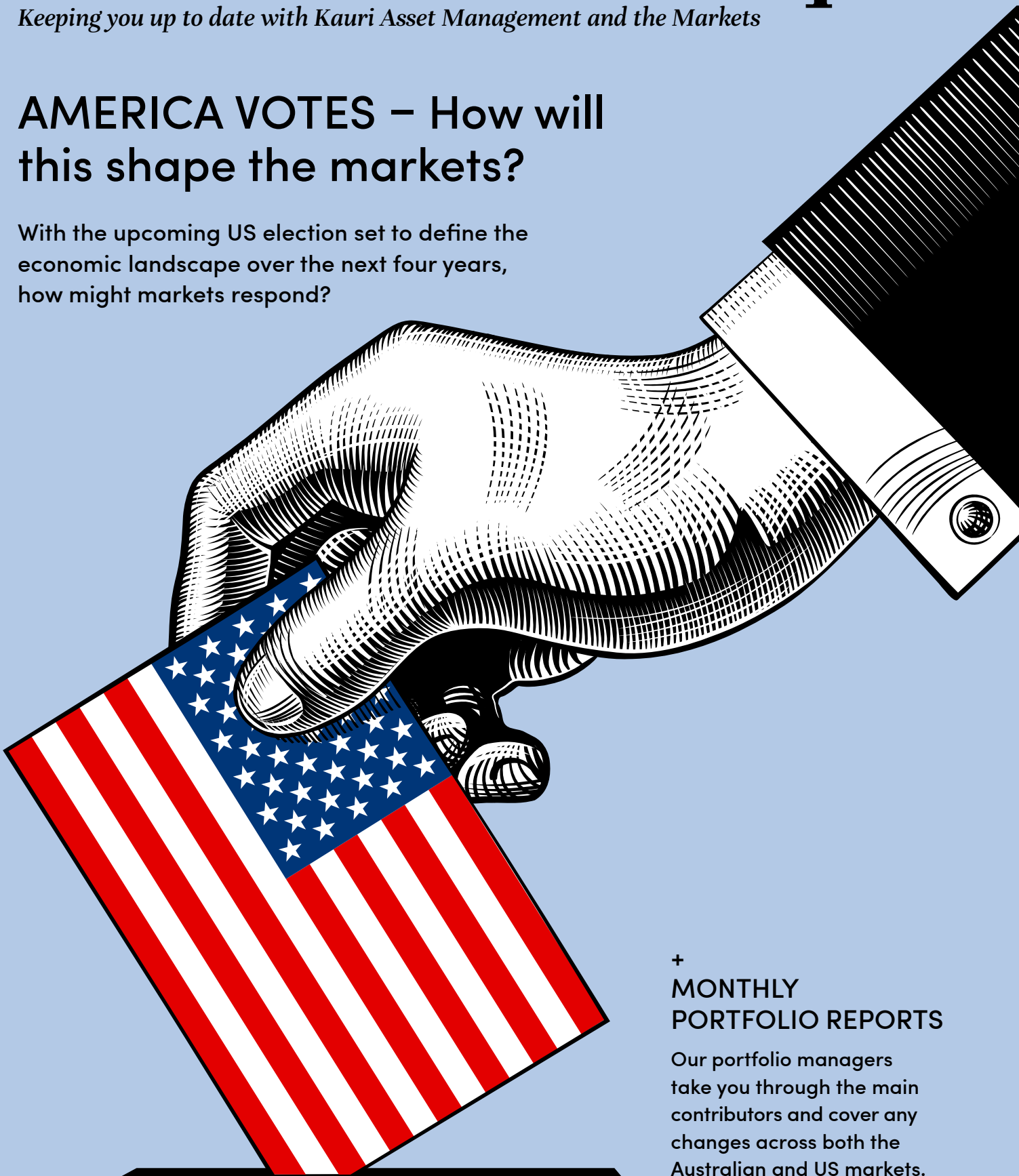


Kauri Communiqué

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

AMERICA VOTES – How will this shape the markets?

With the upcoming US election set to define the economic landscape over the next four years, how might markets respond?



+ 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 Votes – How will this shape the markets?

With the upcoming US election set to define the economic landscape over the next four years, how might markets respond?

This time, it's different. That might sound like a catchcry as old as time, however, there really does seem to be a unique set of circumstances surrounding the upcoming US Presidential election.

