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KAURI ASSET MANAGEMENT

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Keeping you up to date with Kauri Asset Management and the Markets

America set to usher in a new era of leadership

Why the election outcome might just be the herald of a new bull market.

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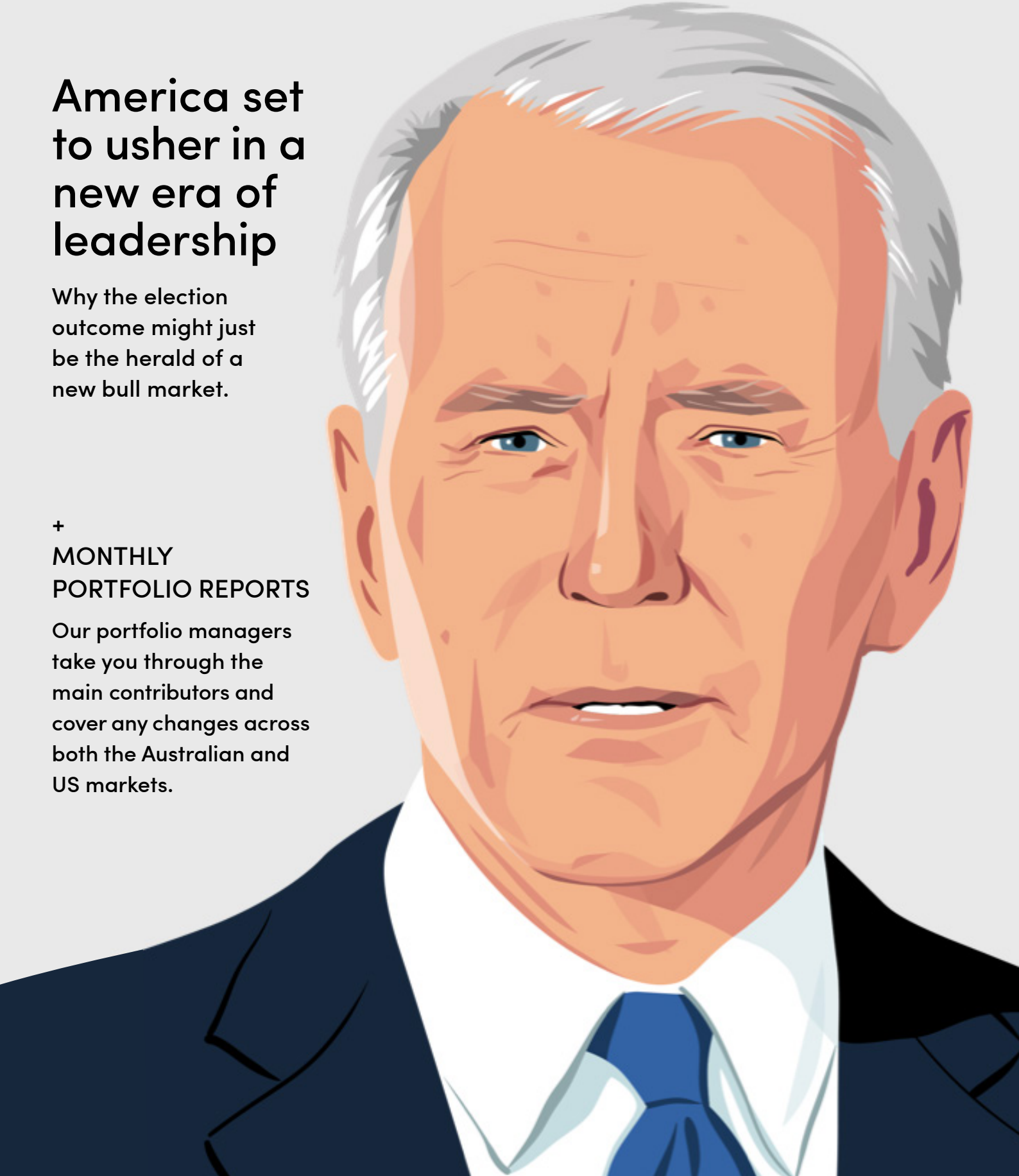
MONTHLY PORTFOLIO REPORTS

Our portfolio managers take you through the main contributors and cover any changes across both the Australian and US markets.



MICHAEL SMITH
Head of Research and
Senior Investment advisor

America set to usher in a new era of leadership

Why the election outcome might just be the herald of a new bull market.

After a fiercely fought-out election campaign, unlike almost no other in living history, Americans headed to the polls last week and have seemingly backed change.

