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KAURI ASSET MANAGEMENT

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What a vaccine roll-out means for the market

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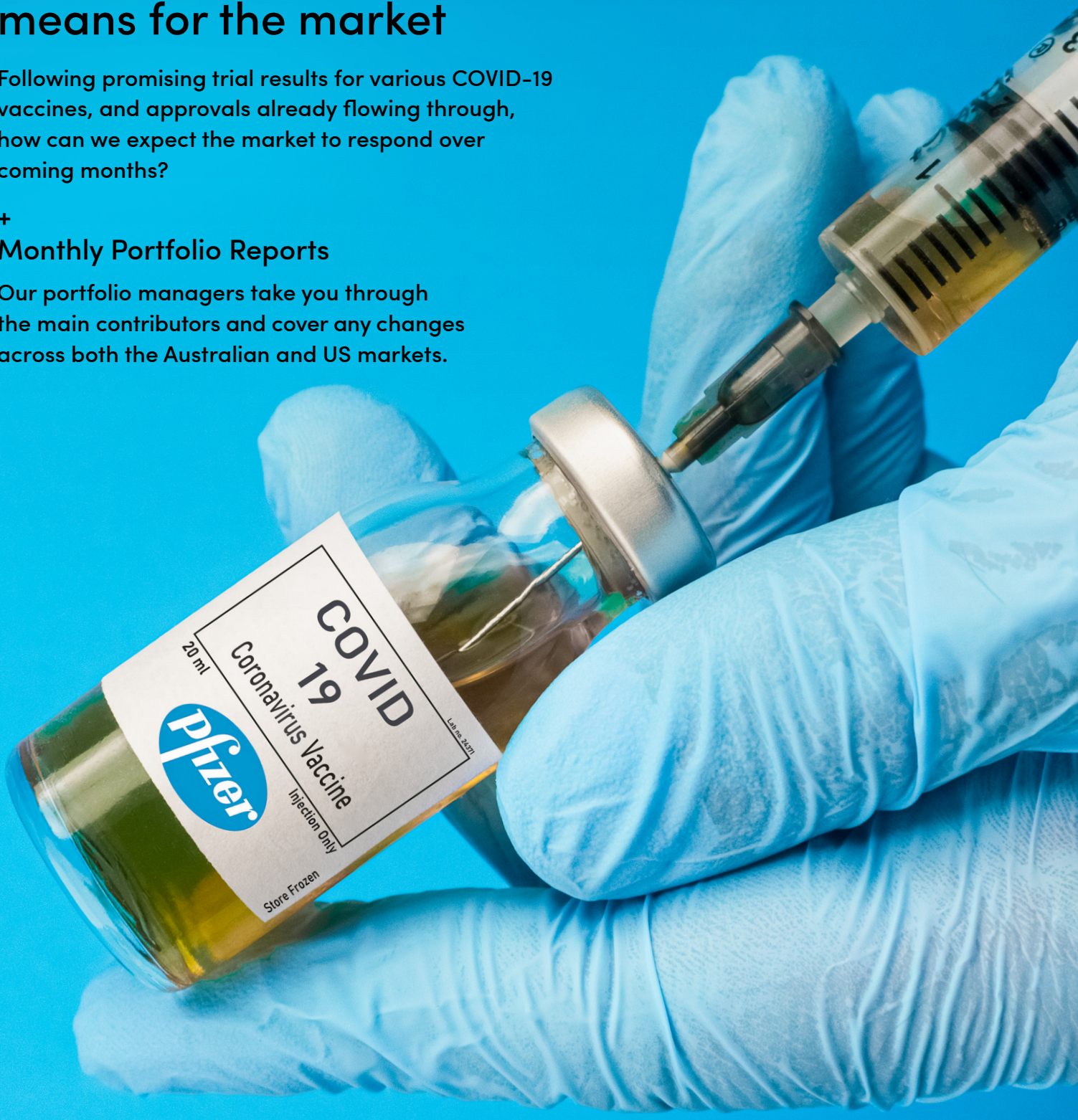
Our portfolio managers take you through the main contributors and cover any changes across both the Australian and US markets.



