BLACKMORE CAPITAL
EQUITY INVESTORS

Blended Australian Equities Portfolio

Monthly Update | August 2021

Portfolio Commentary

The August reporting season delivered impressive earnings and dividend growth of ~30% for the ASX 200. The uplift in earnings was led by the Resources (iron ore producers) and the Banks (Commonwealth Bank). The major Resource Companies (BHP) bolstered by elevated commodity prices generated strong free cashflow that delivered material upgrades in dividends. Disciplined capital allocation has also supported mining sector balance sheets to be in pristine shape.

A buoyant housing market supported a return to credit growth for the banks and coupled with "unquestionably strong" balance sheets, enabled the banks to announce $10bn of buybacks. The banks reporting season also confirmed a more benign environment for net interest margins (NIM) despite the pressure of record low interest rates and rising competition.

Overall, the strong upgrade cycle in earnings supported large capital management initiatives, with at least $18bn of buybacks and capital returns announced, including special dividends. Further buybacks are expected to be announced by the banks and diversified industrial companies over FY22. Nevertheless, the expectation for a robust earnings season had been well anticipated by the market as results broadly met analyst forecasts. Significantly the reporting season was more revealing about the headwinds emerging for companies in FY22, suggesting that earnings momentum had now peaked, with net earnings revisions turning negative in August.

Trading updates for the first 8 weeks for FY22 highlighted the negative impact that prolonged lockdowns on the eastern seaboard were having on company revenues. As a result of the lockdowns in NWS and Victoria, several companies indicated revenue monthly declines of >10% in the new financial year. Some additional companies did not provide guidance, citing heightened uncertainty caused by the persistence of the delta virus. The trajectory in earnings revisions could also be impacted by weakness in iron-ore prices driven by a decline in steel production in China.

Portfolio details

Inception date:	February 2014
Investment minimum:	$25,000
Investment time horizon:	5+ years
Management fee:	0.6%
Maximum holding limit:	12%
Number of stocks:	20 - 40
Gross Dividend Yield	2.85%*
Net Dividend Yield	2.14%

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

Portfolio objective

The portfolio seeks to generate long-term capital appreciation 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.

The Blended Australian Equity portfolio finished the month of August up 1.43% compared to the ASX 200 Accumulation Index up 2.50%. Positive contribution for the portfolio was driven by CSL Limited (CSL), Westpac (WBC), and Woolworths (WOW). Whereas BHP Group (BHP), Santos (STO) and News Corp (NWS) weighed on attribution.

Portfolio returns

	1 month	3 months	6 months	FYTD	1 year	3 years	5 years	7 years	Inception p.a	Since inception
Portfolio performance	1.4%	3.1%	12.0%	1.9%	20.6%	9.2%	10.1%	10.1%	10.2%	107.3%
ASX 200 Accum Index	2.5%	6.0%	15.0%	3.6%	28.1%	9.9%	10.9%	8.6%	8.9%	89.8%
Relative performance	-1.1%	-2.9%	-3.0%	-1.7%	-7.5%	-0.7%	-0.8%	1.5%	1.3%	17.5%

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

Portfolio Outlook

The growing headwinds of extended lockdowns and continued supply chain constraints remain a clear negative for earnings visibility in FY22. Earnings expectations are likely to moderate with the delta variant further weighing on economic activity and disrupting supply chains. A critical milestone for government restrictions to ease is for the eligible Australian population to reach vaccine rates of 70%-80% in the coming months. With government restrictions set to ease as the vaccine rates reach 70%+ in Australia, reopening is a vital part in the restoration of the economy.

The level of heightened uncertainty posed by the pandemic has further underlined the importance of owning stocks that are industry leaders in the defensive sectors of consumer & industrial staples and healthcare sectors. We firmly believe that earnings resilience, industry leadership and strong balance sheets remain valuable attributes of the portfolio in delivering high quality earnings and dividends to our investors. While earnings momentum is expected to slow in the coming quarter, earnings growth is still expected to be in the vicinity of ~10% in FY22, supported by accommodative policy settings and the expectation that higher vaccine rates will ultimately lead to profit momentum returning.

