11-20%, and continued investment in growing market awareness. However, we continue to view COH as a strong competitor in hearing implants, which continues to support our longer-term thesis.
- Although materials stocks performed well overall, our holding in Northern Star Resources detracted from performance. The stock price fell in tandem with the gold price over the quarter. We continue to believe in the company's ability to reach its fiscal year 2026 production growth targets given its track record, particularly when it comes to resource-to-reserve conversion.
- On the negative side, Pro Medicus (PME) detracted from performance on no stock-specific news. It was caught up in the broader market sell-off in September, with high-growth companies particularly affected. However, we believe Pro Medicus' market-leading product and the wider cloud migration should allow it to secure new contracts.

Portfolio Activity

We initiated a position in Evolution Mining, a medium-sized gold miner that owns and operates seven gold assets while sitting at the lower end of the industry cost curve. We have been monitoring the company for some time as management have a strong track record of extracting value from underperforming assets sold off by its larger peers. In our opinion, this looks to be demonstrated, once again, by the announcement of additional asset purchases from peer Northern Star. We believe the synergistic benefits outlined by the company should be achievable.

This position was funded by exiting APA Group, as we lacked conviction in the company's revised growth strategy. Meanwhile, the energy transition that we are witnessing could potentially put existing asset and earnings streams at risk, which is a key issue that we feel remains unaddressed and could exert growing pressure on the business over time. We also sold Fortescue Metals Group as it entered the top 20 index.

Top ten holdings (%)

COCHLEAR NPV	5.0
XERO NPV	4.5
ASX NPV	4.2
RESMED CDI USD0.004	4.0
OZ MINERALS NPV	3.9
FISHER & PAYKEL HEALTHCARE C NPV	3.8
AUCKLAND INTL AIRPORT NPV	3.8
CASH - AUD	3.7
MIRVAC GRP AUD0	3.6
CHARTER HALL GRP NPV	3.6

Sector (%)

HEALTH CARE	16.3
INFORMATION TECHNOLOGY	16.0
MATERIALS	13.6
REAL ESTATE	11.3
FINANCIALS	10.4
CONSUMER DISCRETIONARY	7.6
INDUSTRIALS	6.3
ENERGY	6.0
COMMUNICATION	5.1
UTILITIES	3.8
CASH	4.1

Source : abrdn 30/09/2021.
Figures may not always sum to 100 due to rounding.

Market review

Australian equities gained over the quarter, driven by positive momentum in the first half of the period amid improving global sentiment, with rising commodity prices also lifting mining stocks. However, markets fell sharply thereafter, hurt by rising Covid-19 cases and falling retail sales over the past three months as lockdowns in the largest states, New South Wales and Victoria, took hold and amid a mixed outlook for the housing sector. Investors also focused on the contagion risk from troubled Chinese property developer Evergrande, with the firm missing several payment deadlines. Concerns remain as a default may have a significant impact on other sectors and the wider economy.

Even before the Delta variant hit hard in August, the economy had started to slow in the second quarter, with GDP expanding by 0.7%, below the 1.9% first-quarter figure. However, unemployment fell to 4.6% in July and August, its lowest level in 13 years, and the country recorded a record trade surplus in July as commodities' exports boomed.

As expected, the Reserve Bank of Australia kept the cash rate unchanged at a record low of 0.1% during its September meeting, and stated rates would remain at this level until inflation is comfortably within the target range of 2-3%. Meanwhile, the central bank still plans to trim the purchase of government bonds to A$4 billion per week until at least mid-February 2022.

Outlook

As we see the domestic economy begin to reopen, we expect a strong rebound in the fundamental drivers of business confidence, consumer sentiment and unemployment. While we believe the momentum in earnings growth has peaked, we still expect a positive growth skew over the coming months and the earnings up-cycle to continue.

In addition, the central bank's pledge to keep interest rates lower for longer should support asset prices. A strengthening property market will also boost consumer spending, construction and employment. At the corporate level, as the recovery continues, companies are likely to move from capital preservation to capital allocation, with a notable pick-up in M&A activity and capital management.

We remain committed to our bottom-up investment style with a focus on quality companies. We favour businesses with clear growth prospects that are leveraged to long-term structural shifts. Our holdings' defensiveness, in terms of their robust balance sheets and prospects for through-cycle earnings and dividend growth, is an added advantage. Many are also leaders on governance and sustainability, positioning them well to adapt to future challenges and opportunities. This will ensure that the portfolio remains resilient amid present uncertainties and well-placed to deliver steady returns in the long run.