MICHAEL SMITH
Head of Research and
Senior Investment advisor

What a vaccine roll-out means for the market

Following promising trial results for various COVID-19 vaccines, and approvals already flowing through, how can we expect the market to respond over coming months?

After what has been a tumultuous year unlike any other in modern history, we're entering the home stretch and finishing 2020 with renewed optimism. At least that is the feeling around the office here at Kauri, where we are looking forward to a promising period ahead.

In recent weeks, vaccine news has been at the forefront of everyone's minds, with a breakthrough finally coming to fruition. Pfizer, in partnership with BioNTech, was first off the ranks, delivering results that have defied all the odds.

The company has since secured UK approval for its vaccine, with US approval also all but assured. The first recipients of the vaccine have already been inoculated in the UK, demonstrating a remarkable level of progress across the medical and scientific communities. By the time you're reading this, the first recipients in the US may have already received their vaccinations as well.

If that isn't enough, we've also seen positive vaccine results from the likes of Moderna and AstraZeneca. While slightly behind from a timeline perspective, it is anticipated that these vaccines will also be given the green light in due course. It is a great outcome, buoying confidence that we can slowly move towards a new 'normal' and quash the virus.

While a full roll-out will take considerable time, not to mention, introduce a series of logistical constraints, it is our view this should in no way dampen confidence about the upside that now seems within reach.

From here, we anticipate that a broad-based vaccine roll-out will provide the impetus for markets to grind higher throughout 2021.

In effect, the roll-out will be the first factor that can go some way towards mending the structural damage on economies all around the world.

To date, much of the repair job has been facilitated through fiscal support from governments and central banks. While we welcome this, it's also something that isn't sustainable over the long-term, which makes it all the more important we've reached this crucial junction.

In fact, that's why a successful vaccine program, delivered by multiple companies, is so critical towards not only controlling the pandemic, but allowing economies to fully re-open. This will bring back the confidence for businesses to invest again. It will also give consumers the confidence to get out again, and ultimately, support business.

Looking ahead to 2021

With this vaccine news proving a catalyst for markets, and the year coming to a close, it's the right time for us to plan for the coming twelve months.

As we mentioned above, on the back of the vaccine news, we see a strong recovery for global economies in 2021. In our view, developed economies are also likely to lead the rebound, as they will have greater access to various vaccines, and since their economies were far more insulated through central bank support.

We expect that much of the recovery will be driven by activity in areas that have been hamstrung amid lockdowns this year. In that sense, we expect that industries like energy, travel and financials will play catch up as consumer demand and spending, plus movement, picks up across the board.

One of the key drivers in the year ahead will be the reopening of international borders. Although we expect governments to exercise caution in doing so, we believe there will be notable pent-up demand for travel that helps drive economic activity. In this sense, however, the countries and economies relying on tourism, may lag until such time as borders open.

Above all else, however, a successful global vaccine roll-out remains the lynchpin to achieve all this. We feel optimistic that big pharma and government will be able to pull together to overcome manufacturing and distribution bottlenecks to have made significant progress by the middle of next year.

At the same time, we expect the digitisation trends that have played out in 2020 to remain in effect. So while tech has been a standout success as far as the market goes this year, in our view, there is little reason for this to necessarily change over the coming year.

After all, we see some of the behavioural and workplace changes that have occurred as likely to be ongoing trends, including the shift to digital payments, as well as a greater work-from-home orientation than before the pandemic.

One of the common questions put to us throughout the market rally over recent months concerned the justification of where the market has been sitting. We have always maintained the view that the market is not necessarily a representation of the economy or a company at that point in time, rather, its future status. Investors have been able to look 'past' the pandemic as to how the economy and companies will fare on the other side.

The key takeaway for us is that timeline now seems within reach. With this in mind, we believe markets have the necessary momentum and support to continue to grind higher in 2021.

Wrapping up an eventful year

In light of all the drama and uncertainty that has beleaguered markets this year, we're pleased to say that we're on track to deliver another year of market-beating returns.

One of the key differentiators for us this year was our ability to move out of growth stocks into cash earlier this year, mitigating the impact of the initial crash, before then positioning our portfolio for a recovery.