The US has endured its worst financial crisis since the Great Depression. COVID has ripped through the world with a huge health toll. US President Donald Trump has been fighting off COVID-19. There have been pre-empted claims of electoral fraud and an effort to stamp out mail-in ballots. There was what many have described as a farcical debate. A Supreme Court nominee process being run in tandem with the election campaign.

And if all that is not enough, there is the very real prospect that whichever candidate ends up on the wrong side of the ledger come election night may dispute the result through the courts. All up, there has never been an election like the one we're about to witness.

What history tells us to expect following the election

The Presidential Election Cycle Theory goes that the US stock market underperforms in the first half of the term immediately following the election of a President, with the cycle repeating each subsequent term. The theory is that a President makes a concerted effort in the second-half of their term to boost the economy in order to get re-elected.

However, even if we were to follow the Presidential Election Cycle Theory, between 1950 and 2016, the first and second years after an election have returned an average of 6.5% and 7% respectively. Dating even further back, all the way to 1789, the returns average 7.7% and 7.9% respectively.

More recently, the trend certainly gives rise to be optimistic. The S&P 500 index has risen in each of the first years of the Trump, Bush, and Obama administrations. In the case of President Trump's first year in office, returns were up 19.4%.

We still have to get through 2020 also, and despite every challenge thrown at the market, we're in positive territory year-to-date. If that trend continues, as we expect, it would firm up another strong record, whereby the S&P 500 has closed higher in 17 of 23 election years since 1928.

Looking at the outcomes

Yet here we are, in unique circumstances. It goes without saying that the economy has been in dire shape ahead of the election, with COVID-19 and lockdowns all but leading to economic pain.

Looking forward, however, despite all the uncertainty that lies ahead, we see the prospect for a strong performance in the first year or two after the election.

Let's look back four years ago. Donald Trump came from nowhere to defy the odds and just about every poll to storm to victory. Futures markets were rocked. But only briefly. It didn't take long and investors soon found their feet, with stocks soaring.

Should President Trump be successful in his bid for re-election, it is our expectation that markets would respond favourably to the news, even if he failed to win the House. Markets tend to outperform when an incumbent retains the Presidency, not to mention the business-friendly policies implemented by the Trump administration have largely supported corporate profits.

On the other hand, if Joe Biden were to rise to power following the election, it would not surprise us if there was an initial short-but-sharp drop in the market. However, thereafter, despite the prospect of reforms to business tax, we would anticipate significant stimulus to be pushed through that would buoy markets. The Democrats have already committed to a higher package than the Republicans, and would have greater scope to push this through via executive power, even if they did not pick up the Senate.

Our 'worst-case' scenario would call for an outcome where the election result is contested and not known for weeks. In that instance, we believe markets would turn particularly volatile amid the uncertainty. In 2000, when similar circumstances prevailed, the S&P 500 shed 4.2% across the 'disputed' timeframe.

Nonetheless, the declaration of an eventual result would align with either of the base cases above, and any volatility would give us reason to be active in the market in looking for attractively-priced stocks.

We also need to keep in mind that the economic recovery from here stands to be the focus of whichever candidate ends up being successful in their bid for the Presidency. The winning party will need to effectively put all their eggs in the basket when it comes to not just helping chart a recovery for the economy, but avoiding the risk of a double-dip recession.

On top of that, there is growing expectations that a vaccine will be developed, which would facilitate economic growth. With the ongoing support of the Federal Reserve at hand, as well as fresh economic stimulus that would no doubt be injected to fight off any risk of the economy slipping again, the market is likely to see a successive series of 'sugar hits' to help it keep ticking along.

All the while, corporate profits will be rising from rock-bottom levels, which gives us confidence for stocks performing well in the first year or two after the election.

**MICHAEL SMITH**

Head of Research and
Senior Investment Advisor

Performance:

Index	September Performance	YTD Performance
Dow Jones	-2.3%	-2.7%
NASDAQ	-5.2%	24.5%
S&P 500	-3.9%	4.1%
Global Growth Portfolio	-0.6%	23.4%

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%

International

International Growth Portfolio

Portfolio NAV eased by 0.6% in September, after taking into account advisor fees.

US markets were hit by a wave of selling throughout the month, with the Nasdaq entering a correction at one point following major share price declines among the likes of Apple and Amazon.