While the official result has yet to be called, and the prospect of a drawn-out legal minefield awaits, we anticipate that the strength of the vote will carry Joe Biden to success as the 46th president of the United States.

At this stage, it looks as though the Republicans might just hold onto the Senate, with the balance of power hanging evenly ahead of two election run-offs in Georgia scheduled for January.

The result might leave some market pundits and investors with caution, with President Donald Trump overseeing all-time highs across the stock market.

However, the result bodes well as a positive outcome. In fact, the market's upbeat response to the news exceeded our expectations, with the stock market delivering its best weekly result in more than six months last week.

We believe a large part of this can be attributed to two key factors.

Overarching catalysts for markets

First, the Democrats have signalled that they intend to spend significantly to help Americans get through the pandemic and recession.

One of the stumbling blocks in recent months has been the failure between Republicans and Democrats to come to an agreement to inject new stimulus into the economy. This level of spending stands to reason as a fundamental driver of the market.

Under a Biden presidency we expect that the government will have a greater mandate to push its cause, notwithstanding that it might not control the Senate come January.

With that said, Republicans were previously inching closer towards striking a deal with their counterparts, while some of the party's more 'moderate' members may be within reach of crossing the aisle. Furthermore, Joe Biden has previously established a rapport in working both sides of the aisle across his career in politics.

Secondly, if the Senate does remain with the Republicans, which looks as though it could be the likely outcome, this would provide an important framework of checks and rigour with which the Democrat government would need to contend with.

This means that proposals to increase the corporate tax rate – something that would hit the profits of major US-listed companies – might not be a forgone conclusion. The same goes for a mandated minimum hourly wage, among other policy initiatives.

Charting the performance of a split Congress

History also tells us that US markets tend to rise after a close election, particularly running into this time of year, with the traditional Santa Rally still ahead.

Democrat presidents have also overseen the highest periods of performance across the market, averaging returns of 14.6% per annum since 1927 while in power, markedly higher than the 9.8% per annum under the control of Republicans.

On top of that, a split Congress – namely, Democrat president and Republican-controlled house or senate – has yielded the best results for investors. In this case, investors have seen returns of 16.4% per annum across the same timeframe.

There are some risks moving forward, primarily relating to the out-of-control pandemic crisis, and the next moves by incumbent President Donald Trump.

However, with economic growth picking up, unemployment falling at a rate of knots, hope for a potential COVID vaccine, and the ongoing commitment of the Federal Reserve to save the economy, the outlook for a new presidential agenda is somewhat positive. Markets could yet be at the beginning of the next bull run.

MICHAEL SMITH
Head of Research and
Senior Investment advisor

International

International Growth Portfolio

Across October portfolio NAV declined by 1.5%, after taking into account advisor fees.

Whilst a negative return for the month, in light of the performance of the broader market, the portfolio held up particularly well.

Late-month selling across equity markets was driven by political concerns, including the delay to a new stimulus package. The Dow Jones sunk 4.6% last month, while the Nasdaq and S&P 500 shed 2.3% and 2.8% respectively.

The performance of our core holdings were in line with the key benchmark indexes, with the value of our shares easing 2.6%. There was some moderation in the price of digital payments stocks, including Visa (V), Square (SQ), PayPal (PYPL) and Mastercard (MA).

We remain compelled by the investment thesis governing these stocks, which comes from our belief that cash transactions will be on the outer for a while yet as a result of the (worsening) pandemic in the US. Not only do we believe this is a current trend, but one that will endure as consumer behaviour shifts amid an even greater uptick in ecommerce activity.

CME Group (CME) also weighed on the portfolio, with the global markets company reporting a disappointing quarter late in the month. The company reported an earnings cut of around one-third, while revenue slumped 15% year-on-year. Although the result fell short of expectations, we are upbeat about some of the company's newly-launched products. The stock is also a 'defensive' holding we anticipate to fare better if markets turn volatile.

With no trades made within the portfolio last month, our forex exposure helped us offset some of the decline in our core holdings. The USD/AUD rate rose from 1.3961 to 1.4224, which helped support portfolio NAV. In fact, the impact of foreign exchange gains was equivalent to around 1.9% of NAV from the beginning of the month, going some way to help us outperform the market.

By the close of October, unrealised income represented approximately 10.5% of closing portfolio NAV. The presidential election has been a watch-point for us, and as mentioned earlier in our newsletter, we believe there is upside from here. Admittedly, we have been surprised by the lack of volatility given concerns of a contested outcome, although this is unlikely to yield a result, and we think the market has accepted the result and is now looking ahead.

