

February 2021

Month in review



Tim Lincoln
Co-Founder and Chief Investment Officer

Both Australian and U.S. Equities started the month of well, but finished softer. Soaring commodity prices saw mining stocks continue to perform well, and continued optimism of a global economic recovery saw investors continuing to chase cyclical stocks. With earnings growth seemingly on the horizon, investors have looked to sell down exposure in quality and put their faith in the sectors most heavily disrupted by the pandemic.

Fixed income markets have become more pertinent, with investors paying increasingly more attention to yield, a theme we anticipate continuing throughout the year. However, optimism about soaring economic growth has many worried about inflation – a potentially ugly consequence of rampant deficit spending & unprecedented money printing.

The Fund Team remain committed to our bottom-up, high-quality approach. Where opportunity has presented, we have diversified our exposures, but haven't deviated from our bias towards Financially Healthy stocks that show capital efficiency, growth and profitability. We are unwavering in our belief that this approach protects on the downside and delivers superior long-term results.

Lincoln Wholesale Australian Growth Fund

With the tide remaining firmly against quality, the Fund Team made a number of changes to the portfolio over the period, adding diversity to the portfolio, whilst disposing of a number of stocks following their removal from our Star Stock universe. With the market continuing to chase low quality, the Fund Team has decided to reduce its downside risk from further irrational selling & bulk up its cash position.

Lincoln Wholesale Australian Income Fund

After a challenging phase for income investors, we are now starting to see consistent recovery in dividend stocks alongside a quicker than expected economic recovery. Over the month, the Fund Team made a number of tactical moves, as well as strengthening its cash position to take advantage of the March distribution period.

Lincoln U.S. Growth Funds

The Lincoln U.S. Growth Fund Hedged posted a positive return of 0.53% falling slightly short of its benchmark in the face of the current counter-growth environment. The Lincoln U.S. Growth Fund Unhedged fell by -0.40% due to the strong currency movement during the month.

The Fund Team is pleased with how resilient the Lincoln U.S. Growth strategy remains in one of history's largest rotations into value, and in one of the most unforgiving investment environments.

Kind regards,

Tim Lincoln
Co-Founder and Chief Investment Officer

Performance to 28 February 2021

Lincoln Australian Growth Fund							
For investors seeking	Investors seeking growth						
Distribution frequency	Half-yearly						
	Wholesale				Retail		
	Fund return ¹	ASX All Ordinaries Accumulation Index ⁴	S&P/ASX Small Ordinaries (XSOAI)		Fund return ¹	ASX All Ordinaries Accumulation Index ⁴	S&P/ASX Small Ordinaries (XSOAI)
1-month	-4.33%	1.43%	1.55%	1-month	-4.39%	1.43%	1.55%
3-months	-3.75%	3.52%	4.08%	3-months	-3.91%	3.52%	4.08%
1-year	7.82%	9.56%	17.18%	1-year	7.41%	9.56%	17.18%
3-years p.a.	9.11%	8.11%	7.21%	3-years p.a.	8.51%	8.11%	7.21%
5-years p.a.	9.67%	11.19%	11.70%	5-years p.a.	8.96%	11.19%	11.70%
Financial year to date	2.35%	17.69%	21.84%	Financial Year to Date	1.92%	17.69%	21.84%
Since inception p.a. ⁽²⁾	7.49%	7.73%	5.18%	Since inception p.a. ⁽³⁾	3.83%	4.89%	1.33%

¹ Growth Fund returns are calculated using exit prices and are net of management fees, ongoing fees and expenses, and assume distributions are reinvested and no tax is deducted.
² Growth Fund - 11 January 2005.

³ Growth Fund - 1 June 2007.
⁴ Benchmark All Ordinaries Accumulation Index over the medium to long-term. Past performance is not an indicator of future performance.

