

Sterling Aberdeen Standard Ex20 Australian Equities Portfolio

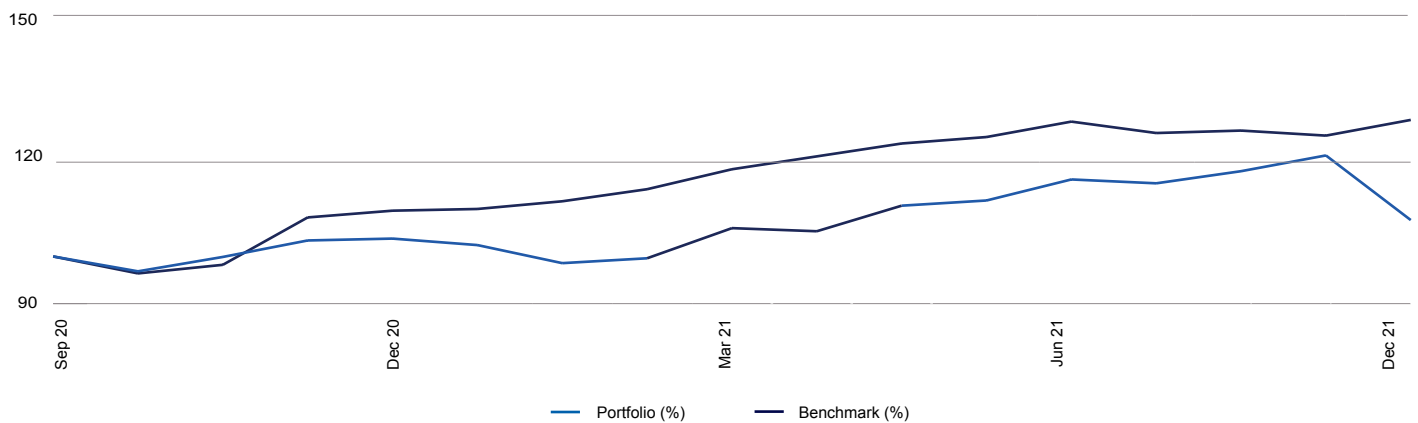


Monthly Factsheet
December 2021

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 – 31 December 2021



Cumulative and annualised performance

	1 month	3 months	YTD	1 year	3 years (p.a.)	5 years (p.a.)
Portfolio (%)	1.08	3.51	15.19	15.19	-	-
Benchmark (%)	2.65	2.21	17.54	17.54	-	-
Portfolio vs Benchmark (%)	-1.57	+1.30	+2.35	-2.35	-	-

For the purposes of reporting, the Benchmark is the S&P/ASX 300 Accumulation Index, excluding the S&P/ASX 20 Leaders 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-December, the portfolio rose by 3.51%, outperforming the benchmark, which returned 2.21%. Overall, our stock selection in the financials and real estate sectors contributed the most to performance. On the other hand, our choice of stocks in the energy, information technology and utilities sectors detracted from returns.
- **Key drivers of the outperformance included:**
- OZ Minerals, Australia's largest copper producer. The company benefited from strong long-term demand for copper, driven by the wave of investment in decarbonisation, including in renewable energy and electric vehicles. We believe the company is well-positioned, given its position on the low end of the cost curve, production growth profile and solid execution record.
- Charter Hall also performed strongly with the market welcoming its upgrade to earnings guidance, driven mainly via increased performance fees and stronger growth of assets under management. Late in the period, the company also acquired an interest in equity fund manager Paradise Investment Management, albeit this news was met with a more mixed market response.
- ASX contributed strongly after the RBA's announcement to end yield-curve control, signalling the potential for an earlier interest-rate rise that should support ASX's futures business and interest income.
- Pro Medicus contributed positively, announcing at its annual general meeting that it expects strong results for the financial year, and sales are currently ahead of forecast. This cements our belief that the company is one of the highest-quality healthcare technology companies in our investment universe.
- **Conversely, detracting from performance were:**
- Beach Energy had a disappointing end to the year after surprising the market with the resignation of its Managing Director, Matt Kay, in November. While disappointing, the company have hit significant milestones recently, and oil prices remain constructive over the medium term, giving us confidence in the company.
- Tyro Payments, which underperformed after announcing weaker-than-expected gross profit growth at its annual general meeting, with lower margins coming from the Bendigo Bank alliance. However, we remain confident in the business, with weekly transactions growing thanks to the reopening of the wider economy.
- Auckland International Airport suffered due to the emergence of the Omicron variant of Covid-19, with New Zealand announcing that it was postponing plans for quarantine-free international travel.
- Insurance Australia Group was weighed down due to storm events across South Australia and Victoria, which forced the company to increase its perils allowance. While this led to a downward revision for its insurance margin guidance for the financial year, we believe that margin improvement for the business remains intact over the medium term.











