

Balanced Fund

The Balanced Fund (Wholesale) (the 'Fund') fell 0.1% net of fees in the quarter ended 30 September 2022, underperforming its benchmark which was up slightly by 0.5%. The Balanced Fund (Retail) fell 0.2% net of fees in the quarter, also underperforming the benchmark.

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Fund commentary

- Whilst the quarter was challenging across most major asset classes in the Fund, both absolute and relative performance was driven by our international equities portfolio, which fell 2.3% against its MSCI World Index ex AU benchmark, which returned 0.3%. This was partially offset by positive absolute and relative performance in our domestic equities portfolio, rising 1.3% against the benchmark (the S&P/ASX 200) which grew by 0.4%.

Balanced (Wholesale) Fund Performance

As at 30 September 2022*

	FUND	BENCHMARK [^]
3 MONTHS	-0.1%	0.5%
1 YEAR P.A.	-10.1%	-6.3%
3 YEARS P.A.	3.2%	2.8%
SINCE INCEPTION P.A.	6.0%	5.7%

Source: FE fund info.

[^]Benchmark: Australian Ethical Balanced Composite. Past performance is not a reliable indicator of future performance.

Inception date: 28/03/2018.

Balanced (Retail) Fund Performance

As at 30 September 2022*

FUND	BENCHMARK [^]
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	FUND	BENCHMARK [^]
3 MONTHS	-0.2%	0.5%
1 YEAR P.A.	-10.7%	-6.3%
3 YEARS P.A.	2.4%	2.8%
5 YEARS P.A.	5.2%	5.9%
10 YEARS P.A.	7.0%	8.2%
SINCE INCEPTION P.A.	6.4%	7.1%

Source: FE fundinfo. ^Benchmark: Australian Ethical Balanced Composite. Past performance is not a reliable indicator of future performance.

Inception date: 16/10/1989.

Top 3 contributors to fund return

Domestic Equities Materials Sector

+22.5%

Domestic Equities Information Technology Sector

+3.8%

International Equities Industrials Sector

+3.5%

Top 3 detractors to fund return

International Equities Communication Services Sector

-11.5%

International Equities Information Technology Sector

-2%

Domestic Equities Consumer Staples Sector

-9.2%

- Both the absolute and relative performance was driven by our international equities portfolio. After starting the quarter off strongly, with the MSCI World ex AU index rising 12.2% by mid-August, global markets began to sell off as the release of CPI data in the US showed inflation of 9.1% exceeding expectations by 0.3%. Markets continued to sell-off through to the end of September. In local currency terms, the global index fell 4.4%, however our unhedged currency exposure cushioned returns as the AUD fell from US\$0.69 to US\$0.64, resulting in an unhedged return of 0.3% for the benchmark and -2.3% for our portfolio.

- The Industrials sector within our international equities portfolio was one of the few sectors that made a meaningful contribution to relative performance, as well as being the largest contributor to absolute performance, rising 3.5% against the benchmark's 1.1%.
- The largest detractor to both relative and absolute performance was in the Communication Services sector within the international equities portfolio, due to both underperformance and an overweight position. The sector returned -11.5% to the portfolio, against the benchmark return of -6.7%. Alphabet's decline of 6.1% was the largest detractor within the sector due to its significant weighting in the portfolio.
- Information Technology in the international equities portfolio also detracted, declining 2.1% against the benchmark which remained flat over the quarter, particularly given our overweight position in the sector. The largest driver of the underperformance was an underweight position in Apple, which was only added to the portfolio part way through the quarter after it had been assessed as now meeting the Australian Ethical Charter.
- The largest driver in the domestic equities portfolio was the Materials sector, which appreciated 22.5% against the benchmark, which returned 1.2%. Pilbara Minerals accounted for half of the total contribution of the Materials sector, appreciating 99% over the quarter, with the stock continuing to benefit from rising lithium prices, and positive sentiment around future demand for electric vehicles (EVs) and battery technology.
- The Information Technology sector was another positive contributor for our domestic equities portfolio, adding to both absolute and relative performance due to both stock selection and an overweight position to the sector relative to the benchmark. Both Nearmap and Tyro accounted for a significant portion of the outperformance, neither of which are held in the benchmark, and appreciated 95.1% and 116.7% respectively.
- The Consumer Staples sector was the largest detractor to absolute performance in the domestic equities portfolio, as well as being a significant detractor to relative performance. Our sector holdings declined 9.2% against the benchmark which fell 3%, primarily driven by food and agricultural stocks Costa Group and GrainCorp, which declined 20.4% and 15.7% respectively. The Costa Group share price was impacted by the departure of its CEO, while GrainCorp's share price retreated after a period of strong performance, further impacted by the current macroeconomic environment.
- Inflation pressures continued to impact our fixed income exposure, which declined 0.6% after a volatile quarter in bond markets. Having slid to under the 3% in early August, the Australian Government 10-y bond yield ended the quarter 22bps higher at 3.88%.



