INFINITY ASSET MANAGEMENT

Quarterly Update August 2022

Dom Mlcek, Portfolio Manager- Infinity Core Australian Equity Portfolio

Infinity Core Australian Equity Portfolio

The ongoing geopolitical tensions in Europe and China's covid zero policy have created a huge amount of volatility across energy and food markets, as well as global supply chains. This has forced central banks to aggressively raise rates to try and get the persistently high inflation under control.

ASX 200 Falls

With the risk that these actions may erode growth and push global economies into recession, our Australian Equity market suffered one of its worst quarters over the past 30 years in June, with the ASX 200 falling 11.9%. High growth and interest rate sensitive sectors like tech and real estate suffered significant drawdowns. This dragged returns for the financial year into negative territory for just the second time in the past decade, with a decline of 6.5% over the period.

Core Portfolio

Pleasingly, the Core Portfolio outperformed the market in both the June quarter and the full financial year by 0.6% and 1.7%. The chart indicates financial year returns since inception as well as demonstrating the strong and consistent absolute and relative returns we've been able to deliver over the longer-term.

Our FY22 outperformance was driven by overweight exposures across the resources and utilities sectors, underweight positions in real estate and financials, and positive contributions from stock selection. These contributions were particularly seen across the big four banks where we've preferred NAB and CBA over ANZ and Westpac. Commodity plays with our exposure to BHP vs RIO or Fortescue, and the addition of Woodside Energy Group (WDS) to the portfolio about a year ago, were also positive contributors.

Despite the recent downturn, a rising rate cycle doesn't necessarily mean ongoing negative returns for equities, as seen in the chart of the ASX 200 and its response to RBA monetary policy changes over the past 30 years. Other than the Global Financial Crisis, equities have trended higher during both rate cuts, highlighted on the chart in green, and importantly rate hike cycles, shown in red.

Therefore, we think that as the picture for peak inflation becomes clearer, and rates begin to normalise, we do expect further upside for the Australian Equity market over the next 12 months, with our top-down forecast total return in the mid-to-high single digit range.

Increased Exposure to Companies that should benefit from a higher inflationary environment

We believe markets will remain challenged in the near-term and as a result we've remained extremely active over the past 3 months, positioning for this with an increased exposure towards some more defensive names that we think should benefit from a higher inflationary environment.

Transurban Group (TCL) has been increased in the portfolio due to higher traffic volumes and tolls that increase in line with CPI, as well as Australia's largest gas pipeline owner and operator APA Group (APA). Due to supermarket sales benefiting from higher food prices in the early stages of an inflation cycle, our position in Woolworths (WOW) has also been increased.

Commodities

We also maintain a positive view on commodities which should typically perform well in a high inflation environment. Despite ongoing uncertainty across China, we are seeing some early signs of the credit impulse improving. Steel production also remains robust which suggests near-term demand for iron ore should benefit BHP Group (BHP) which looks cheap after the recent sell-off.

This publication was issued by Viridian Financial Group (Viridian) and is current as of the 3rd of August 2022. The material contained in this publication is an overview or summary only and it should not be considered a comprehensive statement on any matter nor relied upon as such. Information in this publication that has been provided by third parties has not been independently verified and Viridian is not in any way responsible for the accuracy or completeness of, or endorses, that information. To the maximum extent permitted by law: (a) no guarantee, representation or warranty is given that any information or advice in this publication is complete, accurate, up to date, error, or fault free or fit for any purpose; and (b) no member of Viridian is in any way liable to any person (including for negligence) or otherwise for any loss or damage arising as a result of any reliance upon such information. This information may be regarded as general advice only and does not take into consideration individual circumstances. Accordingly, investors should consider the appropriateness of any general advice provided by Viridian, having regard to personal objectives, financial situation and needs before acting on it. Where the information relates to a particular financial product, you should obtain and consider the relevant product disclosure statement before making any decision to purchase that financial product.

Reducing Higher Growth Names

We have funded some of these increases by reducing some of our higher growth names like Goodman Group (GMG), James Hardie (JHX), ResMed (RMD) and Aristocrat (ALL), although we do still maintain a quality growth bias vs value across the portfolio as we believe this is the best way to deliver higher long-term returns. We have also recently exited our position in Origin Energy (ORG), taking recent profits ahead of reporting season which may throw up some challenges in their energy retailing business

Reporting Season

We expect the upcoming results to highlight a high level of robustness for company earnings. The key driver however, as always, will be management outlook statements and any forward guidance. Given the uncertain macroeconomic backdrop, we think it would be a brave CEO to provide any quantitative guidance at this stage, and instead we expect forward looking statements to be quite conservative, which may lead to the lofty forward earnings expectations seen here being revised down over the coming months.

We think the results will highlight some cautiousness across consumer and borrowing segments, which may weigh on the likes of Wesfarmers (WES) and the Banks which we've recently reduced exposure to. There's also plenty of concerns across the construction industry, however we think the market has already priced a significant amount of negativity into share prices for the likes of James Hardie and Lendlease (LLC), so we wouldn't be surprised to see some positive re-rates for these two. We also expect some positive results from health care companies, in particular CSL Limited (CSL), with their blood plasma business likely to have returned to pre covid collection levels which would bode well for FY23 and beyond growth rates. And lastly, we continue to have a very positive view on Macquarie Group (MQG), our largest active position in the portfolio following a solid first quarter of FY23 trading update.

Visit our website: www.infinityassetmanagement.com.au

Australian Equities
Finalist
2020 IMAP MANAGED ACCOUNT AWARDS

Multi Asset Class
Winner
2020 IMAP MANAGED ACCOUNT AWARDS

Australian Equities Small Cap
Finalist
2020 IMAP MANAGED ACCOUNT AWARDS

This publication was issued by Viridian Financial Group (Viridian) and is current as of the 3rd of August 2022. The material contained in this publication is an overview or summary only and it should not be considered a comprehensive statement on any matter nor relied upon as such. Information in this publication that has been provided by third parties has not been independently verified and Viridian is not in any way responsible for the accuracy or completeness of, or endorses, that information. To the maximum extent permitted by law: (a) no guarantee, representation or warranty is given that any information or advice in this publication is complete, accurate, up to date, error, or fault free or fit for any purpose; and (b) no member of Viridian is in any way liable to any person (including for negligence) or otherwise for any loss or damage arising as a result of any reliance upon such information. This information may be regarded as general advice only and does not take into consideration individual circumstances. Accordingly, investors should consider the appropriateness of any general advice provided by Viridian, having regard to personal objectives, financial situation and needs before acting on it. Where the information relates to a particular financial product, you should obtain and consider the relevant product disclosure statement before making any decision to purchase that financial product.