

# Aberdeen Standard Focused Sustainable Australian Equity Fund

31 July 2021

## Market Review

Australian equities gained over July in Australian dollar terms. Positive momentum in US markets boosted sentiment, while rising commodity prices lifted mining stocks throughout the month. However, concerns about a resurgence in Covid-19 cases, which led to the reintroduction of lockdown restrictions in certain areas, weighed on markets.

In monetary policy news, the Reserve Bank of Australia held the cash rate at the record low level of 0.1%, while confirming that it would likely maintain the current rate until 2024. Meanwhile, policymakers agreed to reduce the current pace of its bond-buying programme from September onwards. However, the surge in Covid-19 cases towards month-end led to some analysts suggesting that the central bank would cancel its planned reduction in asset purchases, and maintain the current pace until November.

Meanwhile, economic data releases were relatively mixed over the month. In July, retail sales fell more than expected and the IHS composite purchasing managers' index plunged into contractionary territory, although the manufacturing sector continued to grow. Unemployment also dropped to a 10-year low of 4.9% in June.

## Portfolio Review

The Fund rose by 1.03% (gross of fees) and by 0.96% (net of fees) in July. This was behind its performance target, which rose by 1.1%.

During the month, Altium gave up some of last month's stellar outperformance, after bidder Autodesk announced that it was walking away from acquiring the company. While the news was disappointing, we continue to support management's longer-term product and platform ecosystem strategy, and expect growth to reaccelerate as the disruption from Covid-19 fades.

Sydney Airport contributed positively to the Fund's performance, as the company received an unsolicited takeover bid from an IFM Investors-led consortium at A\$8.25

per share. This represented a 42% takeover premium at the time of the announcement and the board subsequently rejected the bid. While we thought the bid was a solid offer, reflecting close to pre-pandemic valuations, this now paves the way for a higher returning bid and potentially other interested domestic parties to join the fray. Sydney Airport's share price continues to trade at elevated levels versus pre-bid levels and we have taken the opportunity to modestly de-risk the position. We expect further corporate activity, particularly given the asset quality, and investors' conviction for an eventual recovery in air travel after the pandemic.

There were no major portfolio moves during the month.

## Outlook

While the resurgence in Covid-19 infections has put at risk the near term economic recovery, the longer term outlook for Australia remains favourable, underpinned by resilient commodity prices and improving business conditions. Australia's rift with China, its largest trading partner, is another concern. Nonetheless, 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, the return to issuance of outlook statements and capital management point to greater confidence in the period ahead. 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. We intend to stay disciplined, investing in high-conviction stocks while

## 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.

exiting those with challenged prospects. 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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