Performance:

Index	*October Performance*	*YTD Performance*
Dow Jones	-4.6%	-7.1%
NASDAQ	-1.0%	23.2%
S&P 500	-2.8%	1.2%
Global Growth Portfolio	-1.5%	21.9%

Top 10 Holdings:

Code	*Company Name*	*Weighting %*
MSFT	Microsoft	6.22%
BABA	Alibaba	5.67%
PYPL	PayPal	5.30%
AMZN	Amazon	5.05%
TSM	Taiwan Semi	4.64%
COST	Costco	4.24%
MA	MasterCard	4.07%
AAPL	Apple	4.04%
ADBE	Adobe	3.71%
BRKB	Berkshire	3.62%

MICHAEL SMITH
Head of Research and
Senior Investment advisor

AFIQ MALEK
Research Analyst and
Senior Client advisor

Performance:

Index	*October Performance*	*YTD Performance*
ASX 200	1.9%	-11.3%
ALLORDS	2.1%	-9.8%
Aus Yield Portfolio	3.8%	-5.3%

Top 10 Holdings:

Code	*Company Name*	*Weighting %*
HUB	Hub24	13.72%
BBN	Baby Bunting	8.61%
ANZ	ANZ Bank	7.08%
WES	Wesfarmers	7.02%
CBA	Comm Bank	6.10%
KKC	KKR Credit	5.14%
BHP	BHP Group	4.80%
TLS	Telsrta	4.68%
MFG	Magellan	4.43%
TCL	Transurban	2.93%

Australian

Australian Yield Portfolio

The Australian Yield Portfolio had a standout month in October, with portfolio NAV climbing 3.8%.

This was a significant outperformance relative to the market, which only managed to advance 1.9%. Furthermore, the result was well ahead of our Global Growth Portfolio, not only influenced by a superior showing from the local share market, but strong performances from some of our key holdings.

Financials were one of the key drivers of the result, with the sector seeing some interest as investors bought-up value stocks. This meant our holdings in the likes of ANZ (ANZ), Bank of Queensland (BOQ) and Commonwealth Bank (CBA) helped set the tone for a bullish month.

However, it was our position in Hub24 (HUB) that proved to be a decisive hold once again. The stock has been an undoubted success story for the Yield Portfolio, regularly featuring as one of our best-performing holdings, with sizeable gains to boot. Throughout October the stock leapt 24.2%, extending its multi-month bull rally.

Among the catalysts were the company's September quarterly trading update, which showed funds under administration had grown to $19 billion, a 32% improvement on the prior corresponding period. Management also indicated record net inflows for any September quarter, which were also higher than the important June quarter that corresponds with EOFY. A series of acquisitions announced at the end of the month were also received warmly on account of the growth opportunities and synergies on offer.

Sentiment for the broader sector also extended to the likes of investment managers and funds, including Challenger (CGF) and Kkr Credit Income Fund (KKC), which both helped the portfolio build on a solid base.

There was some weakness in 'safe' stocks, industrials and utilities like Sydney Airport (SYD), Transurban (TCL) and Telstra (TLS), however, we do not expect this to persist given rotation of funds.

By the end of October, unrealised losses across the Yield Portfolio had narrowed to just 2.3% of the closing NAV. Given the Reserve Bank of Australia has committed to support the economy through new efforts announced in early November, COVID cases have been controlled across the country, plus borders are set to open as well, we think Australian stocks could perform well or even outperform regional peers amid the improving economic backdrop.

DANIEL WONG
Research Analyst

ALEX NEGROH
Research Analyst

Performance:

Index	*October Performance*	*YTD Performance*
ASX 200	1.9%	-11.3%
ALLORDS	2.1%	-9.8%
Balanced Portfolio	4.0%	0.8%

Top 10 Holdings:

Code	*Company Name*	*Weighting %*
APT	Afterpay	5.9%
MGG	Magellan Trust	5.9%
Cash	Cash	4.2%
HM1	Hearts & Minds	4.2%
NABPD	NAB note	4.0%
CBAPE	CBA note	4.0%
BHP	BHP Group	3.0%
MQGPC	Maq note	2.9%
CBAPH	CBA Note	2.9%
FANG	Fang Etf	2.9%

Hub 24 - Super

Balanced Portfolio

The portfolio grew by 4% in October, which was a considerably better result than the ASX 200, which gained 1.9% across the month.