Performance to 28 February 2021 (continued)

Lincoln Australian Growth Fund

Performance highlights

Performance contributors this month:

- **Codan Ltd (CDA)** - (+25.9%) was the best performing stock in the portfolio. The stock started to rally on 16 February when it announced the acquisition of U.S. based Domo Tactical Communications for US\$88m (~A\$114m); an established provider of high bandwidth wireless communications with specialist capabilities is MIMO Mesh networks. It then reported a strong result with a NPAT of \$41.3m which was +36% above pcp and above guidance. The result was driven by strong momentum in Metal Detection.
- **BHP Ltd** - The company reported well on 17 February and closed the month +12.8%. 1H21 profitability was ahead on 1H20 due to record iron ore prices and a strong recovery in copper. The company's willingness to pay out a fully franked US\$1.01 dividend was important because, with net debt marginally below their target range, management is taking the view that the global economy is on the mend and iron ore prices will support strong cashflows through the current half.
- **AUB Ltd** - Following its 1H21 result, AUB (+10.7%) reported a 1H21 annualised revenue increase of 4.4% on vs previous comparable period (pcp) to \$302.9m and NPAT grew by 13.3% on pcp, due to increased premiums, higher remuneration from new insurer arrangements and ongoing cost reductions due to its network sharing capabilities.
- **Service Stream Ltd (SSM)** - (-39.6%) reported late in the month and management indicated 2H21 earnings to be in-line with its already lowered expectation due to ongoing COVID disruptions. From an income perspective, a 1H21 dividend of 2.5cps was announced (vs 4.0cps in 1H20 and below expectations). This means that forward dividend estimates are likely to decrease in-line with lower earnings expectations (from ~8.8cps to ~5cps). Furthermore, SSM's free cash flow profile does not currently cover its dividend payments, which places pressure on the company's ability to meet our Growth criteria. We have therefore removed the company from the portfolio.

Data referred to in this performance commentary relates to the Lincoln Wholesale Australian Growth Fund unless otherwise stated.

Lincoln Australian Income Fund									
For investors seeking		A reliable income and reduced equity market risk exposure							
Distribution frequency		Quarterly							
	Wholesale					Retail			
	Fund Distribution Yield(a)	Benchmark income(b)	Total Fund return(d)	Total Benchmark return(b)		Fund Distribution Yield(a)	Benchmark income(b)	Total Fund return(d)	Total Benchmark return(b)
1-month	0.17%	0.62%	-4.12%	1.61%	1-month	0.17%	0.62%	-4.17%	1.61%
3-months	1.05%	0.79%	-4.05%	3.17%	3-months	1.05%	0.79%	-4.23%	3.17%
1-year	5.90%	3.79%	3.24%	7.40%	1-year	5.90%	3.79%	2.44%	7.40%
3-years p.a.	8.14%	5.15%	6.94%	8.67%	3-years p.a.	8.14%	5.15%	6.10%	8.67%
5-years p.a.	8.64%	5.71%	9.28%	12.17%	5-years p.a.	8.64%	5.71%	8.43%	12.17%
Financial year to date	3.08%	2.74%	6.86%	15.89%	Financial Year to Date	3.08%	2.74%	6.31%	15.89%
Since inception p.a.(c)	9.68%	5.96%	9.96%	10.94%	Since inception p.a.(c)	9.68%	5.96%	9.11%	10.94%

Past performance is not an indicator of future performance.

(a) Gross income distributed, inclusive of franking credits.
(b) S&P/ASX 200 Accumulation Index inclusive of franking credits. Source: Macquarie Equities.
(c) Income Fund - 2 April 2012.

(d) Income Fund Total Fund returns are calculated using exit prices and are net of management fees, ongoing fees and expenses, and assume distributions (inclusive of franking credits) are reinvested and that no tax is deducted.