We've been able to latch onto some of the key trends that have been unfolding amid the pandemic, including the accelerated transition towards digitisation.

Year-to-date, our Global Growth Portfolio has returned a total of 32%. In comparison, the Dow Jones has inched higher by 4.1%, while the S&P 500 increased by 12.1%. Highlighting just how integral tech has been in supporting the market recovery, the Nasdaq was 36% above the level it started the year, albeit with significantly greater volatility than we would tolerate within the portfolio.

Meanwhile, in terms of the local market, the ASX shed 2.5% between January and November this year. In comparison, the Australian Yield Portfolio has returned a positive result of 3%, with stocks like Hub24 (HUB) and Baby Bunting (BBN) among those that traded well despite a challenging macro environment, and where we haven't been afraid to add to our holdings.

Nonetheless, what these results emphasise is one of our core philosophies here at Kauri. That is, having an agile and responsive portfolio is of the utmost importance. We still run our portfolios as long-term investments, but that doesn't mean we sit idly by when we need to act, or when there are opportunities to take advantage of.

Signing off

This year will go down in history as one that tested the resilience of mankind. We understand many of you may have been doing it tough this year, or know someone that has been doing it tough, and we can only say that we appreciate your support through these difficult circumstances.

In signing off, the team at Kauri Asset Management would like to take this opportunity to wish all our clients a Merry Christmas and a Happy New Year.

International

MICHAEL SMITH
Head of Research and Senior Investment advisor

International Growth Portfolio

Portfolio NAV grew by 6.4% throughout November, after taking into account advisor fees. This came as the market posted its best month since 1987.

The Growth Portfolio lagged broader indices due to forex movements, which unfortunately worked against us last month. The USD/AUD currency rate sunk from 1.4224 to 1.3618, proving a headwind for the portfolio and weighing on NAV by approximately 4.3%.

In terms of the underlying performance of our holdings, we were pleased with the results. The value of our core stocks increased by 10.1%, a result more closely aligned with the broader market. Once again, our conviction in digital payment stocks, and stocks leveraged to the work-from-home thematic proved rewarding.

Square (SQ) and PayPal (PYPL) were two of the best-performers, with digital transaction growth continuing to build amid the worsening pandemic in the US, and gradual reintroduction of lockdown restrictions.

Slack Technologies (WORK) and Atlassian (TEAM) also enjoyed a remarkable level of support on account of their remote-working solutions. Adding to the fold was news that Salesforce was looking to buy Slack, a rumour that has since transpired into an official takeover offer worth approximately US$27.7 billion.

At the other end of the scale, Alibaba (BABA) was effectively the only holding across our portfolio that had a disappointing month, diving 13.6%. Despite a record result from its annual Singles Day shopping event, the stock was impacted by regulatory concerns as the Chinese government raised new antitrust regulations defining anti-competitive behaviour. It's too early to establish what impact this might have, but we do note competition across ecommerce in China has been on the rise in recent years.

As noted in our recent portfolio update, we sold out of Zoom (ZM) amid concerns its valuation was overstretched. We also exited or reduced positions that we believed hit our targets or underperformed like Goldman Sachs, CME Group, Mastercard, Lockheed Martin and Northrop Grumman. Instead, we've opted for a broader tech focus, including exposure to cloud computing and semiconductor manufacturing, plus big box retail.

This ties in with our end-of-year expectations, where we believe markets will rally given much of the uncertainty surrounding vaccines and the election has been removed, even though COVID is still growing exponentially. We locked in realised profits to the value of 2% of opening portfolio NAV last month, while unrealised profits grew to 23.8% of November's closing NAV for the portfolio.

