BLACKMORE CAPITAL
EQUITY INVESTORS

Australian Equities Income Portfolio

Monthly Update | June 2021

Portfolio Commentary

The rapid economic recovery from the pandemic has supported continued momentum in equity prices with the ASX 200 rising 2.3% in June. Earnings have continued to rebound strongly with central bank and fiscal stimulus sustaining elevated multiples. For the present, the current phase of earnings expansion coupled with the ongoing liquidity boost by policymakers is enough to justify the ASX 200 trading at a ~20% premium to its long-term average.

The portfolio concluded the month of June up 1.44% compared to the ASX 200 Accumulation Index up 2.26%. Positive contribution for the portfolio was driven by Healius (HLS), Woolworths (WOW), and Wesfarmers (WES). Whereas Northern Star Resources (NST), Westpac (WBC), and Cleanaway Waste Management (CWY) weighed negatively on attribution.

The portfolio has benefited from its holdings in Commonwealth Bank, Goodman Group, Wesfarmers, and Woolworths all are which are trading near record highs, reflective of their strengthening market positions and ability to deliver earnings growth through the cycle. Indeed, a key feature of the portfolio has been its preference to hold companies that have delivered resilient earnings throughout pandemic, namely in consumer staples and healthcare sectors. In this month's portfolio review we highlight Woolworths (Consumer Staples) and Healius (Healthcare) that have strategically enhanced their market leadership in essential industries.

In June 2021 Woolworths successfully demerged its Retail Liquor and Hotel businesses (Endeavour Group) as a separate entity on the ASX 200. The demerger of Endeavour Group (EDV) provides the catalyst for WOW to deliver a capital return of $1.6-$2.0bn to shareholders, with WOW holding ~$2bn of franking credits. Post demerger WOW remains the largest supermarket across Australia and New Zealand with $53bn of revenue and an even more robust balance sheet with net cash of ~$75m. Endeavour Group will become the largest Australian pure play exposure to both retail drinks and hotels with a portfolio of 250 Dan Murphy's stores, 1392 BWS outlets and 293 hotels. Woolworths and Bruce Mathieson Group (BMG) will each hold a 14.6% interest in Endeavour Group after the demerger. Post its market debut, we have increased the portfolio weighting in EDV as both the Retail Drinks and Hotel operations are well placed to further increase their competitive position in businesses that have historically delivered strong cash generation, thereby providing shareholders with an attractive stream of dependable earnings and dividends. It is also notable that the ASX 200 has been the bedrock for numerous successful demergers, most recently the Wesfarmers/Coles demerger illustrative of a favourable outcome for investors.

A rise in COVID-19 cases in Australia has led to a substantial rise in daily PCR testing (COVID-19 diagnostic testing). Indeed, recent COVID testing volumes have been ~+200% higher than March Quarter daily averages. With the persistence of COVID-19 outbreaks and Australian governments' preference for an elimination strategy, PCR testing will be part of the healthcare response for the foreseeable future. Healius (Australia's 2nd largest pathology provider) earnings are being supported by COVID-19 PCR testing volumes, as well as improving underlying business trends. Our investment thesis on Healius is supported by near-term positive earnings trends and the longer- term structural uplift of rising diagnostic testing in an ageing population.

Portfolio details

Inception date:	May 2014
Investment minimum:	$25,000
Investment time horizon:	5+ years
Management fee:	0.6%
Maximum holding limit:	10%
Number of stocks:	20 - 40
Gross Dividend Yield	3.63%*
Net Dividend Yield	2.76%

** Forecast gross yield inc franking for the next 12 months*

Portfolio objective

The portfolio seeks to deliver long term growth in both capital and income by investing in Australian listed equities. The portfolio aims to do so with lower volatility and greater downside protection relative to the S&P/ASX 200 Accumulation index benchmark.