Lincoln Australian Income Fund

Performance highlights

Performance contributors this month included:

- **RIO Ltd (RIO)** - A beneficiary of the cyclical rotation driven by a global economy recovering from COVID and elevated iron ore prices, reported a strong result in February. A US\$3.09 per share ordinary dividend and US\$0.93 special dividend were declared for the second half, for a full year payout of US\$5.57. This represented a solid 72% payout ratio, higher than the 40–60% policy.
- **BHP Ltd** - The company reported well on 17 February and closed the month +12.8%. 1H21 profitability was ahead on 1H20 due to record iron ore prices and a strong recovery in copper. The company's willingness to pay out all the free cash flow in a fully franked US\$1.01 dividend was important because, with of Net Debt marginally below their target range, management is taking the view that the global economy is on the mend and iron ore prices will support strong cashflows through the current half.
- **Service Stream Ltd (SSM)** - (-39.6%) reported late in the month and management indicated 2H21 earnings to be in-line with its already lowered expectation due to ongoing COVID disruptions. From an income perspective, a 1H21 dividend of 2.5cps was announced (vs 4.0cps in 1H20 and below expectations). This means that forward dividend estimates are likely to decrease in-line with lower earnings expectations (from ~8.8cps to ~5cps). Although a disappointing outcome, the Fund Team sees little near term risk for further downside and as such has decided to retain the position in the portfolio until the dividend in March.

Data referred to in this performance commentary relates to the Lincoln Wholesale Australian Income Fund unless otherwise stated.

Performance to 28 February 2021 (continued)

Lincoln U.S. Growth Fund				
For investors seeking	Investors seeking diversity			
Distribution frequency	Annually			
	Hedged		Unhedged	
	Fund return*	S&P500 Total Return Index**	Fund return*	S&P500 Total Return Index converted to AUD**
1-month	0.53%	3.24%	-0.40%	1.83%
3-months	4.97%	6.12%	0.28%	0.53%
Since inception p.a. ^(^)	17.67%	24.21%	7.36%	10.44%

* Fund returns are calculated using exit prices and are net of management fees, ongoing fees and expenses, and assume distributions are reinvested and no tax is deducted. Past performance is not an indicator of future performance.

** Benchmark S&P500 Total Return Index
(^) 1 July 2020.

Lincoln U.S. Growth Funds

Performance highlights

Performance contributors this month included:

- **Pioneer Natural Resources (PXD)** - (+22.9%), which operates as an independent oil and gas exploration and production company, was the best performer for the month. The company reported well and has benefited from strong oil prices, however the business has been well set up for profitability even during weaker commodity markets, with a very low crude oil break even cost of USD \$20 per barrel.
- **Hamilton Lane Inc (HLNE)** - (+19%), a money manager that focusses on private investments for clients, closed off its largest Fund to date to new investors as Secondary Fund V reached \$4bn AUM. The company reported at the start of the month and rallied over the rest of February on positive news flow.
- **Qualys Inc (QLYS)** - (-29.8%), an IT security risk and compliance management solutions provider, suffered a challenging month after reporting a weak outlook and news its CEO would be taking a medical leave of absence. EPS was above estimates and sales were in line with estimates, but forecasts missed. This was accompanied by a number of broker downgrades.

Data referred to in this performance commentary relates to the Lincoln U.S. Growth Funds unless otherwise stated.

As part of our transparency of the Fund portfolios, a full list of the portfolio holdings is provided to investors only.

Lincoln Australian Growth Fund - Top 10 holdings

as at ~28 February 2021

Code	Company	Portfolio Holding
BHP	BHP Group Ltd	3.09%
BBN	Baby Bunting Group Ltd	2.84%
NCK	Nick Scali Ltd	2.83%
CDA	Codan Ltd	2.80%
ARB	ARB Corp Ltd	2.76%
AX1	Accent Group Ltd	2.70%
IDX	Integral Diagnostics Ltd	2.68%
PME	Pro Medicus Ltd	2.63%
MQG	Macquarie Group Ltd	2.56%
BRG	Breville Group Ltd	2.55%
Total		27.44%

Lincoln Australian Income Fund - Top 10 holdings

as at ~28 February 2021

Code	Company	Portfolio Holding
CBA	Commonwealth Bank of Australia	3.13%
RIO	Rio Tinto Ltd	3.08%
FMG	Fortescue Metals Group Ltd	3.02%
BHP	BHP Group Ltd	3.01%
ARF	Arena REIT	2.92%
WOW	Woolworths Group Ltd	2.75%
WES	Wesfarmers Ltd	2.72%
SKI	Spark Infrastructure Group	2.72%
CAR	Carsales.com Ltd	2.70%
SUN	Suncorp Group Ltd	2.70%
Total		28.75%