Performance:

Index	*November Performance*	*YTD Performance*
Dow Jones	6.7%	3.9%
NASDAQ	9.9%	36.7%
S&P 500	7.7%	12.1%
Global Growth Portfolio	6.4%	27.5%

Top 10 Holdings:

Code	*Company Name*	*Weighting %*
PYPL	PayPal	5.44%
SQ	Square	4.96%
MSFT	Microsoft	4.63%
ADBE	Adobe	4.55%
ISRG	Intuitive	4.39%
TSM	Taiwan Semi	4.36%
AAPL	Apple	4.32%
TEAM	Atlassian	4.20%
AMZN	Amazon	4.09%
GOOGL	Alphabet	4.07%

MICHAEL SMITH
Head of Research and Senior Investment advisor

AFIQ MALEK
Research Analyst and Senior Client advisor

Performance:

Index	November Performance	YTD Performance
ASX 200	10.0%	-2.5%
ALLORDS	9.9%	-0.9%
Aus Yield Portfolio	9.4%	-4.1%

Top 10 Holdings:

Code	Company Name	Weighting %
HUB	Hub24	14.01%
ANZ	ANZ Bank	9.05%
BBN	Baby Bunting	9.05%
WES	Wesfarmers	8.98%
CBA	Comm Bank	8.79%
NWL	Netwealth	8.56%
BHP	BHP Group	6.59%
KKC	KKR Credit	6.55%
TLS	Telstra	5.98%
MFG	Magellan	4.52%

Australian

Australian Yield Portfolio

With the Australian share market posting its best month since 1988, local stocks were also in a buoyant mood, underpinning a strong result from the Australian Yield Portfolio.

Across November, portfolio NAV grew by 9.4%, resulting in the portfolio now holding unrealised profits for the first time since the impact of COVID earlier this year.

Almost every one of our holdings delivered a positive return for the month, with just three exceptions.

For the second month in a row, amid the transition to value stocks, the banks were a major driver of portfolio growth. ANZ (ANZ) was easily the best-performing stock for us last month, gaining 21.6%, while the likes of Bank of Queensland (BOQ) and Commonwealth Bank (CBA) continued their stellar run from October.

Given the broad-based nature of the rally last month, Telstra (TLS), BHP (BHP), Wesfarmers (WES) and Sydney Airport (SYD) all played a pivotal role for us as well. We did, however, take the opportunity to sell our holdings in Sydney Airport on the back of positive vaccine news. While a great development, we believe the stock has raced somewhat ahead of itself, particularly as it will be some time before international travel is permitted, let alone embraced by many Australians and tourists.

Another standout stock was Regis Healthcare (REG), which in percentage terms, was the biggest mover last month. The stock soared 69.9% on the back of a second takeover offer from Washington H. Soul Pattinson (SOL) in the space of two months. We believe management has done well in standing firm, with the prospect of a third offer something we consider to be on the table.

After a period of considerable strength, shares in Hub24 (HUB) had a breather. Weighing on the stock has been Hub's capital raise for a series of acquisitions, however, we see this as an accretive move that should harness growth synergies in the mid-to-long-term. On this basis, we applied for the full value of shares available to us under the company's Share Purchase Plan.

As mentioned earlier, the Yield Portfolio has recorded an unrealised profit (6.4% of closing NAV) for the first time since January. That follows the market crash earlier this year, where the ASX dropped nearly 40%.

With the economy showing signs of growth, the job market faring better-than-expected, and Australia's relative success in containing COVID, we believe the ASX will grind higher through to the end of the year, also helped by the RBA's accommodative policy and vaccine optimism.

DANIEL WONG
Research Analyst

ALEX NEGROH
Research Analyst

Hub 24 - Super

Balanced Portfolio

Throughout November the portfolio grew by 6%, lagging the benchmark index, which posted a 10% increase.

One of the main reasons for this discrepancy was our exposure to defensive asset classes, including gold and fixed income. In addition, historically we have purposely been underweight as far as exposure to the banks, which was one sector that underpinned the strength of the rally across the market.

Nonetheless, we feel as though this surge is likely to prove temporary, and that over the coming months, growth in the banks will subside and instead return to our portfolio. For the time being, we have been looking to add a small amount of Commonwealth Bank (CBA) shares to our existing position, however, we will not be taking on any other exposure to new banks.

Elsewhere, lithium proved to be one of the defining trends last month. As momentum builds for the roll-out of electric vehicles – mainly inspired by Tesla's meteoric rise – demand has started to really pick up after a long time of subdued prices for the commodity. Across November we had significant contributions from Galaxy Resources (GXY), up 53%, and Lynas Rare Earths (LYC), up 33%.

