

Aberdeen Standard Focused Sustainable Australian Equity Fund



31 December 2021

Market Review

Australian equities finished the year on a high, breaking their three-month downward trend and finishing with a positive month. The Australian dollar also fared better, recovering from its one-year low against the US dollar at the start of the month, while commodity prices also increased.

At the start of the month, concerns over Omicron and a change in rhetoric from the US Federal Reserve regarding inflation caused concern for investors, with the VIX volatility index heading above 30 for only the second time this year. However, these concerns began to ease during the month as hospitalisations remained relatively low and concerns over long-term high inflation abated, with markets appearing to suggest that inflation could be controlled without significant rate hikes. As a result, Australian equities surged to over three-month highs at the end of the month.

At its December meeting, the Reserve Bank of Australia (RBA) decided to keep rates at 0.1% and maintain the rate of bond purchases until at least February 2022. Policymakers indicated they are not overly concerned with current inflation levels in Australia, with core inflation at just 2.1% for the third quarter, especially while wage growth remains modest. That said, the 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. Australia's seasonally adjusted unemployment rate fell to 4.6% in November.

Meanwhile, the housing market continued to show signs of easing, with the value of housing loan commitments decreasing in recent months from high levels.

Portfolio Review

The Fund returned 1.18% (gross of fees) and 1.11% (net of fees) in October. This was behind its performance target, which returned 2.75%.

In terms of individual stocks, Megaport

underperformed, giving back some of the strong gains achieved in November as global inflationary pressures continue to build, steepening the forward interest rate yield curve and resulting in a sell-off in growth and technology-orientated companies. Our holding in Pinnacle underperformed, following an equity raise to fund investment into a high-growth private equity boutique that met with a lukewarm response. This response was indicative of market fatigue and expectations of better uses of capital. However, we believe there remains a number of strategic and value-accretive transaction opportunities that Pinnacle can pursue over the medium term. 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.

On the other hand, Goodman contributed positively following strong quarterly results, with the company upgrading fiscal year 2022 earnings growth guidance to over 15% and signalling continued growth in its asset development pipeline. Likewise, the market welcomed Charter Hall's upgrade to earnings guidance, driven mainly via increased performance fees and stronger growth of assets under management. Late in the month, the company also acquired an interest in equity fund manager Paradise Investment Management, albeit this news met with a more mixed market response. Netwealth also outperformed, recovering some of the underperformance of the prior month. While there was limited company-specific news, the market is gaining increasing comfort on the company's proposed acquisition of fellow wealth platform company Praemium.

In terms of trading activity, we increased our position in CSL, participating in its share placement to fund its purchase of Vifor Pharma. We expect this transaction to offer strategic benefits through greater exposure to the growing renal disease market.

Outlook

As we see the domestic economy begin to

Investment strategy

The Fund utilises abrdn's 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.

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.

Fund performance is available on the relevant factsheet.

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