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Portfolio changes

Additions to the Fund

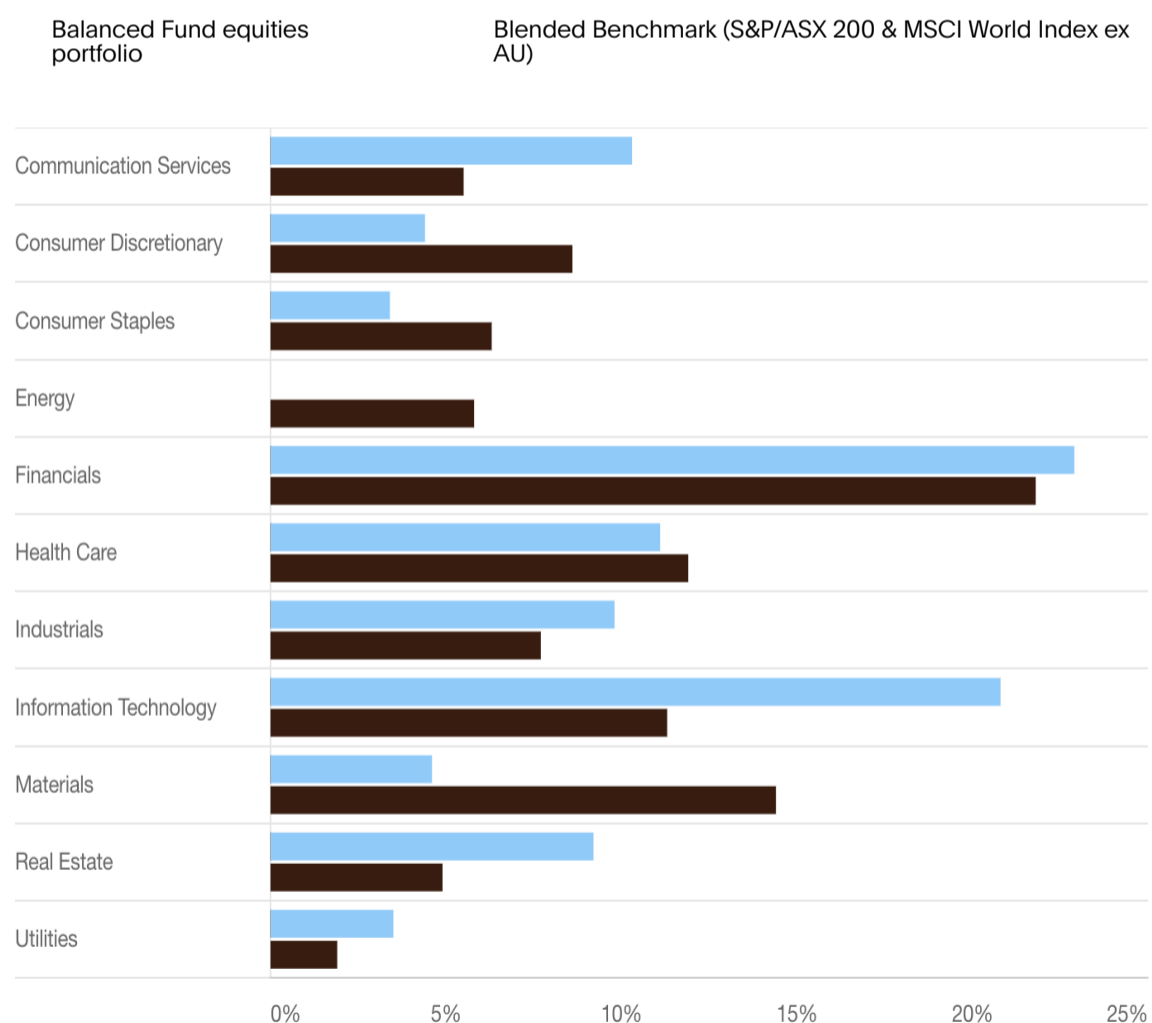
- **Apple (AAPL):** During the quarter, our international equities portfolio built its position in Apple after receiving a positive ethical assessment against our Ethical Charter. The company, which had previously been given a negative assessment, has since taken a number of steps to address some of our concerns, including human rights issues within its supply chain. The stock comprises around 5% of the benchmark, so its addition to our international equities portfolio helps the international portfolio portfolio better track the performance of its benchmark.
- **Global Credit:** During the quarter we added global credit to the portfolio. This addition provides greater diversification to our defensive allocation, while enhancing the potential returns of the portfolio.