Portfolio Activity

We initiated positions in Hub24, Pilbara Minerals, Temple & Webster and Endeavour Group. Investment platform specialist Hub24 continues to take market share from incumbents following regulatory reforms within the sector. Its prospects appear bright, underpinned by the company's consistent innovation and holistic offerings to clients. Top-tier lithium asset owner Pilbara Minerals is low on the cost curve whilst possessing appealing expansion options. It is also well-positioned to benefit from the electric vehicles megatrend. For Temple & Webster, while near-term sales growth may moderate as lockdowns ease, we remain confident about the firm's increasing penetration of the online furniture retailing market. We added a position after recent share-price weakness. Meanwhile, we have increasing confidence in Endeavour Group after the easing of Covid-19 restrictions, as we feel this will benefit the firm in the long term from both asset refurbishments and acquisitions.













Conversely, we exited positions in Sydney Airport, Afterpay and AusNet. The decision to exit Sydney Airport and AusNet was driven by corporate activity, with both company's share price trading close to the final (and Board recommended) bid offers. Afterpay migrated into the top 20, and so we exited our position.



Top ten holdings (%)

XERO NPV	4.9	
JAMES HARDIE CDI	4.5	
COCHLEAR LTD	4.4	
OZ MINERALS NPV	4.0	
RESMED INC CDI	4.0	
CHARTER HALL GRP NPV	3.9	
ASX LTD	3.8	
MIRVAC GRP AUD0	3.7	
AUCKLAND INTL AIRPORT LTD	3.4	
PRO MEDICUS LTD	3.3	

Sector (%)

MATERIALS	18.3	
HEALTH CARE	15.9	
INFORMATION TECHNOLOGY	12.6	
REAL ESTATE	12.5	
FINANCIALS	11.4	
CONSUMER DISCRETIONARY	9.3	
ENERGY	5.6	
COMMUNICATION	4.8	
INDUSTRIALS	3.5	
CASH	2.4	
CONSUMER STAPLES	1.9	
UTILITIES	1.6	

Source : abrdn 31/12/2021.
Figures may not always sum to 100 due to rounding.

Market review

Australian equities had a positive last quarter to end the year, while commodity prices also performed strongly, arresting their recent fall and nearly reaching peak levels seen in July.

The quarter began with optimism across the country as lockdowns eased in many regions and vaccination rates continued to rise. Quarantine-free international travel was also finally open again for the first time in 18 months. This shone through in retail sales data, with the Australia Bureau of Statistics reporting 4.9% growth month-on-month and 5.2% growth year-on-year. Meanwhile, business sentiment also appeared to be strengthening, with November's purchasing managers' index (PMI) accelerating for the first time in four months.

The emergence of the Omicron-variant of Covid-19 and concerns over inflation (most notably in the US) threatened to derail the positive momentum, with the VIX volatility index heading above 30 for only the second time this year. However, the market shook off any concerns in the final week of trading to end near its all-time high.

The housing market also reached record high levels, with the median house price in Sydney nearing A\$1.5 million for the first time. However, there are signs of this growth slowing following the Australian Prudential Regulation Authority's changes to capital requirements in November that make riskier loans, such as interest-only mortgages, more expensive and a reduction in the value of housing loan commitments across the quarter.

Despite many countries are facing inflationary pressures, inflation remains modest in Australia with core inflation at just 2.1% for the third quarter. In addition, wage growth remains modest although the Reserve Bank of Australia (RBA) is encouraged by the recovery since the emergence from lockdown and do not see this being derailed heading into 2022, primarily due to strong vaccination rates and reports of a strengthening labour market. Consequently, the RBA elected to keep rates at 0.1% and maintain the rate of bond purchases 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. However, the emergence of the new Omicron variant is likely to push out the recovery in economic activity, although we retain the view that low levels of hospitalisation will be met by a more muted response by governments with respect to any reintroduction of mobility restrictions. The impact of this new variant is more likely to only be temporary, as many nations are quickly moving through the current peak phase of infections. While inflationary pressures have escalated and this has resulted in a rise in forward rate curve expectations, we expect central banks to react cautiously with a view of ensuring stability of asset prices and especially since the global economy is still navigating out of the ongoing pandemic. At the corporate level, we continue to expect higher levels of M&A activity as we enter the recovery phase.

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.

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