Portfolio returns

	1 month	3 months	6 months	FYTD	1 year	3 years	5 years	Inception p.a	Since inception
Portfolio performance	1.4%	8.0%	11.3%	20.5%	20.5%	7.9%	8.3%	8.3%	77.0%
ASX 200 Accum Index	2.3%	8.3%	12.9%	27.8%	27.8%	9.6%	11.2%	8.5%	79.2%
Relative performance	-0.8%	-0.3%	-1.6%	-7.3%	-7.3%	-1.6%	-2.9%	-0.2%	-2.2%

** Returns are net of management fees. Performance includes reinvestment of all dividends and excludes franking credits.*

Top 5 holdings

Stock	Weight
CBA	9.4%
WBC	8.7%
BHP	7.5%
MQG	5.9%
WES	5.0%

Portfolio Outlook

Policymakers' efforts to successfully inoculate the global economy have helped to deliver a V-shape recovery in corporate earnings. The ASX 200 is poised to deliver 20% gains in earnings for the upcoming FY21 earnings season and double-digit earnings gains for the 12 months following, based on consensus forecasts. Against a backdrop of rising earnings, the 12-month forward dividend yield for the ASX 200 is now ~3.9%, supported by strong dividend momentum in Bank and Material stocks. Whilst we remain positive on the outlook for earnings and dividends for the ASX 200, much of the good news is now captured in market valuations. A period of consolidation in the near term is warranted particularly given the two-steps-forward-one-step-back process of dealing with the pandemic.

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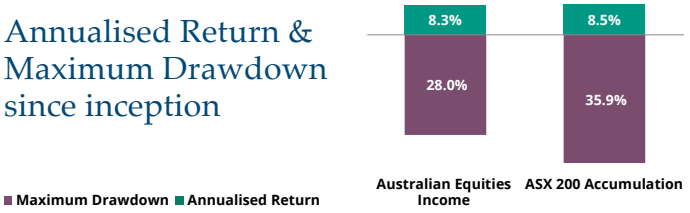
Market Commentary

A gain of 2.3% in June recorded the ninth successive monthly gain for the ASX 200 and completed a 27.8% total return for this financial year, which was the strongest since the 1980s. The gain for June can be traced to the performance of technology stocks (+13.4%), after concerns about rising interest rates tempered. We also see contributing sectors in Communications (+5.6%) and Consumer Staples (+5.3%), with the Financials (-0.2%), Materials (+0.3%) and Health Care (+2.1%) sectors lagging the index.

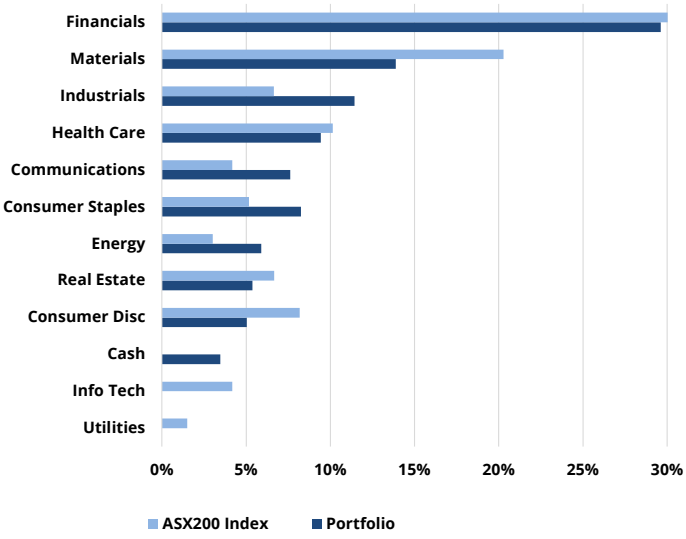
US inflation data released this month showed 3.8% year-on-year rise in the core inflation rate in May, which was the highest number since 1992. The latest Federal Open Market Committee (FOMC) meeting signaled a marginally more hawkish tone, which triggered a robust flattening of the US yield curve. The US 10-year bond yield fell by 13 basis points in June to 1.45%, and the 30 year bond yield also retraced 17 basis points to 2.08%. Essentially the market still expects that the current burst of inflation is transitory and not structural. Moreover, the flattening was driven by falling real yields, which have been a more material tailwind to equity returns.

