



## PacReef Income Today Portfolio

### March 2020 Quarterly Review

#### Portfolio Performance

The PacReef Income Today Portfolio returned -22.62% compared to the benchmark ALL ORDINARIES (TR) return of -23.92%, giving a relative performance of 1.30% for the period.

#### Performance to 31 March 2020

Return %	One Month	Three Month	Six Month	One Year	Three Year	Since Inception (9/04/2015)
Portfolio	-20.06	-22.62	-23.16	-13.70	-5.08	-1.15
Benchmark	-20.94	-23.92	-23.36	-14.98	-0.68	1.26
<b>Relative Performance</b>	<b>0.88</b>	<b>1.30</b>	<b>0.20</b>	<b>1.28</b>	<b>-4.40</b>	<b>-2.41</b>

The table above sets out the investment performance returns (AFTER investment management fees, but BEFORE administration fees, performance-based fees and taxes) for the Portfolio. The performance returns have been calculated on a daily basis taking into account brokerage costs, and are accumulated for the period shown. Returns are shown as annualised if the period is over 1 year, or as total returns otherwise.

#### Quarterly Review

The impact of the COVID-19 pandemic on the Australian and Global economies has been reflected in the performance of sharemarkets everywhere. This once in a 100-year event split the March quarter performance into two distinct 6-week blocks. By mid-February the quarter was looking very healthy with our portfolio having recorded an almost 5% positive performance by that stage; however, the second half of the quarter saw the portfolio, in line with markets, drop around 30%.

This fall was led by Financial stocks and Real Estate Investment Trusts, which recorded falls between 30% and 60% in just six weeks. We also witnessed several companies either defer or cancel dividends that had been previously declared or not declare a dividend for this half-year. The majority of companies listed on the ASX have withdrawn their earnings guidance for the coming year due to the impact of COVID-19 on the broad economy. As a result, we also are not issuing any forecasts about income expected to be generated by the portfolio over the remainder of this Financial Year and FY21.

The drop in the share market in the second half of the quarter presented the opportunity to reposition the portfolio for the medium to long term by reducing our holdings in Cash, Cash-like ETFs and Hybrids with these funds redeployed into existing equities held in the portfolio. Additionally, we exited our holding in Coles Group Limited.

Securities that we increased our holdings in were Link Administration Holdings, Westpac Banking Corporation, National Australia Bank, Propel Funeral Partners, InvoCare and Washington H Soul Pattinson & Company.

The portfolio managers believe that events such as COVID-19 present opportunities for the redeployment of Capital from the impatient to the patient, or to quote Warren Buffett, the Oracle of Omaha, ***“Be fearful when others are greedy and be greedy when others are fearful”***.

### Top 5 stocks by weight as at 31 March 2020

Company Name	Sector
TELSTRA CORPORATION. ORDINARY	Communication Services
WESFARMERS LIMITED ORDINARY	Consumer Staples
JB HI-FI LIMITED ORDINARY	Consumer Discretionary
NATIONAL AUST. BANK ORDINARY	Financials
WESTPAC BANKING CORP ORDINARY	Financials

### Market Outlook

Firstly we believe that it is essential for our investors to know that the PacReef Income Today Portfolio Managers have more than 75 years experience investing in equities markets, combined, and have experienced many previous financial “crashes”. These include the 1987 Stockmarket Crash, the Tech Wreck and Global Financial Crisis.

While it is impossible to say when the current market will stabilise, we fully expect that when it does companies that generate real earnings and distribute sustainable dividends will again be sought after by investors looking to build a reliable income stream. Our focus will remain on building and managing a concentrated portfolio of securities that fit this model. We will not be changing the nature of the PacReef Income Today portfolio due to COVID-19, it will maintain the same standards that it has since inception.

That said, COVID19 has resulted in unprecedented economic circumstances as global economies have been taken offline, temporarily, in an attempt to limit the health impacts of this pandemic. It is expected that as countries can flatten the curve, they will seek to reignite their economies. This will not happen everywhere at the same time, but as a sustainable health solution is found, it will happen.