Across our core holdings, the value of equity positions decreased by 2.6%. This result was in line with the Dow Jones, which declined by 2.3% across the month, however, it was also notably better than the S&P 500 and the Nasdaq, which shed 3.9% and 5.2% respectively.

Major tech holdings were a point of weakness in the portfolio, triggered by profit taking following the significant run in stocks over the last six months. Amazon (AMZN), Facebook (FB), Alphabet (GOOGL) and Microsoft (MSFT) headlined the losses, albeit we think there is still compelling value in this sector on account of the acceleration in digitisation trends that have taken place in 2020.

There were some positives of note, however, including Zoom Technologies (ZM), which soared 44.6% in September. The company started the month with a blowout quarterly result where it announced its revenue had more than quadrupled over the course of the last year. Management also took the step to upgrade the company's earnings forecast for FY21, which we feel could still be topped if the pandemic remains an ongoing concern over the coming months.

Following price weakness in Apple (APPL) shares, we progressively took up a position in the stock on account of what we believe represented an attractive entry point. The company will be releasing its new iPhone mid-October and we expect its performance to be strongly tied to the highly anticipated utilisation of 5G networking.

With the USD/AUD rate improving from 1.3559 to 1.3961, we were leveraged to foreign exchange gains that supported portfolio NAV. We have previously employed a hedge to protect against a rising Australian dollar, and while there was some minor unrealised losses on that position in September, the net differential in terms of forex accounted for 2% NAV growth.

At the end of September, unrealised income accounted for approximately 15.2% of closing portfolio NAV. From here, the volatility associated with the upcoming US presidential election remains a point to be wary over the coming weeks. With this in mind, we will be taking a cautious approach to managing the portfolio, but positioning for opportunities also.



MICHAEL SMITH
Head of Research and
Senior Investment Advisor



AFIQ MALEK
Research Analyst and
Senior Client Advisor

Performance:

Index	September Performance	YTD Performance
ASX 200	-4.1%	-13.0%
ALLORDS	-3.8%	-11.7%
Aus Yield Portfolio	-2.0%	-9.1%

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

Last month the Australian Yield Portfolio fared better than the ASX 200, with a 2% decline in NAV coming out ahead of the 4% drop in the benchmark index.

September was the first time in six months where we saw the value of the portfolio ease. Nonetheless, we are pleased that we were able to mitigate losses in a yield-oriented portfolio where dividends have now mostly been declared and volatile trading conditions took hold.

While most stocks saw a minor reduction in value across the month, our holdings in Hub24 (HUB) continued to provide a strong focal point for capital growth within the portfolio. Shares in the company gained 14.3% in September, having already proven to be one of our best-performing stocks over the last six months, up nearly 200%.

Although the company did not release any price-sensitive news last month, momentum has been building in light of its FY20 earnings results. Furthermore, there has also been support driven by the broader theme relating to a heightened level of trading activity across financial markets since the market crash back in March.

This trend is what also led us to add Netwealth (NWL) to the portfolio last month, which has performed just as well as Hub24 over the same timeframe. The stock advanced by 8.4% in September, and we were able to catch some of this momentum following our entry.

As mentioned in the August report, we also took up our entitlement in the Sydney Airport (SYD) rights offer. There were modest gains provided in light of the arbitrage between the issue price and trading price, albeit we view this stock as a long-term hold that will gain exposure to easing border restrictions, the opening economy and eventual return of international tourism once a vaccine has been deployed.

At the close of September, unrealised losses across the Yield Portfolio were 6.1% of the closing NAV. Although slightly higher than the month prior, in the context of the broader market gyrations, we think there may be some buying support for core holdings exposed to the gradually improving economy.

We have greater confidence now that Melbourne appears to have gotten on top of the COVID crisis. As always, however, the impact of overseas markets will have a strong influence on local stocks, but our long-term view of these holdings rests on the Australian economy outperforming in its recovery on a global scale.



DANIEL WONG
Research Analyst



ALEX NEGROH
Research Analyst

Hub 24 - Super

Balanced Portfolio

The portfolio fell by 2.6% across September, which despite being a negative result, was a drastic beat compared to the markets, down 4%. Although we were disappointed to shed some of the momentum from recent months, we were pleased that we mitigated the fall.