One of the fundamental drivers of the portfolio was a turnaround from Afterpay (APT), which delivered a monthly return of nearly 17% while making its way to new all-time highs. The resurgence of the stock seems to be driven by a consolidation out of secondary players in this space towards the market leader, which also reported strong growth across the September quarter.

There were numerous tailwinds at play in helping support shares of Hub24 (HUB), which gained nearly 25% last month.

Following the Federal Budget, the government has signalled it is introducing mandatory measures whereby underperforming industry super funds must let their clients know there are better options available. We feel this bodes well for HUB and their funds under management, which in turn should flow through to performance in due course.

Another positive development was the company's deal to acquire a quality reporting and monitoring platform via one of Australia's highest-regarded wealth managers (Ord Minnett). The reaction to this purchase has extended into November, with the transaction viewed favourably.

Elsewhere, lithium was a key trend in the spotlight last month. Lynas Corporation (LYC) and Galaxy Resources (GXY) both rose by more than 20%. It is our view that increased use of electric vehicles should continue to fuel demand for lithium, prompting us to have exposure to this sector.

There was some weakness in the performance of Transurban (TCL), which went against our expectations. There are perceived downside risks to earnings in light of traffic volumes potentially not increasing as much as hoped.

Some moderation in the price of iron ore has weighed on the likes of BHP (BHP), Fortescue Metals (FMG) and Rio Tinto (RIO). Nonetheless, given the attractive yield attached to these stocks, for the time being we remain happy to continue holding, dismissing concerns attached to trade risks between Australia and China.

With the reopening economy looming well for Australian shares with exposure to local business, we've refrained from making any major changes to the portfolio, and we will instead look to consolidate our holdings.

ALEX NEGROH
Research Analyst

DANIEL WONG
Research Analyst

Hub 24 - Super

Growth Portfolio

Portfolio NAV grew by 4.1% last month, which was another outperformance relative the ASX 200. The local benchmark index increased by 1.9% in October.

Once again it was tech stocks that helped the Growth Portfolio edge out the Balanced Portfolio. Afterpay (APT) provided the foundations for this growth, however, it was the likes of Xero (XRO) which helped compound that advantage.

Xero is one of our long-term favourites, and the stock managed to jump nearly 10% last month. The company has transitioned from a loss-making player into an established and high-growth profitable business. Xero is holding no debt, while in our view its earnings profile is attractive thanks to its quality and the growth that has been posted despite a challenging macro environment.

Some of the mutual holdings we have in the Balanced Portfolio were also on show here, including Hub24 (HUB), which was up nearly 25% amid a strong quarterly trading update, positive industry developments and an acquisition strategy that should help it streamline the next phase of its growth.

Others like Lynas (LYC) and Galaxy Resources (GXY) also did well as sentiment improved for lithium miners following upbeat reporting from Tesla, the company leading the charge for electric vehicles.

We've been really pleased with another of our long-term favourites, ResMed (RMD). While the company's share price was sitting somewhat stagnant in recent months, our stance in holding the stock was to effectively act as a 'defensive' proxy should markets become turbulent.

However, ResMed surprised with better-than-expected earnings and cashflow, which fuelled a 16.9% rally in the company's share price. The higher weighting we have assigned to the stock here was another factor that helped the Growth Portfolio outperform the Balanced Portfolio.

Lastly, there was also some strength for Saracen Mineral Holdings (SAR) in the wake of its potential merger with Northern Star Resources.

We remain confident in the outlook of our core holdings, making some small adjustments to cut exposure to Transurban (TCL) and Zip (Z1P). With the backdrop of fiscal support from the RBA, and a gradually improving economic outlook here and in the US, we believe there is scope for our growth-oriented stocks to continue to outperform.

Performance:

Index	*October Performance*	*YTD Performance*
ASX 200	1.9%	-11.3%
ALLORDS	2.1%	-9.1%
Growth Portfolio	4.1%	-5.3%

Top 10 Holdings:

Code	*Company Name*	*Weighting %*
HM1	Hearts & Minds	5.6%
CBAPE	CBA Note	4.0%
Cash	Cash	3.3%
TCL	Transurban	3.2%
FANG	Fang ETF	3.0%
MHH	Megallen High	3.0%
XRO	Xero	3.0%
BHP	BHP Group	2.9%
MQG	Macquarie	2.8%
MQGPC	Mac Note	2.8%

KAURI ASSET MANAGEMENT

Level 8
25 Bligh Street

GPO Box 2348
Sydney NSW 2001
Australia

PH 02 8379 1868
E info@kauriam.com.au

www.Kauriam.com.au