We have seen Central Banks and Governments act swiftly to try and combat the economic impacts within their borders, Interest rates have been slashed to near zero, money has been handed out to both businesses and individuals, quantitative easy has occurred, and large portions of the population are now being paid both directly and indirectly by the Government. It is feasible that in Australia more than half the workforce will be being paid by the Government by the end of June via either Job Seeker, Job Keeper or as Public Servants.

This will result in the Federal Government, as well as several State Governments, can be expected to record the largest deficits since Federation. National and State debts could also reach record highs, not only due to the current economic measures, but also the stimulus packages that will be introduced to try to kick-start the economy once it re-opens.

The full impact of the COVID-19 pandemic on the economy will not be known until the temporary measures introduced by the Government are unwound. Only then will we know how many Zombie companies have been created, that is companies who cannot survive without Government aid. It can be expected that such companies will collapse once both the Government money and temporary changes to the Corporations Act are removed.

Despite all of the above, it is the portfolio managers opinion that any Recession experienced in Australia will be short-lived. However, this may well be due to the levels of money being poured into the economy by various levels of Government more than due to demand by private enterprise. A U-shaped recovery appears more likely than a V-shaped one.

Increased levels of debt and difficulty unwinding the “temporary” new welfare payments, combined with a desire to deliver on its policy of reducing taxes make it challenging to envision the current Coalition Government delivering a Budget surplus in the foreseeable future. We could now not see a return to surplus anytime during the 2020s and repayment of Federal Government debt could be more than a generation away.

Despite all of this, valuations of many companies are now very attractive even in a worst-case scenario for their profitability moving forward. We can expect significantly reduced dividends in the short term, especially during the next reporting period, between August and October. However, for those investors looking to create an income for the decades to come, now presents a once in a lifetime opportunity.

# IMPORTANT INFORMATION

Prepared by HUB24 Custodial Services Ltd (ABN 94 073 633 664, AFS licence No. 239 122) ("the Operator" of HUB24 Invest (the Service)) and ("the Promoter" of HUB24 Super (the Fund)). The information contained in this document is not intended to be a definitive statement on the subject matter nor an endorsement that this Portfolio is appropriate for you and should not be relied upon in making a decision to invest in this Service or Fund.

Financial commentary contained within this report is provided by PacReef Asset Management Pty Ltd (PacReef Asset Management Pty Ltd (ABN 95 601 146 525, AFSL 488045), who is the Portfolio Manager of this Portfolio.

The information in this report is general information only and does not take into account your individual objectives, financial situation, needs or circumstances. No representations or warranties express or implied, are made as to the accuracy or completeness of the information, opinions and conclusions contained in this report. In preparing this report, HUB24 has relied upon and assumed, without independent verification, the accuracy and completeness of all information available to HUB24. To the maximum extent permitted by law, neither HUB24 or its directors, employees or agents accept any liability for any loss arising in relation to this report.

The suitability of the Service or Fund to your needs and the suitability of a particular Investment Choice depends on your individual circumstances and objectives and should be discussed with your Adviser. Potential investors must read the FSG and IDPS Guide and/or Super PDS along with any accompanying materials.

Investment in securities and other financial products involves risk. An investment in a financial product may have the potential for capital growth and income, but may also carry the risk that the total return on the investment may be less than the amount contributed directly by the investor.

Past performance of financial products is not a reliable indicator of future performance. HUB24 and the Trustee do not assure or guarantee the performance of any financial products offered. Information, opinions, historical performance, calculations or assessments of performance of financial products or markets rely on assumptions about tax, reinvestment, market performance, liquidity and other factors that will be important and may fluctuate over time.

HUB24, its associates and their respective directors and other staff each declare that they may, from time to time, hold interests in Securities that are contained in this Service or Fund.