Lincoln U.S. Growth Funds - Top 10 holdings

as at ~28 February 2021

Code	Company	Portfolio Holding
AAPL	Apple Inc	6.49%
ETSY	Etsy Inc	4.67%
ADBE	Adobe Inc	4.13%
SPGI	S&P Global Inc	4.11%
INTU	Intuit Inc	4.02%
CDNS	Cadence Design Systems Inc	3.90%
MKTX	MarketAxess Holdings Inc	3.58%
GOOG	Alphabet Inc	3.57%
VEEV	Veeva Systems Inc	2.75%
VRTX	Vertex Pharmaceuticals Inc	2.75%
Total		39.97%

Key Data

	Lincoln Wholesale Australian Growth Fund	Lincoln Retail Australian Growth Fund	Lincoln Wholesale Australian Income Fund	Lincoln Retail Australian Income Fund	Lincoln U.S. Growth Fund Hedged	Lincoln U.S. Growth Fund Unhedged
APIR code	ETL0043AU	ETL0089AU	ETL0324AU	ETL0323AU	ETL6283AU	ETL1491AU
Fund inception	11 January 2005	1 June 2007	2 April 2012	2 April 2012	1 July 2020	1 July 2020
Minimum initial investment	\$250,000	\$5,000	\$250,000	\$5,000	\$5,000	\$5,000
Management costs	0.76% p.a.	1.40% p.a.	0.95% p.a.	1.75% p.a.	1.0% p.a.	1.0% p.a.
Performance Fee	20% of the amount by which the Fund's performance exceeds the All Ordinaries Accumulation Index				20% of outperformance of the S&P 500 Total Return Index.	20% of outperformance of the S&P 500 Total Return Index converted to Australian Dollars.
Entry/exit fees	Nil	Nil	Nil	Nil	Nil	Nil
Distribution frequency	Half-yearly	Half-yearly	Quarterly	Quarterly	Annual	Annual
Entry/exit unit price¹	\$1.7404/\$1.7283	\$1.2340/\$1.2254	\$1.0328/\$1.0256	\$0.9769/\$0.9700	\$1.1826/\$1.1767	\$1.0790/#1.0736
Fund size¹	\$307.45m		\$395.73m		\$35.39m	
Responsible entity	Equity Trustees Ltd		Equity Trustees Ltd		Equity Trustees Ltd	

¹ As at 28 February 2021.

About Lincoln

Lincoln has been helping Australians invest successfully for over 30 years. We believe investing in a concentration of financially healthy and fundamentally sound stocks will deliver the best performance outcome to investors over the long-term.

Lincoln Managed Investments provides investors with flexibility via our professionally managed funds, the Lincoln Australian Growth Fund, Lincoln Australian Income, Lincoln U.S. Growth Fund Hedged and Lincoln U.S. Growth Fund Unhedged. Each managed fund is backed by Lincoln's academically-proven Financial Health analysis and proprietary investment methodology – the Lincoln Golden Rules. Our experienced and dedicated Managed Investments team use our stock analysis program, Stock Doctor, as the core research tool for each managed fund. The team apply additional qualitative and valuation analysis to identify stocks that meet our stringent investment criteria.

Lincoln's unique investment Methodology has consistently identified the best performing companies on the ASX and is substantiated by Lincoln Managed Investments' stellar performance track-record.

Like more information?

Talk to us today to:

- Invest
- Learn more about Lincoln Managed Investments and Stock Doctor
- Receive regular market news and updates

Call 1300 676 333

Visit lincolnindicators.com.au

Email enquiries@lincolnindicators.com.au

Important information.

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All figures, information and illustrations are as at 28 February 2021 unless stated otherwise. Portfolio holdings are subject to change without notice.

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