With vaccine news giving a much-needed boost to oil prices, energy and oil-related stocks had a bumper month. Demand is expected to start picking back up once vaccines are rolled out, leading to the highest oil prices since earlier this year. We benefitted from this through our holdings in Santos (STO), which performed robustly last month.

Iron ore prices were particularly strong in November, with their run extending into December thus far. The iron ore price has recently passed US$145/tonne, providing a significant catalyst for our holdings in BHP (BHP), Rio Tinto (RIO) and Fortescue Metals Group (FMG). Among these, FMG has pushed to a record high.

If there was one weak spot for the portfolio last month, it was our gold holdings, Evolution Mining (EVN) and Saracen Mineral Holdings (SAR). The precious metal was caught up amid the move out of defensive assets into risk assets, which in turn weighed on miners. We're not overly concerned by this rotation as we expect some support to come back in due course, yet at the same time, we think the local market should have a positive finish to the year as vaccine approvals and roll-out occurs.

Performance:

Index	*November Performance*	*YTD Performance*
ASX 200	10.0%	-2.5%
ALLORDS	9.9%	-0.9%
Balanced Portfolio	6.0%	9.6%

Top 10 Holdings:

Code	*Company Name*	*Weighting %*
HM1	Hearts & Minds	8.1%
FANG	Fang ETF	4.6%
Cash	Cash	4.2%
CBA	Comm Bank	3.7%
NABPD	NAB note	3.5%
BHP	BHP Group	3.0%
DRR	Deterra	2.9%
APT	Afterpay	2.8%
CBAPH	CBA Note	2.7%
CCP	Credit Corp	2.7%

ALEX NEGROH
Research Analyst

DANIEL WONG
Research Analyst

Hub 24 - Super

Growth Portfolio

Portfolio NAV increased by 6.3% last month. With a slightly greater orientation to risk assets, this return exceeded that of the Balanced Portfolio, albeit it was still less than the 10% rise in the ASX 200 on account of limited exposure to the banks among other factors.

One of these other factors was greater exposure to the buy-now pay-later segment, including Sezzle (SZL). The stock had a poor month for us again, down around 8%, however, it does appear to have settled around its current levels near the $6 mark. The company's most-recent trading update gives us quite a bit of faith in the way momentum is building, so we are prepared to give this holding more time.

As far as key performers, Redbubble (RBL) had a great showing, advancing 20.4% last month. The stock was initially beaten down after tech stocks were sold-off following the first round of vaccine news from Pfizer, however, it quickly returned to form. This positive momentum has continued in December, where we have seen an additional gain of 10% at the time of writing.

As was the case with our Balanced Portfolio, where the likes of Rio Tinto (RIO), BHP (BHP) and Fortescue Metals (FMG) had a terrific month thanks to the strong price of iron ore, NRW Holdings (NWH) also performed solidly. As a company with complementary businesses and services to the iron ore miners, the stock has been leveraged to upside as a result. NWH shares rose 21% in November, and have increased by another 10% in December thus far.

REA Group (REA) reached a record high thanks to a solid trading update pointing towards strength in the Australian housing market. It is our view that this trend looks likely to be supported by accommodative fiscal policy and the employment support still in effect. The stock was higher by 14% in November, providing a strong contribution to portfolio NAV.

Running into the end of the year, we believe there is sufficient support for the ASX from here on account of government stimulus, relative success in all but eliminating COVID within Australia, and key technical trading levels. Furthermore, resources stocks, one of the highest-represented sectors on the market, have been one of the key plays in recent weeks, with the only headwind being the strength of the Aussie dollar.

Performance:

Index	*November Performance*	*YTD Performance*
ASX 200	10.0%	-2.5%
ALLORDS	9.9%	-0.9%
Growth Portfolio	6.3%	3.9%

Top 10 Holdings:

Code	*Company Name*	*Weighting %*
HM1	Hearts & Minds	7.4%
FANG	Fang ETF	4.6%
LYC	Lynas Corp	3.8%
CBAPE	CBA Note	3.6%
Cash	Cash	3.6%
XRO	Xero	3.5%
GXY	Galaxy	3.3%
MHH	Megallen High	2.8%
MQG	Macquarie	2.8%
CBA	Comm Bank	2.7%

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