It should also be noted that September is historically a soft month for equities, while our result was particularly exposed to sour sentiment in the buy-now pay-later segment, with declines in Afterpay (APT) and newly-listed Laybuy (LBY) weighing on the portfolio.

While anticipation for Laybuy had been particularly strong, the company made its ASX debut at what was arguably the worst possible time. This came as Afterpay had tumbled over 30% at the time of Laybuy's listing on concerns around PayPal's planned entry into the segment.

The disappointment of Laybuy's performance post-listing is something we may look to turn into an opportunity. We believe current price weakness may allow us to build on our position and we don't view the weak sentiment necessarily as a terminal situation, especially as heavy selling of tech shares was largely driven by offshore weakness in the Nasdaq.

Elsewhere, oil markets were under pressure following concerns relating to the second wave of COVID cases across much of Europe. As a result, our holdings in Santos (STO) were hit hard, falling 13% and dragging on the portfolio. Concerns remain around low-demand levels for crude oil and whether the industry has reached peak oil status, however, we believe there is still upside as economies persevere and a vaccine arrives.

In terms of standout performances, Xero (XRO) was instrumental in helping the portfolio outperform the broader market. Despite weakness in the tech sector, which we took advantage of in order to top-up our holdings, the stock rebounded strongly and has since charted new all-time highs above \$106 per share.

Meanwhile, Transurban (TCL), which effectively acts as a bond proxy, also had a stellar month. With Melbourne ever-so-slowly opening up, and a shift in behaviour among people favouring private vehicle transport over public transport, the company stands to fare well as Australia's economic recovery takes place.

Key themes in October will be the Australian budget, potential volatility associated with the US election, and whether Melbourne can reach the next step in its reopening plan on schedule.

Performance:

Index	September Performance	YTD Performance
ASX 200	-4.1%	-13.0%
ALLORDS	-3.8%	-11.7%
Balanced Portfolio	-2.6%	-2.8%

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%



ALEX NEGROH
Research Analyst



DANIEL WONG
Research Analyst

Hub 24 - Super

Growth Portfolio

The portfolio slid 3.9% last month but was slightly ahead of the ASX 200 in terms of performance, with the market dropping 4% in September.

The disparity between the performance of the Growth and Balanced portfolios can be attributed to the increased weight of funds allocated to equities in the former. As such, not only is the Growth Portfolio more closely aligned with the ASX 200 index, but our heightened exposure to the buy-now pay-later segment means there is a greater level of risk appetite.

During recent months, where the BNPL segment has been on a tear, that has seen the Growth Portfolio outperform to the upside, albeit in September the swing in sentiment towards this segment worked against us.

Our holdings in Zip Co (Z1P) and Sezzle (SZL) dragged on the portfolio, with the stocks slumping 16% and 32% respectively. Alongside our holdings in Afterpay (APT) and newly-listed Laybuy (LBY), the portfolio was more exposed to the 'shock' of the weakness in the sector.

We believe the threat posed by PayPal entering the BNPL industry is overblown. On top of that, we argue that recent weakness in ASX tech shares was driven by profit taking in the US, whereas the fundamental growth story of these companies remains compelling. With this in mind, we don't see near-term issues as terminal, so we continue to hold these stocks and may even eye-up buying opportunities given attractive pricing.

One of our core holdings, Hub24 (HUB), had a brilliant month, with the stock gaining almost 15%. Hub24 is the very investment management platform that we use each and every day to oversee our superannuation portfolios, and in recent months, amid the ever-increasing financial concerns of Australians right across the country, the company has seen its growth explode. Strong fund inflows and a better-than-expected earnings result in late August were major catalysts, and we expect strong inflows to continue as more advisers switch from AMP.

Another pleasing holding was our fixed income position in KKR Credit Fund (KKC). This stock has now regained ground and come back to its initial pricing following the market rout in March. In light of solid repayments and a better-than-expected recovery in the US jobs market, the position has recovered strongly.

If volatility returns to the market ahead of the US Presidential election we anticipate tech shares could be hit amid risk-off sentiment. However, we are actively looking for opportunities to buy into any such weakness.

Performance:

Index	September Performance	YTD Performance
ASX 200	-4.1%	-13.0%
ALLORDS	-3.8%	-11.7%
Growth Portfolio	-3.9%	-9.4%

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%



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