30 June 2021 – Factsheet

Centuria

Centuria LifeGoals

Walter Scott Global Equity Fund (Unhedged)*

Aims to achieve a long-term total return (before fees and expenses) that the MSCI World exAustralia Index in $A dollars unhedged with net dividends reinvested.

Investment Manager

Walter Scott & Partners Limited

Investment Strategy

The fund provides exposure to a concentrated portfolio of global equities by investing in securities which, in Walter Scott's opinion, offer strong and sustained earnings growth. The fund will not invest in 'tobacco' securities as defined by the Global Industry Classification Standards (GICS) or 'controversial weapons' securities as defined by MSCI, Inc.

Target Allocation

International Equities	75-90%
Cash	0-10%

Performance Returns

Returns to 30/6/2021	1 mth	3 mth	6 mth	1 yr	2 yr
Net Returns (%)	3.42	5.36	6.59	13.71	6.98

Past performance is not a reliable indicator of future performance.

Performance Graph

A $10,000 investment in Centuria Walter Scott Global Equity Fund (Unhedged) made at inception is worth $11,745 as of 30 June 2021 after all fees and taxes paid within the Investment Option.

Key Features

APIR Code	OVS8802AU
Minimum Initial Investment	$500
Minimum Additional Investment Plan	$100
Minimum Switching Amount	$500
Minimum Balance	$500
Contribution Fee	Nil
Annual Management Fee*	1.20%
Suggested Timeframe	7 years

* Refer to PDS for fee breakdown.

For more information contact Centuria on 1300 50 50 50 or visit lifegoals.centuria.com.au to download the PDS. Simple Flexible Versatile.

Fund Commentary

From a sector viewpoint, technology stocks were the greatest absolute contributors, with Adobe particularly strong. Healthcare stocks were notably strong in absolute terms and contributed the most to relative return; Illumina was the portfolio's top individual performer. Consumer discretionary stocks lagged their sector index and detracted the most from relative return, with Inditex, Compass Group and Booking Holdings the portfolio's weakest performers. Greater exposure to the strong technology sector benefitted relative return, but this was more than offset by underperformance from within the sector. Low exposure to the weak financial sector contributed notably to relative return.

From a regional perspective, US stocks were the primary absolute contributors. Europe ex-UK stocks led their index and contributed the most in relative terms, with Roche the top performer from the region.

Global equities eked out further gains this month, against the backdrop of accelerating vaccination rollouts and a still extravagant monetary and fiscal environment. Although some countries are continuing to grapple with the Covid-19 pandemic, the world is gradually hauling itself out of the downturn, and for many global-facing companies, irrespective of their domicile, a more positive narrative is steadily emerging as indicated by recent earnings releases. The US has been in the vanguard of this economic resurgence, as evidenced by the Federal Reserve's expectation that GDP will grow 7% year on year in 2021. Manufacturing output and consumer spending have continued to rise, although there has been a shift away from buying goods to spending on services, as the latter sector shakes off the lockdown shackles. Accompanying this economic vigour has been a rise in inflation, with a wide range of companies reporting an increase in costs and the US Consumer Price Index rose 5% year on year in May. In view of the upsurge in the economy, the Federal Reserve has brought forward the timing of interest rate increases to 2023. In the near-term, however, monetary policy laxity remains the order of the day given some concerns about the durability of the recovery in the labour market and expectations that the current inflation spikes speak more of post-pandemic supply and demand mismatches than of a structural upwards shift in prices.

This view is shared by the European Central Bank which is more worried about fostering growth than transitory inflation. Although Europe has been getting its vaccination 'act' together, it has been late out of the gate, recovery wise, compared to the US and talk of tightening is seen as premature. In Japan, the persistence of the pandemic in parts of the country is dampening domestic growth, but as highlighted bythe recent Tankan, a quarterly business survey, Japanese corporations are upbeat about the prospects for the global economy, with major customers America and China showing considerable economic vigour.

The 'reflation trade', which has been a feature of equity markets since the tail end of last year, ran out of puff this month, with share prices across several cyclical sectors, including financials, coming under pressure. It is a matter of conjecture, and immaterial to our investment thinking, whether this is due to valuations being 'up with events', the pullback in some commodity prices, or whether the planned moves by the Fed have perhaps not brought the investment nirvana hoped for by the banking sector. By contrast, information technology and healthcare sectors saw strong gains, rebounding from the relative lull of the first quarter.

However, rather than ponder macroeconomic cycles and equity market vagaries, we've kept our focus on analysing and assessing how companies are positioning themselves for future growth. We recently conducted one of our virtual trips to Germany, which highlighted that despite the headlines about lack of vigour in European economies, innovation is alive and well The Research team also met physically on an 'away day', which makes a change from conducting the meeting virtually, as has become the lockdown norm. We spent a day discussing, debating, and scrutinising investment theses of investee companies as well as new ideas. Whether we are online, at home, or in the office, the investment process is constant in its rigour and application; analysing and engaging with companies, seeking and investing in those that can deliver strong earnings growth over the long term.

Some companies in the portfolio have endured a tough pandemic-induced downturn but are now recovering well. Inditex's recent first-quarter fiscal year 2022 results showed good progress against the comparable pandemic-blighted period last year, although inevitably, the revenue and profit numbers fell shy of the equivalent pre-Covid period in 2019. However, business is rebounding, and gross margins were strong in the first quarter, at around 60%, and reflected robust full-price sales as the new spring/summer collections were well received by customers. There has been a recovery in physical store sales, but it is noteworthy that the strength of online sales has continued nonetheless. Encouragingly, trading since the quarter end has been impressive, with sales actually up on 2019 levels, which bodes well forthe remainder of the year.

More than a few companies continue to be beneficiaries of the pandemic-induced acceleration of long-term growth trends. Adobe's second-quarter fiscal year 2021 results highlighted the strong performance across the broad spread of its products and services. The company's Digital Media segment (with products such as Acrobat), which comprises about three-quarters of sales, saw 25% year-on-year revenue growth. Digital Experience, the area of the business which provides software that enables companies to meet the ever-growing digitalisation of customer relationships, also posted a 25% gain. Digital Cloud revenues were equally impressive, clocking a 30% gain. In our view the ongoing growth at Adobe highlights the increasing relevance of its products to a world turning ever-more digital, and its dominant competitive position within it.

A brighter economic and earnings outlook may continue to provide a positive backdrop for equities. However, stock markets have travelled a long way since the trough of March last year, and investors have perhaps discounted a near-term recovery in corporate profits. The prospect of a tighter monetary environment may become a greater focus of investor attention should inflationary pressures persist, although a mild upward tick in interest rates might not be too disruptive to equity markets in a benign growth environment. Higher rates will, however, expose companies with weak business models that have gorged on debt, notwithstanding any cushion provided by economic growth. Engaging in 'macro' guesswork is not part of our investment process, however. Our focus remains on investing in financially strong, market leading businesses whose management teams are adept at navigating the challenges and seizing the opportunities brought about by cyclical or macroeconomic shifts.

Disclaimer: this commentary has been directly sourced from Walter Scott Global Equity Fund (Unhedged) quarterly factsheet available on their website.

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