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Market Commentary

August saw a positive result for global market, as the S&P500 and the ASX 200 rose 3.0% and 2.5% respectively. The US 10-year bond yield fell 21 bps to 1.23%, on the back of dovish commentary from the Fed, while Australian 10-year bond yields were flat. The Australian market also completed its August reporting season. Dividends continued to beat estimates as payout ratios normalized and yield credentials are rebuilt. Buyback activity has generally been well received with a large cap bias to announced activity.

Australian GDP rose +0.7%qoq in 2Q 2021 and 9.6% higher over the year. The survey captured Melbourne's two week 'snap' lockdown in early June but largely predated the ongoing lockdowns in NSW and VIC. The virus outbreaks and extended lockdowns in NSW and Victoria is likely to result in a contraction in GDP in 3Q 2021.

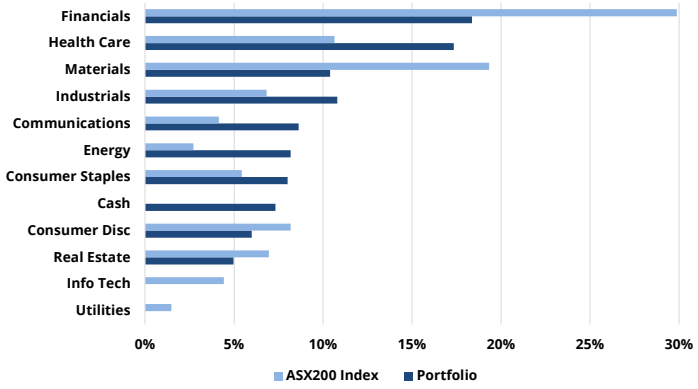
Household consumptions rose +1.2%qoq, with broad-based strength across goods (+0.9%qoq) and services (+1.3%qoq). In level terms, household consumption has now returned to just -0.3% below pre-COVID levels.

Australia's PMI eased -9.2pts to 51.6pts in August, the second consecutive monthly decline driven by softer production and employment amid tighter lockdown restrictions in Victoria and New South Wales.

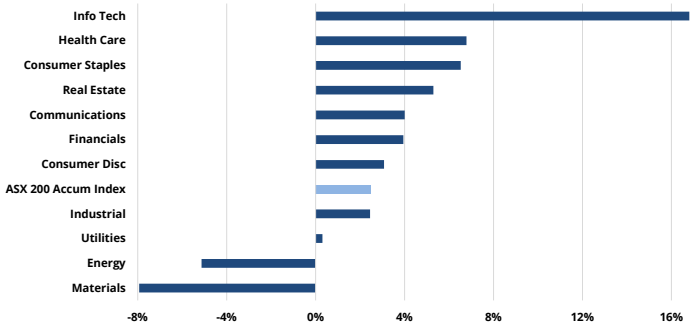
Australia dwelling prices (8-city average) rose another +1.5%mom in August, with the annual rate picking up to 17.5%yoy. Price gains were broad-based across major capital cities including in Sydney (1.8%) and Melbourne (+1.1%) despite the lockdowns. Growth in detached houses (+1.6%mom) continued to outpace growth in units (+1.1%mom). Housing market activity remains well above average levels with the estimated number of home sales dropping by 9% nationally over the 3 months ending August when compared to the previous 3-month period.

Australia's economic recovery is expected to accelerate through 1H2022 – as high vaccination rates allow for a more comprehensive re-opening of the economy, alongside a large pool of savings in the private sector and supportive fiscal/monetary policy.

Relative sector weights - August 2021



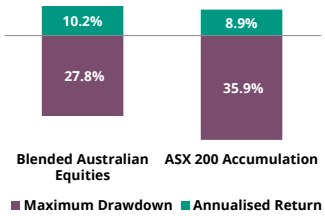
Sector returns - August 2021



Top 5 holdings

Stock	Weight
CSL	8.9%
WBC	7.9%
BHP	7.6%
CBA	6.6%
WOW	6.0%

Annualised Return & Maximum Drawdown since inception



Cumulative return from inception

Ratings & Awards

Zenith 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