

Aberdeen Standard Focused Sustainable Australian Equity Fund



30 September 2021

Market Review

Australian equities were down over September, 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. Elsewhere, investors 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. Meanwhile, the Organisation for Economic Co-operation and Development downgraded its Australia 2021 growth forecast to 4%, from 5.1% previously, due to the recent lockdown measures. In other economic news, employment in August fell as companies lay off workers amid restrictions in major cities. Meanwhile, the IHS Markit composite purchasing managers' index remained in contraction for the third month in a row, with the services sector accounting for the fall. The manufacturing sector, however, expanded at the fastest pace in three months.

As expected, the RBA 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.

Portfolio Review

The Fund returned -1.27% (gross of fees) and -1.34% (net of fees) in August. This was ahead of its performance target, which returned -1.85%.

Following a material pull back after the release of its fiscal year 2021 results in August, Altium's share price rallied in September as management outlined

the firm's long-term strategic direction. Elsewhere, IDP Education rose as increasing vaccination rates raised hopes that students would return to Australia in 2022. Macquarie Group also benefited performance after a positive trading update. Specifically, the commodities business is performing ahead of expectations and the company is benefiting from the sale and revaluation of assets in its infrastructure business. Moreover, within Macquarie Capital, the sales pipeline is now expected to be significantly ahead of the previous period.

On the negative side, Xero (XRO), Pinnacle Investment Management (PNI) and Goodman Group (GMG) detracted from performance on no stock-specific news. All were caught up in the broader market sell-off, with high-growth companies particularly affected. We feel that there is positive growth potential for XRO from geographical expansion, structural shifts and its ability to gain revenue as the platform is monetised. Given the performance of underlying affiliates, we are confident about PNI's outlook as it continues to attract funds under management. Meanwhile, we continue to see strong earnings visibility in the medium term for GMG as it produces high-quality industrial products to meet increasing global demand.

There was no major portfolio activity over the month.

On the engagement front, we met with the Chairman of Charter Hall Long WALE REIT (CLW) following its bid for ALE Property Group and as part of the upcoming annual general meeting season. We discussed a variety of topics, including potential conflicts of interest given the external management arrangement through Charter Hall Group. Overall, the meeting provided comfort knowing that there are adequate checks and balances to ensure that CLW benefits when it comes to inorganic growth. We were also glad to hear that the board size will continue to grow in line with the growth of the portfolio.

Outlook

Investment strategy

The Fund utilises Aberdeen Standard Investments' Sustainable and Responsible Investment process to invest primarily in a concentrated portfolio of around 20-35 companies that are listed or proceeding to listing on the Australian Securities Exchange (ASX) and have the potential for capital growth and increased earning potential.

Investment objective

To outperform the benchmark, the S&P/ASX 200 Accumulation Index, after fees, over rolling three year periods.

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.

Fund performance is available on the relevant factsheet.

The opinions expressed are those of Aberdeen Standard Investments as of the date of publication and are subject to change at any time due to changes in market or economic conditions.

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