Australia's manufacturing sector continued to expand in June despite climbing at a slower pace than the month prior. The manufacturing PMI (Purchasing Managers' Index) slowed slightly from 60.4 in May to record a score of 58.4 in June. The unemployment rate dropped to 5.1%, being only 0.2% above the lowest since 2008. Overall, the labour market is far stronger than expected by the RBA, but so far they have remained dovish and made only small upward revisions to their wage and CPI forecasts. The RBA left rates at 0.1% as expected and announced no changes to its QE program or its yield curve control policy.

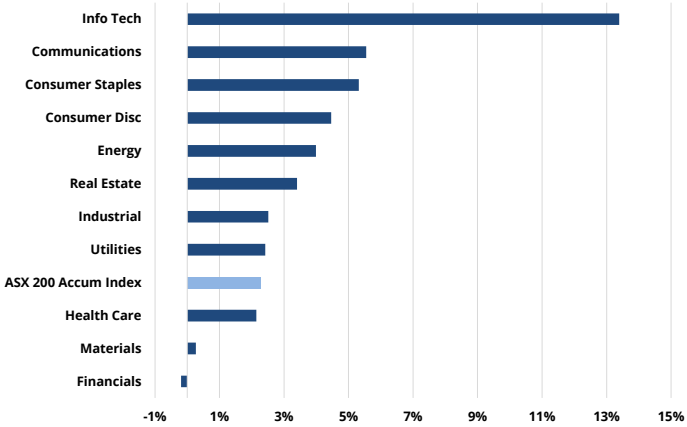
Annualised Return & Maximum Drawdown since inception



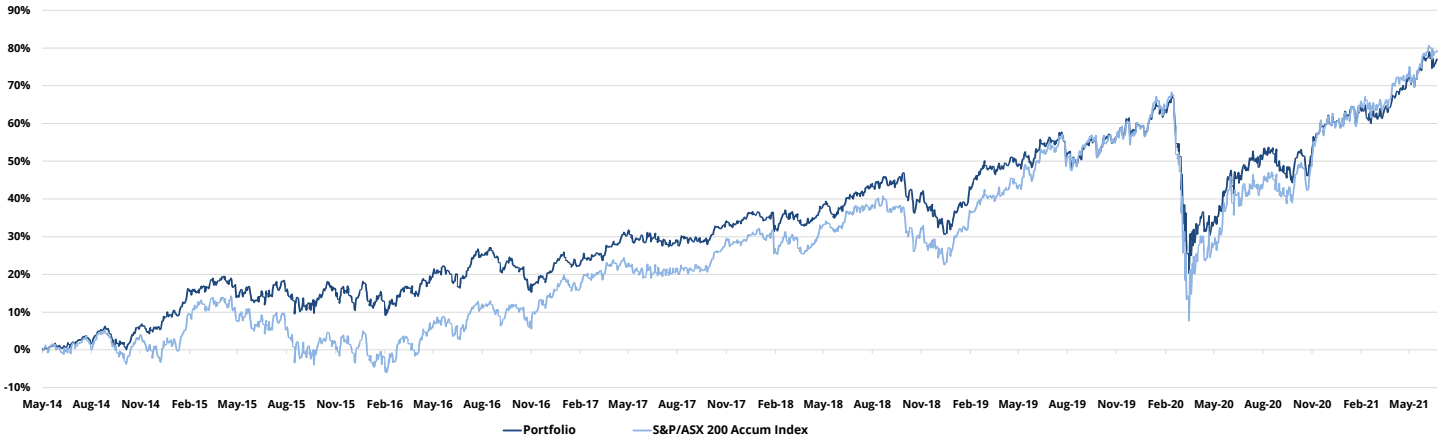
Relative sector weights - June 2021



Sector returns - June 2021



Cumulative return from inception



Ratings & Awards

Zenith Investment Partners Approved

Superior SQM research

RESEARCH IP

Foresight Analytics

MONEY MANAGEMENT FUND MANAGER OF THE YEAR 2021 FINALIST Separately Managed Accounts - Australian Equities

Australian Equities Winner 2020 IMAP MANAGED ACCOUNT AWARDS

MONEY MANAGEMENT FUND MANAGER OF THE YEAR 2020 FINALIST Separately Managed Accounts - Australian Equities