Reductions from the Fund

- **Domestic Fixed Income:** We reduced our allocation to domestic fixed income, trading the allocation for global credit as we sought to improve the diversification of the defensive allocation of the fund.

Sector allocation

- **Sector overweights:** The top sector overweight within the equities portfolio is Information Technology.
- **Sector underweights:** The top sector underweight within the equities portfolio is the Materials sector.



Outlook for the Fund

The global economic outlook is currently focused on how well policy makers will be able to get inflation under control, and how much pain will be exerted on the global economy in the process. There are multiple paths from here. Ideally, central

banks actions are successful in driving a reduction in inflation without crippling the economy, however persistent inflation, a global recession, or stagflation are all potential outcomes.

With so much uncertainty, the market volatility seen to-date is likely to persist. Our best defense against an uncertain future is to ensure the portfolio is appropriately diversified. We have been expanding the diversification of our defensive assets, with the inclusion of global credit, and are looking to add global sovereign bonds, and CPI linked assets such as infrastructure to the portfolio. A benefit of the rapid rise in interest rates is that bond yields have risen to a much more compelling level and now offer greater diversification benefits given an economic slowdown.

We are also looking to continue our build out of our growth alternatives allocation. While venture capital and private equity are subject to the current economic and financial market turbulence, we believe there is prospect for individual outcomes to be more significant than the market. Valuations in private assets have been much slower to respond to the market environment than public assets, however we are starting to see some movements and several of our managers are well placed to take advantage of opportunities as they arise.

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*Total returns are calculated using the sell (exit) price, net of management fees and gross of tax as if distributions of income have been reinvested at the actual distribution reinvestment price. The actual returns received by an investor will depend on the timing, buy and exit prices of individual transactions. Return of capital and the performance of your investment in the fund are not guaranteed. Past performance is not a reliable indicator of future performance. Figures showing a period of less than one year have not been adjusted to show an annual total return. Figures for periods of greater than one year are on a per annum compound basis. The current benchmark may not have been the benchmark over all periods shown in the above chart and tables. The calculation of the benchmark performance links the performance of previous benchmarks and the current benchmark